

**TOWN OF EASTON, MARYLAND**  
Easton, Maryland

**FINANCIAL STATEMENTS**  
June 30, 2014

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## INDEPENDENT AUDITORS' REPORT

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Easton, Maryland, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

### ***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, 2014, 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 3-17 and 66-69 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 schedules 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 schedules 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 schedules and other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Report on Other Legal and Regulatory Requirements**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2014, 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  
October 28, 2014

**TOWN OF EASTON, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2014**

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, 2014. 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 of Easton, Talbot County and Shore Health System, Inc., have continued to work toward the building of a new hospital within the Town limits of the Town of Easton. Due to various considerations, Shore Health System, Inc. has placed construction on a "rolling deferral" resulting in the non realization of approximately \$1 million in budgeted building permit related revenue for the period. As of the date of these financial statements, Shore Health System, Inc., has not announced when construction of the new hospital will begin but has emphasized their commitment to building the new facility.
- The Town of Easton also did not receive the funding related to a grant in the amount of \$826,540 during the reporting period which is for the extension of a rails to trails spur line. This project is progressing well in the design phase although there are still right of way issues primarily relating to a bridge crossing which are still in the process of being resolved. This grant funding is now expected to be received in a future funding period although the capital transfer for the project was made in the current period so that work can commence as soon as the final design is resolved.
- The Town of Easton has implemented a new economic development model utilizing a separate Economic Development Commission as well as a downtown entity which are separate from the Town while working with the Town. The replacement of the town staff functions with these new, separate, entities is intended to better leverage the Town's investment in this function with the private sector and provide the ability to be more responsive to the business community.
- The Town of Easton also fully funded the OPEB (Other Post Employment Benefits) actuarially determined liability instead of the previous target of 50% funding pursuant to the plan that is currently in effect. This resulted in approximately \$424,000 more expenditures than budgeted but will result in better positioning of the plan as new GASB (Government Accounting Standards Board) pronouncements are implemented and provide funding to match the liabilities incurred. The Town also fully funded the actuarially determined pension liabilities as it has done for many years providing a strong resource to pay those benefits when they come due. The defined contribution plans were also fully funded pursuant to the plans.
- The Town of Easton took delivery of a new Sutphen Aerial Ladder truck which will enhance the capabilities of the Easton Volunteer Fire Department to protect life and property of our residents.
- The Town of Easton progressed significantly with the proposed annexation of the Talbot Commerce Park during the period.
- Total assets of the Town at year-end were \$178 million and exceeded its liabilities at June 30, 2014 by \$143 million (i.e. total net position).
- As of June 30, 2014, the Town's governmental funds reported an ending fund balance of \$15.9 million which is decrease of \$194 thousand from June 30, 2013. The components of this change are discussed later.

**TOWN OF EASTON, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2014**

**FINANCIAL AND EVENTS HIGHLIGHTS (CONTINUED)**

- The Town of Easton worked with Eastern Shore Land Conservancy to obtain \$350,000 Grant funding from the Maryland Department of Housing and Community Development to help restore the ESLC McCord Building. Originally built in 1890, the hope is that continued support of projects like this one will promote economic growth, tourism and other benefits to the Town of Easton.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**Government-wide Financial Statements**

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

The Statement of Net Position presents information on all of the Town's assets, deferred outflows of resources, and liabilities, deferred inflows of resources, with the difference between these items 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, 2014, and earned but unused vacation leave are included in the Statement of Activities as revenues and expenses, even though the cash associated with these items will not be received or distributed until after June 30, 2014.

**TOWN OF EASTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

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

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

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 funds, proprietary and fiduciary funds. Governmental Funds are used to account for most, if not all, of a government's tax supported activities. Proprietary Funds are used to account for a government's business-type activities, where all or part of the costs of activities are supported by fees and charges that are paid directly by those who benefit from the activities. Fiduciary funds are used to account for resources held for the benefit of entities outside of the government.

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

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

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.

**TOWN OF EASTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

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

**Fund Financial Statements (Continued)**

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

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

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

*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 totals \$143.3 million at June 30, 2014 which is an increase of approximately \$4 million over the June 30, 2013 net position.

**TOWN OF EASTON, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2014**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

**Statement of Net Position (Continued)**

The following table reflects the Government-Wide Statement of Net Position for Governmental and Business-Type Activities:

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Current and other assets	\$ 16,784,054	\$ 17,275,879	\$ 35,044,008	\$ 33,344,422
Capital assets and other assets	<u>38,318,736</u>	<u>37,834,800</u>	<u>88,115,670</u>	<u>88,120,568</u>
Total assets	<u>55,102,790</u>	<u>55,110,679</u>	<u>123,159,678</u>	<u>121,464,990</u>
Total deferred outflows of resources	<u>60,446</u>	-	<u>47,306</u>	-
Current liabilities	1,942,002	2,371,341	7,359,519	6,638,374
Long-term debt	<u>9,022,399</u>	<u>9,958,688</u>	<u>16,669,608</u>	<u>18,294,467</u>
Total liabilities	<u>10,964,401</u>	<u>12,330,029</u>	<u>24,029,217</u>	<u>24,932,841</u>
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>34,087</u>	<u>-</u>
Net investment in capital assets	28,621,031	29,061,944	69,827,981	68,238,242
Restricted	6,803,170	6,594,705	-	-
Unrestricted	<u>8,774,634</u>	<u>7,124,001</u>	<u>29,315,789</u>	<u>28,293,907</u>
<b>Total net position</b>	<u>\$ 44,198,835</u>	<u>\$ 42,780,650</u>	<u>\$ 99,143,770</u>	<u>\$ 96,532,149</u>

The Town's total assets and deferred outflows were approximately \$178.4 million (compared to \$179.8 million in the prior year) as of June 30, 2014. Of this amount, \$126.5 million (compared to \$125.9 million in the prior year) is accounted for by capital assets, which includes infrastructure.

Of the remaining assets, approximately \$29 million is accounted for in cash and cash equivalents which is consistent with the prior years, approximately \$6.8 million in accounts and notes receivable (compared to \$7.1 million in the prior year), inventory of approximately \$6.2 million (compared to \$6 million in the prior year), with the remainder spread among various other accounts.

Outstanding liabilities totaled approximately \$35 million with bonds comprising approximately \$11.9 million, loans from the State or Maryland comprising approximately \$16 million, and approximately \$5.7 million in accounts payable and accrued expenses at June 30, 2014. This compares with the June 30, 2013 amounts where the Town had outstanding liabilities of approximately \$40.1 million of which approximately \$13.3 million was bonds payable, approximately \$16.9 million was loans from the State of Maryland, and approximately \$5.5 million was in accounts payable and accrued expenses. Of the bonds payable, approximately \$1.3 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.

**TOWN OF EASTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

**Statement of Net Position (Continued)**

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 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, 2014, the Town had positive balances in all categories of net position, for the government as a whole, and for governmental activities. Business-type activities also experienced positive balances in both capital and unrestricted assets; there were no restricted assets.

**TOWN OF EASTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

**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.

**Changes in Net Position  
Fiscal Year Ended June 30, 2014**

	<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Total</b>
<b>Program Revenues</b>			
Charges for service	\$ 2,313,330	\$ 57,053,898	\$ 59,367,228
Operating grants and contributions	1,403,833	-	1,403,833
<b>General Revenues</b>			
Property taxes	11,340,180	-	11,340,180
Other local taxes	1,790,739	-	1,790,739
Other	2,015,742	421,944	2,015,742
Total revenues	18,863,824	57,475,842	75,917,722
<b>Expenses</b>			
General government	1,650,076	-	1,650,076
Public safety	7,809,449	-	7,809,449
Public works	4,691,122	-	4,691,122
Recreation and cultural	582,917	-	582,917
Economic development	224,746	-	224,746
Nondepartmental	2,079,509	-	2,079,509
Interest expense	408,820	-	408,820
Utilities services	-	54,649,035	52,857,373
Other services	-	215,186	215,186
Total expenses	17,445,639	54,864,221	70,518,198
<b>Increase in net position</b>	1,418,185	2,611,621	4,029,806
<b>Net position, beginning of year</b>	42,780,650	96,532,149	139,312,799
<b>Net position, end of year</b>	\$ 44,198,835	\$ 99,143,770	\$143,342,605

**TOWN OF EASTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

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

**Changes in Net Position  
Fiscal Year Ended June 30, 2013**

	<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Total</b>
<b>Program Revenues</b>			
Charges for service	\$ 1,877,363	\$ 52,789,279	\$ 54,666,642
Operating grants and contributions	912,112	-	912,112
<b>General Revenues</b>			
Property taxes	12,455,554	-	12,455,554
Other local taxes	2,979,638	-	2,976,638
Other	<u>199,867</u>	<u>332,382</u>	<u>532,249</u>
Total revenues	<u>18,421,534</u>	<u>53,121,661</u>	<u>71,543,195</u>
<b>Expenses</b>			
General government	1,896,866	-	1,896,866
Public safety	8,571,002	-	8,141,242
Public works	6,397,266	-	4,097,434
Recreation and cultural	751,020	-	553,439
Economic development	251,687	-	374,092
Nondepartmental	778,207	-	778,207
Interest expense	410,602	-	412,561
Utilities services	-	47,543,019	47,543,019
Other services	<u>-</u>	<u>273,867</u>	<u>273,867</u>
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>
<b>Increase in net position</b>	968,339	6,504,129	7,472,468
<b>Net position, beginning of year</b>	<u>41,812,311</u>	<u>90,028,020</u>	<u>131,840,331</u>
<b>Net position, end of year</b>	<u>\$ 42,780,650</u>	<u>\$ 96,532,149</u>	<u>\$139,312,799</u>

Total revenues for the Town of Easton were approximately \$75.9 million for the year ended June 30, 2014 compared to approximately \$71.5 million for the year ending June 30, 2013. Governmental activities provided approximately \$18.9 million, and business-type activities provided \$57.5 million, primarily through charges for services.

**TOWN OF EASTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

**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 financial analysis of the Town's governmental and proprietary funds.

**Governmental Funds Revenue and Expense Analysis**

The general governmental functions are contained in the General Fund. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. In particular, unrestricted 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, 2014, unassigned fund balance of the General Fund was approximately \$4.7 million.

**Revenues Classified by Source**

	<u>2014</u>	<u>Percent to Total</u>	<u>2013</u>	<u>Percent to Total</u>
<b>GOVERNMENTAL FUNDS</b>				
<b>Revenues</b>				
General property taxes	\$ 11,340,180	60.26%	\$ 12,455,554	67.08%
Other local taxes	1,926,432	10.24%	1,146,370	7.63%
Permits and licenses	501,207	2.66%	470,367	2.53%
Fines and forfeitures	38,170	.20%	44,725	.24%
Changes for services	1,354,054	7.19%	1,216,648	6.55%
Miscellaneous	2,485,744	13.21%	1,932,447	10.41%
Intergovernmental	<u>1,174,067</u>	<u>6.24%</u>	<u>1,032,213</u>	<u>5.56%</u>
<b>Total revenues</b>	<u>\$ 18,819,854</u>	<u>100.00%</u>	<u>\$ 18,568,324</u>	<u>100.00%</u>

**TOWN OF EASTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

**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 significantly over the prior year.

- **General Property Taxes** – This consists of real and personal property revenues. Gross real property tax revenues were approximately \$11.3 million, a decrease of 10% or approximately \$1.1 million from last year reflecting a decrease in value of assessable tax base properties. The real estate tax rate was maintained at the FY2013 rate of \$.52 per \$100 of assessed value. Gross personal property tax revenue decreased 3% to approximately \$916 thousand as a result of increasing assessments. The personal property tax rate remained unchanged from FY2013 at a rate of \$1.30 per \$100 of assessed value of personal property located within the Town limits.
- **Other Local Taxes** – This category is primarily comprised of local income tax share and smaller tax revenues. This revenue increased \$508 thousand or 4% during FY2014. Primarily the increases are a net result of a State of Maryland shared income taxes increasing \$158 thousand over prior year and Highway User Revenues increasing \$350 thousand over prior year revenues.

The following table represents expenditures by function.

<b>Expenditures by Function</b>				
	<b>2014</b>	<b>Percent to Total</b>	<b>2013</b>	<b>Percent to Total</b>
<b>GOVERNMENTAL FUNDS</b>				
<b>Expenditures</b>				
Current operations:				
General government				
administration	\$ 1,660,521	8.73%	\$ 1,896,685	9.56%
Public safety	7,839,939	41.23%	8,571,002	43.17%
Public works	5,552,576	29.20%	6,397,266	32.23%
Recreation and cultural	527,704	2.78%	751,020	3.78%
Economic development	196,147	1.03%	251,687	1.27%
Nondepartmental	2,081,208	10.95%	778,207	3.92%
Debt service:				
Principal	747,275	3.89%	791,307	3.99%
Interest	408,820	2.19%	412,561	2.08%
<b>Total expenditures</b>	<b>\$ 19,014,190</b>	<b>100.00%</b>	<b>\$ 19,849,735</b>	<b>100.00%</b>

**TOWN OF EASTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

**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 significantly over the prior year.

- **Non-Departmental** – In terms of total dollars, the largest increase was in Non-Departmental expenses and this was due to increased funding for the other post retirement employment benefit obligations.
- **Public Safety** – In terms of total dollars, the large decrease in Public Safety and was due to decreased costs of salaries and benefits.
- **Public Works** – The decrease in Public Works was due in a large part to capital expenditures made in FY2014. 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**

	<b>2014</b>	<b>2013</b>
<b>PROPRIETARY FUNDS</b>		
<b>Operating Revenues</b>		
Charges for services	\$ 50,187,982	\$ 45,848,733
Other operating revenues	<u>6,865,915</u>	<u>6,940,546</u>
Total revenues	<u>\$ 57,053,897</u>	<u>\$ 52,789,279</u>
<b>Operating Expenses</b>		
Cost of service	\$ 45,841,774	\$ 39,514,995
Depreciation	<u>6,767,498</u>	<u>6,438,271</u>
Total operating expenses	<u>\$ 52,609,272</u>	<u>\$ 45,953,266</u>
<b>Other Revenues and Expenses</b>		
Investment earnings	\$ 59,318	\$ 18,390
Interest expense	(478,515)	(341,869)
Gain on sale of property	2,876	823,575
Payment in lieu of taxes	(1,826,743)	(1,536,751)
Capital charges	155,335	136,250
Miscellaneous	<u>254,724</u>	<u>184,954</u>
Total other revenues	<u>\$ (1,833,005)</u>	<u>\$ (715,451)</u>

**TOWN OF EASTON, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2014**

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

**Operating Revenues:** Revenues in FY14 increased \$4.2 million, or 8.0%, from FY13. This was largely due to higher purchased power costs passed through to customers in the Electric Department, where total revenues increased \$2.9 million (9.0%). The Gas Department's revenues increased \$1.0 million, or 17.9% due to higher unit sales by large commercial customers. The Water & Wastewater Department's revenues decreased \$113 thousand, or 2.6%, reflecting a decrease in usage per customer. Cable & Communication's revenues increased \$470 thousand, or 4.3%, over FY13, primarily as a result of continued growth of higher priced cable TV and modem services, VOIP customers, cable TV terminal rentals, and IT consulting services.

**Operating Expenses:** The Commission's operating expenses increased \$6.6 million, or 14.7%, versus FY13. The primary driver of the change was \$5.1 million, or 31.8%, higher cost of purchased power passed through to customers in the Electric Department. The Gas Department's operating expenses were \$1.1 million, or 21.4%, higher during FY14 primarily due an increase in gas costs. The Water & Wastewater Department's operating expenses were \$438 thousand, or 9.5%, higher than the prior year due mainly higher depreciation, distribution and collection expenses, as well as higher costs in the wastewater facility. Cable & Communications experienced a \$517 thousand, or 6.2%, increase in operating expenses as a result of increasing programming costs and higher depreciation expense.

**Capital Charges:** Capital charges are fees paid by developers for new connections to the Water & Wastewater systems. These charges are recorded as other income. Total capital charges collected in FY14 were \$155 thousand, compared to \$136 thousand in FY13. The slight increase was due to an incremental increase in development activity during the fiscal year.

**TOWN OF EASTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

**ANALYSIS OF BUDGET AND ACTUAL RESULTS**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>GOVERNMENTAL FUNDS – GENERAL FUND</b>				
<b>Revenues</b>				
Taxes	\$ 12,589,952	\$ 12,589,952	\$ 13,266,612	\$ 676,660
Licenses and permits	1,518,400	1,518,400	501,207	(1,017,193)
Intergovernmental	1,771,290	1,771,290	762,966	(1,008,324)
Charges for services	1,219,862	1,219,862	1,354,054	134,192
Fines and forfeitures	30,000	30,000	38,170	8,170
Miscellaneous	<u>1,553,770</u>	<u>1,553,770</u>	<u>2,051,542</u>	<u>497,772</u>
<b>Total revenues</b>	<u>\$ 18,683,274</u>	<u>\$ 18,683,274</u>	<u>\$ 17,974,551</u>	<u>\$ (708,723)</u>
<b>Expenditures</b>				
Current operations:				
General government administration	\$ 1,940,988	\$ 1,940,988	\$ 1,636,623	\$ 304,365
Public safety	7,480,390	7,480,390	7,247,096	233,294
Public works	3,576,506	3,576,506	3,688,975	(112,469)
Recreation and cultural	293,743	293,743	423,047	(129,304)
Economic development	235,816	235,816	196,147	39,669
Nondepartmental	965,371	965,371	1,498,283	(532,912)
Debt service:				
Principal	594,481	594,481	598,866	(4,385)
Interest	24,112	24,112	39,370	(15,258)
Other financing (sources) uses				
Transfers	<u>3,571,867</u>	<u>3,571,867</u>	<u>3,571,867</u>	<u>-</u>
<b>Total expenditures and other uses</b>	<u>\$ 18,683,274</u>	<u>\$ 18,683,274</u>	<u>\$ 18,900,274</u>	<u>\$ (217,000)</u>

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

- Gross actual revenues were below gross budgeted revenues by approximately \$700 thousand dollars or more than 3% of the budgeted revenue of approximately \$18.6 million. This is the net result of License and Permit fees and the Intergovernmental Revenues each coming in \$1 million below projected figures resulting from postponement of the Shore Health Systems building project and the delay in the Rails to Trails Expansion project. The State Highway tax revenues and the local tax distribution together actual figures were \$500 thousand greater than expected and the property tax revenues were \$156 thousand greater than budgeted and both helped to offset some of these variations.
- Gross budgeted expenditures and other financing uses were less than the gross actual expenditures and other financing (sources) uses by approximately \$200 thousand or 1.1% of budgeted expenditures and other financing uses. The most significant variances related to Non Departmental expenditures.

**TOWN OF EASTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Town of Easton's total investment in capital assets, including construction in progress, for its governmental and business-type activities as of June 30, 2014, amounted to \$126.5 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, recreation and park facilities, utilities properties and facilities as well as other typical capital items.

The following table schedules capital assets by category (net of accumulated depreciation) for fiscal years ended June 30, 2014 and 2013, respectively:

	<b>Town of Easton's Capital Assets (Net of Depreciation)</b>					
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Land	\$ 7,150,1	\$ 7,150,141	\$ 1,148,005	\$ 1,130,905	\$ 8,298,146	\$ 8,281,046
Buildings and improvements	26,492,1	26,968,345	17,685,494	18,420,347	44,177,660	45,388,692
Plants, mains and other equipment	4,606,9	3,646,824	72,717,689	65,324,153	77,324,628	68,970,977
Construction in progress	-	-	<u>2,320,041</u>	<u>3,156,454</u>	<u>2,320,041</u>	<u>3,156,454</u>
<b>Total</b>	<u>\$ 38,249,2</u>	<u>\$ 37,765,310</u>	<u>\$ 88,115,670</u>	<u>\$ 88,031,859</u>	<u>\$ 126,364,916</u>	<u>\$ 125,797,169</u>

During the year ended June 30, 2014, the Town's capital assets grew by approximately \$.6 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.

**Long-Term Debt Activity**

The Town of Easton issued no new bonds during the fiscal year 2014. Regularly scheduled principal payments were made during 2014 totaling approximately \$1.4 million. Refer to schedule below for balances.

**TOWN OF EASTON, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

**CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)**

**Changes in Long-Term Liabilities**

	Town of Easton's Outstanding Long-Term Debt					
	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Long-term debt	\$ 9,565,769	\$ 10,287,879	\$ 18,334,995	\$ 19,864,576	\$ 27,900,764	\$ 30,152,455
Compensated absences	<u>703,603</u>	<u>689,091</u>	-	-	<u>703,603</u>	<u>689,091</u>
<b>Long-term debt</b>	<u>\$ 10,269,372</u>	<u>\$ 10,976,970</u>	<u>\$ 18,334,995</u>	<u>\$ 19,864,576</u>	<u>\$ 28,604,367</u>	<u>\$ 30,841,546</u>

**SUBSEQUENT ITEMS FOR FUTURE FINANCIAL STATEMENTS**

The State of Maryland unilaterally extended the District Court Lease for a period of six months pursuant to the original lease to allow a renewal to be negotiated. The Town of Easton and the State of Maryland have reached agreement on the renewal of the lease by the State of the District Court building for an additional 10 years with an automatic renewal of an additional 5 years. This agreement is still subject to final approval by the Maryland Board of Public Works.

The Mayor and Town Council repealed and reenacted the Town Charter in order to update the Charter and reorganize the document. A Town Code revision for the same reasons is currently in process.

**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, 2014**

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental</u>	<u>Business-Type</u>	
	<u>Activities</u>	<u>Activities</u>	
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 16,702,320	\$ 3,401,785	\$ 20,104,105
Investments	12,259	8,850,139	8,862,398
Accounts receivable, net	650,873	5,443,521	6,094,394
Grants receivable	699,227	-	699,227
Unrecovered fuel and gas costs	-	697,933	697,933
Interest receivable	-	1,474	1,474
Prepaid expenses	1,130,114	6,470,353	7,600,467
Unbilled revenue	-	1,572,506	1,572,506
Internal Balances	(2,410,739)	2,410,739	-
Inventory, at average cost	-	6,195,558	6,195,558
Total current assets	<u>16,784,054</u>	<u>35,044,008</u>	<u>51,828,062</u>
<b>NONCURRENT ASSETS</b>			
Note receivable, non-current	69,490	-	69,490
Capital assets, not being depreciated	7,150,141	3,468,046	10,618,187
Capital assets, net of accumulated depreciation	31,099,105	84,647,624	115,746,729
Total non current assets	<u>38,318,736</u>	<u>88,115,670</u>	<u>126,434,406</u>
Total assets	55,102,790	123,159,678	178,262,468
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Unamortized loss on reacquired debt	60,446	47,306	107,752
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	386,653	2,310,739	2,697,392
Accrued liabilities	136,117	3,053,962	3,190,079
Tax collection payable	-	327,931	327,931
Performance deposits	122,828	1,500	124,328
Unearned revenue	11,798	-	11,798
Current portion of long-term debt	1,284,606	1,665,387	2,949,993
Total current liabilities	<u>1,942,002</u>	<u>7,359,519</u>	<u>9,301,521</u>
<b>NONCURRENT LIABILITIES</b>			
Long-term debt, net of current portion	9,022,399	16,669,608	25,692,007
Total noncurrent liabilities	<u>9,022,399</u>	<u>16,669,608</u>	<u>25,692,007</u>
Total liabilities	<u>10,964,401</u>	<u>24,029,127</u>	<u>34,993,528</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Over-recovered fuel and gas costs	-	34,087	34,087
<b>NET POSITION</b>			
Net investment in capital assets	28,621,031	69,827,981	98,449,012
Restricted for:			
Debt service	1,661,211	-	1,661,211
Capital Improvements	5,080,226	-	5,080,226
Community Development	61,733	-	61,733
Unrestricted	8,774,634	29,315,789	38,090,423
<b>TOTAL NET POSITION</b>	<u>\$ 44,198,835</u>	<u>\$ 99,143,770</u>	<u>\$ 143,342,605</u>

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

**TOWN OF EASTON, MARYLAND**  
**STATEMENT OF ACTIVITIES**  
Year Ended June 30, 2014

FUNCTIONS/PROGRAMS	Program Revenues				Net Revenue (Expense) and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
<b>Primary Government:</b>							
<b>Governmental activities:</b>							
General government	\$ 1,650,076	\$ 558,847	\$ -	\$ -	\$ (1,091,229)	\$ -	\$ (1,091,229)
Public safety	7,808,449	243,338	359,896	-	(7,205,215)	-	(7,205,215)
Public works	4,691,122	1,506,915	499,175	-	(2,685,032)	-	(2,685,032)
Recreation and cultural	582,917	-	129,161	-	(453,756)	-	(453,756)
Economic development	224,746	-	415,601	-	190,855	-	190,855
Nondepartmental	2,079,509	4,230	-	-	(2,075,279)	-	(2,075,279)
Interest expense	408,820	-	-	-	(408,820)	-	(408,820)
Total governmental activities	<u>17,445,639</u>	<u>2,313,330</u>	<u>1,403,833</u>	<u>-</u>	<u>(13,728,476)</u>	<u>-</u>	<u>(13,728,476)</u>
<b>Business-type activities:</b>							
Utility	52,872,601	56,848,353	-	-	-	3,975,752	3,975,752
Land enterprise	181,005	202,465	-	-	-	21,460	21,460
Airport industrial	34,181	3,080	-	-	-	(31,101)	(31,101)
Total business-type activities	<u>53,087,787</u>	<u>57,053,898</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,966,111</u>	<u>3,966,111</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 70,533,426</u>	<u>\$ 59,367,228</u>	<u>\$ 1,403,833</u>	<u>\$ -</u>	<u>(13,728,476)</u>	<u>3,966,111</u>	<u>(9,762,365)</u>
<b>General revenues:</b>							
Property taxes					11,340,180	-	11,340,180
Payment in lieu of taxes					1,826,743	(1,826,743)	-
Intergovernmental, unrestricted					1,790,736	-	1,790,736
Interest and investment earnings					1,152	59,318	60,470
Miscellaneous					187,850	412,935	600,785
Total general revenues					<u>15,146,661</u>	<u>(1,354,490)</u>	<u>13,792,171</u>
<b>CHANGE IN NET POSITION</b>					1,418,185	2,611,621	4,029,806
<b>NET POSITION, BEGINNING OF YEAR</b>					<u>42,780,650</u>	<u>96,532,149</u>	<u>139,312,799</u>
<b>NET POSITION, ENDING OF YEAR</b>					<u>\$ 44,198,835</u>	<u>\$ 99,143,770</u>	<u>\$ 143,342,605</u>

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

**TOWN OF EASTON, MARYLAND**  
**BALANCE SHEET -**  
**GOVERNMENTAL FUNDS**  
**June 30, 2014**

	General Fund	Capital Projects Fund	Infrastructure Development Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents - pooled	\$ 7,584,840	\$ 2,360,470	\$ 5,080,406	\$ 1,676,604	\$ 16,702,320
Investments	12,259	-	-	-	12,259
Accounts receivable, net	1,350,100	-	-	-	1,350,100
Note receivable, non-current	-	-	-	69,490	69,490
Prepaid expenses	1,130,114	-	-	-	1,130,114
Due from other funds	-	-	-	46,689	46,689
Unamortized loss on reacquired debt	-	-	-	60,446	60,446
<b>TOTAL ASSETS</b>	<b><u>\$ 10,077,313</u></b>	<b><u>\$ 2,360,470</u></b>	<b><u>\$ 5,080,406</u></b>	<b><u>\$ 1,853,229</u></b>	<b><u>\$ 19,371,418</u></b>
<b>LIABILITIES</b>					
Accounts payable	\$ 291,352	\$ 94,772	\$ 180	\$ 349	\$ 386,653
Accrued liabilities	276,838	-	-	-	276,838
Due to other funds	-	-	-	46,689	46,689
Performance deposits	122,828	-	-	-	122,828
Interfund loan payable	2,410,739	-	-	-	2,410,739
Unearned revenue	11,798	-	-	-	11,798
Total liabilities	<u>3,113,555</u>	<u>94,772</u>	<u>180</u>	<u>47,038</u>	<u>3,255,545</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable tax revenue	198,810	-	-	-	198,810
<b>FUND BALANCES</b>					
Nonspendable	1,130,122	-	-	129,936	1,260,058
Restricted	-	-	5,080,226	1,722,944	6,803,170
Committed	941,121	-	-	-	941,121
Assigned	-	2,265,698	-	-	2,265,698
Unassigned	4,693,705	-	-	(46,689)	4,647,016
Total fund balances	<u>6,764,948</u>	<u>2,265,698</u>	<u>5,080,226</u>	<u>1,806,191</u>	<u>15,917,063</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OR RESOURCES AND FUND BALANCES</b>	<b><u>\$ 10,077,313</u></b>	<b><u>\$ 2,360,470</u></b>	<b><u>\$ 5,080,406</u></b>	<b><u>\$ 1,853,229</u></b>	<b><u>\$ 19,371,418</u></b>

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

**TOWN OF EASTON, MARYLAND  
RECONCILIATION OF THE BALANCE SHEET OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION  
June 30, 2014**

**TOTAL FUND BALANCES - GOVERNMENTAL FUNDS** \$ 15,917,063

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

Capital assets used in governmental activities are not financial  
resources and, therefore, are not reported in the governmental funds.  
The cost of these assets is \$61,171,870 and the accumulated  
depreciation is \$22,922,624. 38,249,246

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	\$ 7,535,000	
Notes payable	2,093,215	
Net OPEB obligation	(24,813)	
Compensated absences - long-term portion	<u>562,882</u>	(10,166,284)

Certain receivables are not available to pay for current period  
expenditures and, therefore, are deferred in the governmental funds. 198,810

**TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES** \$ 44,198,835

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

**TOWN OF EASTON, MARYLAND**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**Year Ended June 30, 2014**

	General Fund	Capital Projects Fund	Infrastructure Development Fund	Other Governmental Fund	Total Governmental Funds
<b>REVENUES</b>					
General property taxes	\$ 11,340,180	\$ -	\$ -	\$ -	\$ 11,340,180
Other local taxes	1,926,432	-	-	-	1,926,432
Permits and licenses	501,207	-	-	-	501,207
Fines and forfeitures	38,170	-	-	-	38,170
Charges for services	1,354,054	-	-	-	1,354,054
Miscellaneous	2,051,542	-	353,125	81,077	2,485,744
Revenues from other agencies	762,966	-	-	411,101	1,174,067
<b>Total revenues</b>	<b>17,974,551</b>	<b>-</b>	<b>353,125</b>	<b>492,178</b>	<b>18,819,854</b>
<b>EXPENDITURES</b>					
Current operations:					
General government	1,636,623	23,898	-	-	1,660,521
Public safety	7,247,096	530,220	-	62,623	7,839,939
Public works	3,688,975	1,863,601	-	-	5,552,576
Recreation and cultural	423,047	104,657	-	-	527,704
Economic development	196,147	-	-	-	196,147
Nondepartmental	1,498,283	-	27,898	555,027	2,081,208
Debt service:					
Principal	7,275	-	-	740,000	747,275
Interest	41,708	-	-	367,112	408,820
<b>Total expenditures</b>	<b>14,739,154</b>	<b>2,522,376</b>	<b>27,898</b>	<b>1,724,762</b>	<b>19,014,190</b>
Excess (deficiency) of revenues over expenditures	3,235,397	(2,522,376)	325,227	(1,232,584)	(194,336)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in (out)	(3,571,867)	2,464,756	-	1,107,111	-
<b>Total other financing     sources (uses)</b>	<b>(3,571,867)</b>	<b>2,464,756</b>	<b>-</b>	<b>1,107,111</b>	<b>-</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>(336,470)</b>	<b>(57,620)</b>	<b>325,227</b>	<b>(125,473)</b>	<b>(194,336)</b>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<b>7,101,418</b>	<b>2,323,318</b>	<b>4,754,999</b>	<b>1,931,664</b>	<b>16,111,399</b>
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 6,764,948</b>	<b>\$ 2,265,698</b>	<b>\$ 5,080,226</b>	<b>\$ 1,806,191</b>	<b>\$ 15,917,063</b>

The accompanying notes are an integral part of the accompanying 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, 2014**

**TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS** \$ (194,336)

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

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay \$2,569,587 exceeds depreciation expense \$2,085,651 in the period. 483,936

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 \$11,609. (11,609)

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. 348,949

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. 747,275

) 43,970

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** \$ 1,418,185

The accompanying notes are an integral part of the accompanying 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, 2014**

	<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>		
<b>REVENUES</b>				
<b>Taxes</b>				
<b>General property taxes:</b>				
Real property taxes	\$ 10,365,862	\$ 10,365,862	\$ 10,418,988	\$ 53,126
Personal property taxes - business	704,000	704,000	791,038	87,038
Personal property taxes - railroad and public utilities	140,000	140,000	124,967	(15,033)
Abatements/discounts	(76,085)	(76,085)	(59,813)	16,272
Penalties and interest	49,900	49,900	65,000	15,100
Total general property taxes	<u>11,183,677</u>	<u>11,183,677</u>	<u>11,340,180</u>	<u>156,503</u>
<b>Local taxes:</b>				
State shared income taxes	900,000	900,000	1,421,093	521,093
State shared highway taxes	501,925	501,925	499,175	(2,750)
Admission and amusements	3,600	3,600	5,414	1,814
Franchise-ordinary business corporation	750	750	750	-
Total other local taxes	<u>1,406,275</u>	<u>1,406,275</u>	<u>1,926,432</u>	<u>520,157</u>
Total taxes	<u>12,589,952</u>	<u>12,589,952</u>	<u>13,266,612</u>	<u>676,660</u>
<b>Permits and licenses</b>				
Trader's licenses	60,000	60,000	73,899	13,899
Building permits	1,150,000	1,150,000	169,125	(980,875)
Plumbing permits	28,000	28,000	21,374	(6,626)
Use and occupancy permits	30,000	30,000	24,900	(5,100)
Rental housing license fees	80,000	80,000	84,100	4,100
Permits and other licenses	170,400	170,400	127,809	(42,591)
Total permits and licenses	<u>1,518,400</u>	<u>1,518,400</u>	<u>501,207</u>	<u>(1,017,193)</u>
<b>Fines and forfeitures</b>				
	<u>30,000</u>	<u>30,000</u>	<u>38,170</u>	<u>8,170</u>
<b>Charges for services</b>				
General government	30,000	30,000	54,638	24,638
Public safety	141,208	141,208	145,625	4,417
Highway and streets	105,000	105,000	148,159	43,159
Sanitation and waste removal	938,654	938,654	987,527	48,873
Main Street and Recreation fees	5,000	5,000	18,105	13,105
Total charges for services	<u>1,219,862</u>	<u>1,219,862</u>	<u>1,354,054</u>	<u>134,192</u>
<b>Revenues from other agencies</b>				
<b>Federal:</b>				
Misc Federal Grant	-	-	34,434	34,434
Total federal	<u>-</u>	<u>-</u>	<u>34,434</u>	<u>34,434</u>
<b>State:</b>				
Police protection	264,996	264,996	285,040	20,044
Fire, rescue and ambulance	12,700	12,700	55,706	43,006
Conservation and critical areas	7,000	7,000	4,500	(2,500)
Recreation Open Space & Other Projects	1,230,871	1,230,871	51,355	(1,179,516)
Total state	<u>1,515,567</u>	<u>1,515,567</u>	<u>396,601</u>	<u>(1,118,966)</u>
<b>County:</b>				
Taxes	250,000	250,000	326,208	76,208
Misc County Grant	5,723	5,723	5,723	-
Total county	<u>255,723</u>	<u>255,723</u>	<u>331,931</u>	<u>76,208</u>
Total revenues from other agencies	<u>1,771,290</u>	<u>1,771,290</u>	<u>762,966</u>	<u>(1,008,324)</u>
<b>Miscellaneous</b>				
	<u>1,553,770</u>	<u>1,553,770</u>	<u>2,051,542</u>	<u>497,772</u>
<b>TOTAL REVENUES</b>	<u>18,683,274</u>	<u>18,683,274</u>	<u>17,974,551</u>	<u>(708,723)</u>

The accompanying notes are an integral part of the accompanying 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, 2014**  
(Continued)

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget -</u>
	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>		<u>Positive</u> <u>(Negative)</u>
<b>EXPENDITURES</b>				
<b>General government</b>				
<b>Legislative:</b>				
Town council	\$ 114,347	\$ 114,347	\$ 115,437	\$ (1,090)
Town clerk	<u>101,293</u>	<u>101,293</u>	<u>106,718</u>	<u>(5,425)</u>
Total legislative	<u>215,640</u>	<u>215,640</u>	<u>222,155</u>	<u>(6,515)</u>
Executive Mayor	326,050	326,050	129,679	196,371
Town Manager	474,122	474,122	384,922	89,200
Financial administration	440,552	440,552	416,293	24,259
Independent accounting & auditing	38,500	38,500	39,342	(842)
Law	35,000	35,000	36,624	(1,624)
Planning and zoning	286,804	286,804	280,422	6,382
General services	<u>124,320</u>	<u>124,320</u>	<u>127,186</u>	<u>(2,866)</u>
Total general government	<u>1,940,988</u>	<u>1,940,988</u>	<u>1,636,623</u>	<u>304,365</u>
<b>Public safety</b>				
Police	6,238,128	6,238,128	6,283,421	(45,293)
Traffic control	50,835	50,835	64,549	(13,714)
Fire and rescue	280,129	280,129	295,579	(15,450)
Code enforcement	808,215	808,215	443,482	364,733
Rental housing	103,083	103,083	141,921	(38,838)
Traffic engineering	-	-	18,144	(18,144)
Total public safety	<u>7,480,390</u>	<u>7,480,390</u>	<u>7,247,096</u>	<u>233,294</u>
<b>Public works</b>				
Administration	528,324	528,324	446,544	81,780
Sanitation and waste removal	1,612,711	1,612,711	1,683,307	(70,596)
Highways, streets and sidewalks	1,434,771	1,434,771	1,551,005	(116,234)
Mosquito control	700	700	8,119	(7,419)
Total public works	<u>3,576,506</u>	<u>3,576,506</u>	<u>3,688,975</u>	<u>(112,469)</u>
<b>Parks, recreation and cultural</b>				
Parks and recreation administration	89,727	89,727	82,794	6,933
Participation recreation	79,716	79,716	89,301	(9,585)
Municipal parks	<u>124,300</u>	<u>124,300</u>	<u>250,952</u>	<u>(126,652)</u>
Total parks, recreation and cultural	<u>293,743</u>	<u>293,743</u>	<u>423,047</u>	<u>(129,304)</u>
<b>Economic development/Main Street</b>	<u>235,816</u>	<u>235,816</u>	<u>196,147</u>	<u>39,669</u>
<b>Nondepartmental</b>	<u>965,371</u>	<u>965,371</u>	<u>1,498,283</u>	<u>(532,912)</u>
<b>Debt service</b>				
Principal	594,481	594,481	598,866	(4,385)
Interest	<u>24,112</u>	<u>24,112</u>	<u>39,370</u>	<u>(15,258)</u>
Total debt service	<u>618,593</u>	<u>618,593</u>	<u>638,236</u>	<u>(19,643)</u>
<b>TOTAL EXPENDITURES</b>	<u>15,111,407</u>	<u>15,111,407</u>	<u>15,328,407</u>	<u>(217,000)</u>
<b>EXCESS OF REVENUES OVER</b>				
<b>EXPENDITURES</b>	<u>3,571,867</u>	<u>3,571,867</u>	<u>2,646,144</u>	<u>(925,723)</u>

The accompanying notes are an integral part of the accompanying 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, 2014**  
(Continued)

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>		
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers (net):				
Debt service	\$ (1,107,111)	\$ (1,107,111)	\$ (1,107,111)	\$ -
Capital projects	<u>(2,464,756)</u>	<u>(2,464,756)</u>	<u>(2,464,756)</u>	<u>-</u>
<b>TOTAL OTHER FINANCING USES</b>	<u>(3,571,867)</u>	<u>(3,571,867)</u>	<u>(3,571,867)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ -</u>	<u>\$ -</u>	(925,723)	<u>\$ (925,723)</u>
<b>FUND BALANCE, BEGINNING OF YEAR</b>			<u>10,101,418</u>	
<b>FUND BALANCE, END OF YEAR</b>			<u>\$ 9,175,695</u>	

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

**TOWN OF EASTON, MARYLAND**  
**STATEMENT OF NET POSITION -**  
**PROPRIETARY FUNDS**  
**June 30, 2014**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Utility</b>	<b>Other</b>	<b>Totals</b>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 2,719,245	\$ 682,540	\$ 3,401,785
Investments	8,850,139	-	8,850,139
Accounts receivable, net	5,438,230	5,291	5,443,521
Unrecovered fuel and gas costs	697,933	-	697,933
Interest receivable	1,474	-	1,474
Prepaid expenses	6,470,353	-	6,470,353
Unbilled revenue	1,572,506	-	1,572,506
Interfund loan receivable	2,410,739	-	2,410,739
Inventory	6,195,558	-	6,195,558
Total current assets	<u>34,356,177</u>	<u>687,831</u>	<u>35,044,008</u>
<b>NONCURRENT ASSETS</b>			
Capital assets, not being depreciated	3,385,073	82,973	3,468,046
Capital assets, net of accumulated depreciation	83,069,976	1,577,648	84,647,624
Total noncurrent assets	<u>86,455,049</u>	<u>1,660,621</u>	<u>88,115,670</u>
<b>TOTAL ASSETS</b>	<u>120,811,226</u>	<u>2,348,452</u>	<u>123,159,678</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Unamortized loss on reacquired debt	47,306	-	47,306
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 2,304,337	\$ 6,402	\$ 2,310,739
Accrued liabilities	3,053,962	-	3,053,962
Tax collection payable	327,931	-	327,931
Performance deposits	-	1,500	1,500
Current portion of long-term debt	1,665,387	-	1,665,387
Total current liabilities	<u>7,351,617</u>	<u>7,902</u>	<u>7,359,519</u>
<b>NONCURRENT LIABILITIES</b>			
Long-term debt, net of current portion	16,669,608	-	16,669,608
Total liabilities	<u>24,021,225</u>	<u>7,902</u>	<u>24,029,127</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Over-recovered fuel and gas costs	34,087	-	34,087
<b>NET POSITION</b>			
Net investment in capital assets	68,167,360	1,660,621	69,827,981
Unrestricted	28,635,860	679,929	29,315,789
Total net position	<u>96,803,220</u>	<u>2,340,550</u>	<u>99,143,770</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<u>\$ 120,858,532</u>	<u>\$ 2,348,452</u>	<u>\$ 123,206,984</u>

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

**TOWN OF EASTON, MARYLAND**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -**  
**PROPRIETARY FUNDS**  
**Year Ended June 30, 2014**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Utility</b>	<b>Other</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 50,046,579	\$ 141,404	\$ 50,187,983
Other operating revenues	<u>6,801,774</u>	<u>64,141</u>	<u>6,865,915</u>
Total operating revenues	<u>56,848,353</u>	<u>205,545</u>	<u>57,053,898</u>
<b>OPERATING EXPENSES</b>			
Cost of service	45,768,071	73,703	45,841,774
Depreciation	<u>6,626,015</u>	<u>141,483</u>	<u>6,767,498</u>
Total operating expenses	<u>52,394,086</u>	<u>215,186</u>	<u>52,609,272</u>
Operating income (loss)	<u>4,454,267</u>	<u>(9,641)</u>	<u>4,444,626</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Investment earnings	59,318	-	59,318
Interest expense	(478,515)	-	(478,515)
Gain on sale of property	2,876	-	2,876
Payment in lieu of taxes	(1,826,743)	-	(1,826,743)
Capital charges	155,335	-	155,335
Miscellaneous	<u>254,724</u>	<u>-</u>	<u>254,724</u>
Total non-operating revenues	<u>(1,833,005)</u>	<u>-</u>	<u>(1,833,005)</u>
<b>CHANGES IN FUND NET POSITION</b>	2,621,262	(9,641)	2,611,621
<b>TOTAL NET POSITION - BEGINNING OF YEAR</b>	<u>94,181,958</u>	<u>2,350,191</u>	<u>96,532,149</u>
<b>TOTAL NET POSITION - END OF YEAR</b>	<u>\$ 96,803,220</u>	<u>\$ 2,340,550</u>	<u>\$ 99,143,770</u>

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

**TOWN OF EASTON, MARYLAND**  
**STATEMENT OF CASH FLOWS -**  
**PROPRIETARY FUNDS**  
**Year Ended June 30, 2014**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Utility</b>	<b>Other</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received for services	\$ 57,385,065	\$ 184,329	\$ 57,569,394
Cash paid to suppliers for goods and services	(38,298,641)	(63,174)	(38,361,815)
Cash paid to employees for services	(9,121,138)	-	(9,121,138)
Net cash provided by operating activities	<u>9,965,286</u>	<u>121,155</u>	<u>10,086,441</u>
<b>CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Cash paid in lieu of taxes	(1,322,337)	-	(1,322,337)
Net cash used in non-capital and related financing activities	<u>(1,322,337)</u>	<u>-</u>	<u>(1,322,337)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Proceeds from disposition of assets	2,726	-	2,726
Proceeds from capital charges	155,335	-	155,335
Purchases/construction of capital assets	(6,835,382)	(15,778)	(6,851,160)
Payment of debt	(1,527,497)	-	(1,527,497)
Interest paid on bond indebtedness	(146,310)	-	(146,310)
Other interest paid	(229,030)	-	(229,030)
Net cash used in capital and related financing activities	<u>(8,580,158)</u>	<u>(15,778)</u>	<u>(8,595,936)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest on cash deposits and investments	59,318	-	59,318
Loan to related party	589,261	-	589,261
Sales of investments	9,253,401	-	9,253,401
Purchases of investments	(11,259,430)	-	(11,259,430)
Net cash used in investing activities	<u>(1,357,450)</u>	<u>-</u>	<u>(1,357,450)</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(1,294,659)</u>	<u>105,377</u>	<u>(1,189,282)</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>4,013,904</u>	<u>577,163</u>	<u>4,591,067</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 2,719,245</u>	<u>\$ 682,540</u>	<u>\$ 3,401,785</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ 4,454,267	\$ (9,641)	\$ 4,444,626
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	6,626,015	141,483	6,767,498
Net accretion	(5,259)	-	(5,259)
Other miscellaneous non-operating revenue	110,231	-	110,231
Effects of changes in operating assets and liabilities:			
Accounts receivable, net	34,263	(157)	34,106
Inventory	(65,977)	-	(65,977)
Unrecovered fuel and gas costs	(1,354,387)	-	(1,354,387)
Accounts payable and accrued liabilities	166,133	(10,530)	155,603
Total adjustments	<u>5,511,019</u>	<u>130,796</u>	<u>5,641,815</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 9,965,286</u>	<u>\$ 121,155</u>	<u>\$ 10,086,441</u>

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

**TOWN OF EASTON, MARYLAND**  
**STATEMENT OF FIDUCIARY NET POSITION -**  
**FIDUCIARY FUNDS**  
**June 30, 2014**

	<b>Benefits Trust Funds</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 158,442
Investments, at fair value	31,895,263
Total assets	\$ 32,053,705
 <b>NET POSITION</b>	
Held in trust for pension benefits	\$ 32,053,705

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

**TOWN OF EASTON, MARYLAND**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**Year Ended June 30, 2014**

	<b>Benefits Trust Funds</b>
<b>ADDITIONS</b>	
Contributions:	
Employer	\$ 3,212,518
Employees	335,777
	3,548,295
Investment earnings:	
Investment income	1,043,755
Net increase in fair value of plan investments	3,555,314
	4,599,069
Total investment earnings	4,599,069
Less Investment expense	125,650
	4,473,419
Net investment earnings	4,473,419
Total additions	8,021,714
<b>DEDUCTIONS</b>	
Benefit payments	1,473,824
	1,473,824
<b>NET CHANGE</b>	6,547,890
<b>NET POSITION AT BEGINNING OF YEAR</b>	25,505,815
	25,505,815
<b>NET POSITION AT END OF YEAR</b>	\$ 32,053,705
	32,053,705

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

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**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.

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

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

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

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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

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

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

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

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

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

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

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

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

The Town reports two benefit plans within the Benefit Trust Fund, 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.

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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

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

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

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

The Town applies all relevant GASB pronouncements, including GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. GASB No. 62 incorporates into GASB authoritative literature certain accounting and financial reporting guidance previously included in FASB, AICPA and Accounting Principles Board Opinions (APB) issued before November 30, 1989. The Town's Utility Fund gas and electric departments are regulated, and are subject to the requirements of Accounting Standards Codification (ASC) ASC 980-10, *Regulated Operations – Overall* and ASC 980-340, *Regulated Operations – Other Asset and Deferred Costs* provide that certain costs that would otherwise be charged to expense should be deferred as regulatory assets, based on the expected recovery from customers in future rates. Utility plant assets donated by developers or constructed with grants received from other agencies are recorded as capital assets to the extent that the depreciation of such costs will be included in rates charged by the utility fund in future years. However, when it becomes probable that part of the cost of an asset will be disallowed for rate-making purposes and a reasonable estimate of the amount of the disallowance can be made, the estimated amount of the probable disallowance is deducted from the reported cost of the plant and recognized as a loss.

The Town implemented the requirements of GASB Statement No. 65; *Items Previously Reported as Assets and Liabilities* for the reporting period ended June 30, 2014. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items, that were previously reports as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The effect of this statement was the addition of a deferred outflow and inflow and a decrease in both total assets and total liabilities on the Government-wide Net Position with no net effect on net position. On Governmental Funds, a deferred inflow was reported that decreased total liabilities, with no net effect on net position.

The Town also implemented the requirements of GASB Statement No. 67; *Financial Reporting for Pension Plans* for the reporting period ended June 30, 2014. The objective of this Statement is to improve financial reporting by state and local government pension plans.

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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

**Accounting Estimates**

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

**Cash, Cash Equivalents and Investments**

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

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

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

**Receivables and Payables**

Property taxes are reported at their estimated collectible value.

The following summarizes the property tax calendar:

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

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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

**Receivables and Payables** (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 for enterprise funds. The amount of interest to be capitalized is offset by any interest income earned on invested proceeds over the same period. Exhaustible capital assets of the general fund and proprietary funds are depreciated as an expense against related operations. The corresponding accumulated depreciation is reported in the Statement of Net Position.

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:

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>
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, 2014**

**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, 2014 is \$1,572,506.

**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, 2014, the Commission had unrecovered fuel costs of \$697,933 and over-recovered gas costs of \$34,087.

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 \$6,195,558 at June 30, 2014.

**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, 2014**

**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 position. 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 proceeds 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 2014 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, 2014 is \$11,799.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Net Position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenses/expenditures) until then. The Town has one item that qualifies for reporting in this category, the deferred loss on refunding, which is reported on the Statement of Net Position.

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

**Net Position/Fund Equity**

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

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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

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

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

**Governmental Fund Balances**

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

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

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

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

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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

**Governmental Fund Balances (Continued)**

*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.

**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 30<sup>th</sup>, 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 adjustments to convert the results of operating and fund balances at the end of the year on the GAAP basis to budgetary basis:

	<u>Revenues</u>	<u>Expenses</u>	<u>Fund Balance</u>
GAAP Basis	\$ 17,974,551	\$ 14,739,154	\$ 6,764,948
Interfund loan - Principal payments	-	589,253	(589,253)
Interfund loan - Previous year revenue	-	-	3,000,000
Budgetary Basis	<u>\$ 17,974,551</u>	<u>\$ 15,328,407</u>	<u>\$ 9,175,695</u>

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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

**Deferred Compensation and Defined Contribution Plans**

457 Deferred Compensation Plan

All employees of the Town may participate in the deferred compensation plan organized under the Internal Revenue Code Section 457, and administered by 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.

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 of Easton, MD Defined Contribution Retirement Plan is a defined contribution defined benefit pension plan established to provide benefits to virtually all employees with the exception of sworn officers. Plan provisions and contribution requirements are established and may be amended by the Town Council. The Town's contribution to the plan for the year ended June 30, 2014 was \$808,999. The plan administrator is John Hancock.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

**Deposits**

At year-end, the carrying amount of the Town deposits (including cash on hand of \$1,775) was \$20,104,105 and the bank balance was \$22,880,791. 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. Certain deposits of the Town's Utility Fund were exposed to custodial credit risk at June 30, 2014 totaling \$5,037,145.

**Investments**

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

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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

**Investments (Continued)**

**Town (continued)**

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.

The Town is a participant of the Maryland Local Government Investment Pool (MLGIP), which provides all local government units of the State a safe investment vehicle for the short-term investment of funds. The State Legislature created MLGIP with the passage of Article 95 22G, of the Annotated Code of Maryland. The MLGIP, under the administrative control of the State Treasurer, has been managed by a single Baltimore-based financial institution, PNC Bank. An MLGIP Advisory Committee of current participants was formed to review, on a quarterly basis, the activities of the Fund and to provide suggestions to enhance the pool. The fair value of the pool is the same as the value of the pooled shares. At June 30, 2014, the Town had \$7,862,394 invested in this Pool.

At June 30, 2014, the Utility Commission had investments held at M&T Securities, Inc of \$1,000,000. These investments are comprised of certificates of deposit with maturities of one year, or less, at the time of purchase. It is the Utility Commission's intention to hold these securities to maturity. Accordingly, these investments are reported at amortized costs.

**Pension Plan and OPEB Plan**

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

Guaranteed account	\$ 6,673,313
Variable earnings investments:	
American Century Real Est Inv	1,262,861
CIGNA Open-End Real Estate	1,295
Core Plus Bond/PIMCO Fund	2,800,783
Dryden S&P 500 Index	2,663,948
International Blend / Artio*	2,154,209
Mid Cap Growth/Goldman Sachs	1,015,919
Mid Cap Value / Systematic	1,016,340
QMA Emerging Markets Fund*	716,361
Small Cap Grw/Columbus	1,336,145
Small Cap Value/Kennedy Capit	1,363,655
T. Rowe Price Eqty Inc Stgy	2,680,337
T. Rowe Price Growth Stk Stgy	<u>2,669,109</u>
<b>Total Investments – Defined Benefit Pension Plan</b>	<u><b>\$ 26,354,275</b></u>

\*- Foreign Investment

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

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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

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

Dodge & Cox – International*	\$ 230,790
Eaton Vance Global*	262,625
FMI Intl	265,174
Government Obligations Fund	1,358,835
Hartford Floating Rate	286,204
Keely – Small Cap Value	98,994
MFS International*	231,633
Munder SER TR Mid Cap Core Growth	300,042
New World	168,100
Vanguard – Short Term	543,802
Vanguard – Extended Market	200,715
Common Stock	
Consumer Discretionary	258,962
Consumer Staples	179,681
Energy	146,686
Financials	312,443
Health Care	262,118
Industrials	215,055
Information Technology	242,009
Materials	87,422
Real Estate Investment Trusts	<u>48,140</u>
<b>Total OPEB Investments</b>	<b><u>\$ 5,699,430</u></b>

\*- Foreign Investment

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

**Custodial Credit Risk**

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

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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

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

	<b>Valuation</b>	<b>Weighted Average Maturity (yrs)</b>
<b><u>Defined Benefit Pension Plan</u></b>		
Guaranteed account	\$ 6,673,313	<u>4.20</u>
Core Plus Bond/PIMCO	<u>2,800,783</u>	<u>7.40</u>
<b>Total</b>	<u>\$ 9,474,096</u>	
<b><u>OPEB Plan</u></b>		
Hartford Floating Rate I	\$ 286,204	<u>5.27</u>
Vanguard Short Term Investment Grade	<u>543,802</u>	<u>3.10</u>
<b>Total</b>	<u>\$ 830,006</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 position available for plan benefits.

**Interest Rate Risk**

Fair value fluctuates with interest rates, and increasing interest rates could cause fair value to decline below original cost. To limit the Town's exposure to fair value losses arising from increasing interest rates, the Town's investment policy limits the term of investment maturities. The Town management believes the liquidity of the portfolio is adequate to meet cash flows requirements and to preclude the Town from having to sell investments below original cost for that purpose. The investments at June 30, 2014 met the Town's investment policy.

**Credit Risk**

Credit risk is the risk that the Plans or the Town will lose money because of the default of the security of the issuer or investment counterparty. The Plans' guaranteed accounts and 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 Towns investment policy does not allow for an investment in any one issuer that is in excess of 5 percent of the Town's total investments.

**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 \$3,595,618 as of June 30, 2014. The individual funds are identified above.

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**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:

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>
	<b>General</b>	<b>Other</b>	<b>Utility</b>	<b>Other</b>	
Taxes	\$ 488,585	\$ -	\$ -	\$ -	\$ 488,585
Accounts	752,753	-	5,438,230	5,291	6,014,199
Due from other governments	556,320	-	-	-	556,320
Interest	-	-	1,474	-	1,474
Allowance for uncollectibles	<u>(447,558)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(447,558)</u>
<b>Net receivables</b>	<u><b>\$ 1,350,100</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 5,439,704</b></u>	<u><b>\$ 5,291</b></u>	<u><b>\$ 6,613,020</b></u>

The June 30, 2014 balance of due from other governments is as follows:

State of Maryland:	
Income taxes	\$ 394,046
Various purposes	72,209
Talbot County	<u>90,065</u>
<b>Total due from other governments</b>	<u><b>\$ 556,320</b></u>

Governmental funds report deferred inflows of resources in relation to receivables for revenues that are not considered to be available to liquidate liabilities of the current period such as property taxes not collected within 60 days after fiscal year-end. 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 inflows of resources and unearned revenue reported in the Governmental Fund Balance Sheet for the General Fund at June 30, 2014 is summarized as follows:

	<b>Unavailable (Deferred Inflows)</b>	<b>Unearned</b>	<b>Total</b>
Income taxes	\$ 198,810	\$ -	\$ 198,810
Miscellaneous	<u>-</u>	<u>11,798</u>	<u>11,798</u>
<b>Total</b>	<u><b>\$ 198,810</b></u>	<u><b>\$ 11,798</b></u>	<u><b>\$ 210,608</b></u>

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 3 – RECEIVABLES (CONTINUED)**

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, 2014 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.

**NOTE 4 – INTERFUND PAYABLES AND TRANSFERS**

Due to/from other funds at June 30, 2014 was as follows:

Receivable Fund:	Payable Fund		Total
	General Fund	Law Enforcement	
Utility	\$ 2,410,739	\$ -	\$ 2,410,739
Debt service	-	46,689	46,689
<b>Total</b>	<u>\$ 2,410,739</u>	<u>\$ 46,689</u>	<u>\$ 2,457,428</u>

Inter-fund transfer activity for the year ended June 30, 2014 was as follows:

<u>Governmental Funds</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ -	\$ 3,571,867
Capital Projects	2,464,756	-
Other Governmental	<u>1,107,111</u>	<u>-</u>

Transfers are used to (1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due, (2) move restricted amounts from borrowings to the debt service fund to establish 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, 2014**

**NOTE 5 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers/ Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets, not being depreciated:				
Land	\$ 7,150,141	\$ -	\$ -	\$ 7,150,141
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets, not being depreciated	<u>7,150,141</u>	<u>-</u>	<u>-</u>	<u>7,150,141</u>
Capital assets, being depreciated:				
Buildings and improvements	40,292,413	65,675	-	40,358,088
Equipment	<u>11,230,106</u>	<u>2,503,912</u>	<u>(70,377)</u>	<u>13,663,641</u>
Total capital assets, being depreciated	<u>51,522,519</u>	<u>2,569,587</u>	<u>(70,377)</u>	<u>54,021,729</u>
Less accumulated depreciation:				
Buildings and improvements	13,324,068	541,854	-	13,865,922
Equipment	<u>7,583,282</u>	<u>1,543,797</u>	<u>(70,377)</u>	<u>9,056,702</u>
Total accumulated depreciation	<u>20,907,350</u>	<u>2,085,651</u>	<u>(70,377)</u>	<u>22,922,624</u>
Net capital assets, being depreciated	<u>30,615,169</u>	<u>483,936</u>	<u>-</u>	<u>31,099,105</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 37,765,310</u>	<u>\$ 483,936</u>	<u>\$ -</u>	<u>\$ 38,249,246</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers/ Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities</b>				
Capital assets, not being depreciated:				
Land	\$ 1,130,905	\$ 17,100	\$ -	\$ 1,148,005
Construction in progress	<u>3,156,454</u>	<u>6,869,008</u>	<u>(7,705,421)</u>	<u>2,320,041</u>
Total capital assets, not being depreciated	<u>4,287,359</u>	<u>6,886,108</u>	<u>(7,705,421)</u>	<u>3,468,046</u>
Capital assets, being depreciated:				
Buildings and improvements	30,786,333	268,421	-	31,054,754
Equipment and other	149,428,849	7,402,201	(7,879)	156,823,171
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>178,495,397</u>	<u>7,670,622</u>	<u>(7,879)</u>	<u>186,158,140</u>
Less accumulated depreciation:				
Buildings and improvements	12,365,986	1,013,059	-	13,379,045
Equipment and other	<u>82,384,911</u>	<u>5,754,439</u>	<u>(7,879)</u>	<u>88,131,471</u>
Total accumulated depreciation	<u>94,750,897</u>	<u>6,767,498</u>	<u>(7,879)</u>	<u>101,510,516</u>
Net capital assets, being depreciated	<u>83,744,500</u>	<u>903,124</u>	<u>(15,758)</u>	<u>84,647,624</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 88,031,859</u>	<u>\$ 7,789,232</u>	<u>\$ (7,721,179)</u>	<u>\$ 88,115,670</u>

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 5 – CAPITAL ASSETS (CONTINUED)**

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

<b>Governmental activities</b>	
General government	\$ 58,281
Public safety	721,769
Public works	959,074
Recreation and cultural	167,649
Non-departmental	<u>178,878</u>
<b>Total governmental activities</b>	<b><u>\$ 2,085,651</u></b>
<b>Business-type activities</b>	
Utility	\$ 6,626,015
Other	<u>141,483</u>
<b>Total business-type activities</b>	<b><u>\$ 6,767,498</u></b>

**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, 2014, 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**  
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**June 30, 2014**

**NOTE 7 – LONG-TERM LIABILITIES**

**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:

<u>Bond Issue</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Balance at June 30, 2014</u>
Public Facilities Bonds 1999	2019	3.75 – 5.25%	\$ 2,150,000
Public Facilities Bonds 2003	2023	2.00 – 5.00%	1,500,000
Public Facilities Bonds 2008	2028	2.00 – 5.00%	<u>6,895,000</u>
<b>Total general obligation bonds</b>			<u>\$ 10,545,000</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>
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	495,000	250,638	470,000	22,090
2020 – 2024	2,490,000	913,416	-	-
2025 – 2029	<u>2,300,000</u>	<u>310,068</u>	<u>-</u>	<u>-</u>
<b>Total</b>	<u>\$ 7,535,000</u>	<u>\$ 2,697,269</u>	<u>\$ 3,010,000</u>	<u>\$ 350,197</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, 2014, there remains \$1,485,000 of outstanding defeased debt.

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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

**Bonds (Continued)**

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, 2014, there remains \$435,000 of outstanding defeased debt.

**Government-type Funds**

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

The annual debt service requirements to maturity are as follows:

<u>For the Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	4,630	12,886	17,516
2020-2024	26,545	61,035	87,580
2025-2029	33,229	54,351	87,580
2030-2034	41,596	45,984	87,580
2035-2039	52,070	35,510	87,580
2040-2044	65,181	22,399	87,580
2045-2048	<u>63,651</u>	<u>6,284</u>	<u>69,935</u>
<b>Total</b>	<u>\$ 303,476</u>	<u>\$ 291,939</u>	<u>\$ 595,415</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, 2014 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.

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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

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, 2014, Asbury Place met those conditions and interest was forgiven.

***Business-type Funds***

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

The MDE makes funds available to local governments at below market rates for certain water quality and drinking water projects. 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, 2014 is \$15,207,685. The note bears an interest rate of .40% and has a scheduled maturity of February 2028.

The following are the principal and interest maturities of the outstanding loan as of June 30, 2014:

<u>For the Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	49,257	1,095,939
2019	1,087,729	45,069	1,132,798
2020-2024	6,054,342	156,797	6,211,139
2025-2028	<u>4,125,161</u>	<u>33,330</u>	<u>4,158,491</u>
<b>Total</b>	<u>\$ 15,207,685</u>	<u>\$ 455,698</u>	<u>\$ 15,663,383</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, 2014 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 2015. 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, 2014:

**TOWN OF EASTON, MARYLAND**  
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**June 30, 2014**

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

<u>For the Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	76,083	23,344	99,427
2020-2024	401,456	95,678	497,134
2025-2029	438,912	58,222	497,134
2030-2033	380,434	17,272	397,706
Less: Amounts undrawn	<u>(1,490,443)</u>	<u>(303,502)</u>	<u>(1,793,945)</u>
<b>Total</b>	<b><u>\$ 98,557</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 98,557</u></b>

**Changes in Long-Term Liabilities**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Principal Repayments &amp; Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities</b>					
General obligation bonds	\$ 8,275,000	\$ -	\$ 740,000	\$ 7,535,000	\$ 580,000
DHCD loan payable	1,672,124	-	-	1,672,124	-
Note payable – DHCD	117,615	-	-	117,615	117,615
Note payable – USDA	307,304	-	3,828	303,476	3,869
Capital lease obligation	3,447	-	3,447	-	-
Net OPEB Obligation	324,136	469,571	818,520	(24,813)	-
Compensated absences	<u>689,091</u>	<u>597,634</u>	<u>583,122</u>	<u>703,603</u>	<u>583,122</u>
<b>Governmental activities long-term liabilities</b>	<b><u>\$ 11,388,717</u></b>	<b><u>\$ 1,067,205</u></b>	<b><u>\$ 2,148,914</u></b>	<b><u>\$ 10,307,005</u></b>	<b><u>\$ 1,284,606</u></b>

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Principal Repayments &amp; Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Business-type activities</b>					
General obligation bonds	\$ 3,655,000	\$ -	\$ 645,000	\$ 3,010,000	\$ 670,000
Loan – MDE	98,557	-	-	98,557	71,843
Loan – State of Maryland	16,090,182	-	882,497	15,207,685	923,544
Unamortized premium on Long-term liabilities	<u>20,837</u>	<u>-</u>	<u>2,084</u>	<u>18,753</u>	<u>2,000</u>
<b>Business-type activities long-term liabilities</b>	<b><u>\$ 19,864,576</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,529,581</u></b>	<b><u>\$ 18,334,995</u></b>	<b><u>\$ 1,667,471</u></b>

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 8 – LINE-OF-CREDIT**

***Business-type Funds***

The Town, for the benefit of the Utility Commission, maintains a revolving line-of-credit agreement with a commercial bank for \$2,500,000, which bears interest in the amount of 1.15% above the LIBOR rate (.1524% at June 30, 2014). 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, 2014.

**NOTE 9 – FUND BALANCE**

A summary of fund balances at June 30, 2014 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>
<b><u>Nonspendable:</u></b>					
Prepaid expenses and other	\$ 1,130,122	\$ -	\$ -	\$ 60,446	\$ 1,190,568
Loans to citizens	-	-	-	69,490	69,490
Total nonspendable fund balance	<u>1,130,122</u>	<u>-</u>	<u>-</u>	<u>129,936</u>	<u>1,260,058</u>
<b><u>Restricted:</u></b>					
Impact fees	-	-	5,080,226	-	5,080,226
Debt service	-	-	-	1,661,211	1,661,211
CDBG grant	-	-	-	61,733	61,733
Total restricted fund balance	<u>-</u>	<u>-</u>	<u>5,080,226</u>	<u>1,722,944</u>	<u>6,803,170</u>
<b><u>Committed:</u></b>					
Budget stabilization	941,121	-	-	-	941,121
<b><u>Assigned:</u></b>					
Capital projects	-	2,265,698	-	-	2,265,698
<b><u>Unassigned:</u></b>					
General Fund	4,693,705	-	-	-	4,693,705
Law Enforcement Fund	-	-	-	(46,689)	(46,689)
Total unassigned fund balance	<u>4,693,705</u>	<u>-</u>	<u>-</u>	<u>(46,689)</u>	<u>4,647,016</u>
<b>Total fund balance</b>	<u>\$ 6,764,948</u>	<u>\$ 2,265,698</u>	<u>\$ 5,080,226</u>	<u>\$ 1,806,191</u>	<u>\$ 15,917,063</u>

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**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, 2013 (the date of the last actuarial valuation), the pension plan’s membership consisted of:

Active employees	202
Retirees and beneficiaries currently receiving benefits	101
Terminated employees entitled to benefits but not yet receiving them	<u>91</u>
<b>Total</b>	<u><u>394</u></u>

**Funding Policy**

The Plan covers all full-time employees who began service prior to the age of 55 and prior to the plan being frozen (see below) except for sworn police officers, voluntary contributions from eligible employees are prohibited. Sworn police officers who are employed on a regular full-time basis with less than 25 years of service are required to contribute 5.0% of gross annual earnings. For police officers who are employed on a regular full-time basis with service in excess of 25 years, the required contribution rate is 6.7% of gross annual earnings. Participants’ actual contributions during the year ended June 30, 2014 were \$188,023. Administrative costs are financed through investment earnings.

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

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

Contributions to the Plan made by the Town are based on an actuarially determined basis. The contribution requirements of the Town are established and may be amended by the Town Council. The actuarially required and actual contribution to the Plan during the year ended June 30, 2014 and June 30, 2013 was \$1,182,517 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, 2013, no investment in any one organization, exceeded five percent or more of net position available for benefits.

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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

**Actuarial Methods and Assumptions**

The annual required contributions during the year ended June 30, 2014 was determined as part of the July 31, 2013 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, 2013 was a weighted average of 15 years.

**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	\$ 1,182,517
Interest on net pension obligation and other adjustment	-
Annual pension cost	1,182,517
Less: contributions made	<u>(1,137,694)</u>
<b>Change net pension obligation</b>	<b>(44,823)</b>
<b>Net pension (asset) obligation, beginning of year</b>	<b><u>(526,129)</u></b>
<b>Net pension (asset) obligation, end of year</b>	<b><u>\$ (481,306)</u></b>

The net Pension Plan asset was included in prepaid expenses during the year ended June 30, 2014.

Three year trend information:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
June 30, 2014	\$1,182,517	100.0%	\$ 481,306
June 30, 2013	1,241,552	100.0	526,129
June 30, 2012	1,204,957	100.0	60,564

**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, 2013	\$24,012,619	\$30,838,448	\$6,825,829	77.87%	\$13,707,415	49.8%

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, 2014**

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

The condensed financial statements as of and for the year ended July 31, 2013 are as follows:

**Statement of Plan Net Position**

**Assets**

Investments, at fair value other adjustment	<u>\$ 26,354,275</u>
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**Net Position**

Net position held in trust for pension benefits	<u>\$ 26,354,275</u>
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**Statement of Plan Net Position**

**Additions**

Contributions:

Employer	\$ 1,745,777
Employee	<u>207,998</u>
Total contributions	<u>1,953,775</u>

Investment earnings:

Investment income	564,340
Net increase in fair value of plan investments	3,139,709
Less investment expenses	<u>(98,602)</u>
Net investment income	<u>3,605,447</u>
Total additions	<u>5,559,222</u>

**Deductions**

Benefit payments	<u>1,079,304</u>
------------------	------------------

**Net change**

4,479,918

**Net position at beginning of year**

21,874,357

**Net position at end of year**

\$ 26,354,275

**NOTE 11 – GASB 67 – FINANCIAL REPORTING FOR PENSION PLANS**

The Town has adopted GASB Statement No. 67, Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25. The Statement enhances the Town’s footnote disclosures and expands the Required Supplemental Information (RSI) data with new schedules. It was issued to improve financial reporting by state and local government pension plans. The following provides information required to be disclosed under GASB Statement No. 67 that is not discussed as part of the information disclosed in Note 10 previously.

**Pension Plan Administration**

Management of the Plan is overseen by the Plan Sponsor, the Town of Easton, under Article XIV of the Pension Plan Document. The Town of Easton, by formal action of the Mayor and Town Council, has delegated the duty of Pension Plan Administrator to the Town Manager of the Town of Easton and also to the Senior Vice President of Finance of the Easton Utilities Commission pursuant to Section 14.1 of the Plan

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 11 – GASB 67 – FINANCIAL REPORTING FOR PENSION PLANS (CONTINUED)**

**Pension Plan Administration** (Continued)

Document. The Pension Plan Administrator has the discretionary right, authority, and power to interpret and construe the Plan, and to determine any disputes arising thereunder, subject to the provisions of Section 14.3 of the Plan Document. The duly appointed Pension Plan Administrator has authority to carry out any of the sponsor’s powers, authority, or responsibilities for the operation and administration of the Plan pursuant to the provisions of the Plan.

**Investment Policy**

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

The following was the Plan’s adopted asset allocation policy as of June 30, 2014:

<u>Asset Class</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Target</u>
Equities	None	None	55%
Fixed income	None	None	18%
Real estate	None	None	5%
Cash and cash equivalents	None	None	22%

**Concentrations**

The Pension plan did not hold any investments (other than those issued or explicitly guaranteed by the U.S. Government) in any one organization that represents 5 percent or more of the pension plan’s fiduciary net positions at June 30, 2014.

**Net Pension Liability**

The net pension liability of the trust as of June 30, 2014 was for measurement date June 30, 2014. It was as follows:

Total pension liability	\$ 35,091,655
Plan fiduciary net position	<u>30,802,811</u>
Net pension liability	<u>\$ 4,288,844</u>
Plan fiduciary net position as a percentage of the total pension liability	87.80%

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 11 – GASB 67 – FINANCIAL REPORTING FOR PENSION PLANS (CONTINUED)**

**Net Pension Liability (Continued)**

Method and assumptions used to determine Net Pension Liability were as follows:

Valuation Date:	August 1, 2013*
Actuarial Cost Method:	Entry Age Normal
Amortization Period:	30 Years
Asset Valuation Method:	Market value of Assets
Actuarial Assumptions:	
Investment Rate of Return	7.50% per year compounded annually, net of investment expenses
Projected salary increases	4.50% including inflation
Cost of living adjustments	None assumed
General inflation	3.00% per year
Retirement	Experience-based tables specific to the type of eligibility condition and years of service
Mortality rate	RP-2000 Healthy Annuitant Mortality tables for Males and Females, Projected to 2010 with Scale AA

\*To calculate the plan's Total Pension Liability (TPL), the August 1, 2013 Valuation was used to estimate the TPL as of June 30, 2014. The August 1, 2013 TPL was increased by service cost and interest on TPL and increased benefit payments during the year. If a change in Plan was implemented, that amount was also reflected.

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

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of August 1, 2013, and the final investment return assumption, are summarized in the following table:

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014

**NOTE 11 – GASB 67 – FINANCIAL REPORTING FOR PENSION PLANS (CONTINUED)**

**Net Pension Liability (Continued)**

<u>Asset Class</u>	<u>Long-Term Expected Real Return - Portfolio</u>
Domestic equity	5.80%
International equity - developed	5.90%
International equity - emerging	7.10%
Fixed income - U.S. investment grade	1.80%
Fixed income - U.S. high yield	3.90%
Fixed income - international	0.80%
Commodities	3.30%
Real estate	4.20%
Private equity	7.90%
<b>Total weighted average real return</b>	<b>4.66%</b>
Plus inflation	3.00%
Total return w/o adjustment	7.66%
Risk adjustment	-0.16%
<b>Total expected return</b>	<b>7.50%</b>

**Discount Rate**

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Utilities contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate.

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

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

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

The following presents the net pension liability of the Town, calculated using the discount rate of 7.50%, as well as what the Town’s net pension liability would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rate:

	<b>1% Decrease</b>	<b>Current Discount Rate</b>	<b>1% Increase</b>
	<b>6.50%</b>	<b>7.50%</b>	<b>8.50%</b>
Net pension liability	<u>\$ 8,269,477</u>	<u>\$ 4,288,844</u>	<u>\$ 902,202</u>

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 12 – 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.

**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, 2014, 2013, and 2012 were \$895,177, \$1,143,226, and \$1,143,226, respectively. The Town's actual contributions for the years ended June 30, 2014, 2013 and 2012 were \$1,594,520, \$1,266,456, and \$958,558, 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)	\$ 895,177
Interest on net OPEB obligation	19,853
ARC Adjustment	<u>(13,044)</u>
Net Annual OPEB cost	901,986
Contribution made	<u>(1,594,520)</u>
<b>Net change</b>	<b>(692,534)</b>
<b>Net OPEB obligation - beginning of year</b>	<b><u>283,608</u></b>
<b>Net OPEB obligation - end of year</b>	<b><u>\$ (408,926)</u></b>

The net OPEB obligation is included in governmental activities long-term liabilities totaling \$(24,813) and business-type activities prepaid expenses totaling \$(384,113) at June 30, 2014.

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Annual OPEB Cost and Net OPEB Obligation (Continued)**

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:

<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, 2014	\$ 901,986	110.79%	\$ (408,926)
June 30, 2013	1,141,318	110.96	283,608
June 30, 2012	1,141,722	83.11	408,746

**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 31, 2013	\$3,631,458	\$10,830,590	\$7,199,132	34%	\$13,594,393	52.96%

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 June 30, 2014 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 June 30, 2014, was 30 years.

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Actuarial Methods and Assumptions**

Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 2013
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, 2014 are as follows:

**Statement of Plan Net Position**

**Assets**

Cash and cash equivalents	\$ 1,358,835
Investments, at fair value other adjustment	<u>4,340,595</u>
<b>Total assets</b>	<b><u>\$ 5,699,430</u></b>

**Net Position**

Net position held in trust for pension benefits	<u>\$ 5,699,430</u>
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**Additions**

Contributions:	
Employer	<u>\$ 1,594,520</u>
Investment earnings:	
Investment income	479,415
Net decrease in fair value of plan investments	415,605
Less investment expenses	<u>27,048</u>
Net investment loss	<u>867,972</u>
Total additions, net of investment loss	<u>2,462,492</u>

**Deductions**

Benefit payments	<u>394,520</u>
------------------	----------------

**Net change**

<b>Net position at beginning of year</b>	<u>3,631,458</u>
<b>Net position at end of year</b>	<b><u>\$ 5,699,430</u></b>

**TOWN OF EASTON, MARYLAND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 13 – RELATED PARTY TRANSACTIONS**

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

Utility, Cable and Engineering and Other services	<u>\$ 453,001</u>
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The outstanding balance of the above services remaining at June 30, 2014 was \$34,329. The General Fund charged the Utility Fund \$53,612 for street repairs and \$1,826,743 for payments in lieu of taxes during the year ended June 30, 2014.

In fiscal year 2013, the Utility Commission loaned \$3,000,000 to the Town of Easton. The balance of the loan at June 30, 2014 was \$2,410,739. 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.

**NOTE 14 – 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, 2014**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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, 2013	\$ 24,012,619	\$ 30,838,448	\$ 6,825,829	77.87%	\$ 13,707,415	49.80%
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, 2008	17,973,200	21,494,795	3,521,595	83.62%	12,693,536	27.74%
July 31, 2006	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 (Asset)
2014	\$ 1,182,517	104%	\$ 481,306
2013	1,241,552	73%	526,129
2012	1,203,905	100%	60,564
2011	1,011,227	100%	(230)
2010	1,015,045	100%	(230)
2009	930,774	100%	(230)

**TOWN OF EASTON, MARYLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS**  
**June 30, 2014**

Actuarial Valuation Date	Value of Assets (a)	(AAL) - Entry Age (b)	AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	of Covered Payroll [(b-a)/c]
June 30, 2013	\$ 3,631,458	\$ 10,830,590	\$ 7,199,132	33.53%	\$ 13,594,393	52.96%
June 30, 2011	\$ 1,844,690	\$ 12,681,234	\$ 10,836,544	14.55%	\$ 12,866,240	84.22%
June 30, 2009	\$ 502,002	\$ 12,428,558	\$ 11,926,556	4.04%	\$ 12,300,340	96.96%

Year Ended June 30 (*)	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation (Asset)
2014	\$ 895,177	178%	\$ (408,926)
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

**TOWN OF EASTON, MARYLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY**  
**June 30, 2014**

	<b>2014</b>
<b>Total Pension Liability</b>	
Service cost	\$ 516,353
Interest	2,489,298
Changes in benefit terms	-
Difference between expected and actual experience	-
Changes in assumptions	-
<b>Benefit payments, including refunds</b>	<b>(1,151,859)</b>
Net change in total pension liability	\$ 1,853,792
Total pension liability - beginning of year	33,237,863
Total pension liability - end of year	\$ 35,091,655
<b>Plan Fiduciary Net Position</b>	
Contributions - employer	\$ 1,224,131
Contributions - member	192,000
Net investment income	4,278,520
Benefit payments, including refunds	(1,151,859)
Admin. Expenses	(94,257)
Other	-
Net change in plan fiduciary net position	4,448,535
Plan fiduciary net position - beginning of year	26,354,275
Plan fiduciary net position - end of year	\$ 30,802,810
Net pension liability - end of year	\$ 4,288,844
Plan fiduciary net position as a percentage of total pension liability	87.8%
Covered employee payroll	\$ 14,324,249
Net pension liability as a percentage of covered payroll	29.9%

**TOWN OF EASTON, MARYLAND  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER CONTRIBUTIONS, INVESTMENT RETURNS AND  
EMPLOYER'S NET PENSION LIABILITY  
June 30, 2014**

**Schedule of Employer Contributions**

FY Ending June 30	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency Excess	Covered Payroll	Actual Contribution as a % of Covered Payroll
<b>2014</b>	<u>\$ 1,182,517</u>	<u>\$ 1,137,694</u>	<u>\$ 44,823</u>	<u>\$ 14,324,249</u>	7.94%

**Schedule of Investment Returns\*Year Ended June 30**

**Fiscal year ending June 30, 2014**

Actual money weighted rate of return, net of investment expense 16.20%

**Schedule of Employer's Net Pension Liability\***

FY Ending June 30	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as a % of Total Pension Liability	Covered Payroll	Net Pension Liability as a % of Covered Payroll
<b>2014</b>	<u>\$ 35,091,655</u>	<u>\$ 30,802,810</u>	<u>\$ 4,288,844</u>	87.8%	<u>\$ 14,324,249</u>	29.9%

\* Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**

**TOWN OF EASTON, MARYLAND  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
June 30, 2014**

	<u>Debt Service</u>	<u>Community Development Block Grant</u>	<u>Law Enforcement</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and cash equivalents - Pooled	\$ 1,614,871	\$ 61,733	\$ -	\$ 1,676,604
Notes receivable	-	69,490	-	69,490
Due from other funds	46,689	-	-	46,689
Unamortized expense	60,446	-	-	60,446
<b>TOTAL ASSETS</b>	<u><u>\$ 1,722,006</u></u>	<u><u>\$ 131,223</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,853,229</u></u>
<b>LIABILITIES</b>				
Accounts payable	\$ 349	\$ -	\$ -	\$ 349
Due to other funds	-	-	46,689	46,689
Total liabilities	<u>349</u>	<u>-</u>	<u>46,689</u>	<u>47,038</u>
<b>FUND BALANCES (DEFICITS)</b>				
Nonspendable	60,446	69,490	-	129,936
Restricted	1,661,211	61,733	-	1,722,944
Unassigned	-	-	(46,689)	(46,689)
Total fund balances (deficits)	<u>1,721,657</u>	<u>131,223</u>	<u>(46,689)</u>	<u>1,806,191</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 1,722,006</u></u>	<u><u>\$ 131,223</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,853,229</u></u>

**TOWN OF EASTON, MARYLAND**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES (DEFICIT)**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**Year Ended June 30, 2014**

	<u>Debt Service</u>	<u>Community Development Block Grant</u>	<u>Law Enforcement</u>	<u>Total</u>
<b>REVENUES</b>				
Miscellaneous revenue	\$ -	\$ -	\$ 81,077	\$ 81,077
Revenues from other agencies	-	411,101	-	411,101
<b>Total revenues</b>	<u>-</u>	<u>411,101</u>	<u>81,077</u>	<u>492,178</u>
<b>EXPENDITURES</b>				
Current operations:				
Public safety	-	-	62,623	62,623
Miscellaneous	29,440	525,587	-	555,027
Debt service:				
Principal	740,000	-	-	740,000
Interest	367,112	-	-	367,112
<b>Total expenditures</b>	<u>1,136,552</u>	<u>525,587</u>	<u>62,623</u>	<u>1,724,762</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(1,136,552)	(114,486)	18,454	(1,232,584)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers net	1,107,111	-	-	1,107,111
<b>Total other financing sources</b>	<u>1,107,111</u>	<u>-</u>	<u>-</u>	<u>1,107,111</u>
<b>NET CHANGE IN FUND BALANCES</b>	(29,441)	(114,486)	18,454	(125,473)
<b>FUND BALANCES (DEFICITS), BEGINNING OF YEAR</b>	<u>1,751,098</u>	<u>245,709</u>	<u>(65,143)</u>	<u>1,931,664</u>
<b>FUND BALANCES (DEFICITS), END OF YEAR</b>	<u>\$ 1,721,657</u>	<u>\$ 131,223</u>	<u>\$ (46,689)</u>	<u>\$ 1,806,191</u>

**TOWN OF EASTON, MARYLAND**  
**COMBINING STATEMENT OF NET POSITION**  
**NON-MAJOR OTHER PROPRIETARY FUNDS**  
**June 30, 2014**

	<u>Land Enterprise</u>	<u>Airport Industrial Land</u>	<u>Total</u>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents - Pooled	\$ 548,200	\$ 134,340	\$ 682,540
Accounts receivable, net	5,291	-	5,291
Total current assets	<u>553,491</u>	<u>134,340</u>	<u>687,831</u>
<b>Noncurrent assets</b>			
Capital assets, not being depreciated	15,028	67,945	82,973
Capital assets, net of accumulated depreciation	<u>1,060,423</u>	<u>517,225</u>	<u>1,577,648</u>
Total noncurrent assets	<u>1,075,451</u>	<u>585,170</u>	<u>1,660,621</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 1,628,942</u></u>	<u><u>\$ 719,510</u></u>	<u><u>\$ 2,348,452</u></u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable	\$ 6,402	\$ -	\$ 6,402
Performance deposits	1,500	-	1,500
Total current liabilities	<u>7,902</u>	<u>-</u>	<u>7,902</u>
<b>NET POSITION</b>			
Net investment in capital assets	1,075,451	585,170	1,660,621
Unrestricted	<u>545,589</u>	<u>134,340</u>	<u>679,929</u>
Total net position	<u>1,621,040</u>	<u>719,510</u>	<u>2,340,550</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 1,628,942</u></u>	<u><u>\$ 719,510</u></u>	<u><u>\$ 2,348,452</u></u>

**TOWN OF EASTON, MARYLAND**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION**  
**NON-MAJOR OTHER PROPRIETARY FUNDS**  
**Year Ended June 30, 2014**

	Land <u>Enterprise</u>	Airport <u>Industrial Land</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 138,324	\$ 3,080	\$ 141,404
Other operating revenues	<u>64,141</u>	<u>-</u>	<u>64,141</u>
Total operating revenues	<u>202,465</u>	<u>3,080</u>	<u>205,545</u>
<b>OPERATING EXPENSES</b>			
Cost of service	73,703	-	73,703
Depreciation	<u>107,302</u>	<u>34,181</u>	<u>141,483</u>
Total operating expenses	<u>181,005</u>	<u>34,181</u>	<u>215,186</u>
Operating income (loss)	<u>21,460</u>	<u>(31,101)</u>	<u>(9,641)</u>
<b>CHANGES IN FUND NET POSITION</b>	21,460	(31,101)	(9,641)
<b>TOTAL NET POSITION - BEGINNING OF YEAR</b>	<u>1,599,580</u>	<u>750,611</u>	<u>2,350,191</u>
<b>TOTAL NET POSITION - END OF YEAR</b>	<u>\$ 1,621,040</u>	<u>\$ 719,510</u>	<u>\$ 2,340,550</u>

**TOWN OF EASTON, MARYLAND**  
**COMBINING STATEMENT OF CASH FLOWS**  
**NON-MAJOR OTHER PROPRIETARY FUNDS**  
**Year Ended June 30, 2014**

	Land Enterprise	Airport Industrial Land	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 181,249	\$ 3,080	\$ 184,329
Cash paid for services	(63,174)	-	(63,174)
Net cash provided by (used in) operating activities	<u>118,075</u>	<u>3,080</u>	<u>121,155</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchase of capital asset	<u>(15,778)</u>	<u>-</u>	<u>(15,778)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	102,297	3,080	105,377
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>445,903</u>	<u>131,260</u>	<u>577,163</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 548,200</u>	<u>\$ 134,340</u>	<u>\$ 682,540</u>
<b>RECONCILIATION OF OPERATING LOSS TO CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ 21,460	\$ (31,101)	\$ (9,641)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	107,302	34,181	141,483
Changes in operating assets and liabilities:			
Accounts receivable, net	(157)	-	(157)
Accounts payable and accrued expenses	(10,530)	-	(10,530)
Total adjustments	<u>96,615</u>	<u>34,181</u>	<u>130,796</u>
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u>\$ 118,075</u>	<u>\$ 3,080</u>	<u>\$ 121,155</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, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>EXPENDITURES</b>				
General governmental	\$ 104,000	\$ 104,000	\$ 23,898	\$ 80,102
Public safety	449,947	449,947	530,220	(80,273)
Public works	3,266,400	3,266,400	1,863,601	1,402,799
Recreation and cultural	904,540	904,540	104,657	799,883
Total expenditures	<u>4,724,887</u>	<u>4,724,887</u>	<u>2,522,376</u>	<u>2,202,511</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers in	<u>2,464,756</u>	<u>2,464,756</u>	<u>2,464,756</u>	-
Total other financing sources	<u>2,464,756</u>	<u>2,464,756</u>	<u>2,464,756</u>	-
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (2,260,131)</u>	<u>\$ (2,260,131)</u>	\$ (57,620)	<u>\$ 2,202,511</u>
<b>FUND BALANCE, BEGINNING OF YEAR</b>			<u>2,323,318</u>	
<b>FUND BALANCE, END OF YEAR</b>			<u>\$ 2,265,698</u>	