

TOWN OF EASTON, MARYLAND
Easton, Maryland

FINANCIAL STATEMENTS
June 30, 2017

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Easton, Maryland (the Town), as of and for the year ended June 30, 2017, 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.

To The Honorable Mayor and
Members of the Town Council

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, budgetary comparison of the general fund and the aggregate remaining fund information of the Town of Easton, Maryland as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis on pages 4-16, and the required supplementary information on pages 70-74 as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

To The Honorable Mayor and
Members of the Town Council

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2017, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

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

CliftonLarsonAllen LLP

Baltimore, Maryland
December 22, 2017

TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

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, 2017. 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

- Total assets and deferred outflows of resources of the Town at year-end were \$195.0 million and exceeded its liabilities and deferred inflows of resources at June 30, 2017 by \$153.4 million (i.e. total net position).
- As of June 30, 2017, the Town's governmental funds reported an ending fund balance of \$25.2 million which is an increase of approximately \$300 thousand from June 30, 2016. The components of this change are discussed later.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

The Statement of Net Position presents information on all of the Town's assets, deferred outflows of resources, and liabilities, deferred inflows of resources, with the difference between the two reported as net position.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-wide Financial Statements (Continued)

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, 2017, and earned but unused vacation leave will be included in the Statement of Activities as revenues and expense, even though the cash associated with these items will not be received or distributed until after June 30, 2017.

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 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.

TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (continued)

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

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

The Town maintains budgetary controls over its operating funds. The objective of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget. Budgets for governmental funds are established in accordance with the Town Charter and are adopted on a fund level. Personal services are budgeted by full-time positions. Capital outlays are approved on an item-by-item basis or project basis. A budgetary comparison statement is provided for the General Fund (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 Airport Industrial Land Fund and the East End Redevelopment Fund. There are no reconciling differences from the Proprietary Funds Statement of Net Assets to the business-type activity column on the Government-Wide Statement of Net Position.

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

TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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 total was \$153.4 million at June 30, 2017, which is an increase of approximately \$5.4 million over the June 30, 2016 net position. The following table reflects the Government-Wide Statement of Net Position for Governmental and Business-Type Activities:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 26,416,264	\$ 26,009,746	\$ 36,902,015	\$ 38,240,220	\$ 63,318,279	\$ 64,249,966
Capital assets and other assets	39,543,915	38,613,004	90,084,204	87,672,182	129,628,119	126,285,186
Total assets	<u>65,960,179</u>	<u>64,622,750</u>	<u>126,986,219</u>	<u>125,912,402</u>	<u>192,946,398</u>	<u>190,535,152</u>
Total deferred outflows of resources	1,196,398	2,290,373	807,186	1,942,327	2,003,584	4,232,700
Current liabilities	2,230,537	1,616,893	6,359,979	6,722,698	8,590,516	8,339,591
Long-term debt	17,781,935	20,843,956	13,521,024	17,106,092	31,302,959	37,950,048
Total liabilities	<u>20,012,472</u>	<u>22,460,849</u>	<u>19,881,003</u>	<u>23,828,790</u>	<u>39,893,475</u>	<u>46,289,639</u>
Total deferred inflows of resources	651,206	172,801	1,051,158	259,975	1,702,364	432,776
Net investment in capital assets	31,814,154	29,716,329	75,147,167	71,126,248	106,961,321	100,842,577
Restricted	13,601,304	13,229,838	-	-	13,601,304	13,229,838
Unrestricted	1,077,441	1,333,306	31,714,077	32,639,716	32,791,518	33,973,022
Total net position	<u>\$ 46,492,899</u>	<u>\$ 44,279,473</u>	<u>\$ 106,861,244</u>	<u>\$ 103,765,964</u>	<u>\$ 153,354,143</u>	<u>\$ 148,045,437</u>

The Town's total assets and deferred outflows of resources were approximately \$195 million (compared to \$194.7 million in the prior year) as of June 30, 2017. Of this amount, \$129.6 million (compared to \$126.2 million in the prior year) is accounted for by capital assets, which includes infrastructure.

Of the remaining assets, approximately \$45.9 million is accounted for in cash and cash equivalents and investments (compared to \$43.8 million in the prior year), approximately \$6.6 million in accounts and notes receivable (compared to \$6.2 million in the prior year), inventory or approximately \$4.6 million (compared to \$4.6 million in the prior year), with the remainder spread among various other accounts.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)
Statement of Net Position (Continued)**

Outstanding long-term debt totaled approximately \$31.3 million with bonds comprising approximately \$12 million, loans from the State or Maryland comprising approximately \$13.4 million, and approximately \$5.7 million in accounts payable and accrued expenses at June 30, 2017. This compares with the June 30, 2016 amounts where the Town had outstanding liabilities of approximately \$37.9 million of which approximately \$12.6 million was bonds payable, approximately \$15.2 million was loans from the State of Maryland, and approximately \$5.7 million was in accounts payable and accrued expenses. Of the bonds payable, approximately \$1.6 million is due within one year, with the remainder due at various dates before 2036. Refer to the notes to the financial statements for a more in-depth discussion of long-term debt.

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

At June 30, 2017, 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, 2017**

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, 2017**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Program Revenues			
Charges for service	\$ 2,742,975	\$ 48,786,196	\$ 51,529,171
Operating grants and contributions	1,692,293	-	1,692,293
General Revenues			
Property taxes	11,729,190	-	11,729,190
Other local taxes	1,955,854	-	1,955,854
Other	2,679,403	844,322	3,523,725
Total revenues	<u>20,799,715</u>	<u>49,630,518</u>	<u>70,430,233</u>
Expenses			
General government	2,105,525	-	2,105,525
Public safety	8,309,717	-	8,309,717
Public works	5,376,175	-	5,376,175
Recreation and cultural	770,147	-	770,147
Economic development	455,011	-	455,011
Nondepartmental	931,870	-	931,870
Interest expense	637,843	-	637,843
Utilities services	-	46,381,452	46,381,452
Other services	-	153,786	153,786
Total expenses	<u>18,586,289</u>	<u>46,535,238</u>	<u>65,121,527</u>
Increase in net position	2,213,426	3,095,280	5,308,706
Net position, beginning of year	<u>44,279,473</u>	<u>103,765,964</u>	<u>148,045,437</u>
Net position, end of year	<u>\$ 46,492,899</u>	<u>\$ 106,861,244</u>	<u>\$ 153,354,143</u>

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Statement of Activities - Changes in Net Position (Continued)

**Changes in Net Position
Fiscal Year Ended June 30, 2016**

	Governmental Activities	Business-Type Activities	Total
Program Revenues			
Charges for service	\$ 2,562,806	\$ 47,215,338	\$ 49,778,144
Operating grants and contributions	1,546,262	-	1,546,262
General Revenues			
Property taxes	11,743,904	-	11,743,904
Other local taxes	1,883,405	-	1,883,405
Other	2,131,381	1,306,220	3,437,601
Total revenues	19,867,758	48,521,558	68,389,316
Expenses			
General government	1,942,112	-	1,942,112
Public safety	8,285,402	-	8,285,402
Public works	5,584,610	-	5,584,610
Recreation and cultural	394,804	-	394,804
Economic development	405,769	-	405,769
Nondepartmental	1,151,667	-	1,151,667
Interest expense	167,589	-	167,589
Utilities services	-	49,919,819	49,919,819
Other services	-	166,779	166,779
Total expenses	17,933,951	46,086,598	64,020,549
Increase in position	1,933,807	2,434,960	4,368,767
Net position, beginning of year, as restated	42,345,666	101,331,004	143,676,670
Net position, end of year	\$ 44,279,473	\$ 103,765,964	\$ 147,045,437

Total revenues for the Town of Easton were approximately \$70.4 million for the year ended June 30, 2017 compared to approximately \$68.4 million for the year ending June 30, 2016. Governmental activities provided approximately \$20.8 million, and business-type activities provided \$49.6 million, primarily through charges for services.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

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 Expenditures Analysis

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

The General Fund is the chief operating fund of the Town. As of June 30, 2017, unassigned fund balance of the General Fund was approximately \$5.3 million.

	<u>2017</u>	<u>Percent to Total</u>	<u>2016</u>	<u>Percent to Total</u>
Governmental Funds				
Revenues				
General property taxes	\$ 11,729,190	56.36%	\$ 11,743,904	58.94%
Other local taxes	2,913,763	14.00%	2,235,225	11.22%
Permits and licenses	666,152	3.20%	704,935	3.54%
Fines and forfeitures	45,890	0.22%	36,125	0.18%
Changes for services	1,402,177	6.74%	1,435,828	7.21%
Intergovernmental	1,078,104	5.18%	1,260,711	6.33%
Miscellaneous	2,976,452	14.30%	2,507,095	12.58%
Total revenues	<u>\$ 20,811,728</u>	<u>100.00%</u>	<u>\$ 19,923,823</u>	<u>100.00%</u>

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

- **General Property Taxes** – This consists of real and personal property revenues. Gross real property tax revenues were approximately \$10.8 million, an increase of .94% or approximately \$100 thousand from last year reflecting a stabilization in value of assessable tax base properties. The real estate tax rate was maintained at the FY2016 rate of \$.52 per \$100 of assessed value. Gross personal property tax revenue decreased 10% to approximately \$883 thousand as a result of changing assessments. The personal property tax rate remained unchanged from FY2016 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 approximately \$678 thousand or 30% during FY2017. Primarily the changes are a net result of a State of Maryland shared income.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (CONTINUED)

Governmental Funds Revenue and Expenditures Analysis (Continued)

The following table represents expenditures by function.

	<u>2017</u>	<u>Percent to Total</u>	<u>2016</u>	<u>Percent to Total</u>
Governmental Funds				
Expenditures				
Current operations:				
General government				
administration	\$ 2,133,750	10.40%	\$ 1,806,534	8.73%
Public safety	8,691,302	42.36%	7,548,796	41.23%
Public works	5,702,062	27.79%	5,843,460	29.20%
Recreation and cultural	1,169,906	5.70%	719,213	2.78%
Economic development	253,342	1.23%	221,014	1.03%
Nondepartmental	820,723	4.00%	1,734,884	10.95%
Debt service:				
Principal	1,224,105	5.97%	588,281	3.89%
Interest	523,514	2.55%	112,449	2.19%
Total expenditures	<u>\$ 20,518,704</u>	<u>100.00%</u>	<u>\$ 18,574,631</u>	<u>100.00%</u>

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

- **Public Safety** – In terms of total dollars, the largest increases were in the Public Safety due to changes in the Engineering Department.
- **Debt Service** – The increase in debt service was due to the increased debt service requirement with the 2015 Bond that was issued in the prior fiscal year.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (CONTINUED)

Enterprise Funds Revenue and Expense Analysis

PROPRIETARY FUNDS	<u>2017</u>	<u>2016</u>
Operating Revenues		
Charges for services	\$ 48,500,237	\$ 46,622,075
Other operating revenues	<u>285,959</u>	<u>593,263</u>
Total revenues	<u>\$ 48,786,196</u>	<u>\$ 47,215,338</u>
Operating Expenses		
Cost of service	\$ 37,966,676	\$ 37,029,492
Depreciation	<u>6,306,295</u>	<u>6,798,131</u>
Total operating expenses	<u>\$ 44,272,971</u>	<u>\$ 43,827,623</u>
Other Revenues and Expenses		
Investment earnings	100,745	46,705
Interest expense	(306,413)	(375,570)
Gain on sale of property	(83,841)	20,346
Payment in lieu of taxes	(1,955,854)	(1,883,405)
Capital charges	823,014	1,041,441
Miscellaneous	<u>4,404</u>	<u>197,728</u>
Total other revenues and expenses	<u>\$ (1,417,945)</u>	<u>\$ (952,755)</u>

Operating Revenues: The Commission's FY17 operating revenues totaled \$48.8 million, an increase of \$1.6 million (3.4%) from FY16. Unit sales to customers were 1.5% greater in the Electric Department and base revenues were 2.9% higher due to greater usage by more customers. Total electric revenues decreased by .9% versus the prior year, primarily due to lower sales of wholesale generation. Unit sales in the Gas Department were 3.4% higher than in the prior year due to a greater number of customers and higher usage. Despite the increased unit sales, the weather normalized rate recovery mechanism for residential and small commercial gas customers caused base revenues to increase only 1.5% from the prior year. Gas fuel costs passed through to customers were up due to more gas purchased. Revenues in the Water and Wastewater Department increased 19.4% due to a rate increase in effect for the full year in FY17 and a 4.4% increase in unit sales over FY2016. Cable and Communications revenue increased 5.2% due to an overall increase in the number of customers, a continued conversion of customers to higher priced cable and internet products; and an annual programming cost adjustment rate increase.

Operating Expenses: The Commission's operating expenses totaled \$44.3 million in FY17, which was \$.5 million (1.1%) higher than FY16.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

ANALYSIS OF BUDGET AND ACTUAL RESULTS

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Governmental Funds – GENERAL FUND				
Revenues				
Taxes	\$ 12,993,748	\$ 12,993,748	\$ 14,642,953	\$ 1,649,205
Licenses and permits	561,175	561,175	666,152	104,977
Intergovernmental	512,919	512,919	775,810	262,891
Charges for services	1,349,279	1,349,279	1,402,177	52,898
Fines and forfeitures	29,500	29,500	45,890	16,390
Miscellaneous	<u>1,911,334</u>	<u>1,911,334</u>	<u>1,998,194</u>	<u>86,860</u>
Total revenues	<u>\$ 17,357,955</u>	<u>\$ 17,357,955</u>	<u>\$ 19,531,176</u>	<u>\$ 2,173,221</u>
Expenditures				
Current operations:				
General government administration	\$ 2,163,218	\$ 2,163,218	\$ 2,065,624	\$ 97,594
Public safety	7,858,248	7,858,248	7,620,337	237,911
Public works	4,161,352	4,161,352	4,329,324	(167,972)
Recreation and cultural	355,527	355,527	393,659	(38,132)
Economic development	243,422	243,422	253,342	(9,920)
Nondepartmental	815,200	815,200	810,178	5,022
Debt service:				
Principal	605,370	605,370	612,456	(7,086)
Interest	8,906	8,906	22,263	(13,357)
Other financing (sources) uses				
Transfers	<u>1,146,712</u>	<u>1,146,712</u>	<u>3,601,492</u>	<u>(2,454,780)</u>
Total expenditures and other uses	<u>\$ 17,357,955</u>	<u>\$ 17,357,955</u>	<u>\$ 19,708,675</u>	<u>\$ (2,350,720)</u>

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

- Gross actual revenues were above gross budgeted revenues by approximately \$2.2 million dollars or more than 12.5% of the budgeted revenue of approximately \$17.4 million. This is the net result of Local tax revenues which were \$1.4 million greater than budgeted and state shared highway revenues were \$134 thousand higher than budgeted and other categories coming in slightly over budgeted amounts.
- Gross budgeted expenditures and other financing uses were less than the gross actual expenditures and other financing (sources) uses by approximately \$100 thousand or 1.0% of budgeted expenditures and other financing uses. The most significant variances related to non-departmental expenses transfers.

TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

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, 2017, amounts to \$128.6 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. Additional information on capital assets can be found in Note 5 of the financial statements.

The following table schedules capital assets by category (net of accumulated depreciation) for fiscal years ending June 30, 2017 and 2016, respectively:

	Town of Easton's Capital Assets (Net of Depreciation)					
	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 7,151,141	\$ 7,150,141	\$ 1,148,005	\$ 1,148,005	\$ 8,299,146	\$ 8,298,146
Buildings and improvements	26,080,331	27,268,508	17,554,741	17,241,075	43,635,072	44,509,583
Plants, mains and other equipment	5,871,734	3,986,169	68,899,017	65,597,356	74,770,751	69,583,525
Construction in progress	-	-	1,891,395	3,299,444	1,891,395	3,299,444
Total Capital Assets	<u>\$ 39,103,206</u>	<u>\$ 38,404,818</u>	<u>\$ 89,493,158</u>	<u>\$ 87,285,880</u>	<u>\$ 128,596,364</u>	<u>\$ 125,690,698</u>

During the year ended June 30, 2017, the Town's capital assets increased by approximately \$2.9 million.

Long-Term Debt Activity

Regularly scheduled principal payments were made during 2017 totaling approximately \$1.9 million on general obligation bonds and \$1.1 million on loans. Additional information on long-term debt can be found in Note 7 of the financial statements. Refer to the schedule below for balances.

Changes in Long-Term Liabilities

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
General Obligation Bonds*	\$ 11,795,437	\$ 13,015,437	\$ 920,000	\$ 1,654,585	\$ 12,727,938	\$ 14,670,022
Loans	2,081,195	2,085,300	13,425,995	14,505,047	15,507,190	16,590,347
Compensated absences	776,511	757,064	746,450	695,806	1,522,961	1,452,870
Total long-term liabilities	<u>\$ 14,653,143</u>	<u>\$ 15,857,801</u>	<u>\$ 15,104,946</u>	<u>\$ 16,855,438</u>	<u>\$ 29,758,089</u>	<u>\$ 32,713,239</u>

* Includes unamortized premiums.

**TOWN OF EASTON, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

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, 2017

	Primary Government		Total
	Governmental	Business-Type	
	Activities	Activities	
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 23,921,378	\$ 11,956,544	\$ 35,877,922
Investments	12,352	9,992,810	10,005,162
Accounts receivable, net	1,976,810	4,203,468	6,180,278
Grants receivable	-	50,000	50,000
Unrecovered fuel and gas costs	-	381,711	381,711
Interest receivable	-	14,622	14,622
Prepaid items	1,116,560	3,683,780	4,800,340
Unbilled revenue	-	1,331,925	1,331,925
Internal balances	(610,836)	610,836	-
Inventory, at average cost	-	4,676,319	4,676,319
Total current assets	<u>26,416,264</u>	<u>36,902,015</u>	<u>63,318,279</u>
NONCURRENT ASSETS			
Note receivable, non-current	69,490	-	69,490
Net OPEB Asset	371,219	591,046	962,265
Capital assets, not being depreciated	7,151,141	3,039,400	10,190,541
Capital assets, net of accumulated depreciation	31,952,065	86,453,758	118,405,823
Total noncurrent assets	<u>39,543,915</u>	<u>90,084,204</u>	<u>129,628,119</u>
Total assets	65,960,179	126,986,219	192,946,398
DEFERRED OUTFLOWS OF RESOURCES			
Unamortized loss on reacquired debt	628,809	-	628,809
Deferred outflow - pension	567,589	807,186	1,374,775
Total deferred outflows of resources	<u>1,196,398</u>	<u>807,186</u>	<u>2,003,584</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	448,157	1,636,582	2,084,739
Accrued liabilities	237,809	1,583,594	1,821,403
Tax collection payable	-	355,020	355,020
Performance deposits	285,304	1,161,735	1,447,039
Unearned revenue	12,226	43,764	55,990
Over-recovered revenue	-	7,863	7,863
Current portion of long-term debt	1,247,041	1,571,421	2,818,462
Total current liabilities	<u>2,230,537</u>	<u>6,359,979</u>	<u>8,590,516</u>
NONCURRENT LIABILITIES			
Compensated absences, net of current portion	776,511	746,450	1,522,961
Long-term debt, net of current portion	12,629,591	12,774,574	25,404,165
Net pension liability	4,375,833	-	4,375,833
Total noncurrent liabilities	<u>17,781,935</u>	<u>13,521,024</u>	<u>31,302,959</u>
Total liabilities	<u>20,012,472</u>	<u>19,881,003</u>	<u>39,893,475</u>
DEFERRED INFLOWS OF RESOURCES			
Over-recovered fuel and gas costs	-	-	-
Bond Premium	-	-	-
Deferred inflow - pension	651,206	1,051,158	1,702,364
Total deferred inflows of resources	<u>651,206</u>	<u>1,051,158</u>	<u>1,702,364</u>
NET POSITION			
Net investment in capital assets	31,814,154	75,147,167	106,961,321
Restricted for:			
Debt service	7,594,581	-	7,594,581
Capital improvements	6,006,723	-	6,006,723
Community development	-	-	-
Unrestricted	1,077,441	31,714,077	32,791,518
TOTAL NET POSITION	<u>\$ 46,492,899</u>	<u>\$ 106,861,244</u>	<u>\$ 153,354,143</u>

TOWN OF EASTON, MARYLAND
STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

FUNCTIONS/PROGRAMS	Program Revenues				Net Revenue (Expense) and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental activities:							
General government	\$ 2,105,525	\$ 748,192	\$ -	\$ -	\$ (1,357,333)	\$ -	\$ (1,357,333)
Public safety	8,309,717	471,323	273,701	-	(7,564,693)	-	(7,564,693)
Public works	5,376,175	1,518,850	668,659	-	(3,188,666)	-	(3,188,666)
Recreation and cultural	770,147	-	715,838	-	(54,309)	-	(54,309)
Economic development	455,011	-	34,095	-	(420,916)	-	(420,916)
Nondepartmental	931,870	4,610	-	-	(927,260)	-	(927,260)
Interest expense	637,843	-	-	-	(637,843)	-	(637,843)
Total governmental activities	<u>18,586,289</u>	<u>2,742,975</u>	<u>1,692,293</u>	<u>-</u>	<u>(14,151,021)</u>	<u>-</u>	<u>(14,151,021)</u>
Business-type activities:							
Utility	44,425,598	48,586,138	-	-	-	4,160,540	4,160,540
Land enterprise	120,450	196,978	-	-	-	76,528	76,528
Airport industrial	33,336	3,080	-	-	-	(30,256)	(30,256)
Total business-type activities	<u>44,579,384</u>	<u>48,786,196</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,206,812</u>	<u>4,206,812</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 63,165,673</u>	<u>\$ 51,529,171</u>	<u>\$ 1,692,293</u>	<u>\$ -</u>	<u>(14,151,021)</u>	<u>4,206,812</u>	<u>(9,944,209)</u>
General revenues:							
Property taxes					11,729,190	-	11,729,190
Payment in lieu of taxes					1,955,854	(1,955,854)	-
Intergovernmental, unrestricted					2,675,269	-	2,675,269
Interest and investment earnings					825	100,745	101,570
Miscellaneous					3,309	743,577	746,886
Total general revenues					<u>16,364,447</u>	<u>(1,111,532)</u>	<u>15,252,915</u>
CHANGE IN NET POSITION					2,213,426	3,095,280	5,308,706
NET POSITION, BEGINNING OF YEAR					<u>44,279,473</u>	<u>103,765,964</u>	<u>148,045,437</u>
NET POSITION, ENDING OF YEAR					<u>\$ 46,492,899</u>	<u>\$ 106,861,244</u>	<u>\$ 153,354,143</u>

TOWN OF EASTON, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

	General Fund	Capital Projects Fund	Infrastructure Development Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents - pooled	\$ 5,981,473	\$ 4,165,939	\$ 6,006,723	\$ 7,767,243	\$ 23,921,378
Investments	12,352	-	-	-	12,352
Accounts receivable, net	1,883,666	-	-	93,144	1,976,810
Note receivable, non-current	-	-	-	69,490	69,490
Prepaid items	1,116,560	-	-	-	1,116,560
Due from other funds	118,679	-	-	-	118,679
TOTAL ASSETS	\$ 9,112,730	\$ 4,165,939	\$ 6,006,723	\$ 7,929,877	\$ 27,215,269
LIABILITIES					
Accounts payable	\$ 266,638	\$ 46,838	\$ -	\$ 134,681	\$ 448,157
Accrued liabilities	216,981	-	-	-	216,981
Due to other funds	-	-	-	118,679	118,679
Performance deposits	285,304	-	-	-	285,304
Interfund loan payable	610,836	-	-	-	610,836
Unearned revenue	12,226	-	-	-	12,226
Total liabilities	1,391,985	46,838	-	253,360	1,692,183
DEFERRED INFLOWS OF RESOURCES					
Unavailable tax revenue	354,427	-	-	-	354,427
FUND BALANCES					
Nonspendable	1,116,560	-	-	69,490	1,186,050
Restricted	-	-	6,006,723	7,594,581	13,601,304
Committed	941,121	-	-	-	941,121
Assigned	-	4,119,101	-	-	4,119,101
Unassigned	5,308,637	-	-	12,446	5,321,083
Total fund balances	7,366,318	4,119,101	6,006,723	7,676,517	25,168,659
TOTAL LIABILITIES, DEFERRED INFLOWS OR RESOURCES AND FUND BALANCES	\$ 9,112,730	\$ 4,165,939	\$ 6,006,723	\$ 7,929,877	\$ 27,215,269

TOWN OF EASTON, MARYLAND
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2017

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS		\$ 25,168,659
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. The cost of these assets is \$65,867,569 and the accumulated depreciation is \$29,644,567</p>		
		39,103,206
Net OPEB asset		371,219
<p>Liabilities such as bonds, notes payable, capital lease obligations and compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental funds as follows:</p>		
General obligation bonds	\$ (11,075,000)	
Notes payable	(2,081,195)	
Bond Premium	(720,437)	
Compensated absences	<u>(776,511)</u>	(14,653,143)
Net pension obligations are not due and payable in the current period, and therefore, are not reported in the funds		(4,375,833)
Deferred outflow - loss on refunding included in governmental activities		628,809
<p>Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds. Deferred outflows of resources related to pensions include \$567,589 outflows of resources pension expense and \$651,206 of Deferred inflows of resources related to pensions.</p>		
		(83,617)
Certain receivables are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		<u>354,427</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		<u>\$ 46,513,727</u>

TOWN OF EASTON, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2017

	General Fund	Capital Projects Fund	Infrastructure Development Fund	Non-Major Governmental Fund	Total Governmental Funds
REVENUES					
General property taxes	\$ 11,729,190	\$ -	\$ -	\$ -	\$ 11,729,190
Other local taxes	2,913,763	-	-	-	2,913,763
Permits and licenses	666,152	-	-	-	666,152
Fines and forfeitures	45,890	-	-	-	45,890
Charges for services	1,402,177	-	-	-	1,402,177
Revenues from other agencies	775,810	51,003	-	251,291	1,078,104
Miscellaneous	1,998,194	-	375,259	602,999	2,976,452
Total revenues	<u>19,531,176</u>	<u>51,003</u>	<u>375,259</u>	<u>854,290</u>	<u>20,811,728</u>
EXPENDITURES					
Current operations:					
General government	2,065,624	68,126	-	-	2,133,750
Public safety	7,620,337	937,444	-	133,521	8,691,302
Public works	4,329,324	1,372,738	-	-	5,702,062
Recreation and cultural	393,659	33,531	-	742,716	1,169,906
Economic development	253,342	-	-	-	253,342
Nondepartmental	810,178	-	-	10,545	820,723
Debt service:					
Principal	4,105	-	-	1,220,000	1,224,105
Interest	22,076	-	-	501,438	523,514
Total expenditures	<u>15,498,645</u>	<u>2,411,839</u>	<u>-</u>	<u>2,608,220</u>	<u>20,518,704</u>
Excess (deficiency) of revenues over expenditures	<u>4,032,531</u>	<u>(2,360,836)</u>	<u>375,259</u>	<u>(1,753,930)</u>	<u>293,024</u>
OTHER FINANCING SOURCES (USES)					
Refunding bonds issued	-	-	-	-	-
Bond Premium	-	-	-	-	-
Payment to refund bond escrow	-	-	-	-	-
Transfers in (out)	(3,601,492)	1,880,054	-	1,721,438	-
Total other financing sources (uses)	<u>(3,601,492)</u>	<u>1,880,054</u>	<u>-</u>	<u>1,721,438</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	431,039	(480,782)	375,259	(32,492)	293,024
FUND BALANCES, BEGINNING OF YEAR	<u>6,935,279</u>	<u>4,599,883</u>	<u>5,631,464</u>	<u>7,709,009</u>	<u>24,875,635</u>
FUND BALANCES, END OF YEAR	<u>\$ 7,366,318</u>	<u>\$ 4,119,101</u>	<u>\$ 6,006,723</u>	<u>\$ 7,676,517</u>	<u>\$ 25,168,659</u>

TOWN OF EASTON, MARYLAND
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$	293,024
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense \$2,394,016 exceeds capital outlay \$3,100,565 in the period.</p>		706,549
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets</p>		(8,161)
<p>In the Statement of Activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for compensated absences are measured by the amount of financial resources used (essentially, the amounts actually paid or expected to be paid).</p>		(19,447)
<p>OPEB costs reported in the statement of activities do not require the use of current financial resources and, are not reported as expenditures in governmental funds.</p>		232,523
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		1,224,105
<p>The effect of losses on debt refundings are reported only at the entity-wide level for governmental activities. This is the amount of the amortization of prior year loss on refunding reported as a deferred outflow on the Entity-wide statement of net assets.</p>		(57,191)
<p>Government funds report pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.</p>		(163,080)
<p>Certain receivables are not available to pay for current period expenditures and, therefore, are deferred in government funds. This amount is the net change in current year.</p>		<u>5,104</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>2,213,426</u>

TOWN OF EASTON, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
(NON-GAAP BUDGETARY BASIS) – GENERAL FUND
Year Ended June 30, 2017
(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original Budget	Final Budget		Positive (Negative)
REVENUES				
Taxes				
General property taxes:				
Real property taxes	\$ 10,747,748	\$ 10,747,748	\$ 10,859,927	\$ 112,179
Personal property taxes - business	744,250	744,250	781,294	37,044
Personal property taxes - railroad and public utilities	130,000	130,000	102,072	(27,928)
Abatements/discounts	(66,500)	(66,500)	(64,010)	2,490
Penalties and interest	49,900	49,900	49,907	7
Total general property taxes	<u>11,605,398</u>	<u>11,605,398</u>	<u>11,729,190</u>	<u>123,792</u>
Local taxes:				
State shared income taxes	900,000	900,000	2,291,133	1,391,133
State shared highway taxes	484,000	484,000	618,659	134,659
Admission and amusements	3,600	3,600	3,221	(379)
Franchise-ordinary business corporation	750	750	750	-
Total other local taxes	<u>1,388,350</u>	<u>1,388,350</u>	<u>2,913,763</u>	<u>1,525,413</u>
Total taxes	<u>12,993,748</u>	<u>12,993,748</u>	<u>14,642,953</u>	<u>1,649,205</u>
Permits and licenses				
Trader's licenses	60,000	60,000	71,548	11,548
Building permits	172,000	172,000	274,039	102,039
Plumbing permits	30,000	30,000	36,282	6,282
Use and occupancy permits	41,300	41,300	55,500	14,200
Rental housing license fees	105,000	105,000	107,700	2,700
Permits and other licenses	152,875	152,875	121,083	(31,792)
Total permits and licenses	<u>561,175</u>	<u>561,175</u>	<u>666,152</u>	<u>104,977</u>
Fines and forfeitures				
	<u>29,500</u>	<u>29,500</u>	<u>45,890</u>	<u>16,390</u>
Charges for services				
General government	30,000	30,000	83,938	53,938
Public safety	179,337	179,337	174,648	(4,689)
Highway and streets	85,000	85,000	98,813	13,813
Sanitation and waste removal	1,054,942	1,054,942	1,012,503	(42,439)
Main Street and Recreation fees	-	-	32,275	32,275
Total charges for services	<u>1,349,279</u>	<u>1,349,279</u>	<u>1,402,177</u>	<u>52,898</u>
Revenues from other agencies				
Federal:				
Misc Federal Grant	-	-	17,336	17,336
Total federal	<u>-</u>	<u>-</u>	<u>17,336</u>	<u>17,336</u>
State:				
Police protection	264,996	264,996	260,062	(4,934)
Fire, rescue and ambulance	12,700	12,700	13,639	939
Conservation and critical areas	4,500	4,500	4,500	-
Recreation Open Space & Other Projects	-	-	90,000	90,000
Total state	<u>282,196</u>	<u>282,196</u>	<u>368,201</u>	<u>86,005</u>
County:				
Taxes	225,000	225,000	384,550	159,550
Misc County Grant	5,723	5,723	5,723	-
Total county	<u>230,723</u>	<u>230,723</u>	<u>390,273</u>	<u>159,550</u>
Total revenues from other agencies	<u>512,919</u>	<u>512,919</u>	<u>775,810</u>	<u>262,891</u>
Miscellaneous	<u>1,911,334</u>	<u>1,911,334</u>	<u>1,998,194</u>	<u>86,860</u>
TOTAL REVENUES	<u>17,357,955</u>	<u>17,357,955</u>	<u>19,531,176</u>	<u>2,173,221</u>

TOWN OF EASTON, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
(NON-GAAP BUDGETARY BASIS) – GENERAL FUND
Year Ended June 30, 2017
(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget		
EXPENDITURES				
General government				
Legislative:				
Town council	\$ 125,048	\$ 125,048	\$ 127,677	\$ (2,629)
Town clerk	117,337	117,337	129,992	(12,655)
Total legislative	<u>242,385</u>	<u>242,385</u>	<u>257,669</u>	<u>(15,284)</u>
Executive Mayor	135,205	135,205	48,068	87,137
Town Manager	649,824	649,824	580,197	69,627
Elections	8,500	8,500	5,899	2,601
Financial administration	619,966	619,966	577,857	42,109
Independent accounting & auditing	40,000	40,000	40,599	(599)
Law	35,000	35,000	8,445	26,555
Planning and zoning	296,917	296,917	397,583	(100,666)
General services	135,421	135,421	149,307	(13,886)
Total general government	<u>2,163,218</u>	<u>2,163,218</u>	<u>2,065,624</u>	<u>97,594</u>
Public safety				
Police	6,761,812	6,761,812	6,659,659	102,153
Traffic control	63,154	63,154	57,936	5,218
Fire and rescue	320,919	320,919	360,027	(39,108)
Code enforcement	593,977	593,977	400,804	193,173
Rental housing	108,386	108,386	96,047	12,339
Traffic engineering	10,000	10,000	45,864	(35,864)
Total public safety	<u>7,858,248</u>	<u>7,858,248</u>	<u>7,620,337</u>	<u>237,911</u>
Public works				
Administration	918,019	918,019	897,067	20,952
Sanitation and waste removal	1,606,484	1,606,484	1,782,055	(175,571)
Highways, streets and sidewalks	1,636,849	1,636,849	1,649,953	(13,104)
Mosquito control	-	-	249	(249)
Total public works	<u>4,161,352</u>	<u>4,161,352</u>	<u>4,329,324</u>	<u>(167,972)</u>
Parks, recreation and cultural				
Parks and recreation administration	97,165	97,165	102,671	(5,506)
Participation recreation	99,312	99,312	96,351	2,961
Municipal parks	159,050	159,050	194,637	(35,587)
Total parks, recreation and cultural	<u>355,527</u>	<u>355,527</u>	<u>393,659</u>	<u>(38,132)</u>
Economic development/Main Street	<u>243,422</u>	<u>243,422</u>	<u>253,342</u>	<u>(9,920)</u>
Nondepartmental	<u>815,200</u>	<u>815,200</u>	<u>810,178</u>	<u>5,022</u>
Debt service				
Principal	605,370	605,370	612,456	(7,086)
Interest	8,906	8,906	22,263	(13,357)
Total debt service	<u>614,276</u>	<u>614,276</u>	<u>634,719</u>	<u>(20,443)</u>
TOTAL EXPENDITURES	<u>16,211,243</u>	<u>16,211,243</u>	<u>16,107,183</u>	<u>104,060</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>1,146,712</u>	<u>1,146,712</u>	<u>3,423,993</u>	<u>2,277,281</u>

TOWN OF EASTON, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
(NON-GAAP BUDGETARY BASIS) – GENERAL FUND
Year Ended June 30, 2017
(Continued)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
OTHER FINANCING SOURCES (USES)				
Debt proceeds	\$ -	\$ -	\$ -	\$ -
Transfers (net):				
Debt service	(1,721,438)	(1,721,438)	(1,721,438)	-
Capital projects	(1,880,054)	(1,880,054)	(1,880,054)	-
Impact Fee	2,454,780	2,454,780	-	(2,454,780)
TOTAL OTHER FINANCING USES	<u>(1,146,712)</u>	<u>(1,146,712)</u>	<u>(3,601,492)</u>	<u>(2,454,780)</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>(177,499)</u>	<u>\$ (177,499)</u>
FUND BALANCE, BEGINNING OF YEAR			<u>7,636,060</u>	
FUND BALANCE, END OF YEAR			<u>\$ 7,458,561</u>	

TOWN OF EASTON, MARYLAND
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2017

	Business-Type Activities - Enterprise Funds		
	Utility	Non-Major	Totals
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 10,498,714	\$ 1,457,830	\$ 11,956,544
Investments	9,992,810	-	9,992,810
Accounts receivable, net	4,179,185	24,283	4,203,468
Grants & loans receivable	50,000	-	50,000
Unrecovered fuel and gas costs	381,711	-	381,711
Interest receivable	14,622	-	14,622
Prepaid items	3,683,780	-	3,683,780
Unbilled revenue	1,331,925	-	1,331,925
Interfund loan receivable	610,836	-	610,836
Inventory	4,676,319	-	4,676,319
Total current assets	<u>35,419,902</u>	<u>1,482,113</u>	<u>36,902,015</u>
NONCURRENT ASSETS			
Net OPEB asset	591,046	-	591,046
Capital assets, not being depreciated	2,956,427	82,973	3,039,400
Capital assets, net of accumulated depreciation	<u>85,433,909</u>	<u>1,019,849</u>	<u>86,453,758</u>
Total noncurrent assets	<u>88,981,382</u>	<u>1,102,822</u>	<u>90,084,204</u>
DEFERRED OUTFLOWS OF RESOURCES			
Unamortized loss on reacquired debt	-	-	-
Deferred outflow - pension	807,186	-	807,186
Total deferred outflows of resources	<u>807,186</u>	<u>-</u>	<u>807,186</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 125,208,470</u>	<u>\$ 2,584,935</u>	<u>\$ 127,793,405</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	\$ 1,636,182	\$ 400	\$ 1,636,582
Accrued liabilities	1,583,594	-	1,583,594
Over-recovered fuel and gas costs	7,863	-	7,863
Tax collection payable	355,020	-	355,020
Performance deposits	1,160,235	1,500	1,161,735
Due to Asbury Place	-	-	-
Unearned revenue	43,764	-	43,764
Current portion of long-term debt	1,571,421	-	1,571,421
Total current liabilities	<u>6,358,079</u>	<u>1,900</u>	<u>6,359,979</u>
NONCURRENT LIABILITIES			
Net pension liability	-	-	-
Compensated absences, net of current portion	746,450	-	746,450
Long-term debt, net of current portion	12,774,574	-	12,774,574
Total noncurrent liabilities	<u>13,521,024</u>	<u>-</u>	<u>13,521,024</u>
Total liabilities	<u>19,879,103</u>	<u>1,900</u>	<u>19,881,003</u>
DEFERRED INFLOWS OF RESOURCES			
Over-recovered fuel and gas costs	-	-	-
Deferred inflow - pension	1,051,158	-	1,051,158
Total deferred inflows of resources	<u>1,051,158</u>	<u>-</u>	<u>1,051,158</u>
NET POSITION			
Net investment in capital assets	74,044,345	1,102,822	75,147,167
Unrestricted	<u>30,233,864</u>	<u>1,480,213</u>	<u>31,714,077</u>
Total net position	<u>104,278,209</u>	<u>2,583,035</u>	<u>106,861,244</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 125,208,470</u>	<u>\$ 2,584,935</u>	<u>\$ 127,793,405</u>

TOWN OF EASTON, MARYLAND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
Year Ended June 30, 2017

	Business-Type Activities - Enterprise Funds		
	Utility	Non-Major	Total
OPERATING REVENUES			
Charges for services	\$ 48,358,833	\$ 141,404	\$ 48,500,237
Other operating revenues	<u>227,305</u>	<u>58,654</u>	<u>285,959</u>
Total operating revenues	<u>48,586,138</u>	<u>200,058</u>	<u>48,786,196</u>
OPERATING EXPENSES			
Cost of service	37,911,680	54,996	37,966,676
Depreciation	<u>6,207,505</u>	<u>98,790</u>	<u>6,306,295</u>
Total operating expenses	<u>44,119,185</u>	<u>153,786</u>	<u>44,272,971</u>
Operating income (loss)	<u>4,466,953</u>	<u>46,272</u>	<u>4,513,225</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment earnings	100,745	-	100,745
Interest expense	(306,413)	-	(306,413)
Gain on sale of property	(83,841)	-	(83,841)
Payment in lieu of taxes	(1,955,854)	-	(1,955,854)
Capital charges	823,014	-	823,014
Miscellaneous	<u>4,404</u>	<u>-</u>	<u>4,404</u>
Total non-operating revenues (expenses)	<u>(1,417,945)</u>	<u>-</u>	<u>(1,417,945)</u>
CHANGES IN FUND NET POSITION	3,049,008	46,272	3,095,280
TOTAL NET POSITION - BEGINNING OF YEAR	<u>101,229,201</u>	<u>2,536,763</u>	<u>103,765,964</u>
TOTAL NET POSITION - END OF YEAR	<u>\$ 104,278,209</u>	<u>\$ 2,583,035</u>	<u>\$ 106,861,244</u>

TOWN OF EASTON, MARYLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2017

	Business-Type Activities - Enterprise Funds		
	Utility	Non-Major	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received for services	\$ 48,914,008	\$ 177,465	\$ 49,091,473
Cash paid to suppliers for goods and services	(25,101,630)	(53,429)	(25,155,059)
Cash paid to employees for services	(10,203,289)	-	(10,203,289)
Net cash provided by operating activities	<u>13,609,089</u>	<u>124,036</u>	<u>13,733,125</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES			
Cash paid in lieu of taxes	(2,102,094)	-	(2,102,094)
Net cash used in non-capital and related financing activities	<u>(2,102,094)</u>	<u>-</u>	<u>(2,102,094)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from disposition of assets	13,740	-	13,740
Proceeds from capital charges	823,014	-	823,014
Purchases/construction of capital assets	(8,611,159)	-	(8,611,159)
Proceeds from grants and loans payable	-	-	-
Payment of debt	(1,799,051)	-	(1,799,051)
Interest paid on bond indebtedness	(67,736)	-	(67,736)
Other interest paid	(128,933)	-	(128,933)
Net cash provided by (used in) capital and related financing activities	<u>(9,770,125)</u>	<u>-</u>	<u>(9,770,125)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on cash deposits and investments	103,235	-	103,235
Loan to related party	555,369	-	555,369
Sales of investments	15,980,000	-	15,980,000
Purchases of investments	(16,682,969)	-	(16,682,969)
Net cash used in investing activities	<u>(44,365)</u>	<u>-</u>	<u>(44,365)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	1,692,505	124,036	1,816,541
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,806,209	1,333,794	10,140,003
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 10,498,714</u>	<u>\$ 1,457,830</u>	<u>\$ 11,956,544</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 4,466,953	\$ 46,272	\$ 4,513,225
Adjustments to reconcile operating income (loss) to Net cash provided by operating activities:			
Depreciation	6,207,505	98,790	6,306,295
Net accretion	14,535	-	14,535
Other miscellaneous non-operating revenue	26,492	-	26,492
Effects of changes in operating assets and liabilities:			
Accounts receivable, net	(461,616)	(17,166)	(478,782)
Inventory	3,366,388	-	3,366,388
Unamortized expenses	-	-	-
Deferred inflows/outflows - pension	1,926,324	-	1,926,324
Unrecovered fuel and gas costs	295,108	-	295,108
Accounts payable and accrued liabilities	(2,232,600)	(3,860)	(2,236,460)
Total adjustments	<u>9,142,136</u>	<u>77,764</u>	<u>9,219,900</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 13,609,089</u>	<u>\$ 124,036</u>	<u>\$ 13,733,125</u>

TOWN OF EASTON, MARYLAND
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
Year Ended June 30, 2017

	<u>Benefits Trust Funds</u>
ASSETS	
Cash and cash equivalents	\$ 428,487
Investments, at fair value	<u>40,742,105</u>
Total assets	<u><u>\$ 41,170,592</u></u>
NET POSITION	
Held in trust for pension benefits	<u><u>\$ 41,170,592</u></u>

TOWN OF EASTON, MARYLAND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
Year Ended June 30, 2017

	Benefits Trust Funds
ADDITIONS	
Contributions:	
Employer	\$ 2,383,467
Employees	181,459
	2,564,926
Total contributions	2,564,926
Investment earnings:	
Investment income	828,841
Net increase in fair value of plan investments	1,033,505
	1,862,346
Total investment earnings	1,862,346
Less Investment expense	153,538
	1,708,808
Net investment earnings	1,708,808
Total additions	4,273,734
DEDUCTIONS	
Benefit payments	1,752,012
	1,752,012
NET CHANGE	2,521,722
NET POSITION AT BEGINNING OF YEAR	38,648,870
NET POSITION AT END OF YEAR	\$ 41,170,592

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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 approved by the Town Council. Water, wastewater, and cable and communications rates are approved by the Town Council. The electric and gas rates are approved by the Town Council and are regulated by the Maryland Public Service Commission. The legal liability for the general obligation portion of the Utility Fund's debt remains with the Town. Separate financial statements for the Utility Fund may be obtained from The Easton Utilities Commission.

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

Government-Wide and Fund Financial Statements

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

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

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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 issued before November 30, 1989. The Town's Utility Fund gas and electric departments are regulated and are subject to the requirements of Accounting Standards Codification (ASC) ASC 980-10, *Regulated Operations – Overall* and ASC 980-340, *Regulated Operations – Other Asset and Deferred Costs* provide that certain costs that would otherwise be charged to expense should be deferred as regulatory assets, based on the expected recovery from customers in future rates. Utility plant assets donated by developers or constructed with grants received from other agencies are recorded as capital assets to the extent that the depreciation of such costs will be included in rates charged by the utility fund in future years. However, when it becomes probable that part of the cost of an asset will be disallowed for rate-making purposes and a reasonable estimate of the amount of the disallowance can be made, the estimated amount of the probable disallowance is deducted from the reported cost of the plant and recognized as a loss.

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

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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:

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

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

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

Capital Assets

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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 four 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 actual customer billings in July and the days unbilled in each cycle at the end of June. The balance at June 30, 2017 is \$1,331,925.

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, 2017, the Commission had unrecovered fuel costs of \$146,562 and unrecovered gas costs of \$235,149.

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 cost. It is carried and charged as used in the operations of the fund at average cost. Inventory totaled \$4,676,319 at June 30, 2017.

Compensated Absences

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

Long-Term Obligations

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-Term Obligations (Continued)

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

Unearned Revenues

Customers of the Town are billed for parking permit fees that cover part of the next fiscal year. The customers' balances which represent the portion of these fees are shown as Unearned Revenues. The balance at June 30, 2017 is \$12,226.

Deferred Outflows/Inflows of Resources

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

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

Net Position/Fund Equity

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

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stewardship, Compliance, and Accountability (Continued)

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

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

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

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

	Revenues	Expenditures	Fund Balance
GAAP Basis	\$ 19,531,176	\$ 15,498,645	\$ 7,366,318
Interfund loan - Principal payments	-	608,538	(608,538)
Inter fund loan - effect of previous years	-	-	700,781
Budgetary Basis	\$ 19,531,176	\$ 16,107,183	\$ 7,458,561

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.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Compensation and Defined Contribution Plans (Continued)

Pension Plan

The Town of Easton, MD Employee's Retirement Plan is a defined benefit pension plan established to provide benefits to virtually all employees hired prior to July 1, 2008. This plan is still the primary plan utilized for the sworn officers. Plan provisions and contribution requirements are established and may be amended by the Town Council. The Town's contribution to the plan for the year ended June 30, 2017 was \$792,132. The plan administrator is John Hancock.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits

At the end of the year, the carrying amount of the Town deposits (including cash on hand of \$2,075) was \$35,877,922 and the bank balance was \$36,340,232. Custodial credit risk is the risk that in the event of a bank institution failure, the Town would not be able to recover the value of its deposits or collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institutions, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the Town's name. The Town does not have a deposit policy for custodial credit risk. However, the deposits of the Town were not exposed to custodial credit risk at June 30, 2017.

Investments- Maryland Local Government Investment Pool

Town

Town investment policy permits investments in the following types of investments as authorized by the State of Maryland: direct U.S. agency obligations, repurchase agreements, bankers' acceptances, municipal securities, commercial paper, money market mutual funds and the MLGIP. The Town is a participant of the Maryland Local Government Investment Pool (MLGIP), which provides all local government units of the State a safe investment vehicle for the short-term investment of funds. The State Legislature created MLGIP with the passage of Article 95 22G, of the Annotated Code of Maryland. The MLGIP, under the administrative control of the State Treasurer, has been managed by a single Baltimore-based financial institution, PNC Bank. An MLGIP Advisory Committee of current participants was formed to review, on a quarterly basis, the activities of the Fund and to provide suggestions to enhance the pool. The fair value of the pool is the same as the value of the pooled shares. At June 30, 2017, the Town had \$8,005,162 invested in this Pool. The Pool is rated AAAM by Standard & Poor's, their highest rating for money market mutual funds. The MLGIP seeks to maintain a constant value of \$1.00 per unit. Unit value is computed using the amortized cost method. In addition, the net asset value of the pool, marked to market, is calculated and maintained on a weekly basis to ensure a \$1.00 per unit constant value.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 – DEPOSITS AND INVESTMENTS

Investments- Maryland Local Government Investment Pool (Continued)

Town (Continued)

At June 30, 2017, the Utility Commission had investments held by M&T Securities, Inc. of \$2,000,000. These investments are comprised of certificates of deposit with maturities of one, or less, at the time of purchase. It is the Utility Commission's intent to hold these securities to maturity. Accordingly, these investments are reported at amortized cost.

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:

Dryden S&P 500 Index	\$ 3,326,897
Mid Cap Growth/Waddell & Reed	1,143,431
Mid Cap Value / QMA	1,182,852
Small Cap Grw/Columbus	1,393,579
Small Cap Value/Kennedy Capit	1,515,090
T. Rowe Price Eqty Inc Stgy	3,187,566
T. Rowe Price Growth Stk Stgy	3,246,837
EmrgMrkEq / QMA*	817,366
International Blend/Wellington*	2,514,336
Core Plus Bond PIMCO Fund	6,369,388
Guaranteed account	5,853,729
Real Estate / Am Century Fund	<u>2,027,470</u>
	<u><u>\$ 32,578,541</u></u>

*-Foreign investment

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Investments- Maryland Local Government Investment Pool (Continued)

Pension Plan and OPEB Plan (Continued)

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

Mutual Funds:	
Dodge & Cox - International*	\$ 375,533
FMI Intl	316,014
John Hancock Small Cap Value	257,110
Hartford Floating Rate	474,606
MFS Intl*	381,350
Touchstone	275,872
Vanguard - Emerging Market	214,491
Vanguard - Intermediate term trust	478,600
Vanguard - Short Term	1,165,860
Vanguard - Mid Cap Index	1,046,371
General Obligations Fund	428,487
	<hr style="border-top: 1px solid black;"/>
	5,414,294
Common Stock:	
Closed-End Mutual Funds	51,784
Consumer Discretionary	408,107
Consumer Staples	260,708
Energy	183,871
Financials	607,468
Health Care	473,816
Industrials	369,875
Information Technology	562,320
Materials	108,685
Real Estate Investment Trusts	151,123
	<hr style="border-top: 1px solid black;"/>
	3,177,757
	<hr style="border-top: 1px solid black;"/>
	\$ 8,592,051

*-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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk (Continued)

are held by the Plan or their agent in the respective Plans' name or be invested in MLGIP. All investments of the Plans are held on behalf of the Plans by Prudential Financial and Davenport and are therefore not exposed to custodial credit risk.

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

	<u>Valuation</u>	<u>Weighted Average Maturity (yrs)</u>
<u>Defined Benefit Plan</u>		
Guaranteed Account	\$ 5,853,729	3.40
Core Plus Bond/PIMCO	<u>6,369,388</u>	6.80
Total	<u><u>\$ 12,223,117</u></u>	
<u>OPEB Plan</u>		
Hartford Floating Rate I	\$ 474,606	4.82
Vanguard Short Term Investment Grade	<u>1,165,860</u>	3.10
Total	<u><u>\$ 1,640,466</u></u>	

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

Interest Rate Risk

Fair value fluctuates with interest rates, and increasing interest rates could cause fair value to decline below original cost. To limit the town's exposure to fair value losses arising from increasing interest rates, the Town's investment policy limits the term of investment maturities. The Town management believes the liquidity of the portfolio is adequate to meet cash flows requirements and to preclude the Town from having to sell investments below original cost for that purpose. The investments at June 30, 2017 met the Town's investment policy.

Credit Risk

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

Concentration of Credit Risk

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Foreign Currency Risk

Foreign currency risk is the risk that changes in the exchange rates will adversely affect the fair value of an investment. The Town does not allow for investments with foreign currency. The Plans allow the option of investments in mutual funds of countries outside the U.S. that invest in securities; however, these funds do not require disclosure of the individual assets within the funds. The fair value of these funds was \$4,088,584 at June 30, 2017. The individual funds are identified above.

NOTE 3 – RECEIVABLES

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

	Governmental		Business-Type		Total
	<u>Activities</u>		<u>Activities</u>		
	<u>General</u>	<u>Other</u>	<u>Utility</u>	<u>Other</u>	
Taxes	\$ 435,501	\$ -	\$ -	\$ -	\$ 435,501
Accounts	1,155,650	93,144	4,179,185	24,283	5,452,262
Due from other governments	828,813	-	-	-	828,813
Interest	-	-	14,622	-	14,622
Allowance for uncollectibles	<u>(536,298)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(536,298)</u>
Net receivables	<u>\$ 1,883,666</u>	<u>\$ 93,144</u>	<u>\$ 4,193,807</u>	<u>\$ 24,283</u>	<u>\$ 6,194,900</u>

The June 30, 2017 balance of due from other governments is as follows:

State of Maryland:	
Income taxes	\$ 677,629
Various purposes	34,265
Talbot County	<u>116,619</u>
Total due from other governments	<u>\$ 828,813</u>

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 3 – RECEIVABLES (CONTINUED)

Deferred inflows of resources and unearned revenue reported in the Governmental Fund Balance Sheet for the General Fund at June 30, 2017 is summarized as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Income taxes	\$ 302,889	\$ -	\$ 302,889
Property taxes	51,538	-	51,538
Miscellaneous	<u>-</u>	<u>12,226</u>	<u>12,226</u>
Total	<u>\$ 354,427</u>	<u>\$ 12,226</u>	<u>\$ 366,653</u>

Notes receivable are recorded in the Community Development Block Grant Fund and consist mainly of below market interest rate loans through the Community Legacy Program agreements for the Easton Façade Improvement Program in the remaining principal amount of \$69,490 with a forgivable amount of \$35,000 and a deferred payment of \$31,250 due by December 31, 2017 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 – INTER-FUND PAYABLES AND TRANSFERS

Due to/from other funds at June 30, 2017 was as follows:

Receivable Fund:	<u>Payable Fund</u>		Total
	<u>General Fund</u>	<u>Community Dev</u>	
Utility	\$ 610,836	\$ -	\$ 610,836
Debt service	<u>-</u>	<u>118,679</u>	<u>118,679</u>
Total	<u>\$ 610,836</u>	<u>\$ 118,679</u>	<u>\$ 729,515</u>

Inter-fund transfer activity for the year ended June 30, 2017 was as follows:

<u>Governmental Funds</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ -	\$ 3,601,492
Capital Projects	1,880,054	-
Other Governmental	<u>1,721,438</u>	<u>-</u>
	<u>\$ 3,601,492</u>	<u>\$ 3,601,492</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, 2017

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers/ Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 7,150,141	\$ 1,000	\$ -	\$ 7,151,141
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>7,150,141</u>	<u>1,000</u>	<u>-</u>	<u>7,151,141</u>
Capital assets, being depreciated:				
Buildings and improvements	43,046,413	317,587	-	43,364,000
Equipment	15,539,288	2,781,978	(88,634)	18,232,632
Total capital assets, being depreciated	<u>58,585,701</u>	<u>3,099,565</u>	<u>(88,634)</u>	<u>61,596,632</u>
Less accumulated depreciation:				
Buildings and improvements	15,777,905	1,505,764	-	17,283,669
Equipment	11,553,119	888,252	(80,473)	12,360,898
Total accumulated depreciation	<u>27,331,024</u>	<u>2,394,016</u>	<u>(80,473)</u>	<u>29,644,567</u>
Net capital assets, being depreciated	<u>31,254,677</u>	<u>705,549</u>	<u>(8,161)</u>	<u>31,952,065</u>
Governmental activities capital assets, net	<u>\$ 38,404,818</u>	<u>\$ 706,549</u>	<u>\$ (8,161)</u>	<u>\$ 39,103,206</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers/ Decreases</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 1,148,005	\$ -	\$ -	\$ 1,148,005
Construction in progress	3,299,444	8,670,526	(10,078,575)	1,891,395
Total capital assets, not being depreciated	<u>4,447,449</u>	<u>8,670,526</u>	<u>(10,078,575)</u>	<u>3,039,400</u>
Capital assets, being depreciated:				
Buildings and improvements	32,154,300	982,803	-	33,137,103
Equipment and other	166,811,691	9,065,637	(1,814,723)	174,062,605
Less: amount disallowed for regulation	(1,719,785)	-	-	(1,719,785)
Total capital assets, being depreciated	<u>197,246,206</u>	<u>10,048,440</u>	<u>(1,814,723)</u>	<u>205,479,923</u>
Less accumulated depreciation:				
Buildings and improvements	14,913,225	669,137	-	15,582,362
Equipment and other	99,494,550	5,538,994	(1,589,741)	103,443,803
Total accumulated depreciation	<u>114,407,775</u>	<u>6,208,131</u>	<u>(1,589,741)</u>	<u>119,026,165</u>
Net capital assets, being depreciated	<u>82,838,431</u>	<u>3,840,309</u>	<u>(224,982)</u>	<u>86,453,758</u>
Business-type activities capital assets, net	<u>\$ 87,285,880</u>	<u>\$ 12,510,835</u>	<u>\$ (10,303,557)</u>	<u>\$ 89,493,158</u>

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 5 – CAPITAL ASSETS (CONTINUED)

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

Governmental activities	
General government	\$ 79,382
Public safety	824,579
Public works	1,100,245
Recreation and cultural	188,141
Non-departmental	<u>201,669</u>
Total governmental activities	<u>\$ 2,394,016</u>
Business-type activities	
Utility	\$ 6,109,341
Other	<u>98,790</u>
Total business-type activities	<u>\$ 6,208,131</u>

NOTE 6 – OPERATING LEASE

District Court

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

NOTE 7 – LONG-TERM LIABILITIES

Bonds

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)

Bonds (Continued)

<u>Bond Issue</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Balance at June 30, 2017</u>
Public Facilities Bonds 1999	2019	3.75 – 5.25%	\$ 920,000
Public Facilities Bonds 2003	2023	2.00 – 5.00%	260,000
Public Facilities Bonds 2008	2018	2.00 – 5.00%	920,000
Public Facilities Bonds 2015	2036	2.00 – 4.00%	<u>9,895,000</u>
Total general obligation bonds			<u>\$ 11,995,000</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>
2018	\$ 1,125,000	\$ 258,930	\$ 450,000	\$ 43,240
2019	1,175,000	319,238	470,000	22,090
2020	1,180,000	287,785	-	-
2021	1,180,000	240,681	-	-
2022	715,000	193,450	-	-
2023 – 2027	3,355,000	664,675	-	-
2028-2032	1,875,000	231,000	-	-
2033 – 2036	<u>470,000</u>	<u>29,988</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 11,075,000</u>	<u>\$ 2,225,746</u>	<u>\$ 920,000</u>	<u>\$ 65,330</u>

In fiscal year 2016, the Town defeased the Public Facilities Bonds of 2008 by placing cash reserve funds in an irrevocable trust to provide for debt service payments on the old bond. Accordingly, the trust account assets and liability for the defeased portion of the bond are not included in the Town's financial statements. As of June 30, 2017, there remains \$4,600,000 of outstanding defeased debt.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)

Government-type Funds

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

The annual debt service requirements to maturity are as follows:

<u>For the Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 4,426	\$ 13,090	\$ 17,516
2019	4,630	12,886	17,516
2020	4,843	12,673	17,516
2021	5,065	12,451	17,516
2022	5,298	12,219	17,516
2023-2027	30,374	57,206	87,580
2028-2032	38,023	49,557	87,580
2033-2037	47,597	39,983	87,580
2038-2042	59,581	27,999	87,580
2043-2047	74,583	12,997	87,580
2048	<u>17,036</u>	<u>527</u>	<u>17,563</u>
Total	<u>\$ 291,456</u>	<u>\$ 251,588</u>	<u>\$ 543,043</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, 2017 at zero percent interest. The Upper Store Redevelopment Program is for \$48,125 with the same terms and conditions as the Façade Improvement Program. Any amount designated as “forgivable” shall be forgiven if, at loan maturity the Department determines that the project has been completed in accordance with the terms, conditions and requirements set forth by their agreement. If the Department determines the conditions are not met then the full amounts shall be due and payable at maturity.

During fiscal year 1999, the Town borrowed \$1,672,124 from the Department of Housing and Community Development (DHCD) to construct a low income housing unit known as Asbury Place. The interest payments on this loan are forgiven from year to year by the DHCD as long as the unit meets certain requirements and continues as a low income housing unit. As of June 30, 2017, Asbury Place met those conditions and interest was forgiven. The balance of this loan was \$1,672,124 at June 30, 2017.

Business-type Funds

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)

Business-type Funds (Continued)

The MDE makes funds available to local governments at below market rates for certain water quality and drinking water projects. The balance of the loan payable at June 30, 2017 was \$12,313,915. The note bears an interest rate of .40% and has a scheduled maturity of February 2027.

The following are the principal and interest maturities of the outstanding loan as of June 30, 2017:

<u>For the Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,046,683	\$ 49,256	\$ 1,095,939
2019	1,087,729	45,069	1,132,798
2020	1,128,776	40,718	1,169,494
2021	1,169,822	36,203	1,205,025
2022	1,210,868	31,524	1,242,392
2023-2027	<u>6,670,037</u>	<u>81,682</u>	<u>6,751,719</u>
Total	<u>\$ 12,313,915</u>	<u>\$ 284,452</u>	<u>\$ 12,598,367</u>

During the fiscal year ended June 30, 2013, an agreement was entered into with MDE's WQFA to finance construction of the full cost of a project to relocate certain wastewater force main facilities through the Water Quality State Revolving Fund. The balance at June 30, 2017 was \$1,112,080. The note bears an interest rate of 1.8% and has a scheduled maturity of February 2031. The following are the principal and interest maturities anticipated for the outstanding loan as of June 30, 2017:

<u>For the Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 74,738	\$ 20,017	\$ 94,755
2019	76,083	18,672	94,755
2020	77,452	17,303	94,755
2021	78,846	15,909	94,755
2022	80,266	14,489	94,755
2023-2027	423,527	50,248	473,775
2028-2031	<u>301,168</u>	<u>11,920</u>	<u>313,088</u>
Total	<u>\$ 1,112,080</u>	<u>\$ 148,558</u>	<u>\$ 1,260,638</u>

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)

	Beginning Balance	Additions	Principal Repayments & Reductions	Ending Balance	Due Within One Year
Governmental activities					
General obligation bonds	\$ 12,295,000	\$ -	\$ 1,220,000	\$ 11,075,000	\$ 1,125,000
Unamortized premium on bonds	\$ 720,437			720,437	
DHCD loan payable	1,672,124	-	-	1,672,124	-
Note payable – DHCD	117,615	-	-	117,615	117,615
Note payable – USDA	295,561	-	4,105	291,456	4,426
Total long-term debt	<u>15,100,737</u>	<u>-</u>	<u>1,224,105</u>	<u>13,876,632</u>	<u>1,247,041</u>
Compensated absences	<u>757,064</u>	<u>19,447</u>	<u>-</u>	<u>776,511</u>	<u>-</u>
Governmental activities long-term liabilities	<u>\$ 15,857,801</u>	<u>\$ 19,447</u>	<u>\$ 1,224,105</u>	<u>\$ 14,653,143</u>	<u>\$ 1,247,041</u>
Business-type activities					
General obligation bonds	\$ 1,640,000	\$ -	\$ 720,000	\$ 920,000	\$ 450,000
Loan – MDE	1,185,496	-	73,416	1,112,080	74,738
Loan – State of Maryland	13,319,551	-	1,005,636	12,313,915	1,046,683
Unamortized premium on long-term liabilities	14,585	-	14,585	-	-
Total long-term debt	<u>16,159,632</u>	<u>-</u>	<u>1,813,637</u>	<u>14,345,995</u>	<u>1,571,421</u>
Compensated absences	<u>695,806</u>	<u>50,644</u>	<u>-</u>	<u>746,450</u>	<u>-</u>
Business-type activities long-term liabilities	<u>\$ 16,855,438</u>	<u>\$ 50,644</u>	<u>\$ 1,813,637</u>	<u>\$ 15,092,445</u>	<u>\$ 1,571,421</u>

NOTE 8 – LINE-OF-CREDIT

Business-type Funds

The Town, for the benefit of the Commission, maintains a revolving line-of-credit agreement with a commercial bank for \$2,500,000, which bears interest in the amount of 1.15% above the LIBOR rate (1.17147% at June 30, 2017). 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, 2017.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 9 – FUND BALANCE

A summary of fund balances at June 30, 2017 is as follows:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Infrastructure Development Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Nonspendable:</u>					
Prepaid expenses and other	\$ 1,116,560	\$ -	\$ -	\$ -	\$ 1,116,560
Loans to citizens	-	-	-	69,490	69,490
Total nonspendable fund balance	<u>1,116,560</u>	<u>-</u>	<u>-</u>	<u>69,490</u>	<u>1,186,050</u>
<u>Restricted:</u>					
Impact fees	-	-	6,006,723	-	6,006,723
Debt service	-	-	-	7,594,581	7,594,581
CDBG grant	-	-	-	-	-
Total restricted fund balance	<u>-</u>	<u>-</u>	<u>6,006,723</u>	<u>7,594,581</u>	<u>13,601,304</u>
<u>Committed:</u>					
Budget stabilization	<u>941,121</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>941,121</u>
<u>Assigned:</u>					
Capital projects	<u>-</u>	<u>4,119,101</u>	<u>-</u>	<u>-</u>	<u>4,119,101</u>
<u>Unassigned:</u>					
General Fund	5,308,637	-	-	-	5,308,637
Law Enforcement Fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,446</u>	<u>12,446</u>
Total unassigned fund balance	<u>5,308,637</u>	<u>-</u>	<u>-</u>	<u>12,446</u>	<u>5,321,083</u>
Total fund balance	<u><u>\$ 7,366,318</u></u>	<u><u>\$ 4,119,101</u></u>	<u><u>\$ 6,006,723</u></u>	<u><u>\$ 7,676,517</u></u>	<u><u>\$ 25,168,659</u></u>

NOTE 10 – DEFINED BENEFIT PENSION PLAN

Plan Description

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

Plan Benefit Information

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 10 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Plan Benefit Information (Continued)

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 10 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Plan Benefit Information (Continued)

Income Payable	Amount described in sections (a) or (b) below, whichever applies: <ul style="list-style-type: none"> a. If Participant has a Spouse as of their retirement date and does not elect otherwise, retirement income shall be paid on the basis of Joint and Survivor Form, as stipulated by ERISA and will be the amount determined under the benefit formula multiplied by the appropriate factor. b. If Participant either has no Spouse as of their retirement date or elects to receive their income under the Normal Form, retirement income will be the amount determined under the benefit formula.
Early Retirement Eligibility	<u>Division A</u> Five years early with ten years of Service. Early retirement is not applicable to Sworn Officers (Division B).
Early Benefit Amount	Normal retirement benefit accrued to early retirement, actuarially reduced for the number of months Annuity Commencement Date precedes Normal Retirement Date.
Vesting Schedule	<u>Division A</u> 100% vested after five years of service; 100% vested at Normal Retirement Date. <u>Division B</u> For Sworn Police Officers; 100% vested after one year of service; 100% vested at Normal Retirement Date.
Vested Benefit	Benefit accrued to date of termination adjusted by the appropriate vesting percentage.
Preretirement Spouse Benefit	
A. Eligibility <i>Benefit Formula</i>	Age 55 with 10 years of service. 50% of the pension benefit accrued to date of death
B. Eligibility <i>Benefit Formula</i>	Eligible for vesting but not age 55 with 10 years of Service. 50% of the vested pension benefit accrued to date of death, payment deferred to no earlier than the early retirement date of the deceased participant and reduced by the appropriate early retirement and joint survivor factors.
Additional Retirement Benefit or Cash Refund at Retirement or Termination <i>Eligibility</i>	Participant has prior plan contributions.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 10 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Funding Policy

The Plan covers all full-time employees who began service prior to the age of 55 and prior to the plan being frozen (see below) except for sworn police officers, voluntary contributions from eligible employees are prohibited. Sworn police officers who are employed on a regular full-time basis with less than 25 years of service are required to contribute 5.0% 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, 2017 were \$181,459. 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, 2017 and June 30, 2016 was \$1,032,915 and \$1,093,661, 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, 2016, no investment in any one organization, exceeded five percent or more of net assets available for benefits.

The condensed financial statements as of and for the year ended July 31, 2016 are as follows:

Statement of Plan Net Position

ASSETS

Investments, at fair value other adjustment	\$ 32,578,541
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NET POSITION

Held in trust for pension benefits	\$ 32,578,541
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TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 10 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Statement of Plan Net Position (Continued)

ADDITIONS

Contributions:

Employer	\$ 1,000,000
Employees	<u>181,459</u>

Total contributions	<u>1,181,459</u>
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Investment earnings:

Investment income	692,188
Net increase in fair value of plan investments	<u>197,889</u>

Total investment earnings	890,077
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Less Investment expense	<u>111,586</u>
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Net investment earnings	<u>778,491</u>
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Total additions	1,959,950
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DEDUCTIONS

Benefit payments	<u>1,338,116</u>
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NET CHANGE	621,834
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NET POSITION AT BEGINNING OF YEAR	<u>31,956,707</u>
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NET POSITION AT END OF YEAR	<u><u>\$ 32,578,541</u></u>
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TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 10 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Pension Plan Administration

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

Investment Policy

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

Actuarial assumptions

The Town's net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation dated August 1, 2016.

The total pension liability was determined by an actuarial valuation as of August 1, 2016, using the following actuarial assumptions, applied to all period included in the measurement:

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

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 10 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial assumptions (Continued)

Actuarial Assumptions were changed based on an Experience Study conducted in 2016. A more detailed description of the actuarial assumptions can be found in the funding valuation report as of August 1, 2016.

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

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2017 and the final investment return assumption, are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Return Portfolio</u>	<u>Weight</u>
US Equity	5.75%	60%
International Equity	6.25%	15%
Fixed Income – US	2.75%	20%
Real Estate	4.45%	5%
Total Weighted Average Real Return	<u>5.16%</u>	<u>100%</u>
Plus Inflation	<u>2.75%</u>	
Total Return without Adjustment	<u>7.91%</u>	
Risk Adjustment	<u>-0.66%</u>	
Total Expected Return	<u><u>7.25%</u></u>	

Discount Rate

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

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

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

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 10 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

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

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

The following are the required schedules as of June 30, 2017.

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at June 30, 2016	\$ 39,535,563	\$ 31,737,436	\$ 7,798,127
Changes for the year			
Service cost	641,648	-	641,648
Interest	2,749,554	-	2,749,554
Difference between expected and actual experience	(1,696,615)	-	(1,696,615)
Changes in assumptions	143,593	-	143,593
Contributions - employer	-	1,292,132	(1,292,132)
Contributions – employee	-	168,723	(168,723)
Net investment income	-	3,939,792	(3,939,792)
Benefit payments, including refunds of employee contributions	(1,449,269)	(1,449,269)	-
Administrative expenses	-	(140,173)	140,173
Other changes	-	-	-
Net changes	388,911	3,811,205	(3,422,294)
Balance at June 30, 2017	<u>\$ 39,924,474</u>	<u>\$ 35,548,641</u>	<u>\$ 4,375,833</u>
	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Town's Net Pension Liability	\$ 9,163,230	\$ 4,375,833	\$ 370,052

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 10 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Deferred Inflows and Outflows

As of June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 113,497	\$ 1,702,364
Changes of assumptions	807,757	-
Net difference between projected and actual earnings on Pension Plan Investments	453,521	-
Total	<u><u>\$ 1,374,775</u></u>	<u><u>\$ 1,702,364</u></u>
<u>Year Ended June 30</u>		
2018		\$ 227,676
2019		227,674
2020		66,898
2021		(591,000)
2022		(258,837)
After 2022		-
Total Amount to be Recognized		<u><u>\$ (327,589)</u></u>

NOTE 11 – OTHER POST EMPLOYMENT 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, 2017, 2016 and 2015 were \$958,934, \$936,997 and \$895,177, respectively. The Town's actual contributions for the years ended June 30, 2017, 2016 and 2015 were \$1,383,459, \$481,257 and \$1,450,935, respectively.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The following table shows the components of the Town's estimated 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)	\$ 958,934
Interest on net OPEB obligation	(36,759)
ARC Adjustment	<u>24,153</u>
Net Annual OPEB cost	946,328
Employer Contributions, including benefits paid	<u>(1,383,467)</u>
Net change	(434,139)
Net OPEB asset - beginning of year	<u>(525,126)</u>
Net OPEB asset - end of year	<u><u>\$ (962,265)</u></u>

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:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2017	\$ 946,328	146.00%	\$ (962,265)
June 30, 2016	914,006	154.00	(525,126)
June 30, 2015	901,986	161.00	(957,875)

Funded 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 1, 2016	\$8,592,051	\$16,843,574	\$8,251,523	51.01%	\$14,609,300	56.48%

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. The July 1, 2015 is the most recent actuarial valuation available.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

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, 2017 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 and including inflation), 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 6.75% initially, reduced by decrements to an ultimate rate of 4.25% after five years. The mortality rates are based on the RP-2000 Table with the Generational Scale AA for both males and females. The liability was rolled forward 24 months to June 30, 2017.

Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 2015
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	6.75% initial / 4.25% ultimate (not applicable to life insurance)
Prescription Drug	6.75% initial / 4.25% ultimate

The condensed financial statements as of and for the year ended June 30, 2017 are as follows:

Statement of Plan Net Position

Assets

Cash and cash equivalents	\$ 428,487
Investments, at fair value other adjustment	<u>8,163,564</u>
Total assets	<u>\$ 8,592,051</u>

Net Position

Net position held in trust for pension benefits	<u>\$ 8,592,051</u>
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TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial Methods and Assumptions (Continued)

Additions

Contributions:	
Employer	\$ <u>1,383,467</u>
Investment earnings:	
Net increase in fair value of plan investments	972,269
Less investment expenses	<u>(41,952)</u>
Net investment loss	<u>930,317</u>
Total additions, net of investment loss	<u>2,313,784</u>

Deductions

Benefit payments	<u>(413,896)</u>
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Net change

1,899,888

Net position at beginning of year

6,692,163

Net position at end of year

\$ 8,592,051

Net OPEB Liability of the Town – GASB 74 Disclosures

The components of the net OPEB liability of the Town at June 30, 2017, were as follows:

Total OPEB liability	\$ 16,843,574
Plan fiduciary net position	<u>8,592,051</u>
Town's OPEB liability	<u>\$ 8,251,523</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>51.00%</u>

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of July 1, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

Salary Increases	
Investment Rate of return	7.00%
Healthcare trend rates	6.75 percent, grading down to 4.25% ultimate

Mortality rates were based on the RP-2000 Table with Generational Scale AA applied for both males and females.

The liability was rolled forward 24 months to June 30, 2017.

There were no changes in actuarial assumptions since the prior year.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Net OPEB Liability of the Town – GASB 74 Disclosures (Continued)

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Weight</u>
Domestic Equity	5.75%	70.00%
Fixed Income funds	2.75%	25.00%
Cash	0.85%	5.00%
Total Weighted Average Real Return	4.76%	
Plus Inflation	2.75%	
Risk adjustment	<u>-0.51%</u>	
Total Expected Return	<u><u>7.00%</u></u>	

Discount rate. The discount rate used to measure the total OPEB liability was 6.81 percent. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates.

It is expected that benefits will be paid from the Trust when a 50% funding level is reached. Based on this information, we project that benefits can be paid from the Trust from 2018 to 2071, at which time the fund will be depleted. Therefore, the expected trust return of 7.00% is blended with the 20 year Aa bond rate of 3.56% resulting in a blended rate of 6.81%.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Net OPEB Liability of the Town – GASB 74 Disclosures (Continued)

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentagepoint lower (5.81 percent) or 1-percentage-point higher (7.81 percent) than the current discount rate:

	1% Decrease 5.81%	Current Discount Rate 6.81%	1% Increase 7.81%
Total OPEB Liability	\$ 18,860,430	\$ 16,843,574	\$ 14,862,856
Plan Net Position	8,592,051	8,592,051	8,592,051
Net OPEB Liability	<u>\$ 10,268,379</u>	<u>\$ 8,251,523</u>	<u>\$ 6,270,805</u>
Ratio of Plan Net Position to Total OPEB Liability	<u>45.60%</u>	<u>51.00%</u>	<u>57.80%</u>

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

	1% Decrease 3.25%	Current Discount Rate 4.25%	1% Increase 5.25%
Total OPEB Liability	\$ 14,883,850	\$ 16,843,574	\$ 18,023,114
Plan Net Position	8,592,051	8,592,051	8,592,051
Net OPEB Liability	<u>\$ 6,291,799</u>	<u>\$ 8,251,523</u>	<u>\$ 9,431,063</u>
Ratio of Plan Net Position to Total OPEB Liability	<u>57.70%</u>	<u>51.00%</u>	<u>47.70%</u>

NOTE 12 – RELATED PARTY TRANSACTIONS

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

Utility, Cable and Engineering and Other services	<u>\$ 440,981</u>
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The outstanding balance of the above services remaining at June 30, 2017 was \$25,733. The General Fund charged the Utility Fund \$15,250 for street repairs and \$1,955,854 for payments in lieu of taxes during the year ended June 30, 2017.

TOWN OF EASTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 12 – RELATED PARTY TRANSACTIONS (CONTINUED)

In fiscal year 2013, the Commission loaned \$3,000,000 to the Town of Easton. The balance of the loan at June 30, 2017 was \$610,836. 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 13 – OTHER INFORMATION

Risk Management

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

Contingent Liabilities and Commitments

Grants and Cost-reimbursable Contracts

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

Fuel Cost and Purchased Gas Adjustment Rates

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

NOTE 14 – CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2017, the Town adopted GASB Statement No. 74. Under GASB 74, the Net OPEB Liability and the Plan Fiduciary Net Position is established based upon the actuarial valuation. The NOL is very much like the unfunded actuarial accrued liability that is developed for the funding valuation, with adjustments for the two years between the valuation date and the measurement date.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF EASTON, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
June 30, 2017

Changes in Net Pension Liability

	<u>2017</u>	<u>2016</u>
Total Pension Liability		
Service cost	\$ 641,648	\$ 528,061
Interest	2,749,554	2,824,115
Difference between expected and actual experience	(1,696,615)	189,161
Changes in assumptions	143,593	951,200
Benefit payments, including refunds	<u>(1,449,269)</u>	<u>(1,336,758)</u>
Net change in total pension liability	388,911	3,155,779
Total pension liability - beginning of year	<u>39,535,563</u>	<u>36,379,784</u>
Total pension liability - end of year	<u>\$ 39,924,474</u>	<u>\$ 39,535,563</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 1,292,132	\$ 1,000,000
Contributions - member	168,723	181,459
Net investment income	3,939,792	225,725
Benefit payments, including refunds	(1,449,269)	(1,336,758)
Admin. Expenses	(140,173)	(98,412)
Other	<u>-</u>	<u>-</u>
Net change in plan fiduciary net position	3,811,205	(27,986)
Plan fiduciary net position - beginning of year	<u>31,737,436</u>	<u>31,765,422</u>
Plan fiduciary net position - end of year	<u>\$ 35,548,641</u>	<u>\$ 31,737,436</u>
Net pension liability - beginning of year	7,798,127	4,614,362
Net pension liability - end of year	\$ 4,375,833	\$ 7,798,127
Plan fiduciary net position as a percentage of total pension liability	89.0%	80.3%
Covered employee payroll	\$ 14,092,822	\$ 13,991,348
Net pension liability as a percentage of covered payroll	31.1%	55.7%

TOWN OF EASTON, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
June 30, 2017

Schedule of Town Contributions

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

NOTES TO SCHEDULE:

Valuation Date: August 1, 2016

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

Method and Assumptions Used to Determine the Contribution Rates:

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

TOWN OF EASTON, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS
June 30, 2017

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll [(b-a)/c]</u>
June 30, 2017	\$ 8,592,051	\$ 16,843,574	\$ 8,251,523	51.01%	\$ 14,609,300	56.48%
June 30, 2015	\$ 6,812,664	\$ 12,419,230	\$ 5,606,566	54.86%	\$ 14,609,300	38.38%
June 30, 2013	\$ 3,631,458	\$ 10,830,590	\$ 7,199,132	33.53%	\$ 13,594,393	52.96%

<u>Year Ended June 30 (*)</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
2017	\$ 958,934	144%	\$ (962,265)
2016	936,997	51%	(525,126)
2015	895,177	178%	(957,875)
2014	895,177	178%	(408,926)
2013	1,143,226	44%	283,608
2012	1,143,226	88%	408,746

TOWN OF EASTON, MARYLAND
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
June 30, 2017

	2017
Total OPEB Liability	
Service Cost	\$ 557,690
Interest	1,100,303
Benefit payments	(413,896)
Net Change in Total OPEB Liability	1,244,097
Total Liability - Beginning of Year	15,599,477
Total Liability - End of Year	16,843,574
Plan Fiduciary Net Position	
Contributions - Employer	1,383,467
Contributions - Members	-
Net investment income	972,269
Benefit payments	(413,896)
Administrative expenses	(41,952)
Net Change in Plan Net Position	1,899,888
Plan Fiduciary Net Position - Beginning of Year	6,692,163
Plan Fiduciary Net Position - End of Year	8,592,051
Net OPEB Liability	\$ 8,251,523
Plan Fiduciary Net Position as a percentage of Total OPEB Liability	51.01%
Covered Payroll	14,609,300
Net OPEB Liability as a percentage of Covered Payroll	56.50%

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

TOWN OF EASTON, MARYLAND
SCHEDULE OF TOWN CONTRIBUTIONS – OTHER POST EMPLOYMENT BENEFITS
June 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Actuarially determined contribution	\$ 1,002,817	\$ 914,006	\$ 901,986	\$ 901,986	\$ 1,141,318	\$ 1,141,722	\$ 1,044,172	\$ 1,044,172	\$ 1,008,000
Contributions in relation to the actuarially determine contribution	<u>1,383,459</u>	<u>1,594,520</u>	<u>1,450,995</u>	<u>1,594,520</u>	<u>1,266,456</u>	<u>958,558</u>	<u>1,029,630</u>	<u>1,003,132</u>	<u>838,000</u>
Contribution deficiency (excess)	<u>\$ (380,642)</u>	<u>\$ (680,514)</u>	<u>\$ (549,009)</u>	<u>\$ (692,534)</u>	<u>\$ (125,138)</u>	<u>\$ 183,164</u>	<u>\$ 14,542</u>	<u>\$ 41,040</u>	<u>\$ 170,000</u>
Covered Payroll	\$ 14,609,300	\$ 14,609,300	\$ 14,609,300	\$ 13,594,393	\$ 13,594,393	\$ 12,886,240	\$ 12,886,240	\$ 12,300,340	\$ 12,300,340
Contributions as a percentage of covered payroll	<u>9.5%</u>	<u>10.9%</u>	<u>9.9%</u>	<u>11.7%</u>	<u>9.3%</u>	<u>7.4%</u>	<u>8.0%</u>	<u>8.2%</u>	<u>6.8%</u>

The assumptions used for funding are the same as those used for recording under GABS 74.

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

**TOWN OF EASTON, MARYLAND
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2017**

	<u>Debt Service</u>	<u>Community Development Block Grant</u>	<u>Law Enforcement</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents - Pooled	\$ 7,594,930	\$ -	\$ 172,313	\$ 7,767,243
Accounts receivable, net	-	93,144	-	93,144
Notes receivable	-	69,490	-	69,490
Due from other funds	-	-	-	-
Other assets	-	-	-	-
TOTAL ASSETS	<u>\$ 7,594,930</u>	<u>\$ 162,634</u>	<u>\$ 172,313</u>	<u>\$ 7,929,877</u>
LIABILITIES				
Accounts payable	\$ 349	\$ 125,101	\$ 9,231	\$ 134,681
Due to other funds	-	118,679	-	118,679
Total liabilities	<u>349</u>	<u>243,780</u>	<u>9,231</u>	<u>253,360</u>
FUND BALANCES (DEFICITS)				
Nonspendable	-	69,490	-	69,490
Restricted	7,594,581	-	-	7,594,581
Unassigned	-	(150,636)	163,082	12,446
Total fund balances (deficits)	<u>7,594,581</u>	<u>(81,146)</u>	<u>163,082</u>	<u>7,676,517</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 7,594,930</u>	<u>\$ 162,634</u>	<u>\$ 172,313</u>	<u>\$ 7,929,877</u>

TOWN OF EASTON, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES (DEFICIT)
NON-MAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2017

	<u>Debt Service</u>	<u>Community Development Block Grant</u>	<u>Law Enforcement</u>	<u>Total</u>
REVENUES				
Revenues from other agencies	\$ -	\$ 602,999	\$ -	\$ 602,999
Miscellaneous revenue	-	-	251,291	251,291
Total revenues	<u>-</u>	<u>602,999</u>	<u>251,291</u>	<u>854,290</u>
EXPENDITURES				
Current operations:				
Public safety	-	-	133,521	133,521
Recreation and cultural	-	742,716	-	742,716
Miscellaneous	10,545	-	-	10,545
Debt service:				
Principal	1,220,000	-	-	1,220,000
Interest	501,438	-	-	501,438
Total expenditures	<u>1,731,983</u>	<u>742,716</u>	<u>133,521</u>	<u>2,608,220</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,731,983)	(139,717)	117,770	(1,753,930)
OTHER FINANCING SOURCES (USES)				
Transfers net	1,721,438	-	-	1,721,438
Total other financing sources	<u>1,721,438</u>	<u>-</u>	<u>-</u>	<u>1,721,438</u>
NET CHANGE IN FUND BALANCES	(10,545)	(139,717)	117,770	(32,492)
FUND BALANCES (DEFICITS), BEGINNING OF YEAR	<u>7,605,126</u>	<u>58,571</u>	<u>45,312</u>	<u>7,709,009</u>
FUND BALANCES (DEFICITS), END OF YEAR	<u>\$ 7,594,581</u>	<u>\$ (81,146)</u>	<u>\$ 163,082</u>	<u>\$ 7,676,517</u>

TOWN OF EASTON, MARYLAND
COMBINING STATEMENT OF NET POSITION
NON-MAJOR OTHER PROPRIETARY FUNDS
June 30, 2017

	<u>Land Enterprise</u>	<u>Airport Industrial Land</u>	<u>Total</u>
ASSETS			
Current assets			
Cash and cash equivalents - Pooled	\$ 1,314,250	\$ 143,580	\$ 1,457,830
Accounts receivable, net	24,283	-	24,283
Total current assets	<u>1,338,533</u>	<u>143,580</u>	<u>1,482,113</u>
Noncurrent assets			
Capital assets, not being depreciated	15,028	67,945	82,973
Capital assets, net of accumulated depreciation	<u>603,145</u>	<u>416,704</u>	<u>1,019,849</u>
Total noncurrent assets	<u>618,173</u>	<u>484,649</u>	<u>1,102,822</u>
TOTAL ASSETS	<u>\$ 1,956,706</u>	<u>\$ 628,229</u>	<u>\$ 2,584,935</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 400	\$ -	\$ 400
Performance deposits	<u>1,500</u>	<u>-</u>	<u>1,500</u>
Total current liabilities	1,900	-	1,900
NET POSITION			
Net investment in capital assets	618,173	484,649	1,102,822
Unrestricted	<u>1,336,633</u>	<u>143,580</u>	<u>1,480,213</u>
Total net position	<u>1,954,806</u>	<u>628,229</u>	<u>2,583,035</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,956,706</u>	<u>\$ 628,229</u>	<u>\$ 2,584,935</u>

TOWN OF EASTON, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
NON-MAJOR OTHER PROPRIETARY FUNDS
Year Ended June 30, 2017

	<u>Land Enterprise</u>	<u>Airport Industrial Land</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ 138,324	\$ 3,080	\$ 141,404
Other operating revenues	<u>58,654</u>	<u>-</u>	<u>58,654</u>
Total operating revenues	<u>196,978</u>	<u>3,080</u>	<u>200,058</u>
OPERATING EXPENSES			
Cost of service	54,996	-	54,996
Depreciation	<u>65,454</u>	<u>33,336</u>	<u>98,790</u>
Total operating expenses	<u>120,450</u>	<u>33,336</u>	<u>153,786</u>
Operating income (loss)	<u>76,528</u>	<u>(30,256)</u>	<u>46,272</u>
NON-OPERATING REVENUES (EXPENSES)			
Gain on sale of assets	<u>-</u>	<u>-</u>	<u>-</u>
Total non-operating revenues	<u>-</u>	<u>-</u>	<u>-</u>
CHANGES IN FUND NET POSITION	76,528	(30,256)	46,272
TOTAL NET POSITION - BEGINNING OF YEAR	<u>1,878,278</u>	<u>658,485</u>	<u>2,536,763</u>
TOTAL NET POSITION - END OF YEAR	<u>\$ 1,954,806</u>	<u>\$ 628,229</u>	<u>\$ 2,583,035</u>

TOWN OF EASTON, MARYLAND
COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR OTHER PROPRIETARY FUNDS
Year Ended June 30, 2017

	<u>Land</u> <u>Enterprise</u>	<u>Airport</u> <u>Industrial Land</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 174,385	\$ 3,080	\$ 177,465
Cash paid for services	(53,429)	-	(53,429)
Net cash provided by operating activities	<u>120,956</u>	<u>3,080</u>	<u>124,036</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from the sale of assets	-	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	120,956	3,080	124,036
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,193,294</u>	<u>140,500</u>	<u>1,333,794</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,314,250</u>	<u>\$ 143,580</u>	<u>\$ 1,457,830</u>
RECONCILIATION OF OPERATING LOSS TO CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Operating income (loss)	\$ 76,528	\$ (30,256)	\$ 46,272
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	65,454	33,336	98,790
Changes in operating assets and liabilities:			
Accounts receivable, net	(17,166)	-	(17,166)
Accounts payable and accrued expenses	(3,860)	-	(3,860)
Total adjustments	<u>44,428</u>	<u>33,336</u>	<u>77,764</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 120,956</u>	<u>\$ 3,080</u>	<u>\$ 124,036</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, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 51,003	\$ 51,003
EXPENDITURES				
General governmental	\$ 104,600	\$ 104,600	\$ 68,126	\$ 36,474
Public safety	779,054	779,054	937,444	(158,390)
Public works	2,376,000	2,376,000	1,372,738	1,003,262
Recreation and cultural	20,000	20,000	33,531	(13,531)
Total expenditures	<u>3,279,654</u>	<u>3,279,654</u>	<u>2,411,839</u>	<u>867,815</u>
OTHER FINANCING SOURCES				
Transfers in	<u>3,279,654</u>	<u>3,279,654</u>	<u>1,880,054</u>	<u>(1,399,600)</u>
Total other financing sources	<u>3,279,654</u>	<u>3,279,654</u>	<u>1,880,054</u>	<u>(1,399,600)</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (480,782)</u>	<u>\$ (480,782)</u>
FUND BALANCE, BEGINNING OF YEAR			<u>4,599,883</u>	
FUND BALANCE, END OF YEAR			<u>\$ 4,119,101</u>	