

TOWN OF NORTH EAST
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

TOWN OF NORTH EAST

CONTENTS

| | <u>Page</u> |
|---|-------------|
| Independent Auditors' Report | 1 - 2 |
| Management Discussion and Analysis | 3 - 13 |
| Statement of Net Position | 14 |
| Statement of Activities | 15 |
| Balance Sheet – Governmental Funds | 16 |
| Reconciliation of Balance Sheet - Governmental Funds to the Statement of Net Position | 17 |
| Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds | 18 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 19 |
| Statement of Net Position – Proprietary Fund | 20 |
| Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Fund | 21 |
| Statement of Cash Flows – Proprietary Fund | 22 |
| Statement of Net Position – Fiduciary Funds | 23 |
| Statement of Changes in Fiduciary Net Position – Fiduciary Funds | 23 |
| Notes to Financial Statements | 24 - 37 |
| Required Supplementary Information: | |
| Schedule of Revenues and Expenditures Budget (Non-GAAP Budgetary Basis) and Actual General Fund | 38 – 40 |
| Schedule of Funding Progress – Other Postemployment Benefits (OPEB) Plan | 41 |
| Notes to Required Supplementary Information | 42 |

Weyrich
Cronin &
Sorra
CHARTERED

Independent Auditors' Report

To the Mayor and Town Commissioners
Town of North East
North East, MD

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Town of North East as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of North East as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Independent Auditors' Report (continued)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and schedule of funding progress – other postemployment benefits (OPEB) plans on pages 3 through 13 and 38 through 42 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.

Weyrich, Cronin & Sarra, Att'd.

October 19, 2015
Lutherville, MD

TOWN OF NORTH EAST

Management Discussion and Analysis
June 30, 2015

INTRODUCTION

As management of the Town of North East, Maryland, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2015. The Management's Discussion and Analysis (MD&A) is best understood if read in conjunction with the Town's basic financial statements. We encourage users to read it in conjunction with the Town's basic financial statements which follow this section.

FINANCIAL HIGHLIGHTS FOR FY 2015

The Town's assets exceeded its liabilities at the close of the 2015 fiscal year by \$26.6 million (total net position). Approximately 62% of this amount is attributable to the Town's water utility. Of the total net assets, \$7.3 million (unrestricted net position) may be used to meet ongoing obligations to citizens and creditors and \$16.7 million is invested in capital assets, net of related debt.

As of the close of the 2015 fiscal year, the Town's primary governmental fund (general fund) reported an ending fund balance of \$5 million. Of this total amount, \$2.6 million is unassigned and represents working capital available to support governmental operating needs and future years' expenditures. The unassigned fund balance for the general fund is 100% of total annual expenditures.

The General Fund, on a current financial resources basis, reported expenditures and other financing sources and uses in excess of revenues of approximately \$264,807.

The Town's total debt decreased by approximately \$1.6 million during the current fiscal year, from \$16.5 million to \$15 million. This is the result of the retirement of existing debt (governmental activities of \$71,868 and business-type activity of \$2.9 million, excluding the decrease in compensated absences), and the issuance of new debt in the governmental activities of \$1.5 million.

USING THIS ANNUAL REPORT

The basic financial statements in the financial section include two kinds of statements that present different views of the Town as described in more detail below:

- The government-wide financial statements, which are the Statement of Net Position and the Statement of Activities, provide information about the activities of the Town as a whole. They present both short-term and long-term information about the Town's overall financial status.
- For governmental activities, fund financial statements tell how these services were financed in the short-term, as well as what remains for futures spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds, the general fund, as well as the special revenue and the capital projects funds. These funds are further described on pages 6-7. The remaining statements are fiduciary fund statements and provide financial information about activities for which the Town acts solely as a trustee for the benefit of its employees and other parties. The basic financial statements also include notes that provide explanation of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Town's budget for the year. The chart below shows how the various parts of this annual report are arranged and flow in the Financial Section:

TOWN OF NORTH EAST

Management Discussion and Analysis
June 30, 2015

Independent Auditors' Report

Provides the opinion of the Independent Auditor on the fair presentation of the financial statements.

Management's Discussion and Analysis

This supplementary information is required for state and local government financial statements, and is intended to provide a narrative introduction, overview and analysis.

**Government-Wide
Financial Statements**

Provides information on governmental and business type activities of the primary government.

**Fund Financial
Statements**

Provides information on the activities of specific funds of the primary government.

Notes to Financial Statements

Provides a summary of significant accounting policies and related disclosures.

Required Supplementary Information

Provides information regarding the original and final budgets of the general fund compared to actual for the year. Provides the funding progress of other postemployment benefits.

TOWN OF NORTH EAST

Management Discussion and Analysis
June 30, 2015

The chart below summarizes the major features of the Town's two financial statements, including the portion of the activities they cover and the types of information they contain.

| | <u>Government-Wide Statements</u> | <u>Fund Financial Statements</u> | <u>Governmental Funds</u> | <u>Fiduciary Funds</u> |
|--|--|--|----------------------------------|---|
| Scope | Entire Town (except fiduciary funds) | The activities of the Town that are not proprietary or fiduciary, such as Police, Parks, Recreation & Culture, and General Administration. | | Instances in which the Town administers resources on behalf of someone else, such as the pension plan |
| Required financial statements | <ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities | <ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances | | <ul style="list-style-type: none"> • Statement of Fiduciary Net Position • Statement of Changes in Fiduciary Net Position |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial focus | | Accrual accounting and economic resources focus |
| Type of asset / liability information | All assets and liabilities both financial and capital, short-term and long-term | Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities | | All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can |
| Type of in-flow/out-flow information | All revenues and expenses during the year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liabilities are due and payable | | All additions and deductions during the year, regardless of when cash is received or paid |

TOWN OF NORTH EAST

Management Discussion and Analysis
June 30, 2015

The following highlights are the structure and contents of each of the statements.

Government-Wide Financial Statements

One of the most important questions asked about the Town's finances is: "Is the Town, as a whole, better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. The two statements report the Town's net assets and changes in them, and include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position is designed to provide information about the Town's financial position at the end of the year. This statement reports the Town's governmental and water utility short term assets and liabilities as well as capital assets and long-term obligations. All infrastructure assets built or purchased by the Town, and infrastructure dedicated by developers, are included in the accompanying government-wide financial statements.

You can think of the Town's net position, the difference between assets and liabilities, as one way to measure the Town's financial health or financial position. Over time, increases or decreases in the Town's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, such as changes in the Town's property tax base and the conditions of the Town's infrastructure, to assess the overall health of the Town.

The Statement of Activities is focused on both the gross and net cost of various functions. This is intended to summarize and simplify the users' analysis of the cost of various governmental services. In the government-wide financial statements, the activities of the Town are maintained within one category – governmental activities. Most of the Town's basic services are reported here, including police, public works, recreation and general administration. These activities are financed with revenues from property taxes, other state and county taxes, state and federal grants and charges for services. This statement also shows the summarized results of water utility (business type activities) operations.

Fund Financial Statements

The fund financial statements provide detailed information about the Town's funds – not the Town as a whole. Funds are accounting devices used to track specific sources of funding and spending on particular programs. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the Town can be divided into three categories – governmental funds, proprietary funds and fiduciary funds.

Governmental Funds:

The Town's basic services are reported in the general fund, which focuses on how money flows into and out of the fund and the balance left at year-end that is available for spending. The activities of the Town's rehab loan program are reported in the special revenue fund. These funds use the modified accrual basis of accounting and a current financial resource focus, which results in statements reporting cash and all other current financial assets and liabilities that can readily be converted to cash or are expected to use available current assets. The governmental fund statements provide a detailed short-term view of the Town's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs.

TOWN OF NORTH EAST

Management Discussion and Analysis June 30, 2015

Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided in a Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position, and a separate Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities.

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 an enterprise fund to account for its water utility. Proprietary funds provide the same type of information as the government-wide financial statement, only in more detail.

Fiduciary Fund:

The Town is the trustee, or fiduciary, for assets that belong to its employees' pension plans. The Town also holds funds for development projects in an agency capacity. The Town is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. These activities are excluded from the government-wide financial statements because the assets cannot be used to finance operations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

The following tables present a summary of the Statement of Position for the Town as of June 30, 2015 and 2014, respectively.

| | Governmental Activities | | Business-type Activities | | Government-wide Total | |
|--|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| | Fiscal Year End June 30, 2015 | Fiscal Year End June 30, 2014 | Fiscal Year End June 30, 2015 | Fiscal Year End June 30, 2014 | Fiscal Year End June 30, 2015 | Fiscal Year End June 30, 2014 |
| ASSETS | | | | | | |
| Current and other assets | \$ 8,196,194 | \$ 7,290,939 | \$ 3,534,733 | \$ 6,640,155 | \$ 11,730,927 | \$ 13,931,094 |
| Capital assets | 4,812,768 | 5,039,895 | 26,564,736 | 26,490,654 | 31,377,504 | 31,530,549 |
| Total assets | <u>13,008,962</u> | <u>12,330,834</u> | <u>30,099,469</u> | <u>33,130,809</u> | <u>43,108,431</u> | <u>45,461,643</u> |
| LIABILITIES | | | | | | |
| Long-term liabilities | 1,708,835 | 420,240 | 13,252,665 | 16,129,181 | 14,961,500 | 16,549,421 |
| Other liabilities | 1,065,689 | 286,222 | 471,753 | 147,047 | 1,537,442 | 433,269 |
| Total liabilities | <u>2,774,524</u> | <u>706,462</u> | <u>13,724,418</u> | <u>16,276,228</u> | <u>16,498,942</u> | <u>16,982,690</u> |
| NET POSITION | | | | | | |
| Invested in capital assets, net of related debt | 3,347,833 | 4,973,475 | 13,341,714 | 10,414,266 | 16,689,547 | 15,387,741 |
| Restricted | 63,747 | 65,083 | 2,518,491 | - 0 - | 2,582,238 | 65,083 |
| Unrestricted | 6,822,858 | 6,585,814 | 514,846 | 6,440,315 | 7,337,704 | 13,026,129 |
| TOTAL NET POSITION | <u>\$ 10,234,438</u> | <u>\$ 11,624,372</u> | <u>\$ 16,375,051</u> | <u>\$ 16,854,581</u> | <u>\$ 26,609,489</u> | <u>\$ 28,478,953</u> |

TOWN OF NORTH EAST

Management Discussion and Analysis June 30, 2015

The Town's assets exceeded its liabilities at the close of the 2015 fiscal year by \$26.6 million. Approximately \$16.7 million of the Town's net assets reflect its investment in capital assets, (land, building, improvements, vehicles, furniture and infrastructure) net of related outstanding debt. The Town uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending.

Changes in Net Position

The following tables present a summary of the changes in net position for governmental and business-type activities for the years ending June 30, 2015 and 2014, respectively:

| | Governmental | | Business-type | | Total | |
|-------------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| | Activities | | Activities | | Activities | |
| | Fiscal Year End June 30, 2015 | Fiscal Year End June 30, 2014 | Fiscal Year End June 30, 2015 | Fiscal Year End June 30, 2014 | Fiscal Year End June 30, 2015 | Fiscal Year End June 30, 2014 |
| REVENUES | | | | | | |
| Program Revenues | | | | | | |
| Charges for services | \$ 201,345 | \$ 206,033 | \$ 2,505,983 | \$ 2,826,624 | \$ 2,707,328 | \$ 3,032,657 |
| Operating grants and contributions | 198,187 | 159,194 | | | 198,187 | 159,194 |
| Capital grants and contributions | 21,800 | | 810,456 | 577,212 | 832,256 | 577,212 |
| General Revenues | | | | | | |
| Property taxes | 1,513,030 | 1,500,108 | | | 1,513,030 | 1,500,108 |
| State and County shared taxes | 427,704 | 402,369 | | | 427,704 | 402,369 |
| Grants and Contributions | | | | | | |
| not restricted to specific programs | 187,854 | 178,334 | | | 187,854 | 178,334 |
| Investments earnings | 14,882 | 4,141 | 3,006 | 10,642 | 17,888 | 14,783 |
| Miscellaneous | 154,029 | 147,425 | | | 154,029 | 147,425 |
| Special item | - 0 - | 750,000 | | | - | 750,000 |
| Total revenues | <u>2,718,831</u> | <u>3,347,604</u> | <u>3,319,445</u> | <u>3,414,478</u> | <u>6,038,276</u> | <u>6,762,082</u> |
| Program Expenses | | | | | | |
| General government | 418,129 | 412,157 | | | 418,129 | 412,157 |
| Public safety | 1,175,068 | 1,204,775 | | | 1,175,068 | 1,204,775 |
| Public works | 2,470,053 | 977,282 | | | 2,470,053 | 977,282 |
| Health | 2,450 | 865 | | | 2,450 | 865 |
| Culture and recreation | 43,065 | 9,980 | | | 43,065 | 9,980 |
| Water | | | 3,798,975 | 2,804,166 | 3,798,975 | 2,804,166 |
| Total expenses | <u>4,108,765</u> | <u>2,605,059</u> | <u>3,798,975</u> | <u>2,804,166</u> | <u>7,907,740</u> | <u>5,409,225</u> |
| CHANGE IN NET POSITION | (1,389,934) | 742,545 | (479,530) | 610,312 | (1,869,464) | 1,352,857 |
| NET POSITION - BEGINNING | <u>11,624,372</u> | <u>10,881,827</u> | <u>16,854,581</u> | <u>16,244,269</u> | <u>28,478,953</u> | <u>27,126,096</u> |
| NET POSITION - ENDING | <u>\$ 10,234,438</u> | <u>\$ 11,624,372</u> | <u>\$ 16,375,051</u> | <u>\$ 16,854,581</u> | <u>\$ 26,609,489</u> | <u>\$ 28,478,953</u> |

TOWN OF NORTH EAST

Management Discussion and Analysis
June 30, 2015

Government-wide statements

The Town's government wide total revenues were \$6 million, a decrease of approximately \$700,000 from last year. The largest changes were due to the Town having received \$1.3 million (\$909,000 in government activities and \$577,000 in business-type activities) of operating and capital grants awarded in fiscal year 2014 above the \$860,000 awarded in 2015, as well as a decrease in service charges of \$321,000 mostly related to a decrease in major facility fees in the business-type activities.

The Town's government wide total expenses of \$7.9 million were \$2.5 million more than 2014. The largest changes were an increase in both the governmental activities and business-type activities related to resurfacing the Town's streets and sidewalks (\$1.5 million) and a major upgrade of the Town's water meters to self-reading Sensus meters (\$1 million). Neither of these projects were completed as of June 30, 2015, additional work is needed in fiscal year 2016 to bring these projects to completion. The estimated remaining expenses related to these projects is \$1.4 million (\$946,000 in governmental activities and \$427,000 in business-type activities).

Governmental activities

Total governmental activities revenues decreased from \$3.3 million to \$2.7 million. General revenues decreased by \$629,000 to \$2.3 million while program revenues increased by \$56,000 to \$420,000. The only significant change was a decrease in capital grants of \$750,000 in 2015 from 2014. Governmental activities revenues increased by 4.6% from 2014 excluding the decrease in capital grants.

There was an increase in governmental activities expenditures in public works (\$1.5 million). This increase is attributable to the street and sidewalk resurfacing project. After fiscal year 2016 the Town's expenditures for public works are projected to return to their historical levels of approximately \$1 million. The 2015 actual expenditures were 57% higher than 2014. If the street and sidewalk resurfacing project were excluded, 2015 expenses would be 1.4% higher than 2014.

Business-type activities

Water service charges decrease by \$321,000 mostly as a result of a decrease in major facility fees due to a slowdown in new development, while capital grants increased by \$233,000. Charges for services, the operating revenues of the business-type activities, decreased by 11%. 2015 expenses increased by \$995,000 or 26% from the previous year, this is mostly attributable to the upgrade of the Town's water meters. If the water meter upgrade expenses are excluded, expenses would have decreased by 1.2% from 2014.

TOWN OF NORTH EAST

Management Discussion and Analysis June 30, 2015

Cost of Activities

The following tables present the costs and program revenues of each of the Town's activities and capital outlays for the years ending June 30, 2015 and 2014, respectively. The tables also show each activity's net cost (total cost less fees generated by the activities and program specific intergovernmental aid). The net cost shows the financial burden placed upon local taxpayers for each of these functions.

| | Expenses | | Revenues | | Net Cost | |
|--|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| | Fiscal Year End June 30, 2015 | Fiscal Year End June 30, 2014 | Fiscal Year End June 30, 2015 | Fiscal Year End June 30, 2014 | Fiscal Year End June 30, 2015 | Fiscal Year End June 30, 2014 |
| | Governmental Activities | | | | | |
| General government | \$ 418,129 | \$ 412,157 | \$ 27,904 | \$ 29,351 | \$ (390,225) | \$ (382,806) |
| Public safety | 1,175,068 | 1,204,775 | 92,424 | 66,320 | (1,082,644) | (1,138,455) |
| Public works | 2,470,053 | 977,282 | 297,534 | 265,884 | (2,172,519) | (711,398) |
| Health | 2,450 | 865 | - | 552 | (2,450) | (313) |
| Culture and recreation | 43,065 | 9,980 | 3,470 | 3,120 | (39,595) | (6,860) |
| Total governmental activities | \$ 4,108,765 | \$ 2,605,059 | \$ 421,332 | \$ 365,227 | \$ (3,687,433) | \$ (2,239,832) |
| Business-type Activities | | | | | | |
| Water utility | \$ 3,798,975 | \$ 2,804,166 | \$ 3,316,439 | \$ 3,403,836 | \$ (482,536) | \$ 599,670 |
| Total Governmental and Business-type Activities | \$ 7,907,740 | \$ 5,409,225 | \$ 3,737,771 | \$ 3,769,063 | \$ (4,169,969) | \$ (1,640,162) |

The total cost of governmental activities this year was \$4.1 million, about \$1.5 million more than 2014. These costs were financed by user fees of \$201,000, and operating grants and contributions of \$220,000 resulting in a net cost of governmental activities of \$3.7 million compared to a net cost of \$2.2 million in 2014. The primary difference was an increase in capital outlay over 2014. Other changes in the cost of activities and the means of financing them were noted earlier in this discussion.

The total cost of business-type activities this year was \$3.8 million, an increase of \$1 million or 35%. Revenues decreased by \$87,000 to \$3.3 million due to a decrease in user fees noted earlier in this discussion.

Financial Analysis of the Town's Funds

At year-end, the governmental fund balances were \$6 million, an increase of \$147,000 from the previous year. At year end the general fund balance was \$5 million, the special revenue fund balance was \$689,000, and the capital projects fund balance was \$378,000. General fund revenues for the year were \$2.7 million, and special revenue fund revenues were \$800, while expenditures were \$2.6 million for the general fund and \$1.5 million for the capital projects fund.

The proprietary fund assets, liabilities, net position, revenues, and expenses were the same as reported for business-type activities previously in this discussion.

TOWN OF NORTH EAST

Management Discussion and Analysis June 30, 2015

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual revenues were \$355,000, or 15%, greater than the budgeted amount, as amended. The budget also included \$974,513 to be used from fund balance to finance 2015 expenditures; \$265,000 of this amount was required.

Significant positive variances to budgeted amounts were realized in local income tax \$244,000. Local income tax estimates are provided by the State of Maryland. Actual expenditures were \$355,000, or 14% less than the amended budget. Significant positive variances to budgeted amounts were realized in general government and public safety.

During the year, there were thirteen budget amendments amounting to a \$500,000 increase in appropriations and funding sources between the original and final amended budget. One of these amendments, dealing with the transfer to the capital projects fund, accounted for \$376,000 of the change.

| | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|--|---------------------|---------------------|---|
| Revenue | | | |
| Total taxes | \$ 1,686,412 | \$ 1,940,734 | \$ 254,322 |
| Total licenses & permits | 46,350 | 65,676 | 19,326 |
| Total intergovernmental | 344,220 | 399,626 | 55,406 |
| Total service charges | 185,215 | 187,456 | 2,241 |
| Total fines & forfeitures | 750 | 155 | (595) |
| Total misc. revenue | 88,674 | 112,775 | 24,101 |
| Total revenue | 2,351,621 | 2,706,422 | 354,801 |
| Expenditures | | | |
| Total general government | 517,675 | 420,363 | 97,312 |
| Total public safety | 1,369,598 | 1,232,820 | 136,778 |
| Total public works | 840,845 | 802,873 | 37,972 |
| Total health | 2,450 | 2,450 | - 0 - |
| Total recreation & culture | 19,123 | 19,123 | - 0 - |
| Total debt service | 200,125 | 117,282 | 82,843 |
| Total expenditures | 2,949,816 | 2,594,911 | 354,905 |
| Other financing uses | | | |
| Total other financing uses transfer to capital projects | 376,318 | 376,318 | - 0 - |
| Total expenditures and other financing uses | 3,326,134 | 2,971,229 | 354,905 |
| Excess (deficiency) of revenue over expenditures | (974,513) | (264,807) | 709,706 |
| Budgetary reserve | 974,513 | - 0 - | (974,513) |
| Excess of revenue & other financing sources over expenditures | \$ - 0 - | \$ (264,807) | \$ (264,807) |

TOWN OF NORTH EAST

Management Discussion and Analysis June 30, 2015

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town of North East's investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities as of June 30, 2015, was \$31.4 million. This investment in capital assets includes land, building, machinery and equipment (including vehicles), and infrastructure (including park facilities, roads, highways and bridges). The total decrease in the Town's investment in capital assets for the current fiscal year was \$153,000. Governmental activities capital assets decreased by \$227,000 (net additions of \$42,827 less depreciation of \$270,000) and business-type activities capital assets increased by \$74,000 (net additions of \$998,000 less depreciation of \$924,000).

The following table presents capital assets (net of accumulated depreciation) by category for fiscal years ending June 30, 2015 and 2014, respectively:

| | Governmental Activities | | Business-Type Activities | | Total | |
|--------------------------------------|------------------------------------|----------------------|-------------------------------------|----------------------|----------------------|----------------------|
| | <u>June 30, 2015</u> | <u>June 30, 2014</u> | <u>June 30, 2015</u> | <u>June 30, 2014</u> | <u>June 30, 2015</u> | <u>June 30, 2014</u> |
| Land Improvements | \$ 1,713,599 | \$ 1,713,599 | \$ 960,450 | \$ 960,450 | \$ 2,674,049 | \$ 2,674,049 |
| Buildings | 797,741 | 822,614 | 116,401 | 124,714 | 914,142 | 947,328 |
| Improvements other than buildings | 2,096,563 | 2,350,424 | 25,452,392 | 25,344,214 | 27,548,955 | 27,694,638 |
| Equipment | <u>204,865</u> | <u>153,258</u> | <u>35,493</u> | <u>61,276</u> | <u>240,358</u> | <u>214,534</u> |
| TOTAL | <u>\$ 4,812,768</u> | <u>\$ 5,039,895</u> | <u>\$ 26,564,736</u> | <u>\$ 26,490,654</u> | <u>\$ 31,377,504</u> | <u>\$ 31,530,549</u> |

Major capital asset events during the fiscal year ending June 30, 2015 in the Town's governmental activities were vehicles, and computer equipment. In the Town's business-type activities the major project was the purchase of computer hardware and software as well as a radio antenna for the meter upgrade project.

Additional information on the Town's capital assets can be found in Note 4 on page 32 of this report.

Long-term Debt

At the end of the current fiscal year, the Town of North East had outstanding loans of \$14.7 million, compared to \$16.1 million last year. The following chart compares the level of long-term debt for fiscal years 2015 and 2014, respectively:

| Governmental Activities | | Business-type Activities | | Total | |
|------------------------------------|----------------------|-------------------------------------|----------------------|----------------------|----------------------|
| <u>June 30, 2015</u> | <u>June 30, 2014</u> | <u>June 30, 2015</u> | <u>June 30, 2014</u> | <u>June 30, 2015</u> | <u>June 30, 2014</u> |
| <u>\$ 1,708,835</u> | <u>\$ 420,240</u> | <u>\$ 13,252,665</u> | <u>\$ 16,129,181</u> | <u>\$ 14,961,500</u> | <u>\$ 16,549,421</u> |

TOWN OF NORTH EAST

Management Discussion and Analysis

June 30, 2015

The Town of North East's total debt decreased by \$1.5 million during the current fiscal year. In compliance with debt amortization schedules, the Town made total debt repayments in governmental activities of \$72,000 and in business-type activities \$2.8 million. The Town retired two bonds during the year totaling \$2.3 million (Community Development Administration-2003 Series A \$1,087,000 and Maryland Water Quality Financing Administration Series 2004 \$1,188,000). The Town incurred \$1.5 million in new debt (Community Development Administration-2014 Series A-1 & A-2) in governmental activities to finance the street and sidewalk resurfacing project discussed earlier. The Mayor and Commissioners have committed \$2 million of fund balance to make future principal payments on the bond.

Additional information on the Town's long-term debt can be found in Note 6 on pages 33 - 35 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The Town is required, by Charter, to have a balanced budget each fiscal year and has always complied with this requirement. Annually, the Town develops and updates financial models for all of its major funds, which enables the Town to evaluate both short and long-term implications of proposed operational and capital decisions regarding Town finances.
- The fiscal year 2016 budget for the Town's General Fund was adopted at \$ 463,000 (14%) less than the fiscal year 2015 final budget.
- For fiscal year 2016, the Town kept the property tax rate unchanged from that of the past several years. Due to stagnant real estate values, the rate of 48 cents per \$100 assessed value was slightly higher than the constant yield tax rate, however, the Town was exempted from the State requirements governing the constant yield tax rate. Fiscal year 2016 was the first year of the assessment cycle and the Town projects property tax revenue to remain flat through fiscal year 2019.
- The fiscal year 2016 water rates for in town and out of town customers were increased 2% from 2015.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Town of North East's finances to all who have an interest in it and to show the Town's accountability for the money it receives. Questions concerning any of the information provided in the report, or requests for additional information should be directed to the Town Administrator, P.O. Box 528, North East, MD 21900-0528. You may also phone us at (410) 287-5801 or e-mail us at office@northeastmd.org.

Town of North East

Statement of Net Position
June 30, 2015

| | Governmental Activities | Business-Type Activities | Totals |
|--|----------------------------|-----------------------------|----------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | \$ 6,174,538 | \$ 172,212 | \$ 6,346,750 |
| Restricted cash | 54,409 | 2,518,491 | 2,572,900 |
| Property taxes receivable | 2,482 | - 0 - | 2,482 |
| Due from other governments | 1,087,398 | - 0 - | 1,087,398 |
| Accounts receivable | 1,127 | 577,970 | 579,097 |
| Current portion - loans receivable | 4,626 | - 0 - | 4,626 |
| Prepaid expenses | 34,267 | 24,715 | 58,982 |
| Inventory | - 0 - | 40,000 | 40,000 |
| Due from agency fund | 8,485 | - 0 - | 8,485 |
| Internal balances | (201,345) | 201,345 | - 0 - |
| Total Current Assets | <u>7,165,987</u> | <u>3,534,733</u> | <u>10,700,720</u> |
| NONCURRENT ASSETS | | | |
| Loans & accrued interest receivable, net of current portion | 1,030,207 | - 0 - | 1,030,207 |
| Capital assets, net of accumulated depreciation | 4,812,768 | 26,564,736 | 31,377,504 |
| Total Noncurrent Assets | <u>5,842,975</u> | <u>26,564,736</u> | <u>32,407,711</u> |
| TOTAL ASSETS | <u>13,008,962</u> | <u>30,099,469</u> | <u>43,108,431</u> |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable & accrued expenses | 1,023,189 | 471,753 | 1,494,942 |
| Unearned revenue | 42,500 | - 0 - | 42,500 |
| Current portion - long term obligations | 87,928 | 589,141 | 677,069 |
| Total Current Liabilities | 1,153,617 | 1,060,894 | 2,214,511 |
| NONCURRENT LIABILITIES | | | |
| Long term obligations | 1,620,907 | 12,663,524 | 14,284,431 |
| TOTAL LIABILITIES | <u>2,774,524</u> | <u>13,724,418</u> | <u>16,498,942</u> |
| NET POSITION | | | |
| Invested in capital assets, net of related debt Restricted | 3,347,833 | 13,341,714 | 16,689,547 |
| Off site mitigation | 28,891 | - 0 - | 28,891 |
| Christmas parade | 14,353 | - 0 - | 14,353 |
| Other | 20,503 | - 0 - | 20,503 |
| Capital projects | - 0 - | 2,518,491 | 2,518,491 |
| Unrestricted | 6,822,858 | 514,846 | 7,337,704 |
| TOTAL NET POSITION | <u>\$ 10,234,438</u> | <u>\$ 16,375,051</u> | <u>\$ 26,609,489</u> |

See accompanying notes to financial statements

Town of North East

Statement of Activities

For the Year Ended June 30, 2015

| FUNCTIONS/PROGRAMS | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Position | | |
|--|---------------------|----------------------|----------------------------------|--------------------------------|---|--------------------------|----------------------|
| | Expenses | Charges For Services | Operating Grants & Contributions | Capital Grants & Contributions | Governmental Activities | Business-Type Activities | Total |
| GOVERNMENTAL ACTIVITIES: | | | | | | | |
| General government | \$ 418,129 | \$ 14,689 | \$ 13,215 | \$ - 0 - | \$ (390,225) | \$ - 0 - | \$ (390,225) |
| Public safety | 1,175,068 | 7,120 | 63,504 | 21,800 | (1,082,644) | - 0 - | (1,082,644) |
| Public works | 2,470,053 | 176,066 | 121,468 | - 0 - | (2,172,519) | - 0 - | (2,172,519) |
| Health | 2,450 | - 0 - | - 0 - | - 0 - | (2,450) | - 0 - | (2,450) |
| Culture and recreation | 43,065 | 3,470 | - 0 - | - 0 - | (39,595) | - 0 - | (39,595) |
| Total Governmental Activities | 4,108,765 | 201,345 | 198,187 | 21,800 | (3,687,433) | - 0 - | (3,687,433) |
| BUSINESS-TYPE ACTIVITIES: | | | | | | | |
| Water system | 3,798,975 | 2,505,983 | - 0 - | 810,456 | - 0 - | (482,536) | (482,536) |
| Total Business-Type Activities | 3,798,975 | 2,505,983 | - 0 - | 810,456 | - 0 - | (482,536) | (482,536) |
| TOTAL PRIMARY GOVERNMENT | \$ 7,907,740 | \$ 2,707,328 | \$ 198,187 | \$ 832,256 | (3,687,433) | (482,536) | (4,169,969) |
| GENERAL REVENUES: | | | | | | | |
| Taxes: | | | | | | | |
| Property | | | | | 1,513,030 | - 0 - | 1,513,030 |
| Income and other | | | | | 427,704 | - 0 - | 427,704 |
| Grants and contributions not restricted to specific programs | | | | | 187,854 | - 0 - | 187,854 |
| Investment income | | | | | 14,882 | 3,006 | 17,888 |
| Miscellaneous | | | | | 154,029 | - 0 - | 154,029 |
| TOTAL GENERAL REVENUES | | | | | 2,297,499 | 3,006 | 2,300,505 |
| CHANGE IN NET POSITION | | | | | (1,389,934) | (479,530) | (1,869,464) |
| NET POSITION AT BEGINNING OF YEAR | | | | | 11,624,372 | 16,854,581 | 28,478,953 |
| NET POSITION - ENDING | | | | | \$ 10,234,438 | \$ 16,375,051 | \$ 26,609,489 |

See accompanying notes to financial statements

Town of North East

Balance Sheet
Governmental Funds
June 30, 2015

| | General Fund | Special Revenue Fund | Capital Projects Fund | Total Governmental Funds |
|--|---------------------|-------------------------|--------------------------|--------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 5,496,129 | \$ 678,409 | \$ - 0 - | \$ 6,174,538 |
| Restricted cash | 54,409 | - 0 - | - 0 - | 54,409 |
| Property taxes receivable | 2,482 | - 0 - | - 0 - | 2,482 |
| Due from other governments | 140,032 | - 0 - | 947,366 | 1,087,398 |
| Accounts receivable | 1,127 | - 0 - | - 0 - | 1,127 |
| Prepaid expense | 34,267 | - 0 - | - 0 - | 34,267 |
| Interfund receivables | 8,485 | 10,923 | 382,155 | 401,563 |
| Loans receivable | - 0 - | 1,006,051 | - 0 - | 1,006,051 |
| TOTAL ASSETS | \$ 5,736,931 | \$ 1,695,383 | \$ 1,329,521 | \$ 8,761,835 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | | |
| LIABILITIES: | | | | |
| Accounts payable | \$ 50,696 | \$ - 0 - | \$ 951,335 | \$ 1,002,031 |
| Accrued expenses | 20,473 | - 0 - | - 0 - | 20,473 |
| Due to other governments | 685 | - 0 - | - 0 - | 685 |
| Unearned revenue | 42,500 | - 0 - | - 0 - | 42,500 |
| Interfund payables | 594,423 | - 0 - | - 0 - | 594,423 |
| Total Liabilities | 708,777 | - 0 - | 951,335 | 1,660,112 |
| DEFERRED INFLOWS OF RESOURCES: | | | | |
| Unavailable loans receivable | - 0 - | 1,006,051 | - 0 - | 1,006,051 |
| Total Deferred Inflows of Resources | - 0 - | 1,006,051 | - 0 - | 1,006,051 |
| FUND BALANCES: | | | | |
| Nonspendable | 34,267 | - 0 - | - 0 - | 34,267 |
| Restricted | 63,747 | - 0 - | - 0 - | 63,747 |
| Committed | 2,312,614 | - 0 - | 376,318 | 2,688,932 |
| Assigned | - 0 - | 689,332 | 1,868 | 691,200 |
| Unassigned | 2,617,526 | - 0 - | - 0 - | 2,617,526 |
| Total Fund Balances | 5,028,154 | 689,332 | 378,186 | 6,095,672 |
| TOTAL LIABILITIES , DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | \$ 5,736,931 | \$ 1,695,383 | \$ 1,329,521 | \$ 8,761,835 |

Town of North East

Reconciliation of Balance Sheet - Governmental Funds to the Statement of Net Position June 30, 2015

| | | | |
|---|----|--------------------|-------------------|
| TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS | | \$ | 6,095,672 |
| Amounts reported for Governmental Activities in the Statement of Net Position are different because: | | | |
| Capital assets used in Governmental Activities are not financial resources and, therefore, are not reported in the governmental funds. | | | |
| Governmental capital assets | \$ | 8,066,198 | |
| Less: accumulated depreciation | | <u>(3,253,430)</u> | |
| | | | 4,812,768 |
| Long term liabilities including bonds payable and compensated absences are not reported in the governmental funds. | | | (1,464,935) |
| Revenues not meeting the criteria for recognition in the governmental fund statements because they are not received within sixty days of year end are not current financial resources. | | | 28,782 |
| Long term loans receivable which are not available in the current period are reported as deferred inflows of resources in the governmental funds. | | | 1,006,051 |
| Long term liabilities associated with compensated absences are not payable in the current period and are not reported in the governmental funds. | | | <u>(243,900)</u> |
| NET POSITION OF GOVERNMENTAL ACTIVITIES | | \$ | <u>10,234,438</u> |

Town of North East

Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2015

| | General Fund | Special Revenue Fund | Capital Projects Fund | Total Governmental Funds |
|---|---------------------|-------------------------|--------------------------|--------------------------------|
| REVENUES | | | | |
| Taxes | \$ 1,940,734 | \$ - 0 - | \$ - 0 - | \$ 1,940,734 |
| Licenses and permits | 65,676 | - 0 - | - 0 - | 65,676 |
| Intergovernmental | 399,626 | - 0 - | - 0 - | 399,626 |
| Charges for service | 187,456 | - 0 - | - 0 - | 187,456 |
| Fines and forfeitures | 155 | - 0 - | - 0 - | 155 |
| Miscellaneous | 92,033 | 829 | - 0 - | 92,862 |
| | <u>2,685,680</u> | <u>829</u> | <u>- 0 -</u> | <u>2,686,509</u> |
| Total Revenues | | | | |
| EXPENDITURES | | | | |
| Current operating | | | | |
| General government | 415,874 | - 0 - | - 0 - | 415,874 |
| Public safety | 1,179,070 | - 0 - | - 0 - | 1,179,070 |
| Public works | 745,495 | - 0 - | 1,445,183 | 2,190,678 |
| Health | 2,450 | - 0 - | - 0 - | 2,450 |
| Recreation and culture | 19,123 | - 0 - | 23,332 | 42,455 |
| Capital outlays | 115,617 | - 0 - | - 0 - | 115,617 |
| Debt service - principal | 71,868 | - 0 - | - 0 - | 71,868 |
| Debt service - interest | 45,414 | - 0 - | - 0 - | 45,414 |
| | <u>2,594,911</u> | <u>- 0 -</u> | <u>1,468,515</u> | <u>4,063,426</u> |
| Total Expenditures | | | | |
| EXCESS OF REVENUES OVER EXPENDITURES | <u>90,769</u> | <u>829</u> | <u>(1,468,515)</u> | <u>(1,376,917)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from long-term debt | - 0 - | - 0 - | 1,470,383 | 1,470,383 |
| Sale of capital assets | 20,742 | - 0 - | - 0 - | 20,742 |
| Interest on loans receivable | - 0 - | 10,923 | - 0 - | 10,923 |
| Repayment on loans receivable | - 0 - | 22,151 | - 0 - | 22,151 |
| Transfer in(out) | (376,318) | - 0 - | 376,318 | - 0 - |
| | <u>(355,576)</u> | <u>33,074</u> | <u>1,846,701</u> | <u>1,524,199</u> |
| Total Other Financing Sources (Uses) | | | | |
| TOTAL NET CHANGE IN FUND BALANCE | <u>(264,807)</u> | <u>33,903</u> | <u>378,186</u> | <u>147,282</u> |
| FUND BALANCES - BEGINNING | <u>5,292,961</u> | <u>655,429</u> | <u>- 0 -</u> | <u>5,948,390</u> |
| FUND BALANCES - ENDING | <u>\$ 5,028,154</u> | <u>\$ 689,332</u> | <u>\$ 378,186</u> | <u>\$ 6,095,672</u> |

See accompanying notes to financial statements

Town of North East

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended June 30, 2015

| | |
|--|-----------------------|
| NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS | \$ 147,282 |
| Amounts reported for Governmental Activities in the Statement of Activities are different because: | |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense of \$342,744 exceeded capital outlays of \$115,617 in the current period. | (227,127) |
| Governmental funds report principal debt payments as expenditures because they use current financial resources. Principal payments reduce long term debt in the Statement of Net Position. This is the amount of principal payments made during the year. | 71,868 |
| Governmental funds report compensated absences when paid. However, in the Statement of Activities, they are recorded when earned. This is the excess of the reduction in the liability over what was earned | 109,920 |
| Governmental funds recognize revenues if they are received within sixty days of year end. The Statement of Activities reports revenues when earned. This is the amount of interest income earned that was not received within the specified time period. | 657 |
| Governmental funds report other financing sources upon receipt of principal payments because they provide current financial resources. Principal payments reduce loans receivable in the Statement of Net Position. This is the amount of principal payment received during the year. | (22,151) |
| Governmental funds recognize proceeds from financing as an other financing source. However, in the Statement of Activities, proceeds increase long term debt. This is the amount of proceeds from financing during the year. | <u>(1,470,383)</u> |
| CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES | <u>\$ (1,389,934)</u> |

See accompanying notes to financial statements

Town of North East

Statement of Net Position - Proprietary Fund
June 30, 2015

| | | Major Enterprise Fund |
|--|-----------|-----------------------|
| | | Water Fund |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ | 172,212 |
| Restricted cash | | 2,518,491 |
| Service charges receivable | | 577,970 |
| Prepaid expenses | | 24,715 |
| Inventory | | 40,000 |
| Due from general fund | | 201,345 |
| Total Current Assets | \$ | 3,534,733 |
| CAPITAL ASSETS | | |
| Land, building and equipment | | 36,792,401 |
| Less: accumulated depreciation | | (10,227,665) |
| Total Capital Assets | | 26,564,736 |
| TOTAL ASSETS | | 30,099,469 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable | | 422,607 |
| Accrued expenses | | 49,146 |
| Current portion, long term obligations | | 589,141 |
| Total Current Liabilities | | 1,060,894 |
| NONCURRENT LIABILITIES | | |
| Long term obligations | | 12,663,524 |
| Total Noncurrent Liabilities | | 12,663,524 |
| TOTAL LIABILITIES | | 13,724,418 |
| NET POSITION | | |
| Invested in capital assets, net of related debt | | 13,341,714 |
| Restricted for capital projects | | 2,518,491 |
| Unrestricted | | 514,846 |
| TOTAL NET POSITION | \$ | 16,375,051 |

See accompanying notes to financial statements

Town of North East

Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Fund
For the Year Ended June 30, 2015

| | Major Enterprise Fund | Water Fund |
|---|-----------------------|----------------------|
| OPERATING REVENUES | | |
| Service fees | \$ 2,252,386 | |
| Connection charges | 70,000 | |
| Miscellaneous revenue | 7,283 | |
| Service charge penalties | 64,279 | |
| Major facilities fees | 112,035 | |
| | 2,505,983 | |
| Total Operating Revenue | | \$ 2,505,983 |
| OPERATING EXPENSES | | |
| Salaries | 177,962 | |
| Employee benefits and payroll taxes | 55,542 | |
| Contracted services | 2,284,480 | |
| Insurance | 40,624 | |
| Professional fees | 129,875 | |
| Office expense | 24,006 | |
| Miscellaneous | 24,572 | |
| Depreciation and amortization | 924,013 | |
| | 3,661,074 | |
| Total Operating Expenses | | 3,661,074 |
| OPERATING LOSS | | (1,155,091) |
| NONOPERATING REVENUES (EXPENSES) | | |
| Grant revenue | 34,720 | |
| Interest expense | (137,901) | |
| Interest earned | 3,006 | |
| | (100,175) | |
| Total Nonoperating Revenue (Expenses) | | (100,175) |
| INCOME BEFORE CAPITAL CONTRIBUTION | | (1,255,266) |
| Capital contributions | | 775,736 |
| CHANGE IN NET POSITION | | (479,530) |
| TOTAL NET POSITION - BEGINNING | | 16,854,581 |
| TOTAL NET POSITION - ENDING | | \$ 16,375,051 |

See accompanying notes to financial statements

Town of North East

Statement of Cash Flows - Proprietary Fund
For the Year Ended June 30, 2015

| | | Major Enterprise Fund Water Fund |
|--|--|-------------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers | \$ 3,024,609 | |
| Cash payments to suppliers for goods and services | (2,190,845) | |
| Cash payments to general fund for salaries | (199,153) | |
| | | |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | | \$ 634,611 |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | | |
| Transfer to other funds | (310,823) | |
| | | |
| NET CASH FLOWS USED IN NON-CAPITAL FINANCING ACTIVITIES | | (310,823) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Grants received | 34,720 | |
| Repayments of bonds | (2,853,366) | |
| Capital expenditures | (222,427) | |
| Interest paid on bonds | (162,814) | |
| | | |
| NET CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES | | (3,203,887) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest income received | 3,006 | |
| | | |
| NET CASH FLOWS FROM INVESTING ACTIVITIES | | 3,006 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | (2,877,093) |
| CASH AND CASH EQUIVALENTS - BEGINNING | | 6,145,766 |
| CASH AND CASH EQUIVALENTS - END | | \$ 3,268,673 |
| Reconciliation of operating loss to net cash flows from operating activities: | | |
| Operating loss | | \$ (1,155,091) |
| Adjustments to reconcile operating loss to net cash flows from operating activities: | | |
| Depreciation and amortization expense | | 924,013 |
| Increase in service charges receivable | | 518,626 |
| Decrease in prepaid expenses | | 5,917 |
| Increase in inventory | | (40,000) |
| Increase in accounts payable | | 402,337 |
| Decrease in accrued salaries | | (21,191) |
| | | |
| Net cash provided by operating activities | | \$ 634,611 |
| SUPPLEMENTAL DISCLOSURE OF NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Contributed capital | | \$ 775,736 |
| | See accompanying notes to financial statements | |

Town of North East

Statement of Fiduciary Net Position - Fiduciary Funds
June 30, 2015

| | Employee Benefit Plan | Agency Fund |
|---|--------------------------|-----------------|
| ASSETS | | |
| Restricted cash | \$ - 0 - | \$ 279,171 |
| Investments with fiscal agents | 2,873,325 | - 0 - |
| | <u>2,873,325</u> | <u>- 0 -</u> |
| TOTAL ASSETS | <u>2,873,325</u> | <u>279,171</u> |
| LIABILITIES | | |
| Accounts payable | - 0 - | 3,266 |
| Amounts held in escrow | - 0 - | 267,420 |
| Due to general fund | - 0 - | 8,485 |
| | <u>- 0 -</u> | <u>8,485</u> |
| TOTAL LIABILITIES | <u>- 0 -</u> | <u>279,171</u> |
| NET POSITION | | |
| Held in trust for employee benefit plan | <u>\$ 2,873,325</u> | <u>\$ - 0 -</u> |

Statement of Changes in Fiduciary Net Position - Fiduciary Funds
For the Year Ended June 30, 2015

| | Employee Benefit Plan |
|---------------------------------------|--------------------------|
| CONTRIBUTIONS | |
| Employer | \$ 52,377 |
| Employees | 129,411 |
| Investment gains | 62,236 |
| | <u>62,236</u> |
| Total Contributions | <u>244,024</u> |
| DISTRIBUTIONS | |
| Benefits paid | 50,227 |
| Charges/fees | 10,424 |
| | <u>10,424</u> |
| Total Distributions | <u>60,651</u> |
| CHANGE IN NET POSITION | 183,373 |
| TOTAL NET POSITION - BEGINNING | <u>2,689,952</u> |
| TOTAL NET POSITION - ENDING | <u>\$ 2,873,325</u> |

See accompanying notes to financial statements

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2015

1. Summary of Significant Accounting Policies

The Town of North East, Maryland (the "Town") was incorporated in 1850, and is located in Cecil County, Maryland. The Town operates under a Mayor and Commissioners form of government and provides the following services: public safety, highways and streets, sanitation, recreation, public improvements, planning and zoning, water and general administrative services. A substantial portion of the Town's revenue is received from the property and income taxes related to the residents and businesses of the Town, and services provided by its Water System.

In evaluating how to define the Town for financial reporting purposes, management has considered all potential component units. The basis for determining component units is the governing body's ability to exercise oversight responsibility or the existence of special financing relationships, regardless of whether the Town is able to exercise oversight responsibilities. Based on this criteria, the Town has concluded that there are no component unit relationships that are required to be presented in these financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - The financial statements of the Town are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to local governments. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements.

The accounts of the Town are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied, while grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Program revenues include: (1) charges for services which report fees and other charges to users of the Town's services and facilities; (2) operating grants and contributions which finance annual operating activities; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets, when applicable. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

While government-wide and fund financial statements are presented separately, they are interrelated. The governmental activities column of the government-wide statements incorporates data from governmental funds, while business-type activities incorporate data from the Town's enterprise funds. Separate financial statements are provided for each major governmental, proprietary and fiduciary fund.

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2015

1. Summary of Significant Accounting Policies (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Available means collectible within the current period, or soon enough thereafter to pay current liabilities. The Town considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Major revenue sources susceptible to year-end accruals include: Income tax receipts, property taxes and capital grants. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of yearend). In general, all other revenues are considered to be measurable and available when cash is received.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating income reported in proprietary fund financial statements include revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for services provided. Principal operating expenses are the costs of providing services, including administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Fiduciary funds account for assets held by the Town in a trustee capacity or as an agent on behalf of others. As such, fiduciary funds are not reported in the government-wide statements.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as needed. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Short-term interfund loans are classified as "due to/from other funds." All short-term interfund receivables and payables at year end are planned to be eliminated in the subsequent year. Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." However, internal eliminations do not include water service provided to the Town Hall. Reimbursements are reported as reductions to expenses.

Fund Types and Major Funds

The accounts of the Town are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. There are no non-major funds in either fund category.

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2015

1. Summary of Significant Accounting Policies (continued)

The Town reports the following major governmental funds:

The General Fund - This is the primary operating fund of the Town. It accounts for all of the financial resources and the legally authorized activities of the Town except for those required to be accounted for in other specialized funds. The general fund accounts for the normal operating activities of the Town. These activities are financed primarily by taxes, grants from other governments and charges for services.

Special Revenue Fund - This fund accounts for financial resources associated with a loan program for the rehabilitation of private properties and Community Development Block Grant loans for assisted housing projects.

Capital Projects Fund - This fund accounts for financial resources associated with capital projects.

The Town reports the following major proprietary fund:

Water Fund - This fund accounts for the operation of the Town's water service operation. It is intended to be self-supporting through user charges. Activities of the fund include administration, operation and maintenance of the water system and billing and collection activities. The water service operations include water treatment, storage, and distribution systems.

The Town reports the following fiduciary funds:

Employee Benefit Plan - This fund is used to account for assets held in trust for the payment of benefits under the Town of North East Deferred Compensation Plan. This fund is reported using the economic resources measurement focus and the accrual basis of accounting.

Agency Fund - This fund is used to account for assets held in an agency capacity related to development projects.

Budgetary Data - Formal budgetary accounting is employed as a management control for the general, capital projects and proprietary funds of the Town. A budget is not adopted for the special revenue fund; however, all expenditures of the fund are approved by the Mayor and Commissioners. Annual operating budgets are adopted, after public hearings, by passing of a resolution prior to the start of each fiscal year. Transfers of appropriations between functions require approval of the Board of Commissioners. The budget uses the same basis of accounting as used to reflect actual revenues and expenditures.

Cash and Cash Equivalents - Cash and Cash Equivalents include demand deposits, money market accounts and certificates of deposit with an initial maturity date of less than three months.

Accounts Receivable - Water charges are recorded when billed, except that an amount is recorded for services rendered but not yet billed, as of the close of the fiscal year. The accrued amount is based on actual billings made subsequent to year end.

Loans Receivable - Principal balances of all loans receivable are reported at fair value. The principal balance of loans receivable not expected to be collected within 60 days of year end will be reported as a deferred inflow of resources in the Balance Sheet - Governmental Funds, as they are not currently available to the Town. All principal payments received will be recognized as an other financing source upon receipt in the Statement of Revenues, Expenses, and Changes in Fund Balance - Governmental Funds.

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2015

1. Summary of Significant Accounting Policies (continued)

Property Taxes Receivable - Taxes on real estate are billed and collected on behalf of the Town by Cecil County which remits payment to the Town.

Due from Other Governments - Local income taxes and admission and amusement taxes are collected on behalf of the Town by the State of Maryland and are remitted to the Town. Receivables from other governments primarily consist of amounts arising from transfer payments and amounts due from grantors for specific programs and capital projects.

All receivables are reported at gross values. No allowance for uncollectible accounts is deemed necessary.

Capital Assets, Net of Accumulated Depreciation - The Town's property, buildings and facilities with an initial, individual cost of more than \$5,000 and an estimated useful life of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. All land is capitalized. Proprietary capital assets are also reported in their fund financial statements. Donated assets are stated at fair value on the date donated. The costs of normal maintenance and repairs which do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

The Town has been exempted from retroactively reporting its infrastructure assets. However, all future construction or major improvements to the roads, bridges, sidewalks, drainage and lighting systems for the Town will be capitalized and depreciated in a manner consistent with current policies for capital assets in the governmental and proprietary funds.

Estimated useful lives for depreciable assets are as follows:

| | |
|-------------------------------------|---------------|
| Improvements other than buildings | 15 years |
| Buildings and improvements | 30 - 50 years |
| Water plant and distribution system | 30 - 80 years |
| Equipment | 5 - 10 years |

Compensated Absences - Compensated absences are those earned but unused absences for which employees will be paid, such as vacation and sick leave. Employees are granted vacation and sick leave in varying amounts. The Town amended its sick leave policy during the fiscal year. It is the Town's policy to permit employees to accumulate earned but unused sick leave without limitation and up to 50 days of vacation leave. The Town will pay those employees that had ten years of permanent full-time service as of January 1, 2015 unused sick leave of up to 500 hours upon retirement. The accumulated sick leave liability is based on the amount that is expected to ultimately be paid. Vacation and sick leave are accrued as applicable in the government-wide and proprietary fund financial statements as part of long term obligations. A liability is reported in governmental fund financial statements only if it has matured, for example, as a result of employee resignations and retirements.

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2015

1. Summary of Significant Accounting Policies (continued)

Net Position –

In the government-wide financial statements, net position is classified in the following categories:

Invested in Capital Assets, Net of Related Debt

This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balance of the debt that is attributable to the acquisition, construction or improvement of these assets reduce this category.

Restricted

This category represents the net position of the Town which has been restricted for a specific project or purpose by a third party. As of June 30, 2015, the Town's restricted net position consisted of funds whose purpose was restricted by the donor for specific activities including off-site mitigation, the annual Christmas parade and various other projects. Also, certain assets have been set aside to fund capital replacements and expansion of the water system. Total restricted net position as of June 30, 2015 totaled \$2,582,238.

Unrestricted

This category represents the net position of the Town, which is not restricted for any project or other purpose by third parties.

Fund Balance –

In the governmental fund financial statements, fund balances are classified in the following categories:

Nonspendable

This category includes amounts that cannot be spent due to form, such as inventory, prepaid amounts, long term receivables or amounts that must be maintained intact legally or contractually. As of June 30, 2015, the Town reported \$34,267 of nonspendable funds.

Restricted

This category includes amounts constrained by an external party, constitutional provision or enabling legislation. As of June 30, 2015, balances classified as restricted consisted of funds whose purpose was restricted by the donor for off-site mitigation, the annual Christmas parade and various other projects. As of June 30, 2015, the Town reported \$63,747 of restricted funds.

Committed

This category includes amounts constrained for a specific purpose by the Mayor and Commissioners using its highest level of decision making authority, prior to year end. As of June 30, 2015, the Mayor and Commissioners committed \$361,114 of reserve funds to cover budget expenditures in the following year, \$1,951,500 to future debt service requirements and \$376,318 for streets and sidewalks projects.

Assigned

This category includes amounts constrained by the intent to be used for a specific purpose by a governing board which has the authority to assign funds. As of June 30, 2015, the Town had \$119,169 of funds assigned for revitalization loans for the Town, an additional \$570,163 assigned for capital community projects that are not considered part of normal operations of the Town, and \$1,868 to future capital projects.

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2015

1. Summary of Significant Accounting Policies (continued)

Unassigned

This category includes all funds which are not specifically classified as Nonspendable, Restricted, Committed or Assigned.

In the proprietary fund financial statements, net position is classified in the following categories:

Invested in capital assets net of related debt

This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balance of the debt that is attributable to the acquisition, construction or improvement of these assets reduce this category. As of June 30, 2015, the fund reported \$13,341,714 invested in capital assets.

Restricted for capital projects

This category includes certain resources which have been set aside to fund capital expansion and replacement of the water system. These assets are maintained in separate bank accounts. As of June 30, 2015, the fund reported \$2,518,491 of assets restricted for this purpose.

Unrestricted

This category represents the net position of the Fund, which is not restricted for any project or other purpose.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

Deposits are carried at cost plus accrued interest. The carrying amount of deposits is separately displayed on the balance sheet as "Cash and Cash Equivalents", and "Restricted Cash". Cash and Cash Equivalents include demand deposits, money market accounts, investments in the Maryland Local Government Investment Pool (MLGIP) and certificates of deposit with an initial maturity date of less than three months. Restricted cash consists of resources set aside because their use is limited to sources from which they were derived. These sources consist of parades, police evidence forfeiture, and deposits by developers to cover off-site mitigation and other costs. The resources are maintained in separate bank accounts.

The Town is a participant in the MLGIP, which was established by the State of Maryland as an investment vehicle for short-term investment of funds by local municipalities. The MLGIP, under the control of the state treasurer, has been managed by a single financial institution. Short term investments of the pool are reported at cost, which approximates fair value (Level 1). The fair value of the pool is the same as the value of the pool shares. As of June 30, 2015, all pool holdings are in cash and cash equivalents.

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2015

2. Cash and Cash Equivalents (continued)

Credit Risk - The Town has adopted a policy to be followed when investing public funds in accordance with the provisions of Section 17-101 of the Local Government Article of the Annotated Code of Maryland which prescribes the type of investments permissible for Maryland Municipalities. This policy requires that Town funds be invested in obligations for which the United States has pledged its full faith and credit, obligations insured by a federal agency (such as the FDIC), obligations collateralized by federal obligations, and portfolios created under the Maryland Local Government Investment Pool. Except as noted below, the Town was in compliance with the provisions of the Annotated Code of Maryland as of June 30, 2015, which was adopted to mitigate credit risk for the Town.

As a result of a financial institution's policy, the Town was not in compliance with the provisions of the Annotated Code of Maryland as of June 30, 2015. The financial institution's policy is to monitor collateral each day based on the opening cash balance of the Town. On June 30, 2015, the Town received a substantial deposit which created an uncollateralized balance at the close of business. The Town was exposed to custodial credit risk due to uninsured and uncollateralized deposits of \$34,264 on June 30, 2015. In accordance with the financial institution's policy, the funds were promptly collateralized as of July 1, 2015, the next business day.

Interest Rate and Credit Risk – The Town manages interest rate and credit risk by investing primarily in short term holdings, including demand deposits, certificates of deposit and MLGIP.

Custodial Credit Risk – The Town manages custodial credit risk through its use of permissible investments based on its compliance with the Annotated Code of Maryland as previously described. As such, uninsured or uncollateralized funds are not permitted.

Deposits recorded in the following schedule are reported in the financial statements as Cash and Cash Equivalents and Restricted Cash.

Deposits by level of risk are:

| | Carrying Amount | Bank Balance |
|---|--------------------|-----------------|
| Cash on hand | \$ 1,400 | \$ - 0 - |
| FDIC Insured | 477,745 | 477,745 |
| Uninsured, collateral held by pledging bank's Trust Departments in Town's name | 1,008,041 | 1,008,041 |
| Uninsured, uncollateralized | 34,264 | 127,835 |
| Maryland Local Government Investment Pool | 7,677,371 | 7,677,371 |
| Total deposits | \$ 9,198,821 | \$ 9,290,992 |

The balance above consists of \$279,171 of funds from developers for off-site mitigation and other costs held in an agency capacity. These funds are not available for general operations of the Town.

TOWN OF NORTH EAST

Notes to Financial Statements June 30, 2015

3. Loans Receivable

Using the proceeds from a grant from the State of Maryland, the Town in a prior year advanced \$250,000 to a developer to contribute to the financing of an assisted housing project. The promissory note bears interest at 1% and is to be repaid in annual installments of principal and interest based on the availability of funds from surplus cash as defined in the note. In 2012, the note was modified to extend the maturity date to July 1, 2052, at which time all principal and accrued interest will be paid in full. The note is secured by a deed of trust and is subordinate to senior debt. No principal payments have been received to date. Interest payments of \$10,923 were received during the year ended June 30, 2015 and have been reported as an other financing source. Total loan value and accrued interest as of June 30, 2015 was \$269,389.

Using the proceeds from a Community Development Block Grant (CDBG) from the U.S. Department of Housing and Urban Development, the Town advanced \$750,000 to a developer to contribute to the financing of an assisted housing project. The promissory note bears interest at 1% and is to be repaid in annual installments of principal and interest based on the availability of funds from surplus cash as defined in the note. The note will mature on August 1, 2055, at which time all principal and accrued interest will be paid in full. The note is secured by a deed of trust and is subordinate to senior debt. No principal or interest payments have been received to date. Total loan value and accrued interest as of June 30, 2015 was \$759,393.

The Town facilitates a loan program for the rehabilitation of private properties for current residents of the Town. Loans are available under this program to upgrade the exterior of properties located in Town limits. The loans are for a period of 6 – 48 months, and have interest charged at a fixed rate based on 80% of the current prime rate at the time of closing. Loans are subject to approval by the Town Commissioners based on credit worthiness and adherence to program guidelines. Maximum loan amount is 10% of the assessed value of the property, with a minimum loan amount of \$500. As of June 30, 2015, total outstanding loans and accrued interest under this program were \$6,051.

No adjustments to the fair value of the notes have been reflected in these financial statements as management has determined fair value approximates cost basis.

Total loans receivable are reflected in the Statement of Net Position based on anticipated maturity. Accordingly, the current portion of loans receivable is \$4,626 and long term notes receivable, including accrued interest totals \$1,030,207.

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2015

4. Capital Assets

Capital asset activity for the Town of North East for the year ended June 30, 2015 was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|------------------|------------------|---------------------------|
| Governmental Activities: | | | | |
| Land & improvements | \$ 1,713,599 | \$ - 0 - | \$ - 0 - | \$ 1,713,599 |
| Buildings | 1,232,255 | - 0 - | - 0 - | 1,232,255 |
| Improvements other than buildings | 4,072,385 | - 0 - | - 0 - | 4,072,385 |
| Equipment | <u>1,005,132</u> | <u>115,617</u> | <u>72,790</u> | <u>1,047,959</u> |
| Total | <u>8,023,371</u> | <u>115,617</u> | <u>72,790</u> | <u>8,066,198</u> |
| Less: Accumulated depreciation | | | | |
| Buildings | 409,641 | 24,873 | - 0 - | 434,514 |
| Improvements other than buildings | 1,721,961 | 253,861 | - 0 - | 1,975,822 |
| Equipment | <u>851,874</u> | <u>64,010</u> | <u>72,790</u> | <u>843,094</u> |
| Total accumulated depreciation | <u>2,983,476</u> | <u>342,744</u> | <u>72,790</u> | <u>3,253,430</u> |
| Governmental Activities Capital Assets, net | <u>\$ 5,039,895</u> | | | <u>\$ 4,812,768</u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------------|-------------------|
| General government | \$ 31,100 |
| Public safety | 44,864 |
| Public works | 266,170 |
| Parks and recreation | <u>610</u> |
| Total depreciation expense | <u>\$ 342,744</u> |

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|------------------|------------------|---------------------------|
| Business-type activities: | | | | |
| Land | \$ 960,450 | \$ - 0 - | \$ - 0 - | \$ 960,450 |
| Buildings | 249,429 | - 0 - | - 0 - | 249,429 |
| Water plant & distribution system | 34,430,507 | 997,264 | - 0 - | 35,427,771 |
| Equipment | <u>153,920</u> | <u>831</u> | <u>- 0 -</u> | <u>154,751</u> |
| Total | <u>35,794,306</u> | <u>998,095</u> | <u>- 0 -</u> | <u>36,792,401</u> |
| Less: accumulated depreciation | | | | |
| Buildings | 124,715 | 8,314 | - 0 - | 133,029 |
| Water plant & distribution System | 9,086,293 | 889,087 | - 0 - | 9,975,380 |
| Equipment | <u>92,644</u> | <u>26,612</u> | <u>- 0 -</u> | <u>119,256</u> |
| Total accumulated depreciation | <u>9,303,652</u> | <u>924,013</u> | <u>- 0 -</u> | <u>10,227,665</u> |
| Business-type Activities Capital Assets, Net | <u>\$ 26,490,654</u> | | | <u>\$ 26,564,736</u> |

Depreciation expense for business-type activities for the year ended June 30, 2015 was \$924,013.

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2015

5. Property Tax

Property taxes attach as an enforceable lien on real property and are levied as of July 1st. Semi-annual installment payments are mandatory for qualified properties unless the property owner chooses to pay in one installment. Qualified property is defined as an owner-occupied principal residence or a small business with certain commercial use classifications. Under the semi-annual plan, one-half of the tax bill is due September 30 with the balance due on December 31. For all other properties the bill is due in its entirety on September 30. After the due date(s) interest is charged on any delinquent portion. Cecil County holds an annual property tax lien certificate sale on the first Monday of June to collect all unpaid Town and County property taxes as of that date. Taxes not collected and remitted to the Town within sixty days subsequent to June 30, 2015 are immaterial. Property taxes are levied at rates enacted by the Mayor & Commissioners in the annual budget on the taxable assessed value as determined by the Maryland Department of Assessments and Taxation. The tax rate for the fiscal year ended June 30, 2015 was \$0.48 per \$100 of assessed value.

6. Long Term Obligations

Long-Term Obligations at June 30, 2015 consists of:

| | |
|--|---------------------|
| Department of Natural Resources – Shoreline Erosion | |
| Total authorized and issued as of June 30, 2015 - \$88,560. | |
| Principal paid through June 30, 2015 - \$26,568. Non-interest loan. Annual principal payments of \$4,428 through July 2029. | \$ 61,992 |
| Community Development Administration – 2014 Series A-1 & A-2 | |
| Total authorized as of June 30, 2015 - \$2,018,940. | |
| Total issued as of June 30, 2015 - \$1,470,383. | |
| Principal paid through June 30, 2015 - \$67,440. Interest at 3.51%. Annual principal and semi-annual interest payments through May 2034. | 1,402,943 |
| Compensated Absences | <u>243,900</u> |
| Total Governmental Activities | \$ <u>1,708,835</u> |

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2015

6. Long Term Obligations (continued)

Business-Type Activities:

Community Development Administration – 2003 Series A

Total authorized and issued as of June 30, 2015 - \$2,275,000.

Principal paid through June 30, 2015 - \$2,275,000. Interest at

2% - 4.5%. Annual principal and semi-annual interest

payments paid in full June 2015.

\$ - 0 -

Maryland Water Quality Financing Administration, Series 2009 Bonds

Total authorized as of June 30, 2015 - \$1,375,000. Total

issued as of June 30, 2015 - \$1,124,842. Principal paid

through June 30, 2015 - \$412,500. Non-interest bearing loan.

Annual principal payments of \$68,750 through February 2026.

712,342

Maryland Water Quality Financing Administration, Series 2007 A Bonds

Total authorized and issued as of June 30, 2015 - \$15,590,777. Principal

paid through June 30, 2015 - \$3,080,097. Interest at 0.4%. Annual

principal and semi-annual interest payments through February, 2038.

12,510,680

Maryland Water Quality Financing Administration, Series 2004 Bonds

Total authorized as of June 30, 2015 - \$2,555,000. Total

Issued as of June 30, 2015 - \$2,333,092. Principal paid through

June 30, 2015 - \$2,333,092. Interest at 1.1%. Annual principal

and semi-annual interest payments paid in full June 2015.

- 0 -

Compensated Absences

29,643

Total Business-Type Activities

13,252,665

Total Long-Term Obligations

\$ 14,961,500

During the year ended June 30, 2015, the following changes occurred in Long-Term Obligations:

| | <u>Balance</u> <u>6/30/14</u> | <u>Increase</u> | <u>Decrease</u> | <u>Balance</u> <u>06/30/15</u> |
|---------------------------|----------------------------------|---------------------|---------------------|-----------------------------------|
| Governmental Activities: | | | | |
| Bonds | \$ 66,420 | \$ 1,470,383 | \$ 71,868 | \$ 1,464,935 |
| Compensated Absences | 353,820 | 110,730 | 220,650 | 243,900 |
| Business-Type Activities: | | | | |
| Bonds | 16,076,388 | - 0 - | 2,853,366 | 13,223,022 |
| Compensated Absences | <u>52,793</u> | <u>17,164</u> | <u>40,314</u> | <u>29,643</u> |
| Totals | <u>\$ 16,549,421</u> | <u>\$ 1,598,277</u> | <u>\$ 3,186,198</u> | <u>\$ 14,961,500</u> |

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2015

6. Long Term Obligations (continued)

Future debt service requirements are as follows:

| <u>Years Ending June 30</u> | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | |
|-------------------------------|--------------------------------|-------------------------|---------------------------------|-------------------------|
| | <u>Principal Maturing</u> | <u>Interest Payable</u> | <u>Principal Maturing</u> | <u>Interest Payable</u> |
| 2016 | \$ 87,928 | \$ 59,203 | \$ 589,141 | \$ 50,042 |
| 2017 | 88,928 | 58,652 | 591,223 | 47,962 |
| 2018 | 89,428 | 57,883 | 593,313 | 45,872 |
| 2019 | 90,428 | 56,770 | 595,411 | 43,772 |
| 2020 | 91,928 | 55,342 | 597,517 | 41,666 |
| 2021 through 2025 | 490,140 | 245,282 | 3,019,484 | 176,436 |
| 2026 through 2030 | 560,212 | 169,163 | 2,754,521 | 122,492 |
| 2031 through 2035 | 214,500 | 54,318 | 2,784,710 | 67,460 |
| 2036 through 2038 | <u>- 0 -</u> | <u>- 0 -</u> | <u>1,697,702</u> | <u>13,598</u> |
| Totals | <u>2,013,492</u> | <u>756,612</u> | <u>13,223,022</u> | <u>609,300</u> |
| Less: unissued bond principal | <u>548,557</u> | <u>- 0 -</u> | <u>- 0 -</u> | <u>- 0 -</u> |
| Net Long-Term Obligations | <u>\$ 1,464,935</u> | <u>\$ 756,612</u> | <u>\$ 13,223,022</u> | <u>\$ 609,300</u> |

Total interest and administrative fees paid for the year ended June 30, 2015 included as direct function expense in the governmental activities totaled \$45,414.

Total interest and administrative fees paid for the year ended June 30, 2015 included as direct function expense in the proprietary activities totaled \$137,901.

7. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town purchases insurance to protect its interest in its property and equipment, insurance against employee dishonesty and liability protection. During the year ended June 30, 2015, there was no significant reduction in insurance coverage. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years. Insurance is provided through the Maryland Local Government Insurance Trust and by commercial insurance.

8. Defined Contribution Plans

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code 401(a) and 457(b). The plan was adopted by resolution of the Mayor and Commissioners. It covers all full time employees meeting certain age and service requirements. During the current year the Town contributed \$1,000 for each full time employee who had completed one year of employment. In addition, the Town also matched employee contributions to the Town's 457(b) deferred compensation plan, up to \$1,500. Employer contributions may be amended by the Mayor and Commissioners annually as part of the budget process. Investments are managed by trustees selected by the Town. For the year ended June 30, 2015, 22 employees participated in the plan and the Town's cost was \$52,377.

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2015

9. Postemployment Healthcare Benefits

The Town may provide monetary contributions towards the continuation of coverage for medical insurance for employees who have retired from the Town. Under this benefit, should a retired employee elect to accept continued health coverage under the Town's current insurance carrier, the Town will pay from 50% up to 100% of the cost of coverage for a period of up to 18 months. An employee must obtain at least 10 years of service to be eligible for this benefit, with 100% coverage after 30 years of service. In addition, the Town will also contribute \$2,000 to \$4,000 to any electing retiree's Health Savings Account, based on coverage elected. This benefit was adopted by a Resolution of the Mayor and Commissioners, and may also be terminated by the same, at any time.

This benefit is unfunded, with the Town making payments directly to the insurance carrier and employees on a pay-as-you-go basis. The Town has not paid any benefits associated with this provision during the year ended June 30, 2015.

The projection of future benefit payments for an ongoing plan involves 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 information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the Town and 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 Town and plan members to that point. The 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.

For the June 30, 2015 actuarial valuation, a simplified version of the entry age actuarial costs method was used, based on assumptions that 100% of the employees will retire upon attainment of age 65 years of age. The actuarial assumption included a 5.5% investment rate of return (net of administrative expenses), and an annual healthcare cost trend of 5.0%. Both rates included a 3.0% annual salary increase for all employees. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at the June 30, 2015 valuation was 30 years.

Based on historical experience, management believes that only 50% of eligible retirees will elect coverage. However the valuation does not factor this into the assumptions.

The Town's annual OPEB cost is calculated based on the *annual required contribution of the employer (ARC)*, which is actuarially determined. 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 accrued liabilities (UAAL) (or funding excess) over a period not to exceed 30 years. Based on the ARC calculated being immaterial to the financial statements, there is no net OPEB obligation reported for the year ended June 30, 2015.

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2015

10. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Short-term interfund loans are classified as "due to/from other funds." All short-term interfund receivables and payables at year end are planned to be eliminated in the subsequent year. Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Net interfund transfers between the general and water fund totaled \$310,823. Total advances due from governmental activities as of June 30, 2015 totaled \$201,345.

11. Contingent Liabilities and Commitments

The Town has a contract with Severn Trent Environmental Services, Inc. (STES) to provide full operations, maintenance and repairs of the Rolling Mill and Leslie Water Treatment Plants, as well as the entire water distribution system. Other services are provided as needed based on per unit prices included in the contract. Costs incurred for utilities and operating supplies in excess of contractually stipulated amounts are the Town's responsibility, if conditions warrant. Total contract costs for the year ended June 30, 2015 were approximately \$2,284,480. The contract provided for yearly adjustments based on the consumer price index over the life of the contract which extends through June 2018, however the Town canceled the contract as of July 1, 2015.

The Town has committed \$1,455,000 from the water fund for a water meter replacement project. The existing water meters in the distribution system will be replaced with the Sensus self-read meters, transmitters, antenna's and computer software needed to gather the data from the self-read meters. As of June 30, 2015 the project was 80% complete and the balance remaining was \$236,111.

Most grants and cost-reimbursable contracts specify the types of expenditures for which the grants 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.

The Town has estimated that \$26,000 of income tax revenue will have to be repaid to the Comptroller of Maryland in accordance with a recent court ruling. This amount has to be repaid in fiscal year 2017. No amount is reported in these financial statements due to the immateriality of the liability.

12. Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition through October 19, 2015, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

Town of North East

Schedule of Revenues and Expenditures Budget
(Non-GAAP and Budgetary Basis) and Actual General Fund
For the Year Ended June 30, 2015

| | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
|--------------------------------|---------------------|---------------------|---------------------|------------------------------------|
| TAXES: | | | | |
| Real property | \$ 1,400,000 | \$ 1,429,217 | \$ 1,430,037 | \$ 820 |
| Enterprise zone credit | 12,695 | 12,695 | 15,101 | 2,406 |
| Railroads and public utilities | 60,000 | 60,000 | 59,391 | (609) |
| Penalties and interest | 2,000 | 2,000 | 8,501 | 6,501 |
| Total Property Taxes | <u>1,474,695</u> | <u>1,503,912</u> | <u>1,513,030</u> | <u>9,118</u> |
| Other taxes | | | | |
| Local income tax | 180,000 | 180,000 | 424,354 | 244,354 |
| Admission and amusement tax | 2,500 | 2,500 | 3,350 | 850 |
| Total Other Taxes | <u>182,500</u> | <u>182,500</u> | <u>427,704</u> | <u>245,204</u> |
| TOTAL TAXES | <u>1,657,195</u> | <u>1,686,412</u> | <u>1,940,734</u> | <u>254,322</u> |
| LICENSES AND PERMITS: | | | | |
| Traders | 600 | 600 | 9,829 | 9,229 |
| Building and equipment | 750 | 750 | 4,060 | 3,310 |
| Cable television rebate | 45,000 | 45,000 | 51,787 | 6,787 |
| Total Licenses and Permits | <u>46,350</u> | <u>46,350</u> | <u>65,676</u> | <u>19,326</u> |
| INTERGOVERNMENTAL: | | | | |
| State of Maryland | | | | |
| Police protection | 64,250 | 64,250 | 62,524 | (1,726) |
| Highway user revenue | 60,000 | 60,000 | 72,572 | 12,572 |
| MD highway grant | - 0 - | 10,500 | 8,237 | (2,263) |
| State highway administration | - 0 - | 24,893 | 29,898 | 5,005 |
| GOCCP grant | - 0 - | 22,959 | 21,800 | (1,159) |
| Critical area commission | 5,000 | 5,000 | 5,000 | - 0 - |
| Total State of Maryland | <u>129,250</u> | <u>187,602</u> | <u>200,031</u> | <u>12,429</u> |
| Cecil County | | | | |
| Hotel grant | 69,000 | 60,000 | 102,992 | 42,992 |
| Financial corporations | 1,178 | 1,178 | 1,178 | - 0 - |
| Solid waste rebate | 10,760 | 10,760 | 10,761 | 1 |
| Tax differential | 83,680 | 83,680 | 83,684 | 4 |
| Health department | - 0 - | 1,000 | 980 | (20) |
| Total Cecil County | <u>164,618</u> | <u>156,618</u> | <u>199,595</u> | <u>42,977</u> |
| Total Intergovernmental | <u>293,868</u> | <u>344,220</u> | <u>399,626</u> | <u>55,406</u> |
| SUBTOTAL | <u>\$ 1,997,413</u> | <u>\$ 2,076,982</u> | <u>\$ 2,406,036</u> | <u>\$ 329,054</u> |

See accompanying notes to required supplementary information

Town of North East

Schedule of Revenues and Expenditures Budget
(Non-GAAP and Budgetary Basis) and Actual General Fund (continued)
For the Year Ended June 30, 2015

| | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
|--|---------------------|---------------------|---------------------|------------------------------------|
| SERVICE CHARGES: | | | | |
| Trash collection | \$ 175,595 | \$ 175,595 | \$ 176,066 | \$ 471 |
| Zoning and subdivision fees | 1,000 | 1,000 | 800 | (200) |
| Special events | - 0 - | 7,120 | 7,120 | - 0 - |
| Recreation charges | 1,500 | 1,500 | 3,470 | 1,970 |
| Total Service Charges | 178,095 | 185,215 | 187,456 | 2,241 |
| FINES AND FORFEITURES: | | | | |
| Parking fines | 750 | 750 | 155 | (595) |
| Total Fines and Forfeitures | 750 | 750 | 155 | (595) |
| MISCELLANEOUS REVENUES: | | | | |
| Investment earnings | 1,750 | 1,750 | 2,473 | 723 |
| Rents | 78,000 | 78,000 | 69,474 | (8,526) |
| Sale of capital assets | - 0 - | - 0 - | 20,742 | 20,742 |
| Other | 125 | 8,924 | 20,086 | 11,162 |
| Total Miscellaneous Revenues | 79,875 | 88,674 | 112,775 | 24,101 |
| TOTAL REVENUE | 2,256,133 | 2,351,621 | 2,706,422 | 354,801 |
| BUDGETARY RESERVE | 619,509 | 974,513 | - 0 - | (974,513) |
| TOTAL REVENUE AND OTHER FINANCING SOURCES | \$ 2,875,642 | \$ 3,326,134 | \$ 2,706,422 | \$ (619,712) |

See accompanying notes to required supplementary information

Town of North East

Schedule of Revenues and Expenditures Budget (Non-GAAP and Budgetary Basis) and Actual General Fund (continued) For the Year Ended June 30, 2015

| | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
|--|--------------------|------------------|---------------------|------------------------------------|
| GENERAL GOVERNMENT: | | | | |
| Mayor and commissioners | \$ 24,250 | \$ 23,605 | \$ 15,337 | \$ 8,268 |
| Administration | 85,125 | 86,273 | 73,412 | 12,861 |
| Elections | 2,500 | 1,183 | 476 | 707 |
| Finance | 135,605 | 143,776 | 127,144 | 16,632 |
| Accounting and auditing | 25,000 | 16,852 | 14,848 | 2,004 |
| Law | 12,000 | 12,398 | 5,673 | 6,725 |
| Planning and zoning | 160,690 | 161,587 | 135,851 | 25,736 |
| General services | 50,450 | 53,041 | 33,926 | 19,115 |
| Community promotions | 10,100 | 18,960 | 13,696 | 5,264 |
| Total General Government | <u>505,720</u> | <u>517,675</u> | <u>420,363</u> | <u>97,312</u> |
| PUBLIC SAFETY: | | | | |
| Police | 1,322,885 | 1,362,098 | 1,225,320 | 136,778 |
| Fire | 7,500 | 7,500 | 7,500 | - 0 - |
| Total Public Safety | <u>1,330,385</u> | <u>1,369,598</u> | <u>1,232,820</u> | <u>136,778</u> |
| PUBLIC WORKS: | | | | |
| Highway and streets | | | | |
| Roadways | 543,930 | 584,515 | 548,188 | 36,327 |
| Street lighting | 70,250 | 68,830 | 68,830 | - 0 - |
| Snow removal | 10,000 | 7,840 | 7,835 | 5 |
| Total Highway and Streets | <u>624,180</u> | <u>661,185</u> | <u>624,853</u> | <u>36,332</u> |
| Sanitation and waste removal | 179,660 | 179,660 | 178,020 | 1,640 |
| Total Public Works | <u>803,840</u> | <u>840,845</u> | <u>802,873</u> | <u>37,972</u> |
| HEALTH: | | | | |
| Mosquito control | 1,500 | 2,450 | 2,450 | - 0 - |
| RECREATION AND CULTURE: | | | | |
| Parks | 34,072 | 19,123 | 19,123 | - 0 - |
| DEBT SERVICE: | | | | |
| Principal and interest | 200,125 | 200,125 | 117,282 | 82,843 |
| TOTAL EXPENDITURES | <u>2,875,642</u> | <u>2,949,816</u> | <u>2,594,911</u> | <u>354,905</u> |
| OTHER FINANCING USES | | | | |
| Transfer capital projects | - 0 - | 376,318 | 376,318 | - 0 - |
| TOTAL EXPENSE AND OTHER FINANCING USES | 2,875,642 | 3,326,134 | 2,971,229 | 354,905 |
| TOTAL REVENUE AND OTHER FINANCING SOURCES | <u>2,875,642</u> | <u>3,326,134</u> | <u>2,706,422</u> | <u>(619,712)</u> |
| DEFICIENCY OF REVENUES OVER EXPENDITURES | <u>\$ - 0 -</u> | <u>\$ - 0 -</u> | <u>\$ (264,807)</u> | <u>\$ (264,807)</u> |

See accompanying notes to required supplementary information

Town of North East

Schedule of Funding Progress - Other Postemployment Benefits (OPEB) Plan
For the Year Ended June 30, 2015

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Liability (AAL) Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b-a)/c] |
|--------------------------------|-------------------------------------|--|---------------------------------|--------------------------|---------------------------|---|
| 6/30/2015 | \$ - 0 - | \$ 438,078 | \$ 438,078 | 0.00% | \$ 1,436,905 | 30.49% |
| 6/30/2014 | - 0 - | 276,474 | 276,474 | 0.00% | 1,356,182 | 20.39% |

See accompanying notes to required supplementary information

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2015

Budgetary Information

The Town follows these procedures in establishing the budgetary data:

- a. At least thirty-two days prior to July 1, the Mayor submits to the Board of Commissioners a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. A public hearing is conducted to obtain public comments after notice has been given in newspaper(s) having general circulation within the Town.
- c. The budget is legally enacted through a majority vote of the Board of Commissioners.
- d. Transfers of appropriations between functions require approval of the Board of Commissioners.
- e. Formal budgetary integration is employed as a management control device during the year for the general fund.
- f. Expenditures may not legally exceed appropriations at the functions level.
- g. Appropriations lapse at the year-end unless legally encumbered.

For budgetary purposes, the Town budgeted a "budgetary reserve" of \$974,513 as revenue. This is not considered revenue for GAAP purposes.

| | |
|---|---------------------|
| Total budgeted revenues and other financing sources | \$ 3,326,134 |
| Less: investment fund transfer | <u>(974,513)</u> |
| Total GAAP budgetary revenues | <u>\$ 2,351,621</u> |

This adjustment reduces the unfavorable revenue variance from \$619,712 to a favorable variance of \$354,801.

The legal level of budgetary control is at the level of general classification of expenditure. The Town did not exceed its budget at June 30, 2015.