

TOWN OF NORTH EAST
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

TOWN OF NORTH EAST

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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, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2014, 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 37 through 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2014, on our consideration of the Town of North East's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of North East's internal control over financial reporting and compliance.

Weyrich, Cronin + Sorra, Ltd.

November 26, 2014
Lutherville, MD

TOWN OF NORTH EAST

Management Discussion and Analysis
June 30, 2014

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, 2014. 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 2014

The Town's assets exceeded its liabilities at the close of the 2014 fiscal year by \$28.5 million (total net position). Approximately 59% of this amount is attributable to the Town's water utility. Of the total net assets, \$13 million (unrestricted net position) may be used to meet ongoing obligations to citizens and creditors and \$15.4 million is invested in capital assets, net of related debt.

As of the close of the 2014 fiscal year, the Town's primary governmental fund (general fund) reported an ending fund balance of \$5.3 million. Of this total amount, \$4.6 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 193% of total expenditures and represents funding for almost two years of expenditures.

The General Fund, on a current financial resources basis, reported revenues in excess of expenditures and other financial sources and uses of approximately \$208,000.

The Town's total debt decreased by approximately \$809,000 during the current fiscal year, from \$17.4 million to \$16.5 million. This is the result of the retirement of existing debt in the governmental activities of \$4,400 and the business-type activity of \$816,000 excluding the increase in compensated absences.

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 fund, the general fund, and the special revenue fund. 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. 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, 2014

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.

TOWN OF NORTH EAST

Management Discussion and Analysis
June 30, 2014

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, 2014

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, 2014

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 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, 2014 and 2013, respectively.

	Governmental Activities		Business-type Activities		Government-wide Total	
	Fiscal Year End June 30, 2014	Fiscal Year End June 30, 2013	Fiscal Year End June 30, 2014	Fiscal Year End June 30, 2013	Fiscal Year End June 30, 2014	Fiscal Year End June 30, 2013
ASSETS						
Current and other assets	\$ 7,290,939	\$ 6,372,330	\$ 6,640,155	\$ 6,676,662	\$ 13,931,094	\$ 13,048,992
Capital assets	5,039,895	5,253,262	26,490,654	26,690,458	31,530,549	31,943,720
Total assets	<u>12,330,834</u>	<u>11,625,592</u>	<u>33,130,809</u>	<u>33,367,120</u>	<u>45,461,643</u>	<u>44,992,712</u>
LIABILITIES						
Long-term liabilities	420,240	412,897	16,129,181	16,945,504	16,549,421	17,358,401
Other liabilities	286,222	330,874	147,047	177,340	433,269	508,214
Total liabilities	<u>706,462</u>	<u>743,771</u>	<u>16,276,228</u>	<u>17,122,844</u>	<u>16,982,690</u>	<u>17,866,615</u>
NET POSITION						
Invested in capital assets, net of related debt	4,973,475	5,182,414	10,414,266	9,797,747	15,387,741	14,980,161
Restricted	65,083	49,833			65,083	49,833
Unrestricted	6,585,814	5,649,574	6,440,315	6,446,529	13,026,129	12,096,103
TOTAL NET POSITION	<u>\$ 11,624,372</u>	<u>\$ 10,881,821</u>	<u>\$ 16,854,581</u>	<u>\$ 16,244,276</u>	<u>\$ 28,478,953</u>	<u>\$ 27,126,097</u>

TOWN OF NORTH EAST

Management Discussion and Analysis June 30, 2014

The Town's assets exceeded its liabilities at the close of the 2014 fiscal year by \$28.5 million. Approximately \$15.4 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, 2014 and 2013, respectively:

	Governmental		Business-type		Total	
	Activities		Activities		Activities	
	Fiscal Year End June 30, 2014	Fiscal Year End June 30, 2013	Fiscal Year End June 30, 2014	Fiscal Year End June 30, 2013	Fiscal Year End June 30, 2014	Fiscal Year End June 30, 2013
REVENUES						
Program Revenues						
Charges for services	\$ 206,033	\$ 211,048	\$ 2,826,624	\$ 2,444,967	\$ 3,032,657	\$ 2,656,015
Operating grants and contributions	159,194	109,689			159,194	109,689
Capital grants and contributions	- 0 -	12,183	577,212		577,212	12,183
General Revenues						
Property taxes	1,500,108	1,485,690			1,500,108	1,485,690
State and County shared taxes	402,369	337,881			402,369	337,881
Grants and Contributions						
not restricted to specific programs	178,334	174,309			178,334	174,309
Investments earnings	4,141	7,682	10,642	8,879	14,783	16,561
Miscellaneous	147,425	154,483		400,000	147,425	554,483
Special item	750,000				750,000	
Total revenues	<u>3,347,604</u>	<u>2,492,965</u>	<u>3,414,478</u>	<u>2,853,846</u>	<u>6,762,082</u>	<u>5,346,811</u>
Program Expenses						
General government	412,157	386,568			412,157	386,568
Public safety	1,204,775	1,137,282			1,204,775	1,137,282
Public works	977,282	897,895			977,282	897,895
Health	865	960			865	960
Culture and recreation	9,980	12,758			9,980	12,758
Water			2,804,166	3,516,963	2,804,166	3,516,963
Total expenses	<u>2,605,059</u>	<u>2,435,463</u>	<u>2,804,166</u>	<u>3,516,963</u>	<u>5,409,225</u>	<u>5,952,426</u>
CHANGE IN NET POSITION	742,545	57,502	610,312	(663,117)	1,352,857	(605,615)
NET POSITION - BEGINNING	<u>10,881,827</u>	<u>10,824,319</u>	<u>16,244,269</u>	<u>16,907,393</u>	<u>27,126,096</u>	<u>27,731,712</u>
NET POSITION - ENDING	<u>\$ 11,624,372</u>	<u>\$ 10,881,821</u>	<u>\$ 16,854,581</u>	<u>\$ 16,244,276</u>	<u>\$ 28,478,953</u>	<u>\$ 27,126,097</u>

TOWN OF NORTH EAST

Management Discussion and Analysis
June 30, 2014

Government-wide statements

The Town's government wide total revenues were \$6.7 million, an increase of approximately \$1.4 million from last year. The major change was due to having received \$1.3 million (\$909,000 in government activities and \$577,000 in business-type activities) of operating and capital grants awarded above the \$122,000 awarded in 2013.

The Town's government wide total expenses of \$5.4 million were \$542,000 less than last year. The largest changes were a decrease in business-type activities major facility repairs of \$506,000 resulting from the 2013 retrofit of a water plant which was non-recurring.

Governmental activities

Total governmental activities revenues increased from \$2.5 million to \$3.3 million. General revenues increased by \$822,000 to \$3.0 million while program revenues decreased by \$32,000 to \$400,000. The only significant change was an increase in capital grants of \$750,000. Governmental activities revenues increased by 4% from 2013 excluding the increase in capital grants.

There was an increase in governmental activities expenditures in the following categories general government (\$26,000), public safety (\$100,000) and public works (\$80,000). These increases are attributable mostly to an increase in capital expenditures and employee benefit costs. The 2014 actual expenditures were 7% higher than 2013.

Business-type activities

Water service charges increased by \$101,999 as a result of the April 2013 out of town rate increase mandated by the Public Service Commission, connection charges and major facilities fees increased \$206,000 as a result of increased construction activity, and a \$577,000 capital grant. In 2013 the Town also received \$400,000 in settlement of a lawsuit related to the water plant expansion project which is non-recurring. Charges for services, the operating revenues of the business-type activities, increased by over 16%.

In 2013 business-activity expenses included non-recurring expenses of 505,000 for contract services, volume, and capital outlay. After adjusting 2013 expenses for the non-recurring costs, 2014 expenses decreased by \$479,000 or 7% from the previous year.

TOWN OF NORTH EAST

Management Discussion and Analysis June 30, 2014

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, 2014 and 2013, 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, 2014	Fiscal Year End June 30, 2013	Fiscal Year End June 30, 2014	Fiscal Year End June 30, 2013	Fiscal Year End June 30, 2014	Fiscal Year End June 30, 2013
Governmental Activities						
General government	\$ 412,157	\$ 386,568	\$ 29,351	\$ 61,871	\$ (382,806)	\$ (324,697)
Public safety	1,204,775	1,137,282	66,320	44,651	\$ (1,138,455)	(1,092,631)
Public works	977,282	897,895	265,884	222,324	\$ (711,398)	(675,571)
Health	865	960	552	449	\$ (313)	(511)
Culture and recreation	9,980	12,758	3,120	3,625	\$ (6,860)	(9,133)
Total governmental activities	\$ 2,605,059	\$ 2,435,463	\$ 365,227	\$ 332,920	\$ (2,239,832)	\$ (2,102,543)
Business-type Activities						
Water utility	\$ 2,804,166	\$ 3,516,963	\$ 3,403,836	\$ 2,444,967	\$ 599,670	\$ (1,071,996)
Total Governmental and Business-type Activities	\$ 5,409,225	\$ 5,952,426	\$ 3,769,063	\$ 2,777,887	\$ (1,640,162)	\$ (3,174,539)

The total cost of governmental activities this year was \$2.6 million, about \$139,000 more than last year. These costs were financed by user fees of \$206,000, and operating grants and contributions of \$159,194 resulting in a net cost of governmental activities of \$2.2 million compared to a net cost of \$2.1 million last year. The primary difference was an increase in capital outlay over last year. 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 \$2.8 million, a decrease of \$713,000 or 25%. Revenues increased by \$959,000 to \$3.4 million due to an increase in water service charges, major facilities fees, connection charges, and a \$577,000 capital grant.

Financial Analysis of the Town's Funds

At year-end, the governmental fund balances were \$5.9 million, a decrease of \$71,000 from the previous year. At year end the general fund balance was \$5.3 million and the special revenue fund balance was \$655,000. General fund revenues for the year were \$2.6 million and special revenue fund revenues were \$1,300, while expenditures were \$2.4 million for the general fund.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual revenues were \$385,000, or 13%, greater than the budgeted amount, as amended. The budget also included \$477,999 to be used from fund balance to finance 2014 expenditures; none of this was required.

Significant positive variances to budgeted amounts were realized in real property taxes (\$74,000) and local income tax (\$223,000). Real property and local income tax estimates are provided by the State of Maryland. Actual expenditures were \$299,562, or 11% less than the amended budget. Significant positive variances to budgeted amounts were realized in planning and zoning, roadways, and public safety.

TOWN OF NORTH EAST

Management Discussion and Analysis
June 30, 2014

During the year, there were six budget amendments amounting to a \$765,000 increase in appropriations and funding sources between the original and final amended budget. One of these amendments, dealing with the Community Development Block Grant, accounted for \$750,000 of the change.

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenue			
Total taxes	\$ 1,592,000	\$ 1,908,352	\$ 316,352
Total licenses & permits	41,100	58,377	17,277
Total intergovernmental	310,969	328,358	17,389
Total service charges	185,360	192,848	7,488
Total fines & forfeitures	750	10,696	9,946
Total misc. revenue	77,110	93,275	16,165
Total revenue	2,207,289	2,591,906	384,617
Other financing sources			
Total other financing sources-MD CDBG	750,000	750,000	- 0 -
Total revenue and other financing sources	2,957,289	3,341,906	384,617
Expenditures			
Total general government	507,059	394,840	112,219
Total public safety	1,293,135	1,204,398	88,737
Total public works	860,666	770,833	89,833
Total health	1,500	865	635
Total recreation & culture	18,500	8,985	9,515
Total debt service	4,428	4,428	- 0 -
Total expenditures	2,685,288	2,384,349	300,939
Other financing uses			
Total other financing uses issuance of loan receivable	- 0 -	750,000	(750,000)
Total expenditures and other financing uses	2,685,288	3,134,349	(449,061)
Excess (deficiency) of revenue over expenditures	272,001	207,557	(64,444)
Budgetary reserve	477,999	- 0 -	(477,999)
Excess of revenue & other financing sources over expenditures	\$ 750,000	\$ 207,557	\$ (542,443)

TOWN OF NORTH EAST

Management Discussion and Analysis
June 30, 2014

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, 2014, was \$31.5 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 \$411,000. Governmental activities capital assets decreased by \$213,000 (net additions of \$118,287 less depreciation of \$331,654) and business-type activities capital assets decreased by \$200,000 (net additions of \$749,000 less depreciation of \$949,000).

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

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Land Improvements	\$ 1,713,599	\$ 1,713,599	\$ 960,450	\$ 960,450	\$ 2,674,049	\$ 2,674,049
Buildings	822,614	847,971	124,714	133,029	947,328	981,000
Improvements other than buildings	2,350,424	2,558,479	25,344,214	25,570,962	27,694,638	28,129,441
Equipment	153,258	133,213	61,276	26,017	214,534	159,230
TOTAL	\$ 5,039,895	\$ 5,253,262	\$ 26,490,654	\$ 26,690,458	\$ 31,530,549	\$ 31,943,720

Major capital asset events during the fiscal year ending June 30, 2014 in the Town's governmental activities were security improvements, vehicles, and computer equipment upgrades. In the Town's business-type activities the major project was a computer system upgrade.

Additional information on the Town's capital assets can be found in Note 4 on pages 30 - 31 of this report.

Long-term Debt

At the end of the current fiscal year, the Town of North East had outstanding loans of \$16.1 million, compared to \$17.0 million last year. The following chart compares the level of long-term debt for fiscal years 2014 and 2013, respectively:

Governmental Activities		Business-type Activities		Total	
June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
\$ 66,420	\$ 70,848	\$ 16,076,388	\$ 16,892,711	\$ 16,142,808	\$ 16,963,559

The Town of North East's total debt decreased by \$821,000 during the current fiscal year. In compliance with debt amortization schedules, the Town made total debt repayments in governmental activities of \$4,400 and in business-type activities \$816,000. The Town incurred no new debt during fiscal year 2014.

TOWN OF NORTH EAST

Management Discussion and Analysis
June 30, 2014

Additional information on the Town's long-term debt can be found in Note 6 on pages 31 - 32 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 2015 budget for the Town's only governmental fund, the General Fund, was adopted at \$ 560,000 (16%) less than the fiscal year 2014 final budget.
- For fiscal year 2015, the Town kept the property tax rate unchanged from that of the past several years. Due to a decrease in total assessments, the rate of 48 cents per \$100 assessed value was less than the constant yield tax rate.
- The water rates for in town and out of town customers were unchanged from 2014. In 2013 rates for out of town customers, were increased by about 11% for the final quarter only (consistent with the findings of the Maryland Public Service Commission in a case initiated by the Board of Commissioners of Cecil County in 2008 that was resolved in 2013).

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, 2014

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 5,745,264	\$ 6,145,766	\$ 11,891,030
Restricted cash	280,999	54,609	335,608
Property taxes receivable	15,498	- 0 -	15,498
Due from other governments	62,459	- 0 -	62,459
Accounts receivable	11,084	518,626	529,710
Current portion - loans receivable	11,875	- 0 -	11,875
Prepaid expenses	9,830	30,632	40,462
Internal balances	109,478	(109,478)	- 0 -
Total Current Assets	<u>6,246,487</u>	<u>6,640,155</u>	<u>12,886,642</u>
NONCURRENT ASSETS			
Loans & accrued interest receivable, net of current portion	1,044,452	- 0 -	1,044,452
Capital assets, net of accumulated depreciation	5,039,895	26,490,654	31,530,549
Total Noncurrent Assets	<u>6,084,347</u>	<u>26,490,654</u>	<u>32,575,001</u>
TOTAL ASSETS	<u>12,330,834</u>	<u>33,130,809</u>	<u>45,461,643</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable & accrued expenses	60,224	92,370	152,594
Deposits payable from restricted assets	225,998	54,677	280,675
Current portion - long term obligations	4,428	822,948	827,376
Total Current Liabilities	290,650	969,995	1,260,645
NONCURRENT LIABILITIES			
Long term obligations	415,812	15,306,233	15,722,045
TOTAL LIABILITIES	<u>706,462</u>	<u>16,276,228</u>	<u>16,982,690</u>
NET POSITION			
Invested in capital assets, net of related debt Restricted	4,973,475	10,414,266	15,387,741
Off site mitigation	30,789	- 0 -	30,789
Christmas parade	14,071	- 0 -	14,071
Other	20,223	- 0 -	20,223
Unrestricted	6,585,814	6,440,315	13,026,129
TOTAL NET POSITION	<u>\$ 11,624,372</u>	<u>\$ 16,854,581</u>	<u>\$ 28,478,953</u>

See accompanying notes to financial statements

Town of North East

Statement of Activities
For the Year Ended June 30, 2014

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES:							
General government	\$ 412,157	\$ 13,935	\$ 15,416	\$ -0-	\$ (382,806)	\$ -0-	\$ (382,806)
Public safety	1,204,775	3,567	62,753	-0-	(1,138,455)	-0-	(1,138,455)
Public works	977,282	185,411	80,473	-0-	(711,398)	-0-	(711,398)
Health	865	-0-	552	-0-	(313)	-0-	(313)
Culture and recreation	9,980	3,120	-0-	-0-	(6,860)	-0-	(6,860)
Total Governmental Activities	2,605,059	206,033	159,194	-0-	(2,239,832)	-0-	(2,239,832)
BUSINESS-TYPE ACTIVITIES:							
Water system	2,804,166	2,826,624	-0-	577,212	-0-	599,670	599,670
Total Business-Type Activities	2,804,166	2,826,624	-0-	577,212	-0-	599,670	599,670
TOTAL PRIMARY GOVERNMENT	\$ 5,409,225	\$ 3,032,657	\$ 159,194	\$ 577,212	(2,239,832)	599,670	(1,640,162)
GENERAL REVENUES:							
Taxes:							
Property					1,500,108	-0-	1,500,108
Income and other					402,369	-0-	402,369
Grants and contributions not restricted to specific programs					178,334	-0-	178,334
Investment income					4,141	10,642	14,783
Miscellaneous					147,425	-0-	147,425
SPECIAL ITEMS:							
Capital grant					750,000	-0-	750,000
TOTAL GENERAL & SPECIAL ITEMS					2,982,377	10,642	2,993,019
CHANGE IN NET POSITION					742,545	610,312	1,352,857
NET POSITION AT BEGINNING OF YEAR					10,881,827	16,244,269	27,126,096
NET POSITION - ENDING					\$ 11,624,372	\$ 16,854,581	\$ 28,478,953

See accompanying notes to financial statements

Town of North East

Balance Sheet
Governmental Funds
June 30, 2014

	General Fund	Special Revenue Fund	Total Governmental Funds
<u>ASSETS</u>			
Cash and cash equivalents	\$ 5,089,835	\$ 655,429	\$ 5,745,264
Restricted cash	280,999	- 0 -	280,999
Property taxes receivable	15,498	- 0 -	15,498
Due from other governments	62,459	- 0 -	62,459
Accounts receivable	11,084	- 0 -	11,084
Prepaid expense	9,830	- 0 -	9,830
Interfund receivables	109,478	- 0 -	109,478
Loans receivable	1,000,000	28,202	1,028,202
 TOTAL ASSETS	 \$ 6,579,183	 \$ 683,631	 \$ 7,262,814
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>			
LIABILITIES:			
Accounts payable	\$ 18,902	\$ - 0 -	\$ 18,902
Accrued expenses	41,322	- 0 -	41,322
Deposits payable from restricted cash	225,998	- 0 -	225,998
 Total Liabilities	 286,222	 - 0 -	 286,222
 DEFERRED INFLOWS OF RESOURCES:			
Unavailable loans receivable	1,000,000	28,202	1,028,202
 Total Deferred Inflows of Resources	 1,000,000	 28,202	 1,028,202
 FUND BALANCES:			
Nonspendable	9,830	- 0 -	9,830
Restricted	65,083	- 0 -	65,083
Committed	619,509	- 0 -	619,509
Assigned	- 0 -	655,429	655,429
Unassigned	4,598,539	- 0 -	4,598,539
 Total Fund Balances	 5,292,961	 655,429	 5,948,390
 TOTAL LIABILITIES , DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	 \$ 6,579,183	 \$ 683,631	 \$ 7,262,814

See accompanying notes to financial statements

Town of North East

Reconciliation of Governmental Funds to the Statement of Net Position
June 30, 2014

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS		\$	5,948,390
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	\$	8,023,371	
Less: accumulated depreciation		<u>(2,983,476)</u>	
			5,039,895
Long term liabilities associated with the acquisition of capital assets are not reported in the governmental funds.			(66,420)
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.			28,125
Long term loans receivable which are not available in the current period are reported as deferred inflows of resources in the governmental funds.			1,028,202
Long term liabilities associated with compensated absences are not payable in the current period and are not reported in the governmental funds.			<u>(353,820)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES		\$	<u>11,624,372</u>

See accompanying notes to financial statements

Town of North East

Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2014

	General Fund	Special Revenue Fund	Total Governmental Funds
REVENUES			
Taxes	\$ 1,908,352	\$ - 0 -	\$ 1,908,352
Licenses and permits	58,377	- 0 -	58,377
Intergovernmental	328,358	- 0 -	328,358
Charges for service	192,848	- 0 -	192,848
Fines and forfeitures	10,696	- 0 -	10,696
Miscellaneous	93,275	1,323	94,598
Total Revenues	2,591,906	1,323	2,593,229
EXPENDITURES			
Current operating			
General government	382,670	- 0 -	382,670
Public safety	1,156,344	- 0 -	1,156,344
Public works	712,770	- 0 -	712,770
Health	865	- 0 -	865
Recreation and culture	8,985	- 0 -	8,985
Capital outlays	118,287	- 0 -	118,287
Debt service - principal	4,428	- 0 -	4,428
Debt service - interest	- 0 -	- 0 -	- 0 -
Total Expenditures	2,384,349	- 0 -	2,384,349
EXCESS OF REVENUES OVER EXPENDITURES	207,557	1,323	208,880
OTHER FINANCING SOURCES (USES)			
Repayment on loans receivable	- 0 -	12,103	12,103
Special item:			
Intergovernmental grant	750,000	- 0 -	750,000
Issuance of loan receivable	(750,000)	- 0 -	(750,000)
Total Other Financing Sources (Uses)	- 0 -	12,103	12,103
TOTAL NET CHANGE IN FUND BALANCE	207,557	13,426	220,983
FUND BALANCES - BEGINNING			
As previously reported	5,335,404	682,308	6,017,712
Adjustments related to prior periods	(250,000)	(40,305)	(290,305)
FUND BALANCES - BEGINNING AS RESTATED	5,085,404	642,003	5,727,407
FUND BALANCES - ENDING	\$ 5,292,961	\$ 655,429	\$ 5,948,390

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, 2014

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ 220,983
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 \$331,654 exceeded capital outlays of \$118,287 in the current period.	(213,367)
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.	4,428
Governmental funds report compensated absences when paid. However, in the Statement of Activities, they are recorded when earned. This is the excess of the amount earned over the amount paid for the year.	(11,771)
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.	4,375
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.	(12,103)
Issuance of a long term loan receivable utilized financial resources in the current period. The Statement of Activities does not recognize this transaction as an expenditure in the current period. This is the amount that was recorded as a current year use of other financing sources.	<u>750,000</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 742,545</u>

See accompanying notes to financial statements

Town of North East

Statement of Net Position - Proprietary Fund
June 30, 2014

	Water Fund
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 6,145,766
Restricted cash	54,609
Service charges receivable	518,626
Prepaid expenses	30,632
Total Current Assets	6,749,633
CAPITAL ASSETS	
Land, building and equipment	35,794,306
Less: accumulated depreciation	(9,303,652)
Total Capital Assets	26,490,654
TOTAL ASSETS	33,240,287
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	20,270
Accrued expenses	72,100
Deposits payable from restricted cash	54,677
Due to general fund	109,478
Current portion, long term obligations	822,948
Total Current Liabilities	1,079,473
NONCURRENT LIABILITIES	
Long term obligations	15,306,233
Total Noncurrent Liabilities	15,306,233
TOTAL LIABILITIES	16,385,706
NET POSITION	
Invested in capital assets, net of related debt	10,414,266
Restricted for capital projects	6,055,767
Unrestricted	384,548
TOTAL NET POSITION	\$ 16,854,581

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, 2014

	Water Fund
OPERATING REVENUES	
Service fees	\$ 2,185,093
Connection charges	94,500
Miscellaneous revenue	28,748
Service charge penalties	67,183
Major facilities fees	451,100
	2,826,624
OPERATING EXPENSES	
Salaries	180,925
Employee benefits and payroll taxes	64,482
Contracted services	1,235,542
Insurance	55,529
Professional fees	23,812
Office expense	43,666
Miscellaneous	27,916
Depreciation and amortization	964,578
	2,596,450
OPERATING INCOME	230,174
NONOPERATING REVENUES (EXPENSES)	
Major facility repairs	(56,246)
Interest expense	(151,470)
Interest earned	10,642
	(197,074)
INCOME BEFORE CAPITAL CONTRIBUTION	33,100
Capital Contributions	577,212
CHANGE IN NET POSITION	610,312
TOTAL NET POSITION - BEGINNING	16,244,269
TOTAL NET POSITION - ENDING	\$ 16,854,581

See accompanying notes to financial statements

Town of North East

Statement of Cash Flows - Proprietary Fund
For the Year Ended June 30, 2014

		Water Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 3,144,982	
Cash payments to suppliers for goods and services	(1,458,814)	
Cash payments to general fund for salaries	(180,157)	
NET CASH FLOWS FROM OPERATING ACTIVITIES		\$ 1,506,011
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfer from other funds	67,508	
NET CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		67,508
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Repayments of bonds	(816,323)	
Capital expenditures	(172,006)	
Major facility repairs	(56,246)	
Interest paid on bonds	(151,470)	
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		(1,196,045)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income received	10,642	
NET CASH FLOWS FROM INVESTING ACTIVITIES		10,642
NET INCREASE IN CASH		388,116
CASH AND CASH EQUIVALENTS - BEGINNING		5,757,650
CASH AND CASH EQUIVALENTS - END		<u>\$ 6,145,766</u>
Reconciliation of operating loss to net cash flows from operating activities:		
Operating income		\$ 230,174
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Depreciation and amortization expense		964,578
Decrease in service charges receivable		318,358
Decrease in prepaid expenses		6,477
Decrease in accounts payable		(14,344)
Increase in accrued salaries		768
		768
Net cash provided by operating activities		<u>\$ 1,506,011</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Contributed Capital		\$ 577,212

See accompanying notes to financial statements

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2014

1. Summary of Significant Accounting Policies

The Town of North East, Maryland (the "Town") was incorporated in 1850. 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. The Town has no component units as defined by generally accepted accounting principles.

Financial Reporting Entity – Basis of Presentation - The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the Town as a whole. Individual funds are not displayed, but the statements distinguish governmental activities, generally supported by taxes and Town general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. The Town's fiduciary fund statements are not included in the presentation of the government wide financial statements.

The statement of activities reports the expenses of a given function offset by program revenue directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. 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.

Fund financial statements are provided for governmental funds, a proprietary fund, and a fiduciary fund. Major individual governmental and enterprise funds are reported separately. There are no non-major funds in either fund category.

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 government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include water services provided to the Town Hall. Reimbursements are reported as reductions to expenses. Proprietary fund and fiduciary fund financial statements also report using this same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied, while grants are recognized when grantor eligibility requirements are met.

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2014

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 when 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 are recorded when the related fund liability is incurred, except for bond principal and interest and compensated absences, which are reported as expenditures in the year due. Long-term debt issues and acquisitions under capital leases are reported as other financing sources.

Major revenue sources susceptible to year-end accruals include: Income tax receipts and Property taxes. In general, other revenues are recognized when cash is received.

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 water sales, and connection and major facilities fees. 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.

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.

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.

Fund Types and Major Funds

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.

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.

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2014

1. Summary of Significant Accounting Policies (continued)

Fund Types and Major Funds (continued)

The Town reports the following fiduciary fund:

Fiduciary Fund – 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.

Budgetary Data – Formal budgetary accounting is employed as a management control for the general 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 – In an effort to mitigate 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.

Cash and Cash Equivalents include demand deposits, money market accounts, investments in the Maryland Local Government Investment Pool 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 engineering and inspection fees. The resources are maintained in separate bank accounts. Restricted cash is not reflected in the statement of cash flows – proprietary fund.

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.

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.

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2014

1. Summary of Significant Accounting Policies (continued)

Capital Assets, Net of Accumulated Depreciation - The Town's property, buildings and facilities with an initial, individual cost of more than \$1,000 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:

Streets and sidewalks	15 years
Buildings and improvements	30 - 50 years
Water plant and distribution system	30 - 80 years
Vehicles, furniture and 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. 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 pays employees unused sick leave of up to 75 days upon retirement after ten years of permanent full-time service. 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.

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, 2014, 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. Total restricted net position as of June 30, 2014 totaled \$65,083.

Unrestricted

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

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2014

1. Summary of Significant Accounting Policies (continued)

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, 2014, the Town reported \$9,830 of nonspendable funds.

Restricted

This category includes amounts constrained by an external party, constitutional provision or enabling legislation. As of June 30, 2014, 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, 2014, the Town reported \$65,083 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, 2014, the Mayor and Commissioners committed \$619,509 of reserve funds to cover budget expenditures in the following year.

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, 2014, the Town had \$85,544 of funds assigned for revitalization loans for the Town and an additional \$569,885 assigned for capital community projects that are not considered part of normal operations of the Town.

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, 2014, the fund reported \$10,414,226 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, 2014, the fund reported \$6,055,767 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.

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2014

1. Summary of Significant Accounting Policies (continued)

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".

Deposits by level of risk are:

	Carrying Amount	Bank Balance
Cash on hand	\$ 900	\$ - 0 -
FDIC Insured	343,566	343,566
Uninsured, collateral held by pledging bank's Trust Departments in Town's name	370,537	402,420
Maryland Local Government Investment Pool	11,511,635	11,511,635
Total deposits	\$ 12,226,638	\$ 12,257,621

The Town was in compliance with the provisions of the Annotated Code of Maryland as of June 30, 2014.

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 or interest payments have been received to date. Total loan value and accrued interest as of June 30, 2014 was \$276,250. The principal balance of the loan will be reported as a deferred inflow of resources on the General Fund Balance Sheet, as it is not currently available to the Town. All receipts from this loan will be recognized as other financing source upon receipt or upon maturity, whichever is earlier.

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, 2014 was \$751,875. The principal balance of the loan will be reported as a deferred inflow of resources on the General Fund Balance Sheet, as it is not currently available to the Town. All receipts from this loan will be recognized as other financing source upon receipt or upon maturity, whichever is earlier.

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2014

3. Loans Receivable (continued)

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, 2014, total outstanding loans and accrued interest under this program were \$28,202. The principal balance of the loan will be reported as a deferred inflow of resources on the General Fund Balance Sheet, as it is not currently available to the Town. All principal payments from this loan will be recognized as other financing source upon receipt.

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 \$11,875 and long term notes receivable, including accrued interest totals \$1,044,452.

4. Capital Assets

Capital asset activity for the Town of North East for the year ended June 30, 2014 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	4,022,810	49,575	- 0 -	4,072,385
Equipment	<u>949,920</u>	<u>68,712</u>	<u>13,500</u>	<u>1,005,132</u>
Total	<u>7,918,584</u>	<u>118,287</u>	<u>13,500</u>	<u>8,023,371</u>
Less: Accumulated depreciation				
Buildings	384,284	25,357	- 0 -	409,641
Improvements other than buildings	1,464,331	257,630	- 0 -	1,721,961
Equipment	<u>816,707</u>	<u>48,667</u>	<u>13,500</u>	<u>851,874</u>
Total accumulated depreciation	<u>2,665,322</u>	<u>331,654</u>	<u>13,500</u>	<u>2,983,476</u>
Governmental Activities				
Capital Assets, net	<u>\$ 5,253,262</u>			<u>\$ 5,039,895</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 30,646
Public safety	36,729
Public works	263,284
Parks and recreation	<u>995</u>
Total depreciation expense	<u>\$ 331,654</u>

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2014

4. Capital Assets (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Land	\$ 960,450	\$ - 0 -	\$ - 0 -	\$ 960,450
Buildings	249,429	- 0 -	- 0 -	249,429
Water plant & distribution system	33,735,186	695,321	- 0 -	34,430,507
Equipment	<u>100,023</u>	<u>53,897</u>	- 0 -	<u>153,920</u>
Total	<u>35,045,088</u>	<u>749,218</u>	- 0 -	<u>35,794,306</u>
Less: accumulated depreciation				
Buildings	116,400	8,315	- 0 -	124,715
Water plant & distribution System	8,164,224	922,069	- 0 -	9,086,293
Equipment	<u>74,006</u>	<u>18,638</u>	- 0 -	<u>92,644</u>
Total accumulated depreciation	<u>8,354,630</u>	<u>949,022</u>	- 0 -	<u>9,303,652</u>
Business-type Activities Capital Assets, Net	<u>\$ 26,690,458</u>			<u>\$ 26,490,654</u>

Depreciation expense for business-type activities for the year ended June 30, 2014 was \$949,022.

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, 2014 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, 2014 was \$0.48 per \$100 of assessed value.

6. Long Term Obligations

Long-Term Obligations at June 30, 2014 consists of:

Department of Natural Resources – Shoreline Erosion	
Total authorized and issued as of June 30, 2014 - \$88,560.	
Principal paid through June 30, 2014 - \$22,140. Non-interest loan. Annual principal payments of \$4,428 through July 2029.	\$ 66,420
Compensated Absences	<u>353,820</u>
Total Governmental Activities	<u>\$ 420,240</u>

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2014

6. Long Term Obligations (continued)

Business-Type Activities:

Community Development Administration – 2003 Series A

Total authorized and issued as of June 30, 2014 - \$2,275,000.
Principal paid through June 30, 2014 - \$1,197,000. Interest at
2% - 4.5%. Annual principal and semi-annual interest
payments through May 2023. 1,078,000

Maryland Water Quality Financing Administration, Series 2009 Bonds

Total authorized as of June 30, 2014 - \$1,375,000. Total
issued as of June 30, 2014 - \$1,124,842. Principal paid
through June 30, 2014 - \$343,750. Non-interest bearing loan.
Annual principal payments of \$68,750 through February 2026. 781,092

Maryland Water Quality Financing Administration, Series 2007 A Bonds

Total authorized and issued as of June 30, 2014 - \$15,590,777. Principal
paid through June 30, 2014 - \$2,561,779. Interest at 0.4%. Annual
principal and semi-annual interest payments through February, 2038. 13,028,998

Maryland Water Quality Financing Administration, Series 2004 Bonds

Total authorized as of June 30, 2014 - \$2,555,000. Total
Issued as of June 30, 2014 - \$2,333,092. Principal paid through
June 30, 2014 - \$1,144,794. Interest at 1.1%. Annual principal
and semi-annual interest payments through February, 2023. 1,188,298

Compensated Absences 52,793

Total Business-Type Activities 16,129,181

Total Long-Term Obligations \$ 16,549,421

During the year ended June 30, 2014, the following changes occurred in Long-Term Obligations:

	Balance 6/30/13	Increase	Decrease	Balance 06/30/14
Governmental Activities:				
Bonds	\$ 70,848	\$ - 0 -	\$ 4,428	\$ 66,420
Compensated Absences	342,049	11,771	- 0 -	353,820
Business-Type Activities:				
Bonds	16,892,711	- 0 -	816,323	16,076,388
Compensated Absences	<u>52,793</u>	<u>- 0 -</u>	<u>- 0 -</u>	<u>52,793</u>
Totals	<u>\$ 17,358,401</u>	<u>\$ 11,771</u>	<u>\$ 820,751</u>	<u>\$ 16,549,421</u>

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2014

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>
2015	\$ 4,428	\$ - 0 -	\$ 822,948	\$ 109,914
2016	4,428	- 0 -	830,497	102,552
2017	4,428	- 0 -	837,971	94,882
2018	4,428	- 0 -	846,370	86,900
2019	4,428	- 0 -	854,693	78,700
2020 through 2024	22,140	- 0 -	4,038,798	259,092
2025 through 2029	22,140	- 0 -	2,812,396	133,368
2030 through 2034	- 0 -	- 0 -	2,773,615	78,554
2035 through 2038	- 0 -	- 0 -	2,259,100	33,908
Totals	\$ <u>66,420</u>	\$ <u>- 0 -</u>	\$ <u>16,076,388</u>	\$ <u>977,870</u>

Total interest and administrative fees paid for the year ended June 30, 2014 included as direct function expense in the governmental activities totaled \$- 0 -.

Total interest and administrative fees paid for the year ended June 30, 2014 included as direct function expense in the proprietary activities totaled \$151,470.

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, 2014, 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, 2014, 22 employees participated in the plan and the Town's cost was \$50,861.

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2014

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, 2014.

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, 2014 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, 2014 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, 2014.

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2014

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." Total advances due to the general fund as of June 30, 2014 totaled \$109,478.

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, 2014 were approximately \$1,291,788. The contract provides for yearly adjustments based on the consumer price index over the life of the contract which extends through June 2015. The contract calls for two three-year automatic renewal periods unless cancelled by either party.

The Town has committed \$1,202,555 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.

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.

12. Change in Accounting Principle

Beginning general fund balances as of June 30, 2013 have been adjusted for the following:

During the year ended June 30, 2014, the Town changed its recognition policy related to certain loans receivable which are described in Note 3. Historically, the Town had included the full value of these loans which were "measureable" but not "available" as a component of general fund and special revenue fund assets. However, the Town has now reevaluated that position, and believes that recording a deferred inflow of resources for the \$290,305 loan receivable as of June 30, 2013 is a more accurate reflection of the availability of the fund balance. Consequently, beginning fund balance as of June 30, 2013 has been reduced by this amount.

13. Subsequent Events

On August 28, 2014 the Town issued a Maryland Community Development Administration Infrastructure, 2014 Series A Bond. Total authorized June 11, 2014 was \$3,100,000. Total issued August 28, 2014 was \$2,018,940. Interest on the bond is 3.51% with annual principal payments and semi-annual interest payments through May 2034.

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2014

13. Subsequent Events (continued)

In preparing these financial statements, management has evaluated events and transactions for potential recognition through November 26, 2014, 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, 2014

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
TAXES:				
Real property	1,345,500	1,345,500	\$ 1,419,239	\$ 73,739
Enterprise zone credit	18,000	18,000	17,176	(824)
Railroads and public utilities	45,000	45,000	63,693	18,693
Penalties and interest	6,000	6,000	5,875	(125)
Total Property Taxes	<u>1,414,500</u>	<u>1,414,500</u>	<u>1,505,983</u>	<u>91,483</u>
Other taxes				
Local income tax	175,000	175,000	398,304	223,304
Admission and amusement tax	2,500	2,500	4,065	1,565
Total Other Taxes	<u>177,500</u>	<u>177,500</u>	<u>402,369</u>	<u>224,869</u>
TOTAL TAXES	<u>1,592,000</u>	<u>1,592,000</u>	<u>1,908,352</u>	<u>316,352</u>
LICENSES AND PERMITS:				
Traders	600	600	8,260	7,660
Building and equipment	500	500	2,325	1,825
Cable television rebate	40,000	40,000	47,792	7,792
Total Licenses and Permits	<u>41,100</u>	<u>41,100</u>	<u>58,377</u>	<u>17,277</u>
INTERGOVERNMENTAL:				
State of Maryland				
Police protection	60,000	80,000	62,753	(17,247)
Highway user revenue	60,000	60,000	62,501	2,501
MD highway grant	- 0 -	6,000	5,673	(327)
Critical area commission	5,000	5,000	6,246	1,246
Total State of Maryland	<u>125,000</u>	<u>151,000</u>	<u>137,173</u>	<u>(13,827)</u>
Cecil County				
Hotel grant	62,500	62,500	93,662	31,162
Financial corporations	1,178	1,178	1,178	- 0 -
Solid waste rebate	12,298	12,298	12,299	1
Tax differential	83,493	83,493	83,494	1
Health department	- 0 -	500	552	52
Total Cecil County	<u>159,469</u>	<u>159,969</u>	<u>191,185</u>	<u>31,216</u>
Total Intergovernmental	<u>284,469</u>	<u>310,969</u>	<u>328,358</u>	<u>17,389</u>
SUBTOTAL	<u>1,917,569</u>	<u>1,944,069</u>	<u>2,295,087</u>	<u>351,018</u>

See accompanying notes to financial statements

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, 2014

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
SERVICE CHARGES:				
Trash collection	\$ 182,710	\$ 182,710	\$ 182,811	\$ 101
Zoning and subdivision fees	400	400	3,350	2,950
Special events	- 0 -	- 0 -	3,567	3,567
Recreation charges	2,250	2,250	3,120	870
Total Service Charges	185,360	185,360	192,848	7,488
FINES AND FORFEITURES:				
Parking fines	750	750	855	105
NEPD evidence forfeiture	- 0 -	- 0 -	9,841	9,841
Total Fines and Forfeitures	750	750	10,696	9,946
MISCELLANEOUS REVENUES:				
Investment earnings	2,000	2,000	2,818	818
Rents	75,000	75,000	77,360	2,360
Other	110	110	13,097	12,987
Total Miscellaneous Revenues	77,110	77,110	93,275	16,165
TOTAL REVENUE	2,180,789	2,207,289	2,591,906	384,617
OTHER FINANCING SOURCES				
MD CDBG	- 0 -	750,000	750,000	- 0 -
BUDGETARY RESERVE	489,980	477,999	- 0 -	(477,999)
TOTAL REVENUE AND OTHER FINANCING SOURCES	\$ 2,670,769	\$ 3,435,288	\$ 3,341,906	\$ (93,382)

See accompanying notes to financial statements

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, 2014

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
GENERAL GOVERNMENT:				
Mayor and commissioners	\$ 22,250	\$ 22,250	\$ 14,085	\$ 8,165
Administration	70,940	70,940	67,253	3,687
Elections	2,500	2,500	720	1,780
Finance	123,260	123,260	112,304	10,956
Accounting and auditing	25,000	25,000	21,339	3,661
Law	11,750	11,750	4,705	7,045
Planning and zoning	169,290	169,290	121,514	47,776
General services	64,000	72,019	35,359	36,660
Community promotions	10,050	10,050	17,561	(7,511)
Total General Government	<u>499,040</u>	<u>507,059</u>	<u>394,840</u>	<u>112,219</u>
PUBLIC SAFETY:				
Police	1,279,135	1,285,635	1,196,898	88,737
Fire	7,500	7,500	7,500	- 0 -
Total Public Safety	<u>1,286,635</u>	<u>1,293,135</u>	<u>1,204,398</u>	<u>88,737</u>
PUBLIC WORKS:				
Highway and streets				
Roadways	595,940	595,940	503,188	92,752
Street lighting	65,000	65,000	73,050	(8,050)
Snow removal	10,000	10,000	5,945	4,055
Total Highway and Streets	<u>670,940</u>	<u>670,940</u>	<u>582,183</u>	<u>88,757</u>
Sanitation and waste removal	189,726	189,726	188,650	1,076
Total Public Works	<u>860,666</u>	<u>860,666</u>	<u>770,833</u>	<u>89,833</u>
HEALTH:				
Mosquito control	1,500	1,500	865	635
RECREATION AND CULTURE:				
Parks	18,500	18,500	8,985	9,515
DEBT SERVICE:				
Principal	4,428	4,428	4,428	- 0 -
Total Debt Service	<u>4,428</u>	<u>4,428</u>	<u>4,428</u>	<u>- 0 -</u>
TOTAL EXPENDITURES	<u>2,670,769</u>	<u>2,685,288</u>	<u>2,384,349</u>	<u>300,939</u>
OTHER FINANCING USES				
Issuance of loan receivable	- 0 -	- 0 -	750,000	(750,000)
TOTAL EXPENSE AND OTHER FINANCING USES	<u>2,670,769</u>	<u>2,685,288</u>	<u>3,134,349</u>	<u>(449,061)</u>
TOTAL REVENUE AND OTHER FINANCING SOURCES	<u>2,670,769</u>	<u>3,435,288</u>	<u>3,341,906</u>	<u>(93,382)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ - 0 -</u>	<u>\$ 750,000</u>	<u>\$ 207,557</u>	<u>\$ (542,443)</u>

See accompanying notes to financial statements

Town of North East

Schedule of Funding Progress - Other Postemployment Benefits (OPEB) Plan
For the Year Ended June 30, 2014

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

See accompanying notes to financial statements

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2014

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 \$477,999 as revenue. This is not considered revenue for GAAP purposes.

Total budgeted revenues and other financing sources	\$ 3,435,288
Less: investment fund transfer	<u>(477,999)</u>
Total GAAP budgetary revenues	<u>\$ 2,957,289</u>

This adjustment reduces the unfavorable revenue variance from \$93,382 to a favorable variance of \$384,617.

Additionally, the Town did not budget \$750,000 in other financing uses related to the loan advance under the provisions of the MD CDBG grant.

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, 2014.