

**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.

	<b><u>Government-Wide Statements</u></b>	<b><u>Fund Financial Statements</u></b>	<b><u>Governmental Funds</u></b>	<b><u>Fiduciary Funds</u></b>
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"> <li>• Statement of Net Position</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures, and Changes in Fund Balances</li> </ul>		<ul style="list-style-type: none"> <li>• Statement of Fiduciary Net Position</li> <li>• Statement of Changes in Fiduciary Net Position</li> </ul>
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
<b>ASSETS</b>						
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>
<b>LIABILITIES</b>						
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>
<b>NET POSITION</b>						
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
<b>TOTAL NET POSITION</b>	<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
<b>REVENUES</b>						
<b>Program Revenues</b>						
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
<b>General Revenues</b>						
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>
<b>Program Expenses</b>						
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>
<b>CHANGE IN NET POSITION</b>	742,545	57,502	610,312	(663,117)	1,352,857	(605,615)
<b>NET POSITION - BEGINNING</b>	<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>
<b>NET POSITION - ENDING</b>	<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
<b>Governmental Activities</b>						
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)
<b>Business-type Activities</b>						
Water utility	\$ 2,804,166	\$ 3,516,963	\$ 3,403,836	\$ 2,444,967	\$ 599,670	\$ (1,071,996)
<b>Total Governmental and Business-type Activities</b>	<u>\$ 5,409,225</u>	<u>\$ 5,952,426</u>	<u>\$ 3,769,063</u>	<u>\$ 2,777,887</u>	<u>\$ (1,640,162)</u>	<u>\$ (3,174,539)</u>

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>
<b>Revenue</b>			
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
<b>Total revenue</b>	2,207,289	2,591,906	384,617
<b>Other financing sources</b>			
Total other financing sources-MD CDBG	750,000	750,000	- 0 -
<b>Total revenue and other financing sources</b>	2,957,289	3,341,906	384,617
<b>Expenditures</b>			
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 -
<b>Total expenditures</b>	2,685,288	2,384,349	300,939
<b>Other financing uses</b>			
Total other financing uses issuance of loan receivable	- 0 -	750,000	(750,000)
<b>Total expenditures and other financing uses</b>	2,685,288	3,134,349	(449,061)
<b>Excess (deficiency) of revenue over expenditures</b>	272,001	207,557	(64,444)
<b>Budgetary reserve</b>	477,999	- 0 -	(477,999)
<b>Excess of revenue &amp; other financing sources over expenditures</b>	\$ 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
<b>TOTAL</b>	<b>\$ 5,039,895</b>	<b>\$ 5,253,262</b>	<b>\$ 26,490,654</b>	<b>\$ 26,690,458</b>	<b>\$ 31,530,549</b>	<b>\$ 31,943,720</b>

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](mailto:office@northeastmd.org).

## Town of North East

### Statement of Net Position June 30, 2014

	Governmental Activities	Business-Type Activities	Totals
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
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>
<b>NONCURRENT ASSETS</b>			
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>
<b>TOTAL ASSETS</b>	<u>12,330,834</u>	<u>33,130,809</u>	<u>45,461,643</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
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
<b>NONCURRENT LIABILITIES</b>			
Long term obligations	415,812	15,306,233	15,722,045
<b>TOTAL LIABILITIES</b>	<u>706,462</u>	<u>16,276,228</u>	<u>16,982,690</u>
<b>NET POSITION</b>			
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
<b>TOTAL NET POSITION</b>	<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
<b>GOVERNMENTAL ACTIVITIES:</b>							
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)
<b>BUSINESS-TYPE ACTIVITIES:</b>							
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
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 5,409,225</b>	<b>\$ 3,032,657</b>	<b>\$ 159,194</b>	<b>\$ 577,212</b>	<b>(2,239,832)</b>	<b>599,670</b>	<b>(1,640,162)</b>
<b>GENERAL REVENUES:</b>							
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
<b>SPECIAL ITEMS:</b>							
Capital grant					750,000	- 0 -	750,000
<b>TOTAL GENERAL &amp; SPECIAL ITEMS</b>					<b>2,982,377</b>	<b>10,642</b>	<b>2,993,019</b>
<b>CHANGE IN NET POSITION</b>					<b>742,545</b>	<b>610,312</b>	<b>1,352,857</b>
<b>NET POSITION AT BEGINNING OF YEAR</b>					<b>10,881,827</b>	<b>16,244,269</b>	<b>27,126,096</b>
<b>NET POSITION - ENDING</b>					<b>\$ 11,624,372</b>	<b>\$ 16,854,581</b>	<b>\$ 28,478,953</b>

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>			
<u>LIABILITIES:</u>			
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
 <u>DEFERRED INFLOWS OF RESOURCES:</u>			
Unavailable loans receivable	1,000,000	28,202	1,028,202
 Total Deferred Inflows of Resources	 1,000,000	 28,202	 1,028,202
 <u>FUND BALANCES:</u>			
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
<b>REVENUES</b>			
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
<b>Total Revenues</b>	<b>2,591,906</b>	<b>1,323</b>	<b>2,593,229</b>
<b>EXPENDITURES</b>			
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 -
<b>Total Expenditures</b>	<b>2,384,349</b>	<b>- 0 -</b>	<b>2,384,349</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>207,557</b>	<b>1,323</b>	<b>208,880</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
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)
<b>Total Other Financing Sources (Uses)</b>	<b>- 0 -</b>	<b>12,103</b>	<b>12,103</b>
<b>TOTAL NET CHANGE IN FUND BALANCE</b>	<b>207,557</b>	<b>13,426</b>	<b>220,983</b>
<b>FUND BALANCES - BEGINNING</b>			
As previously reported	5,335,404	682,308	6,017,712
Adjustments related to prior periods	(250,000)	(40,305)	(290,305)
<b>FUND BALANCES - BEGINNING AS RESTATED</b>	<b>5,085,404</b>	<b>642,003</b>	<b>5,727,407</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 5,292,961</b>	<b>\$ 655,429</b>	<b>\$ 5,948,390</b>

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
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
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
<b>CAPITAL ASSETS</b>	
Land, building and equipment	35,794,306
Less: accumulated depreciation	(9,303,652)
Total Capital Assets	26,490,654
<b>TOTAL ASSETS</b>	<b>33,240,287</b>
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
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
<b>NONCURRENT LIABILITIES</b>	
Long term obligations	15,306,233
Total Noncurrent Liabilities	15,306,233
<b>TOTAL LIABILITIES</b>	<b>16,385,706</b>
<b>NET POSITION</b>	
Invested in capital assets, net of related debt	10,414,266
Restricted for capital projects	6,055,767
Unrestricted	384,548
<b>TOTAL NET POSITION</b>	<b>\$ 16,854,581</b>

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
<b>OPERATING REVENUES</b>	
Service fees	\$ 2,185,093
Connection charges	94,500
Miscellaneous revenue	28,748
Service charge penalties	67,183
Major facilities fees	451,100
	<u>2,826,624</u>
Total Operating Revenue	
<b>OPERATING EXPENSES</b>	
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
	<u>2,596,450</u>
Total Operating Expenses	
<b>OPERATING INCOME</b>	<u>230,174</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Major facility repairs	(56,246)
Interest expense	(151,470)
Interest earned	10,642
	<u>(197,074)</u>
Total Nonoperating Revenue (Expenses)	
<b>INCOME BEFORE CAPITAL CONTRIBUTION</b>	33,100
Capital Contributions	<u>577,212</u>
<b>CHANGE IN NET POSITION</b>	610,312
<b>TOTAL NET POSITION - BEGINNING</b>	<u>16,244,269</u>
<b>TOTAL NET POSITION - ENDING</b>	<u>\$ 16,854,581</u>

See accompanying notes to financial statements