

TOWN OF NORTH EAST
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

TOWN OF NORTH EAST

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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, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of North East as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Independent Auditors' Report (continued)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and schedule of funding progress – other postemployment benefits (OPEB) plans on pages 3 through 13 and 38 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Weyrauch, Cronin & Sarra, Chtd.

October 25, 2016
Lutherville, MD

TOWN OF NORTH EAST

Management Discussion and Analysis June 30, 2016

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, 2016. 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 2016

The Town's assets exceeded its liabilities at the close of the 2016 fiscal year by \$25.5 million (total net position). Approximately 62% of this amount is attributable to the Town's water utility. Of the total net assets, \$8.1 million (unrestricted net position) may be used to meet ongoing obligations to citizens and creditors and \$16 million is invested in capital assets, net of related debt.

As of the close of the 2016 fiscal year, the Town's primary governmental fund (general fund) reported an ending fund balance of \$5.1 million. Of this total amount, \$2.3 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 85% of total annual expenditures.

The General Fund, on a current financial resources basis, reported expenditures and other financing sources and uses in excess of revenues of approximately \$79,229.

The Town's total debt decreased by approximately \$100,000 during the current fiscal year, from \$15 million to \$14.9 million. This is the result of the retirement of existing debt (governmental activities of \$87,928 and business-type activity of \$589,141, excluding the decrease in compensated absences), and the issuance of new debt in the governmental activities of \$548,584.

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 future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds, the general fund, as well as the special revenue and the capital projects funds. These funds are further described on pages 6-7. The remaining statements are fiduciary fund statements and provide financial information about activities for which the Town acts solely as a trustee for the benefit of its employees and other parties. The basic financial statements also include notes that provide explanation of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Town's budget for the year. The chart below shows how the various parts of this annual report are arranged and flow in the Financial Section:

TOWN OF NORTH EAST

Management Discussion and Analysis
June 30, 2016

Independent Auditors' Report

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

Management's Discussion and Analysis

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

**Government-Wide
Financial Statements**

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

**Fund Financial
Statements**

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

Notes to Financial Statements

Provides a summary of significant accounting policies and related disclosures.

Required Supplementary Information

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

TOWN OF NORTH EAST

Management Discussion and Analysis
June 30, 2016

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, 2016

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, 2016

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

Proprietary Funds:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements.

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

Fiduciary Fund:

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

The following tables present a summary of the Statement of Net Position for the Town as of June 30, 2016 and 2015, respectively.

	Governmental Activities		Business-type Activities		Total Activities	
	Fiscal Year End June 30, 2016	Fiscal Year End June 30, 2015	Fiscal Year End June 30, 2016	Fiscal Year End June 30, 2015	Fiscal Year End June 30, 2016	Fiscal Year End June 30, 2015
ASSETS						
Current and other assets	\$ 7,493,064	\$ 8,278,840	\$ 2,640,604	\$ 3,481,335	\$ 10,133,668	\$ 11,760,175
Capital assets	4,598,482	4,812,768	26,219,980	26,564,736	30,818,462	31,377,504
Total assets	<u>12,091,546</u>	<u>13,091,608</u>	<u>28,860,584</u>	<u>30,046,071</u>	<u>40,952,130</u>	<u>43,137,679</u>
LIABILITIES						
Long-term liabilities	2,162,522	1,708,835	12,725,335	13,252,665	14,887,857	14,961,500
Other liabilities	391,958	1,065,689	146,957	471,753	538,915	1,537,442
Total liabilities	<u>2,554,480</u>	<u>2,774,524</u>	<u>12,872,292</u>	<u>13,724,418</u>	<u>15,426,772</u>	<u>16,498,942</u>
NET POSITION						
Invested in capital assets, net of related debt	2,672,891	3,347,833	13,586,099	13,341,714	16,258,990	16,689,547
Restricted	64,064	63,747	1,048,880	2,518,491	1,112,944	2,582,238
Unrestricted	6,800,111	6,905,504	1,353,313	461,448	8,153,424	7,366,952
TOTAL NET POSITION	<u>\$ 9,537,066</u>	<u>\$ 10,317,084</u>	<u>\$ 15,988,292</u>	<u>\$ 16,321,653</u>	<u>\$ 25,525,358</u>	<u>\$ 26,638,737</u>

TOWN OF NORTH EAST

Management Discussion and Analysis June 30, 2016

The Town's assets exceeded its liabilities at the close of the 2015 fiscal year by \$25.5 million. Approximately \$16.2 million of the Town's net position 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, 2016 and 2015, respectively:

	Governmental		Business-type		Total	
	Activities		Activities		Activities	
	Fiscal Year End June 30, 2016	Fiscal Year End June 30, 2015	Fiscal Year End June 30, 2016	Fiscal Year End June 30, 2015	Fiscal Year End June 30, 2016	Fiscal Year End June 30, 2015
REVENUES						
Program Revenues						
Charges for services	\$ 208,872	\$ 201,345	\$ 2,325,749	\$ 2,505,983	\$ 2,534,621	\$ 2,707,328
Operating grants and contributions	238,506	198,187			238,506	198,187
Capital grants and contributions		21,800	276,320	810,456	276,320	832,256
General Revenues						
Property taxes	1,525,165	1,513,030			1,525,165	1,513,030
State and County shared taxes	387,855	427,704			387,855	427,704
Grants and Contributions						
not restricted to specific programs	167,447	187,854			167,447	187,854
Investments earnings	18,016	14,882	5,072	3,006	23,088	17,888
Miscellaneous	156,875	154,029	42,097		198,972	154,029
Total revenues	<u>2,702,736</u>	<u>2,718,831</u>	<u>2,649,238</u>	<u>3,319,445</u>	<u>5,351,974</u>	<u>6,038,276</u>
Program Expenses						
General government	358,103	418,129			358,103	418,129
Public safety	1,332,442	1,175,068			1,332,442	1,175,068
Public works	1,726,783	2,470,053			1,726,783	2,470,053
Health	1,100	2,450			1,100	2,450
Culture and recreation	64,326	43,065			64,326	43,065
Water			2,982,599	3,798,975	2,982,599	3,798,975
Total expenses	<u>3,482,754</u>	<u>4,108,765</u>	<u>2,982,599</u>	<u>3,798,975</u>	<u>6,465,353</u>	<u>7,907,740</u>
CHANGE IN NET POSITION	(780,018)	(1,389,934)	(333,361)	(479,530)	(1,113,379)	(1,869,464)
NET POSITION - BEGINNING	<u>10,317,084</u>	<u>11,707,018</u>	<u>16,321,653</u>	<u>16,801,183</u>	<u>26,638,737</u>	<u>28,508,201</u>
NET POSITION - ENDING	<u>\$ 9,537,066</u>	<u>\$ 10,317,084</u>	<u>\$ 15,988,292</u>	<u>\$ 16,321,653</u>	<u>\$ 25,525,358</u>	<u>\$ 26,638,737</u>

TOWN OF NORTH EAST

Management Discussion and Analysis June 30, 2016

Government-wide statements

The Town's government wide total revenues were \$5.3 million, a decrease of approximately \$700,000 from last year. The largest changes were due to the Town having received \$1 million (\$220,000 in government activities and \$810,456 in business-type activities) of operating and capital grants awarded in fiscal year 2015 above the \$515,000 awarded in 2016, as well as a decrease in service charges of \$180,000 mostly related to a decrease in major facility fees, and reduced consumption from a major customer in the business-type activities.

The Town's government wide total expenses of \$6.5 million were \$1.4 million less than 2015. The largest changes were a decrease in both the governmental activities and business-type activities related to resurfacing the Town's streets and sidewalks (\$400,000) and a major upgrade of the Town's water meters to self-reading Sensus meters (\$900,000). These were multiyear projects; both of which were completed as of June 30, 2016.

Governmental activities

Total governmental activities revenues were relatively flat from fiscal year 2015 to fiscal year 2016. General revenues decreased by \$42,000 to \$2.26 million while program revenues increased by \$26,000 to \$447,000. The only significant change was a decrease in capital grants of \$21,800 in 2016 from 2015. Governmental activities revenues increased by 1% from 2015 excluding the decrease in capital grants.

There was a decrease in governmental activities expenditures in public works (\$743,000). This decrease is attributable to the street and sidewalk resurfacing project being completed in 2016. After fiscal year 2016 the Town's expenditures for public works are projected to return to their historical levels of approximately \$1 million. The 2016 actual expenditures were 10% less than 2015. If the street and sidewalk resurfacing project were excluded, 2015 expenses would be 5% higher than 2015.

Business-type activities

Water service charges decrease by \$180,000 mostly as a result of a decrease in major facility fees due to a slowdown in new development, while capital grants decreased by \$534,000. Charges for services, the operating revenues of the business-type activities, decreased by 8%. 2015 expenses decreased by \$816,000 or 21% from the previous year, this is mostly attributable to the Town terminating its contract with Severn Trent Environmental Services for operating the Town's Water Plants and distribution system.

TOWN OF NORTH EAST

Management Discussion and Analysis June 30, 2016

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, 2016 and 2015, 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	Fiscal Year End	Fiscal Year End	Fiscal Year End	Fiscal Year End	Fiscal Year End
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Governmental Activities						
General government	\$ 358,103	\$ 418,129	\$ 83,988	\$ 27,904	\$ (274,115)	\$ (390,225)
Public safety	1,332,442	1,175,068	63,677	92,424	(1,268,765)	(1,082,644)
Public works	1,726,783	2,470,053	296,863	297,534	(1,429,920)	(2,172,519)
Health	1,100	2,450	- 0 -	- 0 -	(1,100)	(2,450)
Culture and recreation	64,326	43,065	2,850	3,470	(61,476)	(39,595)
Total governmental activities	\$ 3,482,754	\$ 4,108,765	\$ 447,378	\$ 421,332	\$ (3,035,376)	\$ (3,687,433)
Business-type Activities						
Water utility	\$ 2,982,599	\$ 3,798,975	\$ 2,602,069	\$ 3,316,439	\$ (380,530)	\$ (482,536)
Total Governmental and Business-type Activities	\$ 6,465,353	\$ 7,907,740	\$ 3,049,447	\$ 3,737,771	\$ (3,415,906)	\$ (4,169,969)

The total cost of governmental activities this year was \$3.5 million, about \$626,000 less than 2015. These costs were financed by user fees of \$209,000, and operating grants and contributions of \$239,000 resulting in a net cost of governmental activities of \$3 million compared to a net cost of \$3.7 million in 2015. The primary difference was a decrease in public works expense over 2015. Other changes in the cost of activities and the means of financing them were noted earlier in this discussion.

The total cost of business-type activities this year was \$3 million, a decrease of \$800,000 or 21%. Revenues decreased by \$700,000 to \$2.6 million due to a decrease in user fees noted earlier in this discussion.

Financial Analysis of the Town's Funds

At year-end, the governmental fund balances were \$6 million, a decrease of \$45,000 from the previous year. At year-end the general fund balance was \$4.9 million, the special revenue fund balance was \$763,000, and the capital projects fund balance was \$338,000. General fund revenues for the year were \$2.7 million, and special revenue fund revenues were \$1,200, while expenditures were \$2.6 million for the general fund and \$702,000 for the capital projects fund.

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

TOWN OF NORTH EAST

Management Discussion and Analysis
June 30, 2016

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual revenues were \$108,000, or 4%, greater than the budgeted amount, as amended. The budget also included \$368,658 to be used from fund balance to finance 2016 expenditures; \$79,000 of this amount was required.

Significant positive variances to budgeted amounts were realized in local income tax \$69,000. Local income tax estimates are provided by the State of Maryland. Actual expenditures were \$182,000, or 6% less than the amended budget. Significant positive variances to budgeted amounts were realized in general government and public safety.

During the year, there were six budget amendments amounting to a net increase of \$94,000 in appropriations and funding sources between the original and final amended budget. One of these amendments, dealing with the transfer to the capital projects fund, accounted for \$113,000 of the change.

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenue			
Total taxes	\$ 1,844,035	\$ 1,914,991	\$ 70,956
Total licenses & permits	63,605	67,036	3,431
Total intergovernmental	382,437	398,453	16,016
Total service charges	190,826	193,032	2,206
Total fines & forfeitures	182	182	- 0 -
Total misc. revenue	107,975	123,285	15,310
Total revenue	2,589,060	2,696,979	107,919
Expenditures			
Total general government	428,998	336,726	92,272
Total public safety	1,441,881	1,361,451	80,430
Total public works	770,810	763,427	7,383
Total health	2,500	1,100	1,400
Total recreation & culture	52,988	52,988	- 0 -
Total debt service	147,541	147,516	25
Total expenditures	2,844,718	2,663,208	181,510
Other financing uses			
Total other financing uses transfer to capital projects	113,000	113,000	- 0 -
Total expenditures and other financing uses	2,957,718	2,776,208	181,510
Excess (deficiency) of revenue over expenditures	(368,658)	(79,229)	289,429
Budgetary reserve	368,658	- 0 -	(368,658)
Excess of revenue & other financing sources over expenditures	\$ - 0 -	\$ (79,229)	\$ (79,229)

TOWN OF NORTH EAST

Management Discussion and Analysis June 30, 2016

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, 2016, was \$30.8 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 \$559,000. Governmental activities capital assets decreased by \$214,000 (net additions of \$88,000 less depreciation of \$302,000) and business-type activities capital assets decreased by \$345,000 (net additions of \$498,000 less net depreciation of \$843,000).

The following table presents capital assets (net of accumulated depreciation) by category for fiscal years ending June 30, 2016 and 2015, respectively:

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Land	\$ 1,713,599	\$ 1,713,599	\$ 960,450	\$ 960,450	\$ 2,674,049	\$ 2,674,049
Buildings	773,214	797,741	108,086	116,401	881,300	914,142
Improvements other than buildings	1,849,359	2,096,563	25,135,181	25,452,392	26,984,540	27,548,955
Equipment	262,310	204,865	16,263	35,493	278,573	240,358
TOTAL	\$ 4,598,482	\$ 4,812,768	\$ 26,219,980	\$ 26,564,736	\$ 30,818,462	\$ 31,377,504

Major capital asset events during the fiscal year ending June 30, 2016 in the Town's governmental activities were vehicles, and computer equipment. In the Town's business-type activities the major project was the purchase of computer hardware and software as well as a radio antenna for the meter upgrade project and water piping improvements.

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

Long-term Debt

At the end of the current fiscal year, the Town of North East had outstanding loans of \$14.6 million, compared to \$14.7 million last year. The following chart compares the level of long-term debt for fiscal years 2016 and 2015, respectively:

Governmental Activities		Business-type Activities		Total	
June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
\$ 2,162,522	\$ 1,708,835	\$ 12,725,335	\$ 13,252,665	\$ 14,887,857	\$ 14,961,500

TOWN OF NORTH EAST

Management Discussion and Analysis
June 30, 2016

The Town of North East's total debt decreased by \$74,000 during the current fiscal year. In compliance with debt amortization schedules, the Town made total debt repayments in governmental activities of \$88,000 and in business-type activities \$589,000. The Town incurred \$549,000 in new debt (Community Development Administration-2014 Series A-1 & A-2) in governmental activities to finance the street and sidewalk resurfacing project discussed earlier. The Mayor and Commissioners have committed \$1.9 million of fund balance to make future principal payments on the bond.

Additional information on the Town's long-term debt can be found in Note 6 on pages 33 - 34 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 2017 budget for the Town's General Fund was adopted at \$ 107,000 (4%) less than the fiscal year 2016 final budget.
- For fiscal year 2017, the Town kept the property tax rate unchanged from that of the past several years. Due to stagnant real estate values, the rate of 48 cents per \$100 assessed value was slightly higher than the constant yield tax rate, however, the Town was exempted from the State requirements governing the constant yield tax rate. Fiscal year 2016 was the first year of the assessment cycle and the Town projects property tax revenue to remain flat through fiscal year 2019.
- The fiscal year 2016 water rates for in town and out of town customers were increased 2% from 2015.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Town of North East's finances to all who have an interest in it and to show the Town's accountability for the money it receives. Questions concerning any of the information provided in the report, or requests for additional information should be directed to the Director of Finance and Administration, P.O. Box 528, North East, MD 21901-0528. You may also phone us at (410) 287-5801 or e-mail us at finance@northeastmd.org.

Town of North East

Statement of Net Position
June 30, 2016

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
CURRENT ASSETS			
Equity in pooled cash	\$ 1,007,341	\$ - 0 -	\$ 1,007,341
Cash and cash equivalents	4,855,792	1,294,887	6,150,679
Restricted cash	54,682	1,048,880	1,103,562
Property taxes receivable	1,674	- 0 -	1,674
Due from other governments	188,143	- 0 -	188,143
Accounts receivable	5,808	570,070	575,878
Current portion - loans receivable	1,338	- 0 -	1,338
Prepaid expenses	57,596	34,195	91,791
Inventory	- 0 -	44,344	44,344
Due from agency fund	187	- 0 -	187
Internal balances	351,772	(351,772)	- 0 -
Total Current Assets	<u>6,524,333</u>	<u>2,640,604</u>	<u>9,164,937</u>
CAPITAL ASSETS			
Land - nondepreciable	1,713,599	960,450	2,674,049
Infrastructure, buildings and equipment	6,440,547	36,330,295	42,770,842
Less: accumulated depreciation	<u>(3,555,664)</u>	<u>(11,070,765)</u>	<u>(14,626,429)</u>
Total Capital Assets	<u>4,598,482</u>	<u>26,219,980</u>	<u>30,818,462</u>
OTHER NONCURRENT ASSETS			
Loans & accrued interest receivable, net of current portion	968,731	- 0 -	968,731
Total Other Noncurrent Assets	<u>968,731</u>	<u>- 0 -</u>	<u>968,731</u>
TOTAL ASSETS	<u>12,091,546</u>	<u>28,860,584</u>	<u>40,952,130</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable & accrued expenses	379,458	146,957	526,415
Unearned revenue	12,500	- 0 -	12,500
Current portion - long term obligations	88,928	591,223	680,151
Total Current Liabilities	480,886	738,180	1,219,066
NONCURRENT LIABILITIES			
Long term obligations	2,073,594	12,134,112	14,207,706
TOTAL LIABILITIES	<u>2,554,480</u>	<u>12,872,292</u>	<u>15,426,772</u>
NET POSITION			
Invested in capital assets, net of related debt	2,672,891	13,586,099	16,258,990
Restricted			
Off site mitigation	28,891	- 0 -	28,891
Christmas parade	15,983	- 0 -	15,983
Other	19,190	- 0 -	19,190
Capital projects	- 0 -	1,048,880	1,048,880
Unrestricted	6,800,111	1,353,313	8,153,424
TOTAL NET POSITION	<u>\$ 9,537,066</u>	<u>\$ 15,988,292</u>	<u>\$ 25,525,358</u>

See accompanying notes to financial statements

Town of North East

Statement of Activities

For the Year Ended June 30, 2016

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES:							
General government	\$ 358,103	\$ 27,264	\$ 56,724	\$ -0-	\$ (274,115)	\$ -0-	\$ (274,115)
Public safety	1,332,442	594	63,083	-0-	(1,268,765)	-0-	(1,268,765)
Public works	1,726,783	178,164	118,699	-0-	(1,429,920)	-0-	(1,429,920)
Health	1,100	-0-	-0-	-0-	(1,100)	-0-	(1,100)
Culture and recreation	64,326	2,850	-0-	-0-	(61,476)	-0-	(61,476)
Total Governmental Activities	3,482,754	208,872	238,506	-0-	(3,035,376)	-0-	(3,035,376)
BUSINESS-TYPE ACTIVITIES:							
Water system	2,982,599	2,325,749	-0-	276,320	-0-	(380,530)	(380,530)
Total Business-Type Activities	2,982,599	2,325,749	-0-	276,320	-0-	(380,530)	(380,530)
TOTAL PRIMARY GOVERNMENT	\$ 6,465,353	\$ 2,534,621	\$ 238,506	\$ 276,320	(3,035,376)	(380,530)	(3,415,906)
GENERAL REVENUES:							
Taxes:							
Property					1,525,165	-0-	1,525,165
Income and other					387,855	-0-	387,855
Grants and contributions not restricted to specific programs					167,447	-0-	167,447
Investment income					18,016	5,072	23,088
Miscellaneous					156,875	42,097	198,972
TOTAL GENERAL REVENUES					2,255,358	47,169	2,302,527
CHANGE IN NET POSITION					(780,018)	(333,361)	(1,113,379)
NET POSITION AT BEGINNING OF YEAR							
As previously reported					10,234,438	16,375,051	26,609,489
Adjustments related to prior periods					82,646	(53,398)	29,248
NET POSITION AT BEGINNING OF YEAR - AS RESTATED					10,317,084	16,321,653	26,638,737
NET POSITION - ENDING					\$ 9,537,066	\$ 15,988,292	\$ 25,525,358

See accompanying notes to financial statements

Town of North East

Balance Sheet
Governmental Funds
June 30, 2016

	General Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
ASSETS				
Equity in pooled cash	\$ 308,255	\$ 79,504	\$ 619,582	\$ 1,007,341
Cash and cash equivalents	4,171,761	684,031	- 0 -	4,855,792
Restricted cash	54,682	- 0 -	- 0 -	54,682
Property taxes receivable	1,674	- 0 -	- 0 -	1,674
Due from other governments	188,143	- 0 -	- 0 -	188,143
Accounts receivable	5,808	- 0 -	- 0 -	5,808
Prepaid expense	57,596	- 0 -	- 0 -	57,596
Interfund receivables	351,959	- 0 -	- 0 -	351,959
Loans receivable	- 0 -	970,069	- 0 -	970,069
TOTAL ASSETS	\$ 5,139,878	\$ 1,733,604	\$ 619,582	\$ 7,493,064
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 69,669	\$ - 0 -	\$ 281,680	\$ 351,349
Accrued expenses	27,909	- 0 -	- 0 -	27,909
Due to other governments	200	- 0 -	- 0 -	200
Unearned revenue	12,500	- 0 -	- 0 -	12,500
Total Liabilities	110,278	- 0 -	281,680	391,958
DEFERRED INFLOWS OF RESOURCES:				
Unavailable income taxes receivable	80,675	- 0 -	- 0 -	80,675
Unavailable loans receivable	- 0 -	970,069	- 0 -	970,069
Total Deferred Inflows of Resources	80,675	970,069	- 0 -	1,050,744
FUND BALANCES:				
Nonspendable	57,596	- 0 -	- 0 -	57,596
Restricted	64,064	- 0 -	- 0 -	64,064
Committed	2,563,732	- 0 -	113,000	2,676,732
Assigned	- 0 -	763,535	224,902	988,437
Unassigned	2,263,533	- 0 -	- 0 -	2,263,533
Total Fund Balances	4,948,925	763,535	337,902	6,050,362
TOTAL LIABILITIES , DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 5,139,878	\$ 1,733,604	\$ 619,582	\$ 7,493,064

Town of North East

Reconciliation of Balance Sheet - Governmental Funds to the Statement of Net Position
June 30, 2016

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS		\$	6,050,362
<p>Amounts reported for Governmental Activities in the Statement of Net Position are different because:</p> <p>Capital assets used in Governmental Activities are not financial resources, and therefore, are not reported in the the governmental funds.</p>			
Governmental capital assets		\$	8,154,146
Less: accumulated depreciation			<u>(3,555,664)</u>
			4,598,482
<p>Long term liabilities are not payable in the current period and are not reported in the governmental funds.</p>			
Bonds payable			(1,925,591)
Compensated absences			<u>(236,931)</u>
			(2,162,522)
<p>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.</p>			
Loans receivable			970,069
Income taxes			<u>80,675</u>
			<u>1,050,744</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES		\$	<u><u>9,537,066</u></u>

Town of North East

Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2016

	General Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
REVENUES				
Taxes	\$ 1,914,991	\$ - 0 -	\$ - 0 -	\$ 1,914,991
Licenses and permits	67,036	- 0 -	- 0 -	67,036
Intergovernmental	398,453	- 0 -	- 0 -	398,453
Charges for service	193,032	- 0 -	- 0 -	193,032
Fines and forfeitures	182	- 0 -	- 0 -	182
Miscellaneous	117,465	1,222	- 0 -	118,687
	2,691,159	1,222	- 0 -	2,692,381
EXPENDITURES				
Current operating				
General government	329,017	- 0 -	- 0 -	329,017
Public safety	1,294,737	- 0 -	- 0 -	1,294,737
Public works	704,974	- 0 -	690,755	1,395,729
Health	1,100	- 0 -	- 0 -	1,100
Recreation and culture	52,988	- 0 -	11,113	64,101
Capital outlays	132,876	- 0 -	- 0 -	132,876
Debt service - principal	87,928	- 0 -	- 0 -	87,928
Debt service - interest	59,588	- 0 -	- 0 -	59,588
	2,663,208	- 0 -	701,868	3,365,076
EXCESS OF REVENUES OVER (EXPENDITURES)	27,951	1,222	(701,868)	(672,695)
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt	- 0 -	- 0 -	548,584	548,584
Sale of capital assets	5,820	- 0 -	- 0 -	5,820
Interest on loans receivable	- 0 -	17,972	- 0 -	17,972
Repayment on loans receivable	- 0 -	55,009	- 0 -	55,009
Transfer in(out)	(113,000)	- 0 -	113,000	- 0 -
	(107,180)	72,981	661,584	627,385
TOTAL NET CHANGE IN FUND BALANCE	(79,229)	74,203	(40,284)	(45,310)
FUND BALANCES - BEGINNING	5,028,154	689,332	378,186	6,095,672
FUND BALANCES - ENDING	\$ 4,948,925	\$ 763,535	\$ 337,902	\$ 6,050,362

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, 2016

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$	(45,310)
<p>Amounts reported for Governmental Activities in the Statement of Activities are different because:</p>		
<p>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 \$345,451 exceeded capital outlays of \$132,876 in the current period.</p>		
		(212,575)
<p>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.</p>		
		87,928
<p>Governmental funds report compensated absences when paid. However, in the Statement of Activities, they are recorded when earned. This is the excess of the reduction in the liability over what was earned</p>		
		6,969
<p>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 income earned that was not received within the specified time period.</p>		
Interest	(9,755)	
Income taxes	(1,971)	
		(11,726)
<p>Capital assets used in Governmental Activities are not financial resources and, therefore, are not reported in the governmental funds. Accordingly, losses on the disposal of those assets are not reported in the governmental funds.</p>		
		(1,711)
<p>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.</p>		
		(55,009)
<p>Governmental funds recognize proceeds from financing as an other financing source. However, in the Statement of Activities, proceeds increase long term debt. This is the amount of proceeds from financing during the year.</p>		
		(548,584)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	(780,018)

See accompanying notes to financial statements

Town of North East

Statement of Net Position - Proprietary Fund
June 30, 2016

		Major Enterprise Fund Water Fund
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$	1,294,887
Restricted cash		1,048,880
Service charges receivable		570,070
Prepaid expenses		34,195
Inventory		44,344
Total Current Assets	\$	2,992,376
CAPITAL ASSETS		
Land - nondepreciable		960,450
Building and equipment		36,330,295
Less: accumulated depreciation		(11,070,765)
Total Capital Assets		26,219,980
TOTAL ASSETS		29,212,356
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable		90,127
Accrued expenses		56,830
Due to general fund		351,772
Current portion, long term obligations		591,223
Total Current Liabilities		1,089,952
NONCURRENT LIABILITIES		
Long term obligations		12,134,112
Total Noncurrent Liabilities		12,134,112
TOTAL LIABILITIES		13,224,064
NET POSITION		
Invested in capital assets, net of related debt		13,586,099
Restricted for capital projects		1,048,880
Unrestricted		1,353,313
TOTAL NET POSITION	\$	15,988,292

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, 2016

	Major Enterprise Fund
	Water Fund
OPERATING REVENUES	
Service fees	\$ 2,180,651
Connection charges	27,500
Miscellaneous revenue	9,100
Service charge penalties	78,318
Major facilities fees	38,500
	2,334,069
Total Operating Revenue	\$ 2,334,069
OPERATING EXPENSES	
Salaries	678,595
Employee benefits and payroll taxes	201,477
Repairs and maintenance	473,519
Supplies	198,060
Utilities	189,363
Insurance	34,045
Professional fees	147,318
Office expense	22,688
Miscellaneous	9,786
Depreciation and amortization	952,017
	2,906,868
Total Operating Expenses	2,906,868
OPERATING LOSS	(572,799)
NONOPERATING REVENUES (EXPENSES)	
Interest expense	(75,731)
Interest earned	5,072
Insurance proceeds	33,777
	(36,882)
Total Nonoperating Revenue (Expenses)	(36,882)
INCOME BEFORE CAPITAL CONTRIBUTION	(609,681)
Capital contributions	276,320
CHANGE IN NET POSITION	(333,361)
TOTAL NET POSITION - BEGINNING	
As previously reported	16,375,051
Adjustments related to prior periods	(53,398)
	16,321,653
TOTAL NET POSITION - BEGINNING - AS RESTATED	16,321,653
TOTAL NET POSITION - ENDING	\$ 15,988,292

See accompanying notes to financial statements

Town of North East

Statement of Cash Flows - Proprietary Fund
For the Year Ended June 30, 2016

	Major Enterprise Fund	
	Water Fund	
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 2,288,571	
Cash payments to suppliers for goods and services	(1,619,060)	
Cash payments to employees for salaries	(608,006)	
NET CASH FLOWS FROM OPERATING ACTIVITIES		\$ 61,505
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfer from other funds	553,117	
NET CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		553,117
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Repayments of bonds	(589,141)	
Capital expenditures	(334,441)	
Insurance proceeds	33,777	
Interest paid on bonds	(76,825)	
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		(966,630)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income received	5,072	
NET CASH FLOWS FROM INVESTING ACTIVITIES		5,072
NET DECREASE IN CASH AND CASH EQUIVALENTS		(346,936)
EQUITY IN POOLED CASH, CASH AND CASH EQUIVALENTS - BEGINNING		2,690,703
EQUITY IN POOLED CASH, CASH AND CASH EQUIVALENTS - END		\$ 2,343,767
Reconciliation of operating loss to net cash flows from operating activities:		
Operating loss		\$ (572,799)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Billing credits related to prior periods		(53,398)
Assets contributed and expensed		3,500
Depreciation and amortization expense		952,017
Decrease in service charges receivable		7,900
Increase in prepaid expenses		(9,480)
Increase in inventory		(4,344)
Decrease in accounts payable		(332,480)
Increase in accrued expensess		70,589
Net cash flows from operating activities		\$ 61,505
SUPPLEMENTAL DISCLOSURE OF NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Contributed capital		\$ 276,320

See accompanying notes to financial statements

Town of North East

Statement of Fiduciary Net Position - Fiduciary Funds
June 30, 2016

	Employee Benefit Plan	Agency Fund
ASSETS		
Restricted cash	\$ - 0 -	\$ 229,247
Investments with fiscal agents	2,899,981	- 0 -
TOTAL ASSETS	2,899,981	229,247
LIABILITIES		
Accounts payable	- 0 -	41,036
Amounts held in escrow	- 0 -	188,024
Due to general fund	- 0 -	187
TOTAL LIABILITIES	- 0 -	229,247
NET POSITION		
Held in trust for employee benefit plan	\$ 2,899,981	\$ - 0 -

Statement of Changes in Fiduciary Net Position - Fiduciary Funds
For the Year Ended June 30, 2016

	Employee Benefit Plan
CONTRIBUTIONS	
Employer	\$ 77,224
Employees	117,380
Investment gains (losses)	(10,528)
Total Contributions	184,076
DISTRIBUTIONS	
Benefits paid	146,096
Charges/fees	11,324
Total Distributions	157,420
CHANGE IN NET POSITION	26,656
TOTAL NET POSITION - BEGINNING	2,873,325
TOTAL NET POSITION - ENDING	\$ 2,899,981

See accompanying notes to financial statements

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2016

1. Summary of Significant Accounting Policies

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

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

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

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

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

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

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

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2016

1. Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

Fund Types and Major Funds

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

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2016

1. Summary of Significant Accounting Policies (continued)

The Town reports the following major governmental funds:

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

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

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

The Town reports the following major proprietary fund:

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

The Town reports the following fiduciary funds:

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

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

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

Equity in Pooled Cash and Cash Equivalents – The Town pools idle cash from all funds for the purpose of increased income through investment activities. Equity in pooled cash and cash equivalents may include demand deposits, money market accounts and investments in the Maryland Local Government Investment Pool. Investment income from the pool is allocated back to the respective funds based on each fund's equity in the pool. For purposes of the statement of cash flows, all cash and investments of the proprietary fund are considered to be cash equivalents, since they are available on demand from the cash and investment pool.

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, deposits by developers to cover off-site mitigation and other costs and capital projects. The resources are maintained in separate bank accounts.

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2016

1. Summary of Significant Accounting Policies (continued)

Accounts Receivable – Water charges are recorded when billed.

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

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.

Inventory – Proprietary fund inventory consists of materials and supplies valued at cost using the first-in, first-out method (FIFO).

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

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

Estimated useful lives for depreciable assets are as follows:

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

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2016

1. Summary of Significant Accounting Policies (continued)

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

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, 2016, the Town's restricted net position consisted of funds whose purpose was restricted by the donor for specific activities including off-site mitigation, the annual Christmas parade and various other projects. Also, certain assets have been restricted by the Commissioners to fund capital replacements and expansion of the water system. Total restricted net position as of June 30, 2016 totaled \$1,112,944.

Unrestricted

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

Fund Balance –

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

Nonspendable

This category includes amounts that cannot be spent due to form, such as inventory, prepaid amounts, long term receivables or amounts that must be maintained intact legally or contractually. As of June 30, 2016, the Town reported \$57,596 of nonspendable funds.

Restricted

This category includes amounts constrained by an external party, constitutional provision or enabling legislation. As of June 30, 2016, 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, 2016, the Town reported \$64,064 of restricted funds.

TOWN OF NORTH EAST

Notes to Financial Statements June 30, 2016

1. Summary of Significant Accounting Policies (continued)

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, 2016, the Mayor and Commissioners committed \$657,587 of reserve funds to cover budget expenditures in the following year, \$1,868,000 to future debt service requirements, \$38,145 to cover future payouts of accumulated sick leave and \$113,000 for streets and sidewalks projects.

Assigned

This category includes amounts constrained by the intent to be used for a specific purpose by a governing board which has the authority to assign funds. As of June 30, 2016, the Town had \$192,268 of funds assigned for revitalization loans for the Town, an additional \$571,267 assigned for capital community projects that are not considered part of normal operations of the Town and \$224,902 assigned for future capital projects.

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, 2016, the fund reported \$13,586,099 invested in capital assets.

Restricted for capital projects

This category includes certain resources which have been restricted by the Commissioners to fund capital expansion and replacement of the water system. These assets are maintained in separate bank accounts. As of June 30, 2016, the fund reported \$1,048,880 of assets restricted for this purpose.

Unrestricted

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

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

2. Equity in Pooled Cash, Cash and Cash Equivalents

The Town maintains a cash pool that is available for use by all funds, except the Employee Benefit Plan and the Agency Fund. Deposits are carried at cost plus accrued interest. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in pooled cash." Equity in pooled cash and cash and cash equivalents include demand deposits, money market accounts and investments in the Maryland Local Government Investment Pool (MLGIP).

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2016

2. Equity in Pooled Cash, Cash and Cash Equivalents (continued)

The Town is a participant in the MLGIP, which was established by the State of Maryland as an investment vehicle for short-term investment of funds by local municipalities. The MLGIP, under the control of the state treasurer, has been managed by a single financial institution. The MLGIP is operated in accordance with Rule 2a-7 (SEC-registered) of the Investment Company Act of 1940, as amended. The fair values is based on a share price of \$1.00 per share (Level 1). As of June 30, 2016, all pool holdings are in cash and cash equivalents.

Credit Risk - The Town has adopted a policy to be followed when investing public funds in accordance with the provisions of Section 17-101 of the Local Government Article of the Annotated Code of Maryland which prescribes the type of investments permissible for Maryland Municipalities. This policy requires that Town funds be invested in obligations for which the United States has pledged its full faith and credit, obligations insured by a federal agency (such as the FDIC), obligations collateralized by federal obligations, and portfolios created under the Maryland Local Government Investment Pool. The Town was in compliance with the provisions of the Annotated Code of Maryland as of June 30, 2016, which was adopted to mitigate credit risk for the Town.

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

Custodial Credit Risk – The Town manages custodial credit risk through its use of permissible investments based on its compliance with the Annotated Code of Maryland as previously described. As such, uninsured or uncollateralized funds are not permitted. None of the Town’s deposits are exposed to custodial credit risk. The Town’s deposits are covered by a combination of insurance from the Federal Deposit Insurance Corporation and securities held by the pledging or financial institution’s trust department or agent in the Town’s name.

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

Deposits by level of risk are:

	Carrying Amount	Bank Balance
Cash on hand	\$ 1,600	\$ - 0 -
FDIC Insured	523,867	523,867
Uninsured, collateral held by pledging bank’s Trust Departments in Town’s name	1,012,379	1,221,663
Maryland Local Government Investment Pool	6,952,983	6,952,983
Total deposits	\$ 8,490,829	\$ 8,698,513

The above consists of \$229,247 (carrying amount) and \$237,788 (bank balance) of funds from developers for off-site mitigation and other costs held in an agency capacity. These funds are not available for general operations of the Town.

TOWN OF NORTH EAST

Notes to Financial Statements June 30, 2016

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. Principal payments of \$50,296 were received during the year ended June 30, 2016 and have been reported as an other financing source. Interest payments of \$17,885 were received during the year ended June 30, 2016 and have been reported as an other financing source. Total loan value and accrued interest as of June 30, 2016 was \$201,743.

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, 2016 was \$766,988.

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. Principal payments of \$4,713 were received during the year ended June 30, 2016 and have been reported as an other financing source. Interest payments of \$87 were received during the year ended June 30, 2016 and have been reported as an other financing source. As of June 30, 2016, total outstanding loans and accrued interest under this program were \$1,338.

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 \$1,338 and long term notes receivable, including accrued interest totals \$968,731.

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2016

4. Capital Assets

Capital asset activity for the Town of North East for the year ended June 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Land - nondepreciable	\$ 1,713,599	\$ - 0 -	\$ - 0 -	\$ 1,713,599
Buildings	1,232,255	- 0 -	- 0 -	1,232,255
Improvements other than buildings	4,072,385	- 0 -	- 0 -	4,072,385
Equipment	<u>1,047,959</u>	<u>132,876</u>	<u>44,928</u>	<u>1,135,907</u>
Total	<u>8,066,198</u>	<u>132,876</u>	<u>44,928</u>	<u>8,154,146</u>
Less: Accumulated depreciation				
Buildings	434,514	24,527	- 0 -	459,041
Improvements other than buildings	1,975,822	247,204	- 0 -	2,223,026
Equipment	<u>843,094</u>	<u>73,720</u>	<u>43,217</u>	<u>873,597</u>
Total accumulated depreciation	<u>3,253,430</u>	<u>345,451</u>	<u>43,217</u>	<u>3,555,664</u>
Governmental Activities Capital Assets, net	<u>\$ 4,812,768</u>			<u>\$ 4,598,482</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 30,826
Public safety	48,158
Public works	266,242
Parks and recreation	<u>225</u>
Total depreciation expense	<u>\$ 345,451</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Land - nondepreciable	\$ 960,450	\$ - 0 -	\$ - 0 -	\$ 960,450
Buildings	249,429	- 0 -	- 0 -	249,429
Water plant & distribution system	35,427,771	607,261	106,841	35,928,191
Equipment	<u>154,751</u>	<u>- 0 -</u>	<u>2,076</u>	<u>152,675</u>
Total	<u>36,792,401</u>	<u>607,261</u>	<u>108,917</u>	<u>37,290,745</u>
Less: accumulated depreciation				
Buildings	133,029	8,314	- 0 -	141,343
Water plant & distribution System	9,975,380	924,471	106,841	10,793,010
Equipment	<u>119,256</u>	<u>19,232</u>	<u>2,076</u>	<u>136,412</u>
Total accumulated depreciation	<u>10,227,665</u>	<u>952,017</u>	<u>108,917</u>	<u>11,070,765</u>
Business-type Activities Capital Assets, Net	<u>\$ 26,564,736</u>			<u>\$ 26,219,980</u>

Depreciation expense for business-type activities for the year ended June 30, 2016 was \$952,017.

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2016

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, 2016 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 rates for the fiscal year ended June 30, 2016 was \$0.48 and \$1.20 per \$100 of assessed value for real and personal property, respectively.

6. Long Term Obligations

Long-Term Obligations at June 30, 2016 consists of:

Department of Natural Resources – Shoreline Erosion	
Total authorized and issued as of June 30, 2016 - \$88,560.	
Principal paid through June 30, 2016 - \$30,996. Non-interest loan. Annual principal payments of \$4,428 through July 2029.	\$ 57,564
Community Development Administration – 2014 Series A-1 & A-2	
Total authorized and issued as of June 30, 2016 - \$2,018,940.	
Principal paid through June 30, 2016 - \$150,913. Interest at 3.51%. Annual principal and semi-annual interest payments through May 2034.	1,868,027
Compensated Absences	<u>236,931</u>
Total Governmental Activities	\$ <u>2,162,522</u>
Business-Type Activities:	
Maryland Water Quality Financing Administration, Series 2009 Bonds	
Total authorized as of June 30, 2016 - \$1,375,000. Total issued as of June 30, 2016 - \$1,124,842. Principal paid through June 30, 2016 - \$481,250. Non-interest bearing loan. Annual principal payments of \$68,750 through February 2026.	\$ 643,592
Maryland Water Quality Financing Administration, Series 2007 A Bonds	
Total authorized and issued as of June 30, 2016 - \$15,590,777. Principal paid through June 30, 2016 - \$3,600,488. Interest at 0.4%. Annual principal and semi-annual interest payments through February, 2038.	11,990,289
Compensated Absences	<u>91,454</u>
Total Business-Type Activities	<u>12,725,335</u>
Total Long-Term Obligations	\$ <u>14,887,857</u>

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2016

6. Long Term Obligations (continued)

During the year ended June 30, 2016, the following changes occurred in Long-Term Obligations:

	<u>Balance</u> <u>6/30/15</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>06/30/16</u>
Governmental Activities:				
Bonds	\$ 1,464,935	\$ 548,584	\$ 87,928	\$ 1,925,591
Compensated Absences	243,900	94,400	101,369	236,931
Business-Type Activities:				
Bonds	13,223,022	- 0 -	589,141	12,633,881
Compensated Absences	<u>29,643</u>	<u>79,622</u>	<u>17,811</u>	<u>91,454</u>
Totals	<u>\$ 14,961,500</u>	<u>\$ 722,606</u>	<u>\$ 796,249</u>	<u>\$ 14,887,857</u>

Future debt service requirements are as follows:

<u>Years Ending June 30</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
	<u>Maturing</u>	<u>Payable</u>	<u>Maturing</u>	<u>Payable</u>
2017	\$ 88,928	\$ 58,652	\$ 591,223	\$ 47,962
2018	89,428	57,883	593,313	45,872
2019	90,428	56,770	595,411	43,772
2020	91,928	55,342	597,517	41,666
2021	93,428	53,627	599,633	39,552
2022 through 2026	502,640	232,549	2,986,279	165,732
2027 through 2031	575,284	149,499	2,740,597	111,574
2032 through 2036	393,527	33,088	2,795,849	56,320
2037 through 2038	<u>- 0 -</u>	<u>- 0 -</u>	<u>1,134,059</u>	<u>6,808</u>
Net Long-Term Obligations	<u>\$ 1,925,591</u>	<u>\$ 697,410</u>	<u>\$ 12,633,881</u>	<u>\$ 559,258</u>

Total interest and administrative fees paid for the year ended June 30, 2016 included as direct function expense in the governmental activities totaled \$59,588.

Total interest and administrative fees paid for the year ended June 30, 2016 included as direct function expense in the proprietary activities totaled \$75,731.

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, 2016, 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. The Trust is a total risk and cost sharing plan for all participants. In the event that the Trust's General Fund falls into a deficit that cannot be satisfied by transfer from the Trust's capital and surplus accounts, the Trustees determine a method to fund the deficit. The Trust agreement empowers the Trustees to assess an additional premium to each deficit-year participant. Debt issues could also be used to fund a deficit.

TOWN OF NORTH EAST

Notes to Financial Statements June 30, 2016

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 \$1,500 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, 2016, 29 employees participated in the plan contributing \$117,380 and the Town's contribution was \$77,224.

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 paid benefits of \$3,719 associated with this provision during the year ended June 30, 2016.

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, 2016 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, 2016 valuation was 30 years.

TOWN OF NORTH EAST

Notes to Financial Statements June 30, 2016

9. Postemployment Healthcare Benefits (continued)

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, 2016.

10. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Short-term interfund loans are classified as "due to/from other funds." All short-term interfund receivables and payables at year end are planned to be eliminated in the subsequent year. Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Net interfund transfers between the general and water fund totaled \$553,117. Total advances due to governmental activities as of June 30, 2016 totaled \$351,772

11. Adjustments Related to Prior Periods

During the year ended June 30, 2016, it was determined that the billing office had made errors in a major customer's bill dating back to May 2015. In addition, for a period of time average bills were calculated for that customer due to broken meters that had to be replaced. Those average billings were determined to have been overstated. The total amount of overbillings was \$53,398 and accordingly, beginning net position of the enterprise fund and business-type activities has been decreased by that amount.

During the year ended June 30, 2016, it was determined that the Town's portion of the Local Income Tax Reserve was not previously reflected in these financial statements. Accordingly, beginning net position of governmental activities was increased by \$82,646, the balance reported by the State of Maryland as of June 30, 2015.

12. Contingent Liabilities and Commitments

The Town is a plaintiff in two lawsuits concerning defaults on performance bonds on developments within the Town. Management intends to vigorously pursue the cases until the needs of residents are met. No amount of a gain or loss contingency is reflected in these financial statements because the outcomes of the cases are uncertain.

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.

TOWN OF NORTH EAST

Notes to Financial Statements June 30, 2016

12. Contingent Liabilities and Commitments (continued)

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

13. Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition through October 25, 2016, 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, 2016

	Original Budget	Final Budget	Actual	Variance
TAXES:				
Real property	\$ 1,456,946	\$ 1,444,659	\$ 1,444,659	\$ - 0 -
Enterprise zone credit	13,000	12,694	12,694	- 0 -
Railroads and public utilities	67,000	62,312	62,312	- 0 -
Penalties and interest	4,000	4,000	5,500	1,500
Total Property Taxes	<u>1,540,946</u>	<u>1,523,665</u>	<u>1,525,165</u>	<u>1,500</u>
Other taxes				
Local income tax	273,000	316,870	385,947	69,077
Admission and amusement tax	3,500	3,500	3,879	379
Total Other Taxes	<u>276,500</u>	<u>320,370</u>	<u>389,826</u>	<u>69,456</u>
TOTAL TAXES	<u>1,817,446</u>	<u>1,844,035</u>	<u>1,914,991</u>	<u>70,956</u>
LICENSES AND PERMITS:				
Traders	6,000	6,000	9,416	3,416
Building and equipment	3,000	2,965	2,965	- 0 -
Cable television rebate	51,000	54,586	54,586	- 0 -
Other permits	120	54	69	15
Total Licenses and Permits	<u>60,120</u>	<u>63,605</u>	<u>67,036</u>	<u>3,431</u>
INTERGOVERNMENTAL:				
Federal				
FEMA	- 0 -	- 0 -	10,466	10,466
Total Federal	<u>- 0 -</u>	<u>- 0 -</u>	<u>10,466</u>	<u>10,466</u>
State of Maryland				
Police protection	55,947	55,947	61,497	5,550
Other police grants	- 0 -	1,586	1,586	- 0 -
Highway user revenue	78,269	78,233	78,233	- 0 -
State highway administration	- 0 -	30,000	30,000	- 0 -
Tourism grant	- 0 -	35,000	35,000	- 0 -
Critical area commission	5,000	5,000	5,000	- 0 -
Total State of Maryland	<u>139,216</u>	<u>205,766</u>	<u>211,316</u>	<u>5,550</u>
Cecil County				
Hotel grant	100,000	82,029	82,029	- 0 -
Financial cooperation grant	1,178	1,178	1,178	- 0 -
Solid waste rebate	9,224	9,224	9,224	- 0 -
Tax differential	84,240	84,240	84,240	- 0 -
Total Cecil County	<u>194,642</u>	<u>176,671</u>	<u>176,671</u>	<u>- 0 -</u>
Total Intergovernmental	<u>333,858</u>	<u>382,437</u>	<u>398,453</u>	<u>16,016</u>
SUBTOTAL	<u>2,211,424</u>	<u>2,290,077</u>	<u>2,380,480</u>	<u>90,403</u>

See accompanying notes to required supplementary information

Town of North East

Schedule of Revenues and Expenditures Budget
(Non-GAAP and Budgetary Basis) and Actual General Fund (continued)
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance
SERVICE CHARGES:				
Trash collection	\$ 183,000	\$ 178,164	\$ 178,164	\$ - 0 -
Zoning and subdivision fees	2,000	535	535	- 0 -
Special events	8,000	12,127	14,333	2,206
Total Service Charges	193,000	190,826	193,032	2,206
FINES AND FORFEITURES:				
Parking fines	519	182	182	- 0 -
Total Fines and Forfeitures	519	182	182	- 0 -
MISCELLANEOUS REVENUES:				
Investment earnings	2,000	5,978	8,577	2,599
Rents	88,953	88,004	88,004	- 0 -
Other	5,880	13,993	26,704	12,711
Total Miscellaneous Revenues	96,833	107,975	123,285	15,310
TOTAL REVENUE	2,501,776	2,589,060	2,696,979	107,919
BUDGETARY RESERVE	361,114	368,658	- 0 -	(368,658)
TOTAL REVENUE AND OTHER FINANCING SOURCES	\$ 2,862,890	\$ 2,957,718	\$ 2,696,979	\$ (260,739)

See accompanying notes to required supplementary information

Town of North East

Schedule of Revenues and Expenditures Budget
(Non-GAAP and Budgetary Basis) and Actual General Fund (continued)
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance
GENERAL GOVERNMENT:				
Mayor and commissioners	\$ 31,800	\$ 66,259	\$ 64,978	\$ 1,281
Administration	39,762	36,540	36,540	- 0 -
Elections	1,000	493	493	- 0 -
Finance	76,753	81,791	62,353	19,438
Accounting and auditing	20,000	16,012	15,750	262
Law	10,500	14,621	11,224	3,397
Planning and zoning	131,383	133,662	118,144	15,518
General services	175,920	79,620	27,244	52,376
Total General Government	<u>487,118</u>	<u>428,998</u>	<u>336,726</u>	<u>92,272</u>
PUBLIC SAFETY:				
Police	1,410,346	1,434,381	1,353,951	80,430
Fire	7,500	7,500	7,500	- 0 -
Total Public Safety	<u>1,417,846</u>	<u>1,441,881</u>	<u>1,361,451</u>	<u>80,430</u>
PUBLIC WORKS:				
Highway and streets				
Roadways	468,906	512,304	504,921	7,383
Street lighting	70,250	70,508	70,508	- 0 -
Snow removal	30,000	4,614	4,614	- 0 -
Total Highway and Streets	<u>569,156</u>	<u>587,426</u>	<u>580,043</u>	<u>7,383</u>
Sanitation and waste removal	183,680	183,384	183,384	- 0 -
Total Public Works	<u>752,836</u>	<u>770,810</u>	<u>763,427</u>	<u>7,383</u>
HEALTH:				
Mosquito control	2,500	2,500	1,100	1,400
RECREATION AND CULTURE:				
Parks	55,049	52,988	52,988	- 0 -
DEBT SERVICE:				
Principal and interest	147,541	147,541	147,516	25
TOTAL EXPENDITURES	<u>2,862,890</u>	<u>2,844,718</u>	<u>2,663,208</u>	<u>181,510</u>
OTHER FINANCING USES				
Transfer capital projects	- 0 -	113,000	113,000	- 0 -
TOTAL EXPENSE AND OTHER FINANCING USES	<u>2,862,890</u>	<u>2,957,718</u>	<u>2,776,208</u>	<u>181,510</u>
TOTAL REVENUE AND OTHER FINANCING SOURCES	<u>2,862,890</u>	<u>2,957,718</u>	<u>2,696,979</u>	<u>(260,739)</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ (79,229)</u>	<u>\$ (79,229)</u>

See accompanying notes to required supplementary information

Town of North East

Schedule of Funding Progress - Other Postemployment Benefits (OPEB) Plan
For the Year Ended June 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
6/30/2016	\$ - 0 -	\$ 469,444	\$ 469,444	0.00%	\$ 1,808,403	25.96%
6/30/2015	- 0 -	438,078	438,078	0.00%	1,436,905	30.49%
6/30/2014	- 0 -	276,474	276,474	0.00%	1,356,182	20.39%

See accompanying notes to required supplementary information

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2016

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 \$368,658 as revenue. This is not considered revenue for GAAP purposes.

Total budgeted revenues and other financing sources	\$	2,957,718
Less: investment fund transfer		<u>(368,658)</u>
Total GAAP budgetary revenues	\$	<u>2,589,060</u>

This adjustment reduces the unfavorable revenue variance from \$260,739 to a favorable variance of \$107,919.

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, 2016.