

TOWN OF NORTH EAST
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

TOWN OF NORTH EAST

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1 - 2
Management Discussion and Analysis	3 - 13
Statement of Net Position	14
Statement of Activities	15
Balance Sheet – Governmental Funds	16
Reconciliation of Balance Sheet - Governmental Funds to the Statement of Net Position	17
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Net Position – Proprietary Fund	20
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Fund	21
Statement of Cash Flows – Proprietary Fund	22
Statement of Fiduciary Net Position – Fiduciary Funds	23
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	23
Notes to Financial Statements	24 - 39
Required Supplementary Information:	
Schedule of Revenues and Expenditures Budget (Non-GAAP Budgetary Basis) and Actual General Fund	40 – 42
Schedule of Revenues and Expenditures Budget (Non-GAAP Budgetary Basis) and Actual Special Revenue Fund	43
Schedule of Changes in Total OPEB Liability and Related Ratios	44
Notes to Required Supplementary Information	45



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, 2017, 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, 2017, 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 changes in total OPEB liability and related ratios on pages 3 through 13 and 40 through 45 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.

Weepich, Cronin & Sarra

October 25, 2017
Lutherville, MD

TOWN OF NORTH EAST

Management Discussion and Analysis June 30, 2017

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, 2017. 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 2017

The Town's assets exceeded its liabilities at the close of the 2017 fiscal year by \$25.6 million (total net position). Approximately 63% of this amount is attributable to the Town's water utility. Of the total net assets, \$7.9 million (unrestricted net position) may be used to meet ongoing obligations to citizens and creditors and \$16.5 million is invested in capital assets, net of related debt.

As of the close of the 2017 fiscal year, the Town's primary governmental fund (general fund) reported an ending fund balance of \$4.5 million. Of this total amount, \$2.4 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 88% of total annual expenditures.

The General Fund, on a current financial resources basis, reported expenditures and other financing sources and uses of \$441,387 above total revenues. \$437,984 of that amount is related to transfers to other governmental funds including \$420,000 to the Capital Projects Fund for future capital projects that are being developed.

The Town's total debt decreased by approximately \$900,000 during the current fiscal year, from \$14.9 million to \$14 million. This is the result of the retirement of existing debt (governmental activities of \$88,928 and business-type activity of \$591,223, excluding the decrease in compensated absences).

USING THIS ANNUAL REPORT

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

- The government-wide financial statements, which are the Statement of Net Position and the Statement of Activities, provide information about the activities of the Town as a whole. They present both short-term and long-term information about the Town's overall financial status.
- For governmental activities, fund financial statements tell how these services were financed in the short-term, as well as what remains for 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, 2017

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 and major special revenue fund compared to actual for the year. Provides the changes in total OPEB liability.

TOWN OF NORTH EAST

Management Discussion and Analysis
June 30, 2017

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 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, 2017

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, 2017

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, 2017 and 2016, respectively.

	Governmental Activities		Business-type Activities		Total Activities	
	Fiscal Year End June 30, 2017	Fiscal Year End June 30, 2016	Fiscal Year End June 30, 2017	Fiscal Year End June 30, 2016	Fiscal Year End June 30, 2017	Fiscal Year End June 30, 2016
ASSETS						
Current and other assets	\$ 7,253,666	\$ 7,493,064	\$ 2,558,212	\$ 2,640,604	\$ 9,811,878	\$ 10,133,668
Capital assets	4,385,633	4,598,482	26,066,279	26,219,980	30,451,912	30,818,462
Total assets	<u>11,639,299</u>	<u>12,091,546</u>	<u>28,624,491</u>	<u>28,860,584</u>	<u>40,263,790</u>	<u>40,952,130</u>
LIABILITIES						
Long-term liabilities	2,130,229	2,162,522	12,195,349	12,725,335	14,325,578	14,887,857
Other liabilities	162,144	391,958	161,057	146,957	323,201	538,915
Total liabilities	<u>2,292,373</u>	<u>2,554,480</u>	<u>12,356,406</u>	<u>12,872,292</u>	<u>14,648,779</u>	<u>15,426,772</u>
NET POSITION						
Net Investment in capital assets	2,548,970	2,672,891	14,023,621	13,586,099	16,572,591	16,258,990
Restricted	62,833	64,064	1,075,300	1,048,880	1,138,133	1,112,944
Unrestricted	6,735,123	6,568,247	1,169,164	1,219,335	7,904,287	7,787,582
TOTAL NET POSITION	<u>\$ 9,346,926</u>	<u>\$ 9,305,202</u>	<u>\$ 16,268,085</u>	<u>\$ 15,854,314</u>	<u>\$ 25,615,011</u>	<u>\$ 25,159,516</u>

TOWN OF NORTH EAST

Management Discussion and Analysis June 30, 2017

The Town's assets exceeded its liabilities at the close of the 2017 fiscal year by \$25.6 million. Approximately \$16.6 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, 2017 and 2016, respectively:

	Governmental		Business-type		Total	
	Activities		Activities		Activities	
	Fiscal Year End June 30, 2017	Fiscal Year End June 30, 2016	Fiscal Year End June 30, 2017	Fiscal Year End June 30, 2016	Fiscal Year End June 30, 2017	Fiscal Year End June 30, 2016
REVENUES						
Program Revenues						
Charges for services	\$ 221,852	\$ 208,872	\$ 2,338,188	\$ 2,325,749	\$ 2,560,040	\$ 2,534,621
Operating grants and contributions	192,865	238,506			192,865	238,506
Capital grants and contributions	8,122		786,437	276,320	794,559	276,320
General Revenues						
Property taxes	1,547,607	1,525,165			1,547,607	1,525,165
State and County shared taxes	315,126	387,855			315,126	387,855
Grants and Contributions not restricted to specific programs	171,669	167,447			171,669	167,447
Investments earnings	36,117	18,016	12,157	5,072	48,274	23,088
Miscellaneous	187,781	156,875	23,216	42,097	210,997	198,972
Total revenues	<u>2,681,139</u>	<u>2,702,736</u>	<u>3,159,998</u>	<u>2,649,238</u>	<u>5,841,137</u>	<u>5,351,974</u>
Program Expenses						
General government	372,700	358,103			372,700	358,103
Public safety	1,166,355	1,332,442			1,166,355	1,332,442
Public works	1,081,463	1,726,783			1,081,463	1,726,783
Health	2,280	1,100			2,280	1,100
Culture and recreation	16,617	64,326			16,617	64,326
Water			2,746,227	2,982,599	2,746,227	2,982,599
Total expenses	<u>2,639,415</u>	<u>3,482,754</u>	<u>2,746,227</u>	<u>2,982,599</u>	<u>5,385,642</u>	<u>6,465,353</u>
CHANGE IN NET POSITION	41,724	(780,018)	413,771	(333,361)	455,495	(1,113,379)
NET POSITION - BEGINNING	<u>9,305,202</u>	<u>10,085,220</u>	<u>15,854,314</u>	<u>16,187,675</u>	<u>25,159,516</u>	<u>26,272,895</u>
NET POSITION - ENDING	<u>\$ 9,346,926</u>	<u>\$ 9,305,202</u>	<u>\$ 16,268,085</u>	<u>\$ 15,854,314</u>	<u>\$ 25,615,011</u>	<u>\$ 25,159,516</u>

TOWN OF NORTH EAST

Management Discussion and Analysis
June 30, 2017

Government-wide statements

The Town's government wide total revenues were \$5.8 million, an increase of approximately \$500,000 from last year. The largest change was due to the Town having received \$473,000 in additional operating and capital grants and contributions in fiscal year 2017 over the 2016 awards.

The Town's government wide total expenses of \$5.4 million were \$1.1 million less than 2016. The largest changes were a decrease in both the governmental activities and business-type activities related to resurfacing the Town's streets and sidewalks (\$702,000) and a major upgrade of the Town's water meters to self-reading Sensus meters (\$225,000).

Governmental activities

Total governmental activities revenues were relatively flat from fiscal year 2016 to fiscal year 2017. General revenues decreased by \$3,000 to \$2.258 million while program revenues decreased by \$24,000 to \$423,000. The only significant change was a decrease in operating grants of \$46,000 in 2017 from 2016.

There was a decrease in governmental activities expenditures in public works (\$645,000). This decrease is attributable to the street and sidewalk resurfacing project which was completed in fiscal year 2016. As anticipated, in fiscal year 2017, the Town's expenditures for public works returned to their historical levels of approximately \$1 million. Total actual expenditures for governmental activities in fiscal year 2017 were 32% less than 2016. If the street and sidewalk resurfacing project costs were excluded from fiscal year 2016 expenses, 2017 expenses would be 5% lower than 2016.

Business-type activities

Water service charges increased by \$53,000 as a result of a 2% rate increase that went into effect in 2017, while capital grants increased by \$556,000. Charges for services, the operating revenues of the business-type activities, increased by 0.5%. 2017 expenses decreased by \$236,000 or 27% from the previous year, this is mostly attributable to the completion of the meter replacement project which was completed in fiscal year 2016.

TOWN OF NORTH EAST

Management Discussion and Analysis June 30, 2017

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, 2017 and 2016, 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.

	<u>Expenses</u>		<u>Revenues</u>		<u>Net Cost</u>	
	Fiscal Year End	Fiscal Year End	Fiscal Year End	Fiscal Year End	Fiscal Year End	Fiscal Year End
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Governmental Activities						
General government	\$ 372,700	\$ 358,103	\$ 43,514	\$ 83,988	\$ (329,186)	\$ (274,115)
Public safety	1,166,355	1,332,442	79,259	63,677	(1,087,096)	(1,268,765)
Public works	1,081,463	1,726,783	289,719	296,863	(791,744)	(1,429,920)
Health	2,280	1,100	- 0 -	- 0 -	(2,280)	(1,100)
Culture and recreation	16,617	64,326	10,347	2,850	(6,270)	(61,476)
Total governmental activities	<u>\$ 2,639,415</u>	<u>\$ 3,482,754</u>	<u>\$ 422,839</u>	<u>\$ 447,378</u>	<u>\$ (2,216,576)</u>	<u>\$ (3,035,376)</u>
Business-type Activities						
Water utility	<u>\$ 2,746,227</u>	<u>\$ 2,982,599</u>	<u>\$ 3,124,625</u>	<u>\$ 2,602,069</u>	<u>\$ 378,398</u>	<u>\$ (380,530)</u>
Total Governmental and Business-type Activities	<u>\$ 5,385,642</u>	<u>\$ 6,465,353</u>	<u>\$ 3,547,464</u>	<u>\$ 3,049,447</u>	<u>\$ (1,838,178)</u>	<u>\$ (3,415,906)</u>

The total cost of governmental activities this year was \$2.6 million, about \$844,000 less than 2016. These costs were financed by user fees of \$222,000, operating grants and contributions of \$192,000, and capital grants and contributions of \$8,000 resulting in a net cost of governmental activities of \$2.2 million compared to a net cost of \$3 million in 2016. The primary difference was a decrease in public works expense over 2016. Other changes in the cost of activities and the means of financing them were noted earlier in this discussion.

The total cost of business-type activities this year was \$2.7 million, a decrease of \$236,000 or 8%. Revenues increased by \$523,000 to \$3.1 million due to an increase capital grants and contributions as noted earlier in this discussion.

Financial Analysis of the Town's Funds

At year-end, the governmental fund balances were \$6 million, an increase of \$11,000 from the previous year. At year-end the general fund balance was \$4.5 million, the special revenue fund balance was \$782,000, and the capital projects fund balance was \$756,000. General fund revenues for the year were \$2.7 million, while expenditures were \$2.6 million.

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, 2017

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual revenues were \$13,000, or 0.5%, less than the budgeted amount, as amended. The budget also included \$511,000 to be used from fund balance to finance 2017 expenditures; \$441,000 of this amount was required.

Actual expenditures were \$99,000, or 4% less than the amended budget. Significant positive variances to budgeted amounts were realized in general government and public works.

During the year, there were two budget amendments amounting to a net decrease of \$65,000 in appropriations and funding sources between the original and final amended budget.

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenue			
Total taxes	\$ 1,877,960	\$ 1,877,959	\$ (1)
Total licenses & permits	80,264	80,264	- 0 -
Total intergovernmental	374,226	371,358	(2,868)
Total service charges	195,187	195,187	- 0 -
Total fines & forfeitures	11,729	11,729	- 0 -
Total misc. revenue	<u>155,201</u>	<u>145,204</u>	<u>(9,997)</u>
Total revenue	2,694,567	2,681,701	(12,866)
Expenditures			
Total general government	433,367	384,868	48,499
Total public safety	1,328,097	1,324,182	3,915
Total public works	845,140	801,907	43,233
Total health	2,500	2,280	220
Total recreation & culture	26,556	23,878	2,678
Total debt service	<u>147,990</u>	<u>147,989</u>	<u>1</u>
Total expenditures	2,783,650	2,685,104	98,546
Other financing uses			
Total other financing uses transfer to other funds	<u>422,000</u>	<u>437,984</u>	<u>(15,984)</u>
Total expenditures and other financing uses	<u>3,205,650</u>	<u>3,123,088</u>	<u>82,562</u>
Excess (deficiency) of revenue over expenditures	(511,083)	(441,387)	85,680
Budgetary reserve	<u>511,083</u>	<u>- 0 -</u>	<u>(511,083)</u>
Excess of revenue & other financing sources over expenditures	<u>\$ - 0 -</u>	<u>\$ (441,387)</u>	<u>\$ (441,387)</u>

TOWN OF NORTH EAST

Management Discussion and Analysis
June 30, 2017

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, 2017, was \$30.4 million. This investment in capital assets includes land, building, machinery and equipment (including vehicles), and infrastructure (including park facilities, roads, highways and bridges). The total decrease in the Town's investment in capital assets for the current fiscal year was \$366,650. Governmental activities capital assets decreased by \$212,000 (net disposals of \$114,000 and net depreciation of \$98,000) and business-type activities capital assets decreased by \$154,000 (net additions of \$798,000 less net depreciation of \$952,000).

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

	Governmental Activities		Business-Type Activities		Total	
	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Land	\$ 1,713,599	\$ 1,713,599	\$ 960,450	\$ 960,450	\$ 2,674,049	\$ 2,674,049
Buildings	748,643	773,214	114,860	108,086	863,503	881,300
Improvements other than buildings	1,601,964	1,849,359	24,949,488	25,135,377	26,551,452	26,984,736
Equipment	321,427	262,310	41,481	16,164	362,908	278,474
TOTAL	<u>\$ 4,385,633</u>	<u>\$ 4,598,482</u>	<u>\$ 26,066,279</u>	<u>\$ 26,220,077</u>	<u>\$ 30,451,912</u>	<u>\$ 30,818,559</u>

Major capital asset events during the fiscal year ending June 30, 2017 in the Town's governmental activities were vehicles, and computer software. In the Town's business-type activities the major project was the purchase of computer software and water piping improvements.

Additional information on the Town's capital assets can be found in Note 4 on pages 32 and 33 of this report.

Long-term Debt

At the end of the current fiscal year, the Town of North East had outstanding loans of \$14 million, compared to \$14.8 million last year. The following chart compares the level of long-term debt for fiscal years 2017 and 2016, respectively:

Governmental Activities		Business-type Activities		Total	
<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<u>\$ 1,992,754</u>	<u>\$ 2,162,522</u>	<u>\$ 12,088,509</u>	<u>\$ 12,725,335</u>	<u>\$ 14,081,263</u>	<u>\$ 14,887,857</u>

TOWN OF NORTH EAST

Management Discussion and Analysis
June 30, 2017

The Town of North East's total debt decreased by \$807,000 during the current fiscal year. In compliance with debt amortization schedules, the Town made total debt repayments in governmental activities of \$89,000 and in business-type activities \$591,000. The Mayor and Commissioners have committed \$1.8 million of the General Fund's fund balance to make future principal payments on Community Development Administration-2014 Series A-1 & A-2.

Additional information on the Town's long-term debt can be found in Note 6 on pages 34 - 35 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The Town is required, by Charter, to have a balanced budget each fiscal year and has always complied with this requirement. Annually, the Town develops and updates financial models for all of its major funds, which enables the Town to evaluate both short and long-term implications of proposed operational and capital decisions regarding Town finances.
- The fiscal year 2018 budget for the Town's General Fund was adopted at \$ 397,000 (12%) less than the fiscal year 2017 final budget.
- For fiscal year 2018, 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 of 47.13 cents. The Town complied with all state requirements for setting the tax rate above the constant yield rate. Fiscal year 2017 was the second year of the assessment cycle and the Town projects property tax revenue to remain flat through fiscal year 2019.
- The fiscal year 2018 water rates for in town and out of town customers were increased as a result of the findings of a water utility rate study conducted by an engineer contracted by the Town. Rates for in town customers increased 23% while the rates for out of town customers increased 7%. The rate study report is available on the Town's website at www.northeastmd.org/water-ratesbilling.

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, 2017

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
CURRENT ASSETS			
Equity in pooled cash	\$ 1,204,036	\$ - 0 -	\$ 1,204,036
Cash and cash equivalents	4,427,377	1,330,623	5,758,000
Restricted cash	28,891	1,075,300	1,104,191
Property taxes receivable	1,011	- 0 -	1,011
Due from other governments	129,848	- 0 -	129,848
Accounts receivable	11,504	528,025	539,529
Current portion - loans receivable	4,582	- 0 -	4,582
Prepaid expenses	35,297	27,281	62,578
Inventory	- 0 -	47,794	47,794
Internal balances	450,811	(450,811)	- 0 -
Total Current Assets	<u>6,293,357</u>	<u>2,558,212</u>	<u>8,851,569</u>
CAPITAL ASSETS			
Land - nondepreciable	1,713,599	960,450	2,674,049
Infrastructure, buildings and equipment	6,326,155	37,128,751	43,454,906
Less: accumulated depreciation	<u>(3,654,121)</u>	<u>(12,022,922)</u>	<u>(15,677,043)</u>
Total Capital Assets	<u>4,385,633</u>	<u>26,066,279</u>	<u>30,451,912</u>
OTHER NONCURRENT ASSETS			
Loans & accrued interest receivable, net of current portion	<u>960,309</u>	<u>- 0 -</u>	<u>960,309</u>
Total Other Noncurrent Assets	<u>960,309</u>	<u>- 0 -</u>	<u>960,309</u>
TOTAL ASSETS	<u>11,639,299</u>	<u>28,624,491</u>	<u>40,263,790</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable & accrued expenses	119,644	161,057	280,701
Unearned revenue	42,500	- 0 -	42,500
Current portion - long term obligations	<u>89,428</u>	<u>593,313</u>	<u>682,741</u>
Total Current Liabilities	251,572	754,370	1,005,942
NONCURRENT LIABILITIES			
Total OPEB liability	137,475	106,840	244,315
Long term obligations	<u>1,903,326</u>	<u>11,495,196</u>	<u>13,398,522</u>
TOTAL LIABILITIES	<u>2,292,373</u>	<u>12,356,406</u>	<u>14,648,779</u>
NET POSITION			
Net investment in capital assets	2,548,970	14,023,621	16,572,591
Restricted			
Off site mitigation	28,891	- 0 -	28,891
Other	33,942	- 0 -	33,942
Capital projects	- 0 -	1,075,300	1,075,300
Unrestricted	<u>6,735,123</u>	<u>1,169,164</u>	<u>7,904,287</u>
TOTAL NET POSITION	<u>\$ 9,346,926</u>	<u>\$ 16,268,085</u>	<u>\$ 25,615,011</u>

See accompanying notes to financial statements

Town of North East
Statement of Activities
For the Year Ended June 30, 2017

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES:							
General government	\$ 372,700	\$ 24,522	\$ 18,992	\$ - 0 -	\$ (329,186)	\$ - 0 -	\$ (329,186)
Public safety	1,166,355	10,729	68,530	- 0 -	(1,087,096)	- 0 -	(1,087,096)
Public works	1,081,463	184,376	105,343	- 0 -	(791,744)	- 0 -	(791,744)
Health	2,280	- 0 -	- 0 -	- 0 -	(2,280)	- 0 -	(2,280)
Culture and recreation	16,617	2,225	- 0 -	8,122	(6,270)	- 0 -	(6,270)
Total Governmental Activities	2,639,415	221,852	192,865	8,122	(2,216,576)	- 0 -	(2,216,576)
BUSINESS-TYPE ACTIVITIES:							
Water system	2,746,227	2,338,188	- 0 -	786,437	- 0 -	378,398	378,398
Total Business-Type Activities	2,746,227	2,338,188	- 0 -	786,437	- 0 -	378,398	378,398
TOTAL PRIMARY GOVERNMENT	\$ 5,385,642	\$ 2,560,040	\$ 192,865	\$ 794,559	(2,216,576)	378,398	(1,838,178)
GENERAL REVENUES:							
Taxes:							
Property					1,547,607	- 0 -	1,547,607
Income and other					315,126	- 0 -	315,126
Grants and contributions not restricted to specific programs					171,669	- 0 -	171,669
Investment income					36,117	12,157	48,274
Miscellaneous					187,781	23,216	210,997
TOTAL GENERAL REVENUES					2,258,300	35,373	2,293,673
CHANGE IN NET POSITION					41,724	413,771	455,495
NET POSITION - BEGINNING OF YEAR							
As previously reported					9,537,066	15,988,292	25,525,358
Adjustments affecting prior periods					(231,864)	(133,978)	(365,842)
NET POSITION - BEGINNING OF YEAR - AS RESTATED					9,305,202	15,854,314	25,159,516
NET POSITION - END OF YEAR					\$ 9,346,926	\$ 16,268,085	\$ 25,615,011

See accompanying notes to financial statements

Town of North East

Balance Sheet
Governmental Funds
June 30, 2017

	Major Funds			Non-Major	Total
	General Fund	Special Revenue Fund	Capital Projects Fund	Special Revenue Fund	Governmental Funds
ASSETS					
Equity in pooled cash	\$ 326,167	\$ 106,304	\$ 756,053	\$ 15,512	\$ 1,204,036
Cash and cash equivalents	3,751,602	675,775	- 0 -	- 0 -	4,427,377
Restricted cash	28,891	- 0 -	- 0 -	- 0 -	28,891
Property taxes receivable	1,011	- 0 -	- 0 -	- 0 -	1,011
Due from other governments	129,848	- 0 -	- 0 -	- 0 -	129,848
Accounts receivable	11,504	- 0 -	- 0 -	- 0 -	11,504
Prepaid expense	35,297	- 0 -	- 0 -	- 0 -	35,297
Due from proprietary fund	450,811	- 0 -	- 0 -	- 0 -	450,811
Loans receivable	- 0 -	964,891	- 0 -	- 0 -	964,891
TOTAL ASSETS	\$ 4,735,131	\$ 1,746,970	\$ 756,053	\$ 15,512	\$ 7,253,666
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
LIABILITIES:					
Accounts payable	\$ 78,107	\$ - 0 -	\$ - 0 -	\$ - 0 -	\$ 78,107
Accrued expenses	21,356	- 0 -	- 0 -	- 0 -	21,356
Due to other governments	20,181	- 0 -	- 0 -	- 0 -	20,181
Unearned revenue	42,500	- 0 -	- 0 -	- 0 -	42,500
Total Liabilities	162,144	- 0 -	- 0 -	- 0 -	162,144
DEFERRED INFLOWS OF RESOURCES:					
Unavailable income taxes receivable	57,999	- 0 -	- 0 -	- 0 -	57,999
Unavailable enterprise zone tax credits	7,450	- 0 -	- 0 -	- 0 -	7,450
Unavailable loans receivable	- 0 -	964,891	- 0 -	- 0 -	964,891
Total Deferred Inflows of Resources	65,449	964,891	- 0 -	- 0 -	1,030,340
FUND BALANCES:					
Nonspendable	35,297	- 0 -	- 0 -	- 0 -	35,297
Restricted	47,321	- 0 -	- 0 -	15,512	62,833
Committed	1,989,057	- 0 -	533,000	- 0 -	2,522,057
Assigned	- 0 -	782,079	223,053	- 0 -	1,005,132
Unassigned	2,435,863	- 0 -	- 0 -	- 0 -	2,435,863
Total Fund Balances	4,507,538	782,079	756,053	15,512	6,061,182
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 4,735,131	\$ 1,746,970	\$ 756,053	\$ 15,512	\$ 7,253,666

See accompanying notes to financial statements

Town of North East

Reconciliation of Balance Sheet - Governmental Funds to the Statement of Net Position
June 30, 2017

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS \$ 6,061,182

Amounts reported for Governmental Activities in the
Statement of Net Position are different because:

Capital assets used in Governmental Activities are not
financial resources, and therefore, are not reported
in the the governmental funds.

Governmental capital assets	\$ 8,039,754	
Less: accumulated depreciation	<u>(3,654,121)</u>	
		4,385,633

Long term liabilities are not payable in the current period and
are not reported in the governmental funds.

Other postemployment benefits	(137,475)	
Bonds payable	(1,836,663)	
Compensated absences	<u>(156,091)</u>	
		(2,130,229)

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.

Loans receivable	964,891	
Enterprise zone tax credits	7,450	
Income taxes	<u>57,999</u>	
		<u>1,030,340</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 9,346,926

Town of North East

Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2017

	Major Funds			Non-Major	Total Governmental Funds
	General Fund	Special Revenue Fund	Capital Projects Fund	Special Revenue Fund	
REVENUES					
Taxes	\$ 1,877,959	\$ - 0 -	\$ - 0 -	\$ - 0 -	\$ 1,877,959
Licenses and permits	80,264	- 0 -	- 0 -	- 0 -	80,264
Intergovernmental	371,358	- 0 -	- 0 -	- 0 -	371,358
Charges for service	195,187	- 0 -	- 0 -	- 0 -	195,187
Fines and forfeitures	11,729	- 0 -	- 0 -	- 0 -	11,729
Miscellaneous	130,266	4,819	- 0 -	6,305	141,390
Total Revenues	2,666,763	4,819	- 0 -	6,305	2,677,887
EXPENDITURES					
Current operating					
General government	337,042	- 0 -	- 0 -	8,777	345,819
Public safety	1,264,658	- 0 -	- 0 -	- 0 -	1,264,658
Public works	770,922	- 0 -	1,849	- 0 -	772,771
Health	2,280	- 0 -	- 0 -	- 0 -	2,280
Recreation and culture	16,392	- 0 -	- 0 -	- 0 -	16,392
Capital outlays	145,821	- 0 -	- 0 -	- 0 -	145,821
Debt service - principal	88,928	- 0 -	- 0 -	- 0 -	88,928
Debt service - interest	59,061	- 0 -	- 0 -	- 0 -	59,061
Total Expenditures	2,685,104	- 0 -	1,849	8,777	2,695,730
EXCESS OF REVENUES OVER (EXPENDITURES)	(18,341)	4,819	(1,849)	(2,472)	(17,843)
OTHER FINANCING SOURCES (USES)					
Sale of capital assets	14,938	- 0 -	- 0 -	- 0 -	14,938
Issuance of loan receivable	- 0 -	(11,496)	- 0 -	- 0 -	(11,496)
Interest on loans receivable	- 0 -	2,632	- 0 -	- 0 -	2,632
Repayment on loans receivable	- 0 -	22,589	- 0 -	- 0 -	22,589
Transfer in (out)	(437,984)	- 0 -	420,000	17,984	- 0 -
Total Other Financing Sources (Uses)	(423,046)	13,725	420,000	17,984	28,663
TOTAL NET CHANGE IN FUND BALANCE	(441,387)	18,544	418,151	15,512	10,820
FUND BALANCES - BEGINNING	4,948,925	763,535	337,902	- 0 -	6,050,362
FUND BALANCES - ENDING	\$ 4,507,538	\$ 782,079	\$ 756,053	\$ 15,512	\$ 6,061,182

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, 2017

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS		\$ 10,820
<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 \$358,670 exceeded capital outlays of \$145,821 in the current period.</p>		
		(212,849)
<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>		
		88,928
<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>		
		80,840
<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 (received) that was not (earned) received within the specified time period.</p>		
Interest	\$ 5,915	
Enterprise zone tax credits	7,450	
Income taxes	<u>(22,676)</u>	
		(9,311)
<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>		
		(22,589)
<p>Governmental funds report expenditures for other postemployment benefits only to the extent that liabilities are expected to be liquidated with available financial resources. This is the change in liabilities for other postemployment benefits not expected to be liquidated with current available resources.</p>		
		94,389
<p>Issuance of a long term loan receivable utilized financial resources in the current period. The Statement of Activities does not recognize this transaction as an expenditure in the current period. This is the amount that was recorded as a current year other financing use.</p>		
		<u>11,496</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 41,724</u>

See accompanying notes to financial statements

Town of North East

Statement of Net Position - Proprietary Fund
June 30, 2017

		Major Enterprise Fund Water Fund
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$	1,330,623
Restricted cash		1,075,300
Service charges receivable		528,025
Prepaid expenses		27,281
Inventory		47,794
Total Current Assets	\$	3,009,023
CAPITAL ASSETS		
Land - nondepreciable		960,450
Building and equipment		37,128,751
Less: accumulated depreciation		(12,022,922)
Total Capital Assets		26,066,279
TOTAL ASSETS		29,075,302
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable		109,425
Accrued expenses		51,632
Due to general fund		450,811
Current portion, long term obligations		593,313
Total Current Liabilities		1,205,181
NONCURRENT LIABILITIES		
Total OPEB liability		106,840
Long term obligations		11,495,196
Total Noncurrent Liabilities		11,602,036
TOTAL LIABILITIES		12,807,217
NET POSITION		
Net investment in capital assets		14,023,621
Restricted for capital projects		1,075,300
Unrestricted		1,169,164
TOTAL NET POSITION	\$	16,268,085

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, 2017

	Major Enterprise Fund	
	Water Fund	
OPERATING REVENUES		
Service fees	\$ 2,234,052	
Connection charges	15,000	
Miscellaneous revenue	21,458	
Service charge penalties	67,806	
Major facilities fees	21,000	
Total Operating Revenue	\$	2,359,316
OPERATING EXPENSES		
Salaries	500,784	
Employee benefits and payroll taxes	149,129	
Repairs and maintenance	306,152	
Supplies	242,988	
Utilities	207,533	
Insurance	43,569	
Professional fees	181,044	
Office expense	38,891	
Miscellaneous	10,491	
Depreciation and amortization	991,585	
Total Operating Expenses		2,672,166
OPERATING LOSS		(312,850)
NONOPERATING REVENUES (EXPENSES)		
Interest expense	(74,061)	
Interest earned	12,157	
Insurance proceeds	2,088	
Total Nonoperating Revenue (Expenses)		(59,816)
INCOME BEFORE CAPITAL CONTRIBUTION		(372,666)
Capital contributions		786,437
CHANGE IN NET POSITION		413,771
TOTAL NET POSITION - BEGINNING		
As previously reported		15,988,292
Adjustments affecting prior periods		(133,978)
TOTAL NET POSITION - BEGINNING - AS RESTATED		15,854,314
TOTAL NET POSITION - ENDING	\$	16,268,085

See accompanying notes to financial statements

Town of North East

Statement of Cash Flows - Proprietary Fund
For the Year Ended June 30, 2017

	Major Enterprise Fund	
	Water Fund	
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 2,401,361	
Cash payments to suppliers for goods and services	(1,184,270)	
Cash payments to employees for salaries	(550,903)	
NET CASH FLOWS FROM OPERATING ACTIVITIES		\$ 666,188
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfer from other funds	99,039	
NET CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		99,039
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Repayments of bonds	(591,223)	
Capital expenditures	(51,350)	
Insurance proceeds	2,088	
Interest paid on bonds	(74,743)	
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		(715,228)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income received	12,157	
NET CASH FLOWS FROM INVESTING ACTIVITIES		12,157
NET DECREASE IN CASH AND CASH EQUIVALENTS		62,156
EQUITY IN POOLED CASH, CASH AND CASH EQUIVALENTS - BEGINNING		2,343,767
EQUITY IN POOLED CASH, CASH AND CASH EQUIVALENTS - END		\$ 2,405,923
Reconciliation of operating loss to net cash flows from operating activities:		
Operating loss		\$ (312,850)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Depreciation and amortization expense		991,585
(Increase) decrease in current assets:		
Service charges receivable		42,045
Prepaid expenses		6,914
Inventory		(3,450)
Increase (decrease) in current liabilities:		
Accounts payable		19,201
Accrued expensess		(50,119)
Decrease in total OPEB liability		(27,138)
Net cash flows from operating activities		\$ 666,188
SUPPLEMENTAL DISCLOSURE OF NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Contributed capital		\$ 786,437

See accompanying notes to financial statements

Town of North East

Statement of Fiduciary Net Position - Fiduciary Funds
June 30, 2017

	Employee Benefit Plan	Agency Fund
ASSETS		
Equity in pooled cash	\$ - 0 -	\$ 156,620
Investments with fiscal agents	3,268,830	- 0 -
TOTAL ASSETS	3,268,830	156,620
LIABILITIES		
Accounts payable	- 0 -	4,973
Amounts held in escrow	- 0 -	151,647
TOTAL LIABILITIES	- 0 -	156,620
NET POSITION		
Held in trust for employee benefit plan	\$ 3,268,830	\$ - 0 -

Statement of Changes in Fiduciary Net Position - Fiduciary Funds
For the Year Ended June 30, 2017

	Employee Benefit Plan
CONTRIBUTIONS	
Employer	\$ 80,752
Employees	91,985
Investment gains	289,023
Total Contributions	461,760
DISTRIBUTIONS	
Benefits paid	79,710
Charges/fees	13,201
Total Distributions	92,911
CHANGE IN NET POSITION	368,849
TOTAL NET POSITION - BEGINNING	2,899,981
TOTAL NET POSITION - ENDING	\$ 3,268,830

See accompanying notes to financial statements

TOWN OF NORTH EAST

Notes to Financial Statements June 30, 2017

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. However, data from the fiduciary funds is not incorporated in the government-wide financial statements.

TOWN OF NORTH EAST

Notes to Financial Statements June 30, 2017

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.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column. There were no transfers during the year between governmental and business-type activities.

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2017

1. Summary of Significant Accounting Policies (continued)

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.

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 - Revitalization Loans Fund – This special revenue 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 non-major governmental fund:

Special Revenue Fund - Parade Fund – This special revenue fund accounts for financial resources associated with the annual Christmas parade.

The Town reports the following major proprietary fund:

Water Fund – This enterprise 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. Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting.

TOWN OF NORTH EAST

Notes to Financial Statements June 30, 2017

1. Summary of Significant Accounting Policies (continued)

Budgetary Data – Formal budgetary accounting is employed as a management control for the general, special revenue, capital projects and proprietary funds of the Town. 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 was not allocated back to the respective funds, as any amount was immaterial. 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 deposits by developers to cover off-site mitigation and other costs and capital projects. The resources are maintained in separate bank accounts, or as a component of pooled cash.

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).

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2017

1. Summary of Significant Accounting Policies (continued)

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

Infrastructure	15 years
Buildings and improvements	30 - 50 years
Water plant and distribution system	30 - 80 years
Equipment	5 - 10 years

Compensated Absences - Compensated absences are those earned but unused absences for which employees will be paid, such as vacation and sick leave. Employees are granted vacation and sick leave in varying amounts. 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:

Net investment in capital assets

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, 2017, 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, 2017 totaled \$1,138,133.

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2017

1. Summary of Significant Accounting Policies (continued)

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, 2017, the Town reported \$35,297 of nonspendable funds.

Restricted

This category includes amounts constrained by an external party, constitutional provision or enabling legislation. As of June 30, 2017, 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, 2017, the Town reported \$62,833 of restricted funds.

Committed

This category includes amounts constrained for a specific purpose by the Mayor and Commissioners using its highest level of decision making authority, prior to year end. As of June 30, 2017, the Mayor and Commissioners committed \$161,601 of reserve funds to cover budget expenditures in the following year, \$1,783,500 to future debt service requirements, \$43,956 to cover future payouts of accumulated sick leave and \$533,000 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, 2017, the Town had \$207,842 of funds assigned for revitalization loans for the Town, an additional \$574,237 assigned for capital community projects that are not considered part of normal operations of the Town and \$223,053 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:

Net investment in capital assets

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, 2017, the fund reported \$14,023,621 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, 2017, the fund reported \$1,075,300 of assets restricted for this purpose.

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2017

1. Summary of Significant Accounting Policies (continued)

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. 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).

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 value is based on a share price of \$1.00 per share (Level 1). As of June 30, 2017, 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, 2017, 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 of \$1,360,656, Cash and Cash Equivalents of \$5,758,000 and Restricted Cash of \$1,104,191. Pooled cash consists of \$156,620 (carrying amount) and \$156,620 (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, 2017

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

Deposits by level of risk are:

	Carrying Amount	Bank Balance
Cash on hand	\$ 1,600	\$ - 0 -
FDIC Insured	461,081	502,955
Uninsured, collateral held by 3 rd party Trustee on behalf of the bank in the Town's name	1,110,656	1,390,656
Maryland Local Government Investment Pool	6,649,510	6,649,510
Total deposits	\$ 8,222,847	\$ 8,543,121

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 \$18,888 were received during the year ended June 30, 2017 and have been reported as an other financing source. Interest payments of \$2,006 were received during the year ended June 30, 2017 and have been reported as an other financing source. Total loan value and accrued interest as of June 30, 2017 was \$181,100.

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, 2017 was \$774,658.

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. During the year ended June 30, 2017 loans of \$11,496 were issued and have been reported as an other financing use. Principal payments of \$3,701 were received during the year ended June 30, 2017 and have been reported as an other financing source. Interest payments of \$626 were received during the year ended June 30, 2017 and have been reported as an other financing source. As of June 30, 2017, total outstanding loans and accrued interest under this program were \$9,133.

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.

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2017

3. Loans Receivable (continued)

Total loans receivable are reflected in the Statement of Net Position based on anticipated maturity. Accordingly, the current portion of loans receivable is \$4,582 and long term notes receivable, including accrued interest totals \$960,309.

4. Capital Assets

Capital asset activity for the Town of North East for the year ended June 30, 2017 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
Infrastructure	4,072,385	- 0 -	- 0 -	4,072,385
Equipment	<u>1,135,907</u>	<u>145,821</u>	<u>260,213</u>	<u>1,021,515</u>
Total	<u>8,154,146</u>	<u>145,821</u>	<u>260,213</u>	<u>8,039,754</u>
Less: Accumulated depreciation				
Buildings	459,041	24,571	- 0 -	483,612
Infrastructure	2,223,026	247,395	- 0 -	2,470,421
Equipment	<u>873,597</u>	<u>86,704</u>	<u>260,213</u>	<u>700,088</u>
Total accumulated depreciation	<u>3,555,664</u>	<u>358,670</u>	<u>260,213</u>	<u>3,654,121</u>
Governmental Activities Capital Assets, net	<u>\$ 4,598,482</u>			<u>\$ 4,385,633</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 27,935
Public safety	53,223
Public works	277,287
Parks and recreation	<u>225</u>
Total depreciation expense	<u>\$ 358,670</u>

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2017

4. Capital Assets (continued)

	<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	15,088	- 0 -	264,517
Water plant & distribution system	35,928,290	786,437	- 0 -	36,714,727
Equipment	<u>152,576</u>	<u>36,262</u>	<u>39,331</u>	<u>149,507</u>
Total	<u>37,290,745</u>	<u>837,787</u>	<u>39,331</u>	<u>38,089,201</u>
Less: accumulated depreciation				
Buildings	141,343	8,314	- 0 -	149,657
Water plant & distribution System	10,792,913	972,326	- 0 -	11,765,239
Equipment	<u>136,412</u>	<u>10,945</u>	<u>39,331</u>	<u>108,026</u>
Total accumulated depreciation	<u>11,070,668</u>	<u>991,585</u>	<u>39,331</u>	<u>12,022,922</u>
Business-type Activities				
Capital Assets, Net	<u>\$ 26,220,077</u>			<u>\$ 26,066,279</u>

Depreciation expense for business-type activities for the year ended June 30, 2017 was \$991,585.

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, 2017 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, 2017 was \$0.48 and \$1.20 per \$100 of assessed value for real property and public utility taxes, respectively.

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2017

6. Long Term Obligations

Long-Term Obligations at June 30, 2017 consists of:

Department of Natural Resources – Shoreline Erosion Total authorized and issued as of June 30, 2017 - \$88,560 Principal paid through June 30, 2017 - \$35,424. Non-interest loan. Annual principal payments of \$4,428 through July 2029	\$ 53,136
Community Development Administration – 2014 Series A-1 & A-2 Total authorized and issued as of June 30, 2017 - \$2,018,940 Principal paid through June 30, 2017 - \$235,413. Interest at 3.51%. Annual principal and semi-annual interest payments through May 2034	1,783,527
Compensated Absences	<u>156,091</u>
Total Governmental Activities	\$ <u>1,992,754</u>

Business-Type Activities:

Maryland Water Quality Financing Administration, Series 2009 Bonds Total authorized as of June 30, 2017 - \$1,375,000. Total issued as of June 30, 2017 - \$1,124,842. Principal paid through June 30, 2017 - \$550,000. Non-interest bearing loan. Annual principal payments of \$68,750 through February 2026.	\$ 574,842
Maryland Water Quality Financing Administration, Series 2007 A Bonds Total authorized and issued as of June 30, 2017 - \$15,590,777. Principal paid through June 30, 2017 - \$4,122,961. Interest at 0.4%. Annual principal and semi-annual interest payments through February, 2038.	11,467,816
Compensated Absences	<u>45,851</u>
Total Business-Type Activities	<u>12,088,509</u>
Total Long-Term Obligations	\$ <u>14,081,263</u>

During the year ended June 30, 2017, the following changes occurred in Long-Term Obligations:

	<u>Balance 6/30/16</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance 06/30/17</u>
Governmental Activities:				
Bonds	\$ 1,925,591	\$ - 0 -	\$ 88,928	\$ 1,836,663
Compensated Absences	236,931	87,268	168,108	156,091
Business-Type Activities:				
Bonds	12,633,881	- 0 -	591,223	12,042,658
Compensated Absences	<u>91,454</u>	<u>37,386</u>	<u>82,989</u>	<u>45,851</u>
Totals	\$ <u>14,887,857</u>	\$ <u>124,654</u>	\$ <u>931,248</u>	\$ <u>14,081,263</u>

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2017

6. Long Term Obligations (continued)

Future debt service requirements are as follows:

<u>Years Ending June 30</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal Maturing</u>	<u>Interest Payable</u>	<u>Principal Maturing</u>	<u>Interest Payable</u>
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	95,428	51,616	601,756	37,428
2023 through 2027	516,640	218,569	2,928,275	154,986
2028 through 2032	591,856	128,145	2,751,559	100,612
2033 through 2037	267,500	16,806	2,807,033	45,136
2038	- 0 -	- 0 -	568,161	2,272
Net Long-Term Obligations	<u>\$ 1,836,636</u>	<u>\$ 638,758</u>	<u>\$ 12,042,658</u>	<u>\$ 511,296</u>

Total interest and administrative fees paid for the year ended June 30, 2017 included as direct function expense in the governmental activities totaled \$59,061.

Total interest and administrative fees paid for the year ended June 30, 2017 included as direct function expense in the proprietary activities totaled \$74,061.

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, 2017, 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.

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 to the 401(a) plan, \$1,500 for each full time employee who had completed six months of employment. In addition, the Town contributed as an additional contribution to the 401(a) plan up to \$1,500 as a match for employee contributions to the Town's 457(b) deferred compensation plan. 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, 2017, 27 employees participated in the plan contributing \$91,985 and the Town's contribution was \$80,752.

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2017

9. Postemployment Benefits Other Than Pensions (OPEB)

Description of Plan

The Town's defined benefit OPEB plan, Town of North East Retiree Health Benefits Plan (the Plan), provides monetary contributions towards the continuation of coverage for medical insurance for employees who have retired from the Town. The Plan is a single-employer defined benefit plan administered by the Town. The Plan was adopted by a Resolution of the Mayor and Commissioners, and may also be terminated by the same, at any time. As of June 30, 2017 no trust that meets the criteria in paragraph 4 of GASB Statement No. 75 has been established and the Town is not accumulating assets to provide these benefits.

Benefits Provided

Under the Plan, 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 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 \$3,690 associated with this provision during the year ended June 30, 2017.

Employees Covered By Benefit Terms

At June 30, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	0
Inactive employees entitled to but not yet receiving benefit payments	0
Active employees	<u>28</u>
	<u>28</u>

Total OPEB Liability

The Town's total OPEB liability of \$244,315 was measured as of June 30, 2017, and was determined using the alternative measurement method in lieu of an actuarial valuation as of that date.

Alternative Measurement Assumptions and Other Inputs

The Town's total OPEB liability in the June 30, 2017 alternative measurement was determined using the following assumptions and other inputs, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	3.0%
Discount rate	3.13%
Healthcare cost trend rate	5.2%
Retirees' share of costs	0% to 50% based on years of service

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2017

9. Postemployment Healthcare Benefits (continued)

The alternative measurement assumes 100% of the employees will retire upon attainment of age 65 years of age. Based on historical experience, management believes that only 50% of eligible retirees will elect coverage. However the alternative measurement does not factor this into the assumptions. Plan benefits are only provided for 18 months, accordingly mortality rates were not factored into the alternative measurement.

The probability that an active employee will remain employed until the assumed age at which benefit payments will begin was determined using age-based turnover derived from data maintained by the US. Office of Personnel Management regarding the experience of the employee group covered by the Federal Employees Retirement System.

The expected rate of increases in healthcare costs is based on the average of projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services in National Health Expenditures Projections; Aggregate and per Capita Amounts, Percent Distribution and Annual Percent Change by Source of Funds: Calendar Years 2009-2025.

The discount rate was based on the S&P Municipal Bond 20 Year High Grade Rate Index.

Changes in Total OPEB Liability

Total OPEB Liability

Service cost	\$	6,444
Interest		9,914
Changes in assumptions or other inputs		(134,195)
Benefit payments		<u>(3,690)</u>
Net change in total OPEB liability		(121,527)
Total OPEB liability - beginning		<u>365,842</u>
Total OPEB liability - ending	\$	<u><u>244,315</u></u>

Changes of assumptions and other inputs reflects a change in the discount rate from 2.71% in 2016 to 3.13% in 2017.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.13%) or 1-percentage-point higher (4.13%) than the current discount rate.

	1% Decrease (2.13%)	Discount Rate (3.13%)	1% Increase (4.13%)
Total OPEB Liability	\$ 281,870	\$ 244,315	\$ 216,328

TOWN OF NORTH EAST

Notes to Financial Statements
June 30, 2017

9. Postemployment Healthcare Benefits (continued)

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a health care cost trend rate that is 1-percentage-point lower (4.20%) or 1-percentage-point higher (6.20%) than the current cost trend rate.

	1% Decrease (4.20%)	Health Care Cost Trend Rate (5.20%)	1% Increase (6.20%)
Total OPEB Liability	\$ 211,324	\$ 244,315	\$ 284,217

OPEB Expense

During the year ended June 30, 2017, the Town recognized negative OPEB expense of \$121,527.

10. Interfund Receivables, Payables and Transfers

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 \$99,039. Total advances due to governmental activities as of June 30, 2017 totaled \$450,811.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

During the year ended June 30, 2017, the Town transferred \$437,984 out of the general fund for the following:

<u>Transferred to</u>	<u>Amount</u>	<u>Purpose</u>
Capital Projects Fund (Major Fund)	\$420,000	To fund future capital projects
Parade Fund (Non-major Special Revenue Fund)	\$17,984	To establish the fund based on prior activity

11. 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.

TOWN OF NORTH EAST

Notes to Financial Statements June 30, 2017

11. Contingent Liabilities and Commitments (continued)

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

12. Tax Abatements

The State of Maryland has designated certain parcels within the corporate limits of the Town as "Enterprise Zones" pursuant to the Economic Development Article, Sections 5-701 through 5-708 of the Annotated Code of Maryland. Businesses located in the Enterprise Zone may qualify for a tax credit equal to the amount of real property tax imposed on the eligible assessment of the qualified property as defined in Section 9-103 of the Tax Property Article for a period of ten years. The percentage of the credit is as follows:

Years 1 - 5	80%
Year 6	70%
Year 7	60%
Year 8	50%
Year 9	40%
Year 10	30%

Companies applying for the credit must submit data as required by the local zoning administrator who is responsible for determining the firm continues to meet the eligibility criteria. There is no recapture provision. If the zoning administrator determines the firm is not in compliance with the terms of the program it will lose the credit for those years it is not in compliance. The State of Maryland reimburses the Town for 50% of the lost revenue that results from this program. During the year ended June 30, 2017, \$14,900 in Real Property Taxes was abated as part of this program with \$7,450 to be reimbursed to the Town in Fiscal Year 2018 to offset 50% of the credits.

13. Change in Accounting Principal

During the year ended June 30, 2017, the Town early implemented the provisions of GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. That statement requires the Town to report the total OPEB liability in its financial statements. Accordingly, beginning net position was decreased by \$231,864 for governmental activities and decreased by \$133,978 for business-type activities and the water fund, the balance of the total OPEB liability calculated as of June 30, 2016.

14. Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition through October 25, 2017, 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, 2017

	Original Budget	Final Budget	Actual	Variance
TAXES:				
Real property	\$ 1,486,463	\$ 1,465,804	\$ 1,465,804	\$ - 0 -
Enterprise zone credit	9,811	9,811	9,811	- 0 -
Railroads and public utilities	67,000	57,655	57,655	- 0 -
Penalties and interest	4,200	6,887	6,887	- 0 -
Total Property Taxes	<u>1,567,474</u>	<u>1,540,157</u>	<u>1,540,157</u>	<u>- 0 -</u>
Other taxes				
Local income tax	286,500	330,960	330,959	(1)
Admission and amusement tax	3,500	6,843	6,843	- 0 -
Total Other Taxes	<u>290,000</u>	<u>337,803</u>	<u>337,802</u>	<u>(1)</u>
TOTAL TAXES	<u>1,857,474</u>	<u>1,877,960</u>	<u>1,877,959</u>	<u>(1)</u>
LICENSES AND PERMITS:				
Traders	8,500	9,246	9,246	- 0 -
Building and equipment	4,000	2,795	2,795	- 0 -
Cable television rebate	64,000	68,103	68,103	- 0 -
Other permits	150	120	120	- 0 -
Total Licenses and Permits	<u>76,650</u>	<u>80,264</u>	<u>80,264</u>	<u>- 0 -</u>
INTERGOVERNMENTAL:				
State of Maryland				
Police protection	61,330	67,979	67,979	- 0 -
Other police grants	8,500	5,500	5,558	58
Highway user revenue	78,269	78,269	77,843	(426)
Parks and playground	- 0 -	8,122	8,122	- 0 -
State highway administration	10,000	30,000	27,500	(2,500)
Critical area commission	5,000	5,000	5,000	- 0 -
Total State of Maryland	<u>163,099</u>	<u>194,870</u>	<u>192,002</u>	<u>(2,868)</u>
Cecil County				
Hotel grant	102,000	84,023	84,023	- 0 -
Financial cooperation grant	1,178	1,178	1,178	- 0 -
Solid waste rebate	7,687	7,687	7,687	- 0 -
Tax differential	86,468	86,468	86,468	- 0 -
Total Cecil County	<u>197,333</u>	<u>179,356</u>	<u>179,356</u>	<u>- 0 -</u>
Total Intergovernmental	<u>360,432</u>	<u>374,226</u>	<u>371,358</u>	<u>(2,868)</u>
SUBTOTAL	<u>2,294,556</u>	<u>2,332,450</u>	<u>2,329,581</u>	<u>(2,869)</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, 2017

	Original Budget	Final Budget	Actual	Variance
SERVICE CHARGES:				
Trash collection	\$ 183,000	\$ 184,376	\$ 184,376	\$ - 0 -
Zoning and subdivision fees	600	1,575	1,575	- 0 -
Special events	12,700	9,236	9,236	- 0 -
Total Service Charges	196,300	195,187	195,187	- 0 -
FINES AND FORFEITURES:				
Parking and other fines	300	11,729	11,729	- 0 -
Total Fines and Forfeitures	300	11,729	11,729	- 0 -
MISCELLANEOUS REVENUES:				
Investment earnings	15,600	22,751	22,751	- 0 -
Rents	97,459	94,363	94,363	- 0 -
Other	8,559	38,087	28,090	(9,997)
Total Miscellaneous Revenues	121,618	155,201	145,204	(9,997)
TOTAL REVENUE	2,612,774	2,694,567	2,681,701	(12,866)
BUDGETARY RESERVE	657,587	511,083	- 0 -	(511,083)
TOTAL REVENUE AND OTHER FINANCING SOURCES	\$ 3,270,361	\$ 3,205,650	\$ 2,681,701	\$ (523,949)

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, 2017

	Original Budget	Final Budget	Actual	Variance
GENERAL GOVERNMENT:				
Mayor and commissioners	\$ 35,414	\$ 26,289	\$ 23,577	\$ 2,712
Administration	52,385	52,594	49,309	3,285
Elections	1,000	1,000	833	167
Finance	59,657	83,168	81,334	1,834
Accounting and auditing	20,000	15,249	13,275	1,974
Law	10,000	11,234	7,471	3,763
Planning and zoning	118,486	126,996	115,223	11,773
General services	167,315	116,837	93,846	22,991
Total General Government	464,257	433,367	384,868	48,499
PUBLIC SAFETY:				
Police	1,309,096	1,320,597	1,316,682	3,915
Fire	7,500	7,500	7,500	- 0 -
Total Public Safety	1,316,596	1,328,097	1,324,182	3,915
PUBLIC WORKS:				
Highway and streets				
Roadways	577,363	581,172	538,657	42,515
Street lighting	70,250	72,742	72,741	1
Snow removal	30,000	3,166	3,165	1
Total Highway and Streets	677,613	657,080	614,563	42,517
Sanitation and waste removal	188,060	188,060	187,344	716
Total Public Works	865,673	845,140	801,907	43,233
HEALTH:				
Mosquito control	2,500	2,500	2,280	220
RECREATION AND CULTURE:				
Parks	53,794	26,556	23,878	2,678
DEBT SERVICE:				
Principal and interest	147,541	147,990	147,989	1
TOTAL EXPENDITURES	2,850,361	2,783,650	2,685,104	98,546
OTHER FINANCING USES				
Transfers of funds	420,000	422,000	437,984	(15,984)
TOTAL EXPENSE AND OTHER FINANCING USES	3,270,361	3,205,650	3,123,088	82,562
TOTAL REVENUE AND OTHER FINANCING SOURCES				
	3,270,361	3,205,650	2,681,701	(523,949)
DEFICIENCY OF REVENUES OVER EXPENDITURES	\$ - 0 -	\$ - 0 -	\$ (441,387)	\$ (441,387)

See accompanying notes to required supplementary information

Town of North East

Schedule of Revenues and Expenditures Budget
(Non-GAAP and Budgetary Basis) and Actual Special Revenue Fund
For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance
MISCELLANEOUS REVENUES:				
Investment earnings	\$ - 0 -	\$ 4,820	\$ 4,819	(1)
Total Miscellaneous Revenues	- 0 -	4,820	4,819	(1)
TOTAL REVENUE	- 0 -	4,820	4,819	(1)
OTHER FINANCING SOURCES				
Interest on loans receivable	- 0 -	8,547	2,632	(5,915)
Repayment on loans receivable	- 0 -	- 0 -	22,589	22,589
	- 0 -	8,547	25,221	16,674
TOTAL REVENUE AND OTHER FINANCING SOURCES	- 0 -	13,367	30,040	16,673
OTHER FINANCING USES				
Issuance of new loans	- 0 -	- 0 -	11,496	11,496
Fund balance resources	- 0 -	13,367	- 0 -	(13,367)
TOTAL OTHER FINANCING USES	- 0 -	13,367	11,496	(1,871)
EXCESS OF REVENUES OVER EXPENDITURES	\$ - 0 -	\$ - 0 -	\$ 18,544	\$ 18,544

See accompanying notes to required supplementary information

Town of North East

Schedule of Changes in Total OPEB Liability and Related Ratios
Last 10 years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Total OPEB Liability										
Service cost	\$ 6,444									
Interest	9,914									
Changes in assumptions or other inputs	(134,195)									
Benefit payments	<u>(3,690)</u>	Information for FY 2016 and earlier is not available								
Net change in total OPEB liability	(121,527)									
Total OPEB liability - beginning	<u>365,842</u>									
Total OPEB liability - ending	<u>\$ 244,315</u>									
Coverage-employee payroll	\$ 1,699,274									
Total OPEB liability as a percentage of covered-employee payroll	14.38%									

See accompanying notes to required supplementary information

TOWN OF NORTH EAST

Notes to Required Supplementary Information June 30, 2017

1. 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 \$511,083 as revenue. This is not considered revenue for GAAP purposes.

Total budgeted revenues and other financing sources	\$	3,205,650
Less: investment fund transfer		<u>(511,083)</u>
Total GAAP budgetary revenues	\$	<u>2,694,567</u>

This adjustment reduces the unfavorable revenue variance from \$523,949 to \$12,866.

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, 2017.

2. Changes in Total OPEB Liability and Related Ratios

As of June 30, 2017 no trust that meets the criteria in paragraph 4 of GASB Statement No. 75 has been established and the Town is not accumulating assets to provide these benefits.

Amounts as of June 30, 2017 reflect a decrease of one employee covered by benefit terms.

Changes in benefit terms – None during the year ended June 30, 2017.

Changes in assumptions - Reflects the effects of changes in the discount rate each period. The following are the discount rates used in each period:

2017	3.13%
2016	2.71%