



# The Mayor and Commissioners of the Town of North East, Maryland

## Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2018



**The Mayor and Commissioners of the Town of North East, Maryland  
Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2018**

**Prepared By:**

**Department of Finance & Administration  
Kendrick S. Natale II, Director**





# **The Mayor and Commissioners of the Town of North East Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2018**

## **Table of Contents**

|  |           |
|--|-----------|
| <b>Introductory Section.....</b>   | <b>1</b>  |
| <b>Formal Transmittal of the Comprehensive Annual Financial Report (CAFR).....</b>   | <b>2</b>  |
| <b>Certain Elected and Other Officials .....</b>   | <b>5</b>  |
| <b>Town of North East Government Organizational Chart .....</b>  | <b>6</b>  |
| <b>Financial Section.....</b>  | <b>7</b>  |
| <b>Independent Auditors' Report.....</b>   | <b>8</b>  |
| <b>Management's Discussion and Analysis.....</b>   | <b>10</b> |
| <b>Basic Financial Statements .....</b>  | <b>19</b> |
| <b>Statement of Net Position .....</b>   | <b>20</b> |
| <b>Statement of Activities.....</b>  | <b>21</b> |
| <b>Balance Sheet – Governmental Funds.....</b>   | <b>22</b> |
| <b>Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position .</b>  | <b>23</b> |
| <b>Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.</b>  | <b>24</b> |
| <b>Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of<br/>    Governmental Funds to the Statement of Activities .....</b> | <b>25</b> |
| <b>Statement of Net Position – Proprietary Funds .....</b>   | <b>26</b> |
| <b>Statement of Revenues, Expenses and Changes in Fund Balances – Proprietary Funds.....</b>   | <b>27</b> |
| <b>Statement of Cash Flows – Proprietary Funds.....</b>  | <b>28</b> |
| <b>Statement of Net Position – Fiduciary Funds.....</b>  | <b>29</b> |
| <b>Statement of Changes in Fiduciary Net Position – Fiduciary Funds.....</b>   | <b>30</b> |
| <b>Notes to Basic Financial Statements.....</b>  | <b>31</b> |
| <b>Required Supplementary Information.....</b>   | <b>51</b> |
| <b>General Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget<br/>    to Actual.....</b>  | <b>52</b> |
| <b>Schedule of Changes in Total OPEB Obligation and Related Ratios .....</b>   | <b>54</b> |
| <b>Statistical Section .....</b>   | <b>55</b> |
| <b>Financial Trends: Net Position by Component – Government Wide .....</b>   | <b>56</b> |
| <b>Financial Trends: Changes in Net Position – Government Wide .....</b>   | <b>57</b> |
| <b>Financial Trends: Fund Balances – Governmental Funds .....</b>  | <b>60</b> |
| <b>Financial Trends: Changes in Fund Balances – Governmental Funds .....</b>   | <b>61</b> |
| <b>Revenue Capacity: Property Tax Rates – Direct and Overlapping Governments .....</b>   | <b>62</b> |
| <b>Revenue Capacity: Assessed Value of Taxable and Exempt Property.....</b>  | <b>63</b> |
| <b>Revenue Capacity: Ten Highest Property Tax Payers.....</b>  | <b>64</b> |

|   |           |
|---|-----------|
| <b>Revenue Capacity: Property Tax Levies and Collections.....</b>                             | <b>65</b> |
| <b>Revenue Capacity: Local General Tax Revenues .....</b>                                     | <b>66</b> |
| <b>Debt Capacity: Ratio of Outstanding Debt by Type .....</b>                                 | <b>67</b> |
| <b>Debt Capacity: Ratios of Bonded Debt Outstanding.....</b>                                  | <b>68</b> |
| <b>Debt Capacity: Computation of Net Direct and Overlapping Debt.....</b>                     | <b>69</b> |
| <b>Debt Capacity: Computation of Legal Debt Margin .....</b>                                  | <b>70</b> |
| <b>Demographic and Economic Information: Demographic Statistics.....</b>                      | <b>71</b> |
| <b>Demographic and Economic Information: Major Employers .....</b>                            | <b>72</b> |
| <b>Operating Information: Town Government Employees – Full Time Equivalents .....</b>         | <b>73</b> |
| <b>Operating Information: Town Government Employees – Full Time Equivalents by Function..</b> | <b>74</b> |
| <b>Operating Information: Capital Asset Statistics by Function.....</b>                       | <b>75</b> |
| <b>Operating Information: Operating Indicators by Function .....</b>                          | <b>76</b> |

# Introductory Section





# TOWN OF NORTH EAST

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October 16, 2018

To the Honorable Mayor and Commissioners and  
The Citizens of the Town of North East

## **Formal Transmittal of the Comprehensive Annual Financial Report (CAFR)**

The audited Comprehensive Annual Financial Report (CAFR) of the Town of North East (the Town), prepared by the Department of Finance and Administration for the fiscal year ended June 30, 2018, is hereby submitted in compliance with State law which requires that all general purpose governments issue a complete set of financial statements prepared according to accounting principles generally accepted in the United States of America (GAAP) and be audited by an independent, licensed certified public accountant in accordance with auditing standards generally accepted in the United States of America (GAAS). For the fiscal year ended June 30, 2018, the Town contracted with Weyrich, Cronin and Sorra, LLC of Lutherville, Maryland to audit the financial statements. The Independent Auditor's Report is included on pages 8-9.

This report consists of management's representations concerning the finances of the Town. Consequently, management assumes full responsibility for the completeness and reliability of the information contained in the report. To provide a reasonable basis for making these representations, management of the Town has established a comprehensive framework of internal control that has been designed to both protect the government's assets from loss, theft, or misuse, and to compile sufficient reliable information for the preparation of the Town's financial statements in accordance with GAAP. Because the cost of internal controls should not exceed the anticipated benefits, the Town's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. As management, we assert that to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Town's financial statements have been audited by Weyrich, Cronin and Sorra, LLC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town for the fiscal year ended June 30, 2018, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures of the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the Town of North East's financial statements for the fiscal year ended June 30, 2018, are fairly presented in conformity with GAAP in all material respects. The independent auditor's report is presented as the first element of the Financial Section of this report.

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T: (410) 287-5801 ■ F: (410) 287-8267 ■ [www.northeastmd.org](http://www.northeastmd.org)

The Town of North East is an "Equal Opportunity Employer" ■ Member of North East Chamber of Commerce



## **Formal Transmittal of the Comprehensive Annual Financial Report (CAFR)**

**October 16, 2018**

**Page 2**

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The Town's MD&A can be found immediately following the report of the independent auditors.

### ***PROFILE OF THE GOVERNMENT***

The Town of North East was formed in 1850 by an act of the Maryland General Assembly. It is named for the river that borders the town. The Town is situated on 6.39 square miles and is located at the head of the Chesapeake Bay in central Cecil County, Maryland. It is 51 miles from Baltimore, MD, 30 miles from Wilmington, DE and 59 miles from Philadelphia, PA. North East is situated in the center of the County's growth corridor. North East has a population of 3,635 as of 2017 per estimates from the United States Census Bureau. The Town is empowered to levy a property tax on real property and public utility/railroad operating property within its boundaries and to charge user fees for services it provides. The Town is also empowered by State law to extend its corporate limits by annexation, which it has done from time to time. The Town is also empowered by Cecil County to provide and sell water to residents outside the corporate limits of the Town.

The Town adopted its present charter in 1993. Under the Charter, the legislative functions of the Town are vested in the Board of Commissioners (the Board), consisting of the Mayor and four commissioners. The Mayor and Commissioners are elected at large for two year terms. The Mayor is the Chief Executive Officer and the head of the administrative branch of the Town. In addition, the Mayor has complete supervision over the financial administration of the Town.

The Mayor appoints, subject to confirmation by the Board, the Town Administrator and Department Heads of the Town. The Town Administrator is responsible for overseeing the day to day operations of the Town and long term planning for the Town. The Director of Finance and Administration has been tasked with supervising and directing the proper accounting of all revenues and expenditures, preparation of financial reports, and assisting the Mayor in the preparation of the annual operating budget.

The Town provides municipal services allowed by statute or charter. These include police, traffic control, code enforcement, highways and streets, sanitation, water, parking, parks and recreation, public improvements, planning and zoning and general administrative services. There are no other reporting entities for which the Town is financially accountable.

The annual budget for the Town serves as the foundation for the Town's planning and control. The Charter of the Town requires the Mayor, at least 32 days before the beginning of the fiscal year, to submit a budget to the Board. The Charter states that "The budget shall provide a complete financial plan for the budget year and shall contain estimates of anticipated revenues and proposed expenditures for the coming year. The total of anticipated revenues shall equal or exceed the proposed expenditures."

The Charter further provides that before the budget is adopted, the Board shall hold a public hearing after notice in a newspaper of general circulation. The budget is prepared by fund, function (e.g., public safety), department, and object (e.g., supplies). Once the budget is adopted, transfers within a department between objects is permitted without further action of the Board, while transfers between departments or to increase or decrease total appropriations requires the consent of the Board. Budget-to-actual comparisons are provided in this report for the General Fund.

### ***FACTORS AFFECTING FINANCIAL CONDITION***

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the Town operates.

## **Formal Transmittal of the Comprehensive Annual Financial Report (CAFR)**

**October 16, 2018**

**Page 3**

### **Local Economy**

The Town strives to maintain the best elements of its small town character while pursuing commercial and industrial growth. Factors that make the Town a great place to live and work include a short commute to many major metropolitan areas including Baltimore, MD, Wilmington, DE, and Philadelphia, PA. Access to quality health care and schools, low crime, recreational activities, controlled growth, and low taxes and fees.

Citizens of North East continue to enjoy a diversified employment base that includes companies from the agriculture, tourism, construction, manufacturing, wholesale, retail, industrial, financial, governmental and not-for-profit industries.

The Town is located minutes from such recreational areas as Elk Neck State Park, Elk Neck State Forrest, and the Fair Hill Natural Resource Conservation Area. These facilities allow residents to enjoy the natural resources around them and include camping, hiking, hunting, fishing, and boating activities. The Town has a vibrant Main Street that has restaurants, boutique shops, services, and a public library for the residents and visitors to enjoy.

### **Long-term Financial Planning**

The Town's water system will continue to be the primary focus for the Town in years to come. The Town is preparing for and has already begun some improvements to the system that will allow it to operate more efficiently and increase production to be able to provide water to other utilities outside the Town's service area. Also tending to aging infrastructure and buildings will be an ongoing priority.

### **Financial Policies**

The Town continues to review and update its financial policies to make sure as many "best practices" can be implemented as is practical. In 2017, the Town undertook a Water Utility Rate Study which analyzed projected expenses and revenues over the course of 2018-2022. The study proposed a series of rate increases over that time period to ensure the water system will be adequately funded for both operating and capital needs. The study and proposed rates prevents the enterprise fund from operating at a deficit, which could potentially require a subsidy or loan from the General Fund.

### **ACKNOWLEDGEMENTS**

The preparation of this report could not have been accomplished without the efficient and dedicated service of the entire staff of the Department of Finance and Administration. We extend our sincere appreciation to each member of this department.

Also, a special thanks goes to the Mayor and Commissioners for their leadership and support in planning and overseeing the governmental operations in a responsible and progressive manner.

Respectfully Submitted,



Kendrick S. Natale II  
Director of Finance & Administration



Melissa B. Cook-MacKenzie  
Town Administrator

**The Mayor and Commissioners of the Town of North East**  
**Certain Elected and Other Officials**  
**June 30, 2018**

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**Elected Officials**

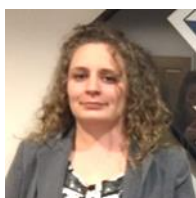
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**Robert F. McKnight**  
**Mayor**



Cynthia G. Billig  
Commissioner



Hilary A.  
Crothers-Moore  
Commissioner



Michael Kline  
Commissioner



Raymond Mitchell  
Commissioner

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**Certain Other Officials**

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Town Administrator  
Town Attorneys

Planning Commission, Chairman  
Board of Appeals, Chairman  
Board of Elections, Chairman

Melissa B. Cook-MacKenzie  
Dennis S. Clower, Esq  
David Beste, Esq  
Mark Dobbins  
Gabrielle Oldham  
Ulysses G. Demond IV

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**Department Heads**

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Chief of Police  
Director of Finance and Administration  
Director of Planning  
Maintenance Supervisor  
Water Plant Superintendent

Darrell W. Hamilton  
Kendrick S. Natale II  
Elizabeth B. Vennell  
Phillip W. Meekins Sr.  
Ronald L. Carter

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**Independent Auditors**

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Weyrich, Coronin & Sorra, LLC  
Certified Public Accountant  
Lutherville, Maryland

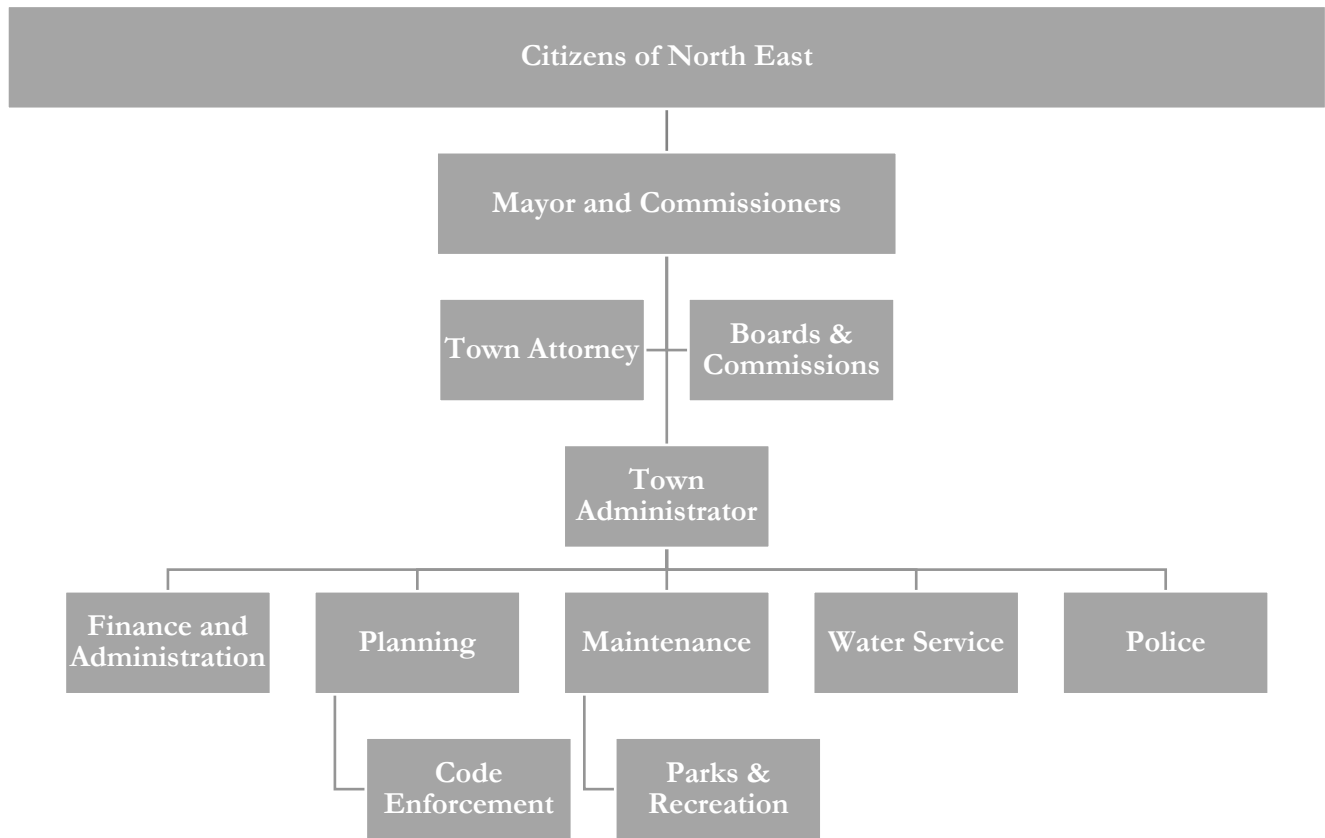
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**Bond Counsel**

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McKennon, Shelton, and Henn, LLP  
Baltimore, Maryland

**The Mayor and Commissioners of the Town of North East**  
**Town of North East Government Organizational Chart**  
**June 30, 2018**



# Financial Section







## 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, 2018, 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance 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 10 through 17 and 52 through 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of North East's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*Weyrich, Cronin + Sarra*

October 16, 2018  
Lutherville, MD

# Management's Discussion and Analysis

## 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, 2018. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 2-4 of this report.

## Financial Highlights

- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows at the close of fiscal year 2018 by \$25.2 million (*net position*).
- The Town's total net position decreased by \$396,381
- As of the close of fiscal year 2018, the Town's governmental funds reported combined ending fund balances of \$6.2 million; an increase of \$158,525 in comparison with the prior year. Approximately 42% of this amount is available for spending at the Town's discretion (*unassigned fund balance*).
- At the end of fiscal year 2018, the unrestricted fund balance (*committed, assigned and unassigned component of fund balance*) for the general fund was \$4.5 million or approximately 172% of the total general fund expenditures.
- The Town's government-wide long-term liabilities decreased by \$630,726 during fiscal year 2018, as detailed on pages 47-48.

## Overview of Financial Statements

This discussion and analysis provided here is intended to serve as an introduction to the Town's basic financial statements. The basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information intended to furnish additional detail to the basic financial statements themselves.

## Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private sector business.

The *statement of net position* presents financial information on all of the Town's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *statement of activities* presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (i.e., uncollected taxes and earned but unused vacation time).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, public works, health, and culture and recreation. The business-type activities of the Town are water services.

The government-wide financial statements can be found on pages 20-21 of this report.

## **Fund Financial Statements**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

### ***Governmental Funds***

*Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all funds. The general, special revenue, and capital projects funds are all considered to be major funds. There is one non-major special revenue fund which is also presented on the face of the statements.

The basic governmental fund financial statements can be found on pages 22-25 of this report.

### ***Proprietary Funds***

The Town maintains one enterprise fund which is used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses the enterprise fund to account for its water services operations.

Proprietary funds provide the same information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 26-28 of this report.

### ***Fiduciary Funds***

*Fiduciary funds* are used to account for resources held for the benefit of parties outside the Town. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs. The accounting used is much like that used for proprietary funds.

The Town maintains two different types of fiduciary funds. The Town has one *Private-purpose trust fund* that is used to report resources held in trust under the Town's Employee Benefit Plan. The *Agency Fund* reports resources held by the Town in a custodial capacity for development projects in the Town or its water service area.

The fiduciary fund financial statements can be found on pages 29-30 of this report.

## Notes to the Financial Statements

The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 31-50 of this report.

## Other Information

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information*. The general fund schedule of revenues, expenditures, and changes in fund balance – budget to actual, and schedule of changes in total other post-employment benefit obligations and related ratios can be found on pages 52 and 54 respectively.

## Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the Town, assets and deferred outflows of resources exceeded liabilities and deferred inflows by \$25.2 million, at the close of the most recent fiscal year.

### Town of North East, Maryland's Net Position

|                                   | Governmental Activities |              | Business-type Activities |               | Total         |               |
|-----------------------------------|-------------------------|--------------|--------------------------|---------------|---------------|---------------|
|                                   | 2018                    | 2017         | 2018                     | 2017          | 2018          | 2017          |
| Current and other assets          | \$ 7,335,228            | \$ 7,253,666 | \$ 2,661,604             | \$ 2,558,212  | \$ 9,996,832  | \$ 9,811,878  |
| Capital assets, net               | 4,084,724               | 4,385,633    | 25,067,944               | 26,066,279    | 29,152,668    | 30,451,912    |
| Total assets                      | 11,419,952              | 11,639,299   | 27,729,548               | 28,624,491    | 39,149,500    | 40,263,790    |
| Long-term liabilities outstanding | 2,088,677               | 2,130,229    | 11,606,175               | 12,195,349    | 13,694,852    | 14,325,578    |
| Other liabilities                 | 86,186                  | 162,144      | 149,832                  | 161,057       | 236,018       | 323,201       |
| Total liabilities                 | 2,174,863               | 2,292,373    | 11,756,007               | 12,356,406    | 13,930,870    | 14,648,779    |
| Net position:                     |                         |              |                          |               |               |               |
| Net invested in capital assets    | 2,337,489               | 2,548,970    | 13,618,599               | 14,023,621    | 15,956,088    | 16,572,591    |
| Restricted                        | 50,470                  | 62,833       | 658,055                  | 1,075,300     | 708,525       | 1,138,133     |
| Unrestricted                      | 6,857,130               | 6,735,123    | 1,696,887                | 1,169,164     | 8,554,017     | 7,904,287     |
| Total net position                | \$ 9,245,089            | \$ 9,346,926 | \$ 15,973,541            | \$ 16,268,085 | \$ 25,218,630 | \$ 25,615,011 |

By far, the largest portion of the Town's net position reflects its investment in capital assets (e.g., land, buildings, improvements, infrastructure, machinery and equipment), less any related outstanding debt that was used to acquire those assets. The Town uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the Town's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position, \$708,525 or 2.8% represents resources that are subject to external restrictions on how they may be used. The majority of restricted net assets include funds for inventory, prepaid items, and conservation of natural resources.

Unrestricted net position is that portion of the Town's net position that is available to fund expenditures should the Town decide to utilize those funds.

The town's overall net position decreased by \$396,381. The reasons for this overall decrease are discussed in the following sections for governmental and business-type activities.



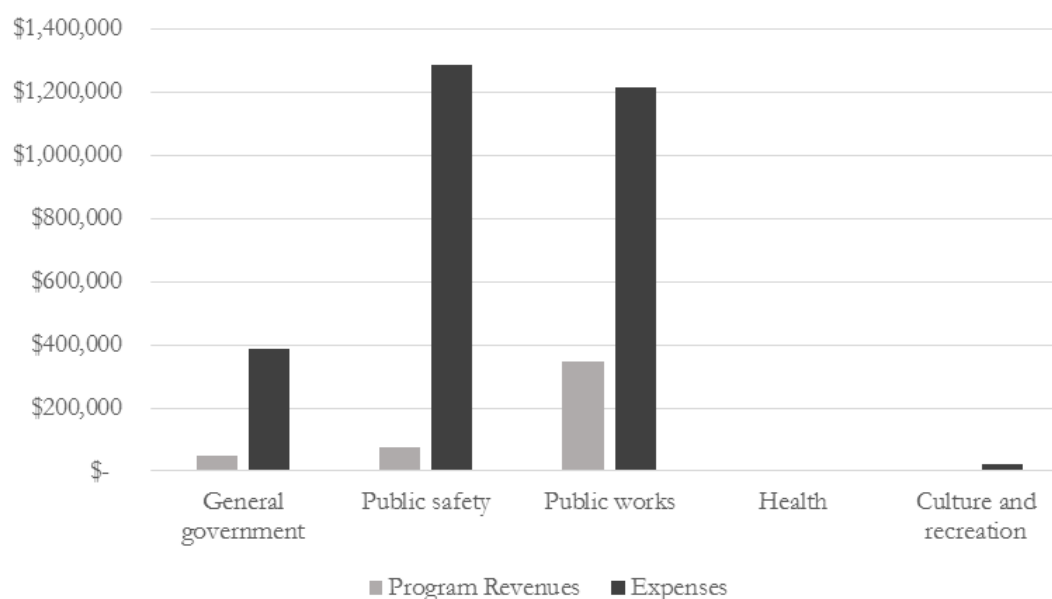
## Governmental Activities

During the current fiscal year, the net position for governmental activities decreased by \$101,837 from the prior fiscal year which resulted in an ending balance of \$9.2 million. The decrease in overall net position of the governmental activities is primarily the result of depreciation on the Town's capital assets.

### Town of North East, Maryland Changes in Net Position

|                                     | Governmental Activities |              | Business-type Activities |               | Total         |               |
|-------------------------------------|-------------------------|--------------|--------------------------|---------------|---------------|---------------|
|                                     | 2018                    | 2017         | 2018                     | 2017          | 2018          | 2017          |
| Revenues:                           |                         |              |                          |               |               |               |
| Program revenues:                   |                         |              |                          |               |               |               |
| Charges for services                | \$ 270,934              | \$ 221,852   | \$ 2,845,525             | \$ 2,338,188  | \$ 3,116,459  | \$ 2,560,040  |
| Operating grants and contributions  | 201,313                 | 192,865      | -                        | -             | 201,313       | 192,865       |
| Capital grants and contributions    | -                       | 8,122        | -                        | 786,437       | -             | 794,559       |
| General revenues:                   |                         |              |                          |               |               |               |
| Property taxes                      | 1,565,981               | 1,547,607    | -                        | -             | 1,565,981     | 1,547,607     |
| Income and other taxes              | 261,388                 | 315,126      | -                        | -             | 261,388       | 315,126       |
| Other revenues                      | 504,331                 | 395,567      | 93,775                   | 35,373        | 598,106       | 430,940       |
| Total revenues                      | 2,803,947               | 2,681,139    | 2,939,300                | 3,159,998     | 5,743,247     | 5,841,137     |
| Expenses:                           |                         |              |                          |               |               |               |
| General government                  | 386,259                 | 372,700      | -                        | -             | 386,259       | 372,700       |
| Public safety                       | 1,284,419               | 1,166,355    | -                        | -             | 1,284,419     | 1,166,355     |
| Public works                        | 1,212,274               | 1,081,463    | -                        | -             | 1,212,274     | 1,081,463     |
| Health                              | 1,440                   | 2,280        | -                        | -             | 1,440         | 2,280         |
| Culture and recreation              | 21,392                  | 16,617       | -                        | -             | 21,392        | 16,617        |
| Water services                      | -                       | -            | 3,233,844                | 2,746,227     | 3,233,844     | 2,746,227     |
| Total expenses                      | 2,905,784               | 2,639,415    | 3,233,844                | 2,746,227     | 6,139,628     | 5,385,642     |
| Increase/(decrease) in net position | (101,837)               | 41,724       | (294,544)                | 413,771       | (396,381)     | 455,495       |
| Net position - beginning            | 9,346,926               | 9,305,202    | 16,268,085               | 15,854,314    | 25,615,011    | 25,159,516    |
| Net position - ending               | \$ 9,245,089            | \$ 9,346,926 | \$ 15,973,541            | \$ 16,268,085 | \$ 25,218,630 | \$ 25,615,011 |

### Expenses and Program Revenues – Governmental Activities



## Business-type Activities

For the Town's business-type activities, overall net position reached an ending balance of \$15.973 million. The total decrease in net position for business-type activities (water services) was \$294,544 or 1.8% from the prior fiscal year. The decrease is primarily related to an increase in repairs and maintenance expense related to the repainting of one of the Town's water towers.

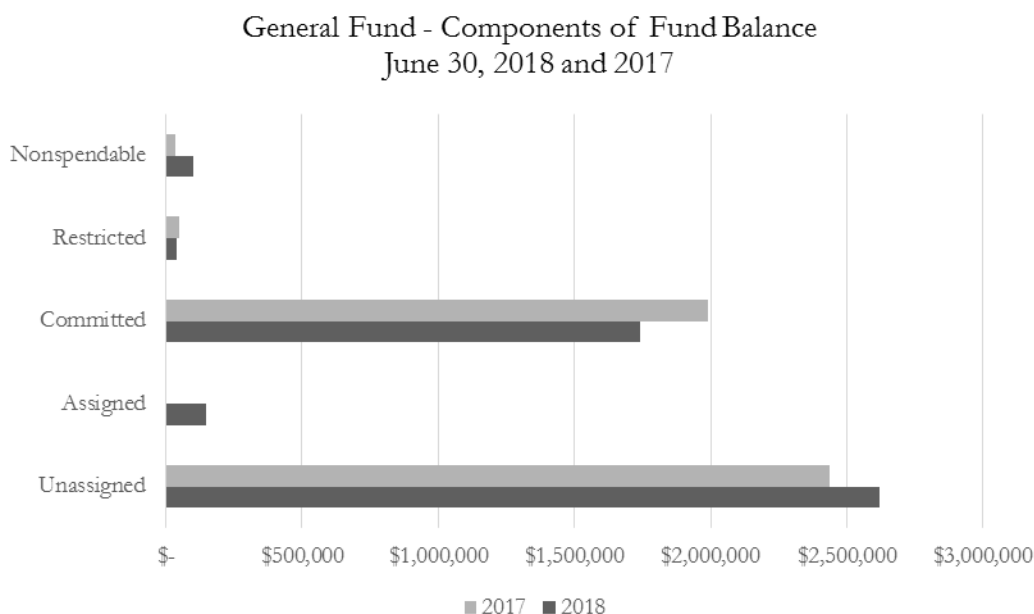
## Financial Analysis of the Governmental Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### Governmental Funds

The focus of the Town's *governmental funds* is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as it represents the portion of fund balance which has not yet been limited to use for a particular purpose by either an external or internal party, the Town itself, or a group or individual that has been delegated authority to assign resources for use for a particular purpose by the Board.

As of the end of the current fiscal year, the Town's *governmental funds* reported combined fund balances of \$6.2 million, an increase of \$158,525 in comparison with the prior year. Approximately 42% of this amount (\$2.6 million) constitutes *unassigned fund balance*, which is available for spending at the Town's discretion. The remainder of the fund balance is either *nonspendable*, *restricted*, *committed*, or *assigned* to indicate that it is 1) not in spendable form (\$100,528), 2) restricted for a particular purposes (\$50,470), 3) committed for particular purposes (\$1,742,456) or 4) assigned for particular purposes (\$1,704,824).

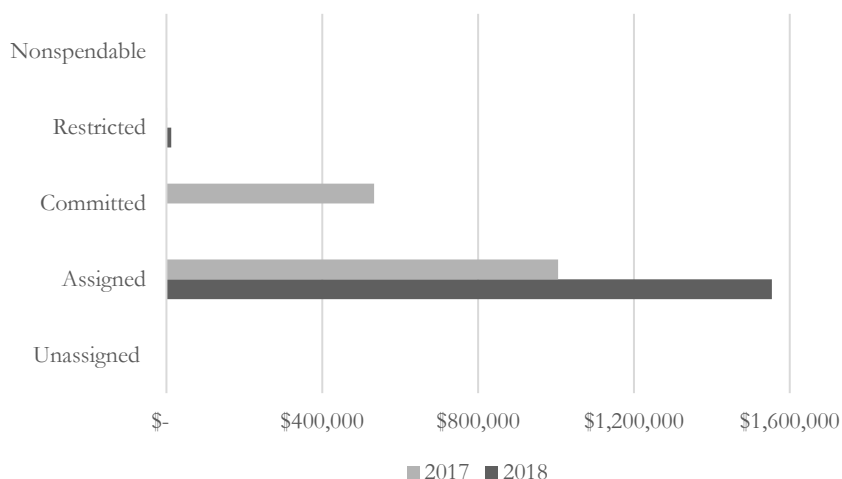


The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2.6 million, while total fund balance was \$4.65 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned and total general fund expenditures. Unassigned fund balance represents approximately 100% of total expenditures, while total fund balance represents approximately 177% of that same amount.

The fund balance of the Town's general fund increased by \$145,507. This was primarily due to Cecil County doubling the Hotel Tax Rate which applies to facilities within the Town's corporate limit and the Town receives

the revenue from (\$82,000) and expenditures for the year being less than anticipated (\$100,000). While income tax revenue was \$45,000 less than anticipated due to the Comptroller of Maryland over distributing tax revenues to the Town in prior years.

Other Governmental Funds - Components of Fund Balance  
June 30, 2018 and 2017



The Town's other governmental funds, the capital projects fund, and special revenue funds had various changes in their fund balances for 2018. The capital projects fund had a fund balance of \$751,602 which was a decrease of \$4,451 from the prior year, related to engineering expenditures for future projects. The fund balance of the major special revenue fund increased by \$20,784 which is the result of principal and interest repayments on various loans to \$802,863. The non-major special revenue fund had a fund balance of \$12,197 which is a decrease of \$3,315 from the prior year related to a decrease in donations and an increase in expenditures related to the annual Cecil County Christmas Parade.

### Proprietary Fund

The Town's proprietary fund statements provide the same type of information in the government-wide financial statements, but in more detail.

The net position of the Town's enterprise fund (water services) at the end of the fiscal year was \$15,973,541. The total decrease in net position of \$294,544 was primarily related to increased expenses for repainting one of the Town's water towers.

### General Fund Budgetary Highlights

#### *Original budget compared to final budget*

The original general fund expenditure budget of \$2,808,834 was amended by \$77,064 to a final general fund expenditure budget of \$2,731,770. The major amendments to the budget were:

- \$90,000 increase to account for changes in the Hotel Tax rate imposed by Cecil County.
- \$86,000 decrease to account for a reduction of Local Income Tax Revenue due to prior year over distributions by the Comptroller of Maryland.
- \$74,000 decrease for two projects that were deferred to future years (\$50,000 for a stormwater management study, and \$24,000 for town matching funds for a Safe Route to Schools grant).
- \$20,000 decrease for snow removal services that was not needed in the current fiscal year.
- \$24,000 increase related to additional interest revenue due to rising interest rates on the Town's accounts with the Maryland Local Government Investment Pool.

### ***Final budget compared to actual results***

Actual expenditures for the year were \$100,109 less than estimated. The most significant differences occurred in the following areas:

- \$14,000 from planning and zoning department projects being deferred or coming in under budget.
- \$17,000 of the \$50,000 contingency line item was not needed during the fiscal year.
- Police overtime for the fiscal year was \$27,000 under budget due to a change in the way shifts are scheduled.
- A vacancy for a school crossing guard for most of the year resulted in savings of \$3,600.
- Salaries and benefits for the maintenance department saw a savings of \$11,000.
- Landscaping and other repairs and maintenance items at the North East Community Park ended up costing \$9,000 less than anticipated.

### **Capital Assets and Debt Administration**

The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2018, amounts to \$29,152,668 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, roads, bridges, and water treatment and distribution systems. The total decrease in capital assets for the current fiscal year was 4.4%.

#### **Town of North East, Maryland, Capital Assets (net of depreciation)**

|                | Governmental Activities |              | Business-type Activities |               | Total         |               |
|----------------|-------------------------|--------------|--------------------------|---------------|---------------|---------------|
|                | 2018                    | 2017         | 2018                     | 2017          | 2018          | 2017          |
| Land           | \$ 1,713,599            | \$ 1,713,599 | \$ 960,450               | \$ 960,450    | \$ 2,674,049  | \$ 2,674,049  |
| Buildings      | 724,162                 | 748,643      | 105,540                  | 114,860       | 829,702       | 863,503       |
| Equipment      | 292,391                 | 321,427      | 58,086                   | 80,812        | 350,477       | 402,239       |
| Infrastructure | 1,354,572               | 1,601,964    | 23,943,868               | 24,910,157    | 25,298,440    | 26,512,121    |
| Total          | \$ 4,084,724            | \$ 4,385,633 | \$ 25,067,944            | \$ 26,066,279 | \$ 29,152,668 | \$ 30,451,912 |

Major capital asset events during the current fiscal year included the following:

- The Town acquired a 2006 Case 580SM II backhoe for the maintenance department at a cost of \$36,000.
- The Town purchased a 2017 Ford F-350 pickup truck for the maintenance department at a cost of \$34,461.
- The Town traded in its Case 580K back hoe which was fully depreciated for \$6,000 against the purchase price of the 2006 Case 580SM II.
- The Town disposed of a 2003 Chevy Silverado which was full depreciated at auction. The sale generated \$5,035 of revenue, after sale fees were deducted by the auctioneer.

Additional information on the Town's capital assets can be found on pages 42-43 of this report.

### **Long-term Debt**

At the end of the current fiscal year, the Town had total debt outstanding of \$13,196,580.

#### **Town of North East, Maryland's Outstanding Debt**

|                          | Governmental Activities |              | Business-type Activities |               | Total         |               |
|--------------------------|-------------------------|--------------|--------------------------|---------------|---------------|---------------|
|                          | 2018                    | 2017         | 2018                     | 2017          | 2018          | 2017          |
| Notes payable            | \$ 48,708               | \$ 53,136    | \$ -                     | \$ -          | \$ 48,708     | \$ 53,136     |
| General obligation bonds | 1,698,527               | 1,783,527    | 11,449,345               | 12,042,658    | 13,147,872    | 13,826,185    |
| Total                    | \$ 1,747,235            | \$ 1,836,663 | \$ -                     | \$ 11,449,345 | \$ 13,196,580 | \$ 13,879,321 |

During the current fiscal year, the Town's total debt decreased by \$682,741. The Town's significant debt activities included:

- \$89,428 of governmental activities debt was retired.
- \$593,313 of enterprise fund debt was retired.

The Town's debt policy limits total general obligation debt to under 10% of its total taxable assessable base. In 2018 the limit was \$31,444,741. The Town did not issue any new debt in fiscal year 2018.

Additional information on the Town's long-term debt can be found on pages 47-48 of this report.

### **Economic Factors and Next Year's Budgets and Rates**

The following economic factors currently affect the Town and were considered in developing the 2019 fiscal year budget.

- Revenues are expected to remain relatively consistent in fiscal year 2019.
- The Town will use \$150,000 of fund balance resources in fiscal year 2019 for capital projects/equipment needs and onetime non-recurring expenditures. Those uses include:
  - \$85,000 of committed fund balance to make a principal payment on the Town's Community Development Administration Bond – the remainder of the committed fund balance will be used to make principal payments until the bond can be called.
  - \$15,000 for legal and engineering expenses related to an annexation of parcels along US Route 40.
  - \$50,000 for a storm water management study to assist the Town in preparing for and implementing its Phase II Municipal Separate Storm Sewer System Permit issued by the Maryland Department of the Environment.
- The fiscal year 2019 property tax rate remains \$0.48 per \$100 of assessed property value.
- The fiscal year 2019 water rates increased by 5% for both in town and out of town customers.

### **Request for Information**

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

#### **Town of North East**

106 South Main Street

North East, Maryland 21901

Attn: Director of Finance & Administration





# **Basic Financial Statements**

Government-wide financial statements combine all of the Town of North East's governmental and business-type activities.

Fund financial statements show the financial position and operating results by fund.

**The Mayor and Commissioners of the Town of North East**  
**Statement of Net Position**  
**June 30, 2018**

|   | <b>Governmental<br/>Activities</b> | <b>Business-Type<br/>Activities</b> | <b>Total</b>         |
|---|------------------------------------|-------------------------------------|----------------------|
| <b>ASSETS</b>                                   |                                    |                                     |                      |
| Cash and cash equivalents                       | \$ 4,423,451                       | \$ 1,317,978                        | \$ 5,741,429         |
| Equity in pooled cash                           | 1,585,592                          | -                                   | 1,585,592            |
| Restricted cash                                 | 28,891                             | 658,055                             | 686,946              |
| Property taxes receivable                       | 2,833                              | -                                   | 2,833                |
| Intergovernmental receivable                    | 132,234                            | -                                   | 132,234              |
| Other receivables                               | 10,885                             | 667,356                             | 678,241              |
| Loans receivables                               | 962,126                            | -                                   | 962,126              |
| Internal balances                               | 88,688                             | (88,688)                            | -                    |
| Inventories                                     | -                                  | 84,623                              | 84,623               |
| Prepays   | 100,528                            | 22,280                              | 122,808              |
| Capital assets not being depreciated:           |                                    |                                     |                      |
| Land  | 1,713,599                          | 960,450                             | 2,674,049            |
| Capital assets net of accumulated depreciation: |                                    |                                     |                      |
| Buildings                                       | 724,162                            | 105,540                             | 829,702              |
| Equipment                                       | 292,391                            | 58,086                              | 350,477              |
| Infrastructure                                  | 1,354,572                          | 23,943,868                          | 25,298,440           |
| Total Assets                                    | <u>11,419,952</u>                  | <u>27,729,548</u>                   | <u>39,149,500</u>    |
| <b>LIABILITIES</b>                              |                                    |                                     |                      |
| Accounts payable                                | 50,149                             | 97,890                              | 148,039              |
| Accrued liabilities                             | 23,354                             | 51,942                              | 75,296               |
| Intergovernmental payable                       | 183                                | -                                   | 183                  |
| Unearned revenues                               | 12,500                             | -                                   | 12,500               |
| Noncurrent liabilities:                         |                                    |                                     |                      |
| Due within one year                             | 90,428                             | 595,411                             | 685,839              |
| Due in more than one year                       | 1,998,249                          | 11,010,764                          | 13,009,013           |
| Total Liabilities                               | <u>2,174,863</u>                   | <u>11,756,007</u>                   | <u>13,930,870</u>    |
| <b>NET POSITION</b>                             |                                    |                                     |                      |
| Net investment in capital assets                | 2,337,489                          | 13,618,599                          | 15,956,088           |
| Restricted for:                                 |                                    |                                     |                      |
| Off site mitigation                             | 31,323                             | -                                   | 31,323               |
| Capital projects                                | 4,500                              | 658,055                             | 662,555              |
| Other purposes                                  | 14,647                             | -                                   | 14,647               |
| Unrestricted                                    | 6,857,130                          | 1,696,887                           | 8,554,017            |
| Total Net Position                              | <u>\$ 9,245,089</u>                | <u>\$ 15,973,541</u>                | <u>\$ 25,218,630</u> |

The notes to financial statements are an integral part of this statement.

**The Mayor and Commissioners of the Town of North East**  
**Statement of Activities**  
**For the Year Ended June 30, 2018**

|  |                     | Program Revenues    |                          |                          | Net (Expense) Revenue and Change in Net Position |                      |                       |
|--|---------------------|---------------------|--------------------------|--------------------------|--|----------------------|-----------------------|
|  |                     | Charges for         | Operating                | Capital                  | Governmental                                     | Business-type        | Total                 |
|  | Expenses            | Services            | Grants and Contributions | Grants and Contributions | Activities                                       | Activities           |                       |
| <b>Functions/Programs:</b>                                   |                     |                     |                          |                          |  |                      |                       |
| Governmental activities:                                     |                     |                     |                          |                          |  |                      |                       |
| General government   | \$ 386,259          | \$ 30,924           | \$ 16,149                | \$ -                     | \$ (339,186)                                     | \$ -                 | \$ (339,186)          |
| Public safety  | 1,284,419           | 800                 | 73,661                   | -                        | (1,209,958)                                      | -                    | (1,209,958)           |
| Public works   | 1,212,274           | 236,535             | 111,503                  | -                        | (864,236)  | -                    | (864,236)             |
| Health   | 1,440               | -                   | -                        | -                        | (1,440)  | -                    | (1,440)               |
| Culture and recreation                                       | 21,392              | 2,675               | -                        | -                        | (18,717)   | -                    | (18,717)              |
| Total governmental activities                                | <u>2,905,784</u>    | <u>270,934</u>      | <u>201,313</u>           | <u>-</u>                 | <u>(2,433,537)</u>                               | <u>-</u>             | <u>(2,433,537)</u>    |
| Business-type activities:                                    |                     |                     |                          |                          |  |                      |                       |
| Water services   | 3,233,844           | 2,845,525           | -                        | -                        | -  | (388,319)            | (388,319)             |
| Total business-type activities                               | <u>3,233,844</u>    | <u>2,845,525</u>    | <u>-</u>                 | <u>-</u>                 | <u>-</u>   | <u>(388,319)</u>     | <u>(388,319)</u>      |
| Total primary government                                     | <u>\$ 6,139,628</u> | <u>\$ 3,116,459</u> | <u>\$ 201,313</u>        | <u>\$ -</u>              | <u>\$ (2,433,537)</u>                            | <u>\$ (388,319)</u>  | <u>\$ (2,821,856)</u> |
| General revenues:  |                     |                     |                          |                          |  |                      |                       |
| Property Taxes   |                     |                     |                          |                          | 1,565,981  | -                    | 1,565,981             |
| Income and other taxes                                       |                     |                     |                          |                          | 261,388  | -                    | 261,388               |
| Grants and contributions not restricted to specific programs |                     |                     |                          |                          | 258,268  | -                    | 258,268               |
| Investment income  |                     |                     |                          |                          | 71,383   | 27,275               | 98,658                |
| Miscellaneous  |                     |                     |                          |                          | <u>174,680</u>                                   | <u>66,500</u>        | <u>241,180</u>        |
| Total general revenues                                       |                     |                     |                          |                          | <u>2,331,700</u>                                 | <u>93,775</u>        | <u>2,425,475</u>      |
| Change in net position                                       |                     |                     |                          |                          | (101,837)  | (294,544)            | (396,381)             |
| Net position - beginning                                     |                     |                     |                          |                          | <u>9,346,926</u>                                 | <u>16,268,085</u>    | <u>25,615,011</u>     |
| Net position - ending  |                     |                     |                          |                          | <u>\$ 9,245,089</u>                              | <u>\$ 15,973,541</u> | <u>\$ 25,218,630</u>  |

The notes to financial statements are an integral part of this statement.

**The Mayor and Commissioners of the Town of North East**  
**Balance Sheet – Governmental Funds**  
**June 30, 2018**

|  | General             | Special<br>Revenue  | Capital<br>Projects | NonMajor<br>Special<br>Revenue | Total<br>Governmental<br>Funds |
|--|---------------------|---------------------|---------------------|--------------------------------|--------------------------------|
| <b>ASSETS</b>  |                     |                     |                     |                                |                                |
| Cash and cash equivalents  | \$ 3,739,451        | \$ 684,000          | \$ -                | \$ -                           | \$ 4,423,451                   |
| Equity in pooled cash  | 702,922             | 118,863             | 751,602             | 12,205                         | 1,585,592                      |
| Restricted cash  | 28,891              | -                   | -                   | -                              | 28,891                         |
| Property taxes receivable  | 2,833               | -                   | -                   | -                              | 2,833                          |
| Intergovernmental receivable                                       | 132,234             | -                   | -                   | -                              | 132,234                        |
| Other receivables  | 10,885              | -                   | -                   | -                              | 10,885                         |
| Due from other funds   | 88,688              | -                   | -                   | -                              | 88,688                         |
| Prepaid items  | 100,528             | -                   | -                   | -                              | 100,528                        |
| Loan receivable  | -                   | 962,126             | -                   | -                              | 962,126                        |
| Total assets   | <u>\$ 4,806,432</u> | <u>\$ 1,764,989</u> | <u>\$ 751,602</u>   | <u>\$ 12,205</u>               | <u>\$ 7,335,228</u>            |
| <b>LIABILITIES</b>   |                     |                     |                     |                                |                                |
| Accounts payable   | \$ 50,141           | \$ -                | \$ -                | \$ 8                           | \$ 50,149                      |
| Accrued liabilities  | 23,354              | -                   | -                   | -                              | 23,354                         |
| Intergovernmental payable  | 183                 | -                   | -                   | -                              | 183                            |
| Unearned revenue   | 12,500              | -                   | -                   | -                              | 12,500                         |
| Total liabilities  | <u>86,178</u>       | <u>-</u>            | <u>-</u>            | <u>8</u>                       | <u>86,186</u>                  |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                               |                     |                     |                     |                                |                                |
| Unavailable revenue - taxes  | 67,209              | -                   | -                   | -                              | 67,209                         |
| Unavailable loans receivable                                       | -                   | 962,126             | -                   | -                              | 962,126                        |
| Total deferred inflows of resources                                | <u>67,209</u>       | <u>962,126</u>      | <u>-</u>            | <u>-</u>                       | <u>1,029,335</u>               |
| <b>FUND BALANCES</b>   |                     |                     |                     |                                |                                |
| <b>Nonspendable:</b>   |                     |                     |                     |                                |                                |
| Prepaid expenditures   | 100,528             | -                   | -                   | -                              | 100,528                        |
| <b>Restricted:</b>   |                     |                     |                     |                                |                                |
| General government   | 2,450               | -                   | -                   | 12,197                         | 14,647                         |
| Resource conservation  | 31,323              | -                   | -                   | -                              | 31,323                         |
| Capital improvements   | 4,500               | -                   | -                   | -                              | 4,500                          |
| <b>Committed:</b>  |                     |                     |                     |                                |                                |
| General government   | 43,956              | -                   | -                   | -                              | 43,956                         |
| General obligation debt  | 1,698,500           | -                   | -                   | -                              | 1,698,500                      |
| <b>Assigned:</b>   |                     |                     |                     |                                |                                |
| Appropriation of fund balance                                      | 150,359             | -                   | -                   | -                              | 150,359                        |
| Capital improvements   | -                   | -                   | 751,602             | -                              | 751,602                        |
| Housing and community development                                  | -                   | 802,863             | -                   | -                              | 802,863                        |
| <b>Unassigned</b>  | <u>2,621,429</u>    | <u>-</u>            | <u>-</u>            | <u>-</u>                       | <u>2,621,429</u>               |
| Total fund balances  | <u>4,653,045</u>    | <u>802,863</u>      | <u>751,602</u>      | <u>12,197</u>                  | <u>6,219,707</u>               |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 4,806,432</u> | <u>\$ 1,764,989</u> | <u>\$ 751,602</u>   | <u>\$ 12,205</u>               | <u>\$ 7,335,228</u>            |

The notes to financial statements are an integral part of this statement.

**The Mayor and Commissioners of the Town of North East**  
**Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position**  
**June 30, 2018**

Amounts reported for governmental activities in the statement of net position (page 20) are different because:

|   |              |
|---|--------------|
| Total fund balance - governmental funds (page 22) | \$ 6,219,707 |
|---|--------------|

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:

Nondepreciable capital assets:

|      |              |
|------|--------------|
| Land | \$ 1,713,599 |
|------|--------------|

Depreciable capital assets:

|           |           |
|-----------|-----------|
| Buildings | 1,232,255 |
|-----------|-----------|

|           |           |
|-----------|-----------|
| Equipment | 1,046,241 |
|-----------|-----------|

|                |           |
|----------------|-----------|
| Infrastructure | 4,072,385 |
|----------------|-----------|

|                      |                  |
|----------------------|------------------|
| Total capital assets | <u>8,064,480</u> |
|----------------------|------------------|

|                               |                    |           |
|-------------------------------|--------------------|-----------|
| Less accumulated depreciation | <u>(3,979,756)</u> | 4,084,724 |
|-------------------------------|--------------------|-----------|

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:

|  |             |
|--|-------------|
| General obligation bonds and notes payable | (1,747,235) |
|--|-------------|

|                      |           |
|----------------------|-----------|
| Compensated absences | (179,793) |
|----------------------|-----------|

|   |                  |
|---|------------------|
| Net other post employment benefits obligation | <u>(161,649)</u> |
|---|------------------|

(2,088,677)

Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds

|                  |         |
|------------------|---------|
| Loans receivable | 962,126 |
|------------------|---------|

|       |               |
|-------|---------------|
| Taxes | <u>67,209</u> |
|-------|---------------|

1,029,335

|   |                     |
|---|---------------------|
| Net position of governmental activities (page 20) | <u>\$ 9,245,089</u> |
|---|---------------------|

The notes to financial statements are an integral part of this statement.

**The Mayor and Commissioners of the Town of North East**  
**Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds**  
**For the Year Ended June 30, 2018**

|  | General             | Special<br>Revenue | Capital<br>Projects | Nonmajor<br>Special<br>Revenue | Total<br>Governmental |
|--|---------------------|--------------------|---------------------|--------------------------------|-----------------------|
| <b>REVENUES</b>                                      |                     |                    |                     |                                |                       |
| Taxes  | \$ 1,825,560        | \$ -               | \$ -                | \$ -                           | \$ 1,825,560          |
| Licenses and permits                                 | 74,719              | -                  | -                   | -                              | 74,719                |
| Intergovernmental                                    | 454,581             | -                  | -                   | -                              | 454,581               |
| Charges for services                                 | 254,870             | -                  | -                   | -                              | 254,870               |
| Fines and forfeitures                                | 255                 | -                  | -                   | -                              | 255                   |
| Miscellaneous  | 157,848             | 8,250              | -                   | 5,000                          | 171,098               |
| Total Revenues                                       | <u>2,767,833</u>    | <u>8,250</u>       | <u>-</u>            | <u>5,000</u>                   | <u>2,781,083</u>      |
| <b>EXPENDITURES</b>                                  |                     |                    |                     |                                |                       |
| Current:   |                     |                    |                     |                                |                       |
| General government                                   | 324,600             | -                  | 4,171               | 10,315                         | 339,086               |
| Public safety  | 1,208,515           | -                  | -                   | -                              | 1,208,515             |
| Public works   | 858,561             | -                  | -                   | -                              | 858,561               |
| Health   | 1,440               | -                  | -                   | -                              | 1,440                 |
| Recreation and culture                               | 20,363              | -                  | 280                 | -                              | 20,643                |
| Debt service:  |                     |                    |                     |                                |                       |
| Principal  | 89,428              | -                  | -                   | -                              | 89,428                |
| Interest   | 58,293              | -                  | -                   | -                              | 58,293                |
| Capital outlay:                                      |                     |                    |                     |                                |                       |
| Public safety  | -                   | -                  | -                   | -                              | -                     |
| Public works   | 70,461              | -                  | -                   | -                              | 70,461                |
| Total expenditures                                   | <u>2,631,661</u>    | <u>-</u>           | <u>4,451</u>        | <u>10,315</u>                  | <u>2,646,427</u>      |
| Excess (deficiency) of revenues<br>over expenditures | <u>136,172</u>      | <u>8,250</u>       | <u>(4,451)</u>      | <u>(5,315)</u>                 | <u>134,656</u>        |
| <b>OTHER FINANCING SOURCES (USES)</b>                |                     |                    |                     |                                |                       |
| Sale of capital assets                               | 11,335              | -                  | -                   | -                              | 11,335                |
| Interest on loans receivable                         | -                   | 2,003              | -                   | -                              | 2,003                 |
| Repayment on loans receivable                        | -                   | 10,531             | -                   | -                              | 10,531                |
| Transfer in (out)                                    | (2,000)             | -                  | -                   | 2,000                          | -                     |
| Total other financing sources (uses)                 | <u>9,335</u>        | <u>12,534</u>      | <u>-</u>            | <u>2,000</u>                   | <u>23,869</u>         |
| Net change in fund balances                          | 145,507             | 20,784             | (4,451)             | (3,315)                        | 158,525               |
| Fund balances - beginning                            | <u>4,507,538</u>    | <u>782,079</u>     | <u>756,053</u>      | <u>15,512</u>                  | <u>6,061,182</u>      |
| Fund balances - ending                               | <u>\$ 4,653,045</u> | <u>\$ 802,863</u>  | <u>\$ 751,602</u>   | <u>\$ 12,197</u>               | <u>\$ 6,219,707</u>   |

The notes to financial statements are an integral part of this statement.



**The Mayor and Commissioners of the 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, 2018**

Amounts reported for governmental activities in the statement of activities (page 21) are different because:

|  |            |
|--|------------|
| Net change in fund balances - total governmental funds (page 24) | \$ 158,525 |
|--|------------|

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.

|                      |                  |           |
|----------------------|------------------|-----------|
| Capital outlay       | \$ 70,461        |           |
| Depreciation expense | <u>(371,370)</u> | (300,909) |

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds because they are not received within 60 days of year end.

|          |              |       |
|----------|--------------|-------|
| Interest | 7,717        |       |
| Taxes    | <u>1,809</u> | 9,526 |

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

|                                  |  |        |
|----------------------------------|--|--------|
| Principal payments:              |  |        |
| General obligation bonds payable |  | 89,428 |

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

|   |                 |          |
|---|-----------------|----------|
| Net other post-employment benefits obligation | (24,174)        |          |
| Accrued compensated absences                  | <u>(23,702)</u> | (47,876) |

The issuance of long-term loan receivables uses current financial resources in the governmental funds while principal payments received increase current financial resources. Neither transaction, however, has any effect on net position in the statement of activities.

|                             |          |          |
|-----------------------------|----------|----------|
| Principal payments received | (10,531) |          |
| Issuance of new loans       | <u>-</u> | (10,531) |

|   |                            |
|---|----------------------------|
| Net position of governmental activities (page 21) | <u><u>\$ (101,837)</u></u> |
|---|----------------------------|

The notes to financial statements are an integral part of this statement.

**The Mayor and Commissioners of the Town of North East**  
**Statement of Net Position – Proprietary Funds**  
**June 30, 2018**

|   | <u>Enterprise Fund</u><br><u>Water Services</u> |
|---|---|
| <b>ASSETS</b>                             |   |
| Current assets:                           |   |
| Cash and cash equivalents                 | \$ 1,317,978                                    |
| Restricted cash                           | 658,055   |
| Accounts receivable                       | 667,356   |
| Inventories                               | 84,623  |
| Prepays                                   | 22,280  |
| Total current assets                      | <u>2,750,292</u>                                |
| Noncurrent assets:                        |   |
| Capital assets                            |   |
| Land                                      | 960,450   |
| Buildings                                 | 264,517   |
| Equipment                                 | 188,838   |
| Infrastructure                            | 36,675,396                                      |
| Less accumulated depreciation             | <u>(13,021,257)</u>                             |
| Total noncurrent assets                   | <u>25,067,944</u>                               |
| Total assets                              | <u>27,818,236</u>                               |
| <b>LIABILITIES</b>                        |   |
| Current liabilities:                      |   |
| Accounts payable                          | 97,890  |
| Accrued liabilities                       | 51,942  |
| Bonds payable                             | 595,411   |
| Due to other funds                        | 88,688  |
| Total current liabilities                 | <u>833,931</u>                                  |
| Noncurrent liabilities                    |   |
| Compensated absences                      | 47,132  |
| Bonds payable                             | 10,853,934                                      |
| Other post employment benefits obligation | 109,698   |
| Total noncurrent liabilities              | <u>11,010,764</u>                               |
| Total liabilities                         | <u>11,844,695</u>                               |
| <b>NET POSITION</b>                       |   |
| Net investment in capital assets          | 13,618,599                                      |
| Restricted for capital projects           | 658,055   |
| Unrestricted                              | 1,696,887                                       |
| Total net position                        | <u><u>\$ 15,973,541</u></u>                     |

The notes to financial statements are an integral part of this statement.

**The Mayor and Commissioners of the Town of North East**  
**Statement of Revenues, Expenses and Changes in Fund Balances – Proprietary Funds**  
**For the Year Ended June 30, 2018**

|                                   | <u>Enterprise Fund</u><br><u>Water Services</u> |
|-----------------------------------|---|
| Operating revenues:               |   |
| Charges for services              |   |
| Water sales                       | \$ 2,729,241                                    |
| Connection fees                   | 15,150  |
| Service charge penalties          | 90,532  |
| Miscellaneous                     | 10,602  |
| Total operating revenues          | <u>2,845,525</u>                                |
| Operating expenses:               |   |
| Salaries and benefits             | 746,667   |
| Repairs and maintenance           | 843,993   |
| Supplies                          | 149,597   |
| Utilities                         | 189,887   |
| Insurance                         | 28,857  |
| Professional fees                 | 171,789   |
| Administraion                     | 25,371  |
| Miscellaneous                     | 7,521   |
| Depreciation                      | 998,335   |
| Total operating expenses          | <u>3,162,017</u>                                |
| Operating income (loss)           | <u>(316,492)</u>                                |
| Nonoperating revenues (expenses): |   |
| Major facilites fees              | 66,500  |
| Interest income                   | 27,275  |
| Interest expense                  | (71,827)  |
| Total nonoperating revenues       | <u>21,948</u>                                   |
| Change in net position            | (294,544)                                       |
| Net position - beginning          | 16,268,085                                      |
| Net position - ending             | <u>\$ 15,973,541</u>                            |

The notes to financial statements are an integral part of this statement.

**The Mayor and Commissioners of the Town of North East**  
**Statement of Cash Flows – Proprietary Funds**  
**For the Year Ended June 30, 2018**

|   | <u>Enterprise Fund</u><br><u>Water Services</u> |
|---|---|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |   |
| Receipts from customers   | \$ 2,706,194                                    |
| Payments to suppliers for goods and services  | (1,460,378)                                     |
| Payments to employees for salaries and benefits   | (742,218)                                       |
| Net cash provided by (used for) operating activities  | <u>503,598</u>                                  |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>  |   |
| Transfers from (to) other funds   | (362,123)                                       |
|   | <u>(362,123)</u>                                |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>   |   |
| Receipts from customers for future capital improvements   | 66,500  |
| Principal paid on capital debt  | (593,313)                                       |
| Interest paid on capital debt   | (71,827)  |
| Net cash provided by (used for) capital and related financing activities                                  | <u>(598,640)</u>                                |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |   |
| Interest on investments   | 27,275  |
| Net cash provided by investing activities   | <u>27,275</u>                                   |
| Net increase (decrease) in cash and cash equivalents  | (429,890)                                       |
| Cash and cash equivalents July 1 (including \$1,075,300 reported in restricted accounts)                  | <u>2,405,923</u>                                |
| Cash and cash equivalents June 30 (including \$658,055 reported in restricted accounts).                  | <u><u>\$ 1,976,033</u></u>                      |
| <b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b> |   |
| Operating income (loss)   | \$ (316,492)                                    |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: |   |
| Depreciation expense  | 998,335   |
| (Increase) decrease in accounts receivable  | (139,331)                                       |
| (Increase) decrease in inventories  | (36,829)  |
| (Increase) decrease in prepaid items  | 5,001   |
| (Decrease) increase in accounts payable   | (11,535)  |
| (Decrease) increase in accrued liabilities  | 310   |
| (Decrease) increase in compensated absences   | 1,281   |
| Increase (decrease) in other post-employment benefits obligation  | 2,858   |
| Total adjustments   | <u>820,090</u>                                  |
| Net Cash Provided by (Used for) Operating Activities  | <u><u>\$ 503,598</u></u>                        |

The notes to financial statements are an integral part of this statement.

**The Mayor and Commissioners of the Town of North East**  
**Statement of Net Position – Fiduciary Funds**  
**June 30, 2018**

|  | <b>Employee<br/>Benefit Plan</b> | <b>Agency<br/>Fund</b> |
|--|----------------------------------|------------------------|
| <b>ASSETS</b>  |                                  |                        |
| Equity in pooled cash                                | \$ -                             | \$ 152,198             |
| Investments with fiscal agents                       | <u>3,070,652</u>                 | <u>-</u>               |
| Total assets   | <u>3,070,652</u>                 | <u>152,198</u>         |
| <b>LIABILITIES</b>                                   |                                  |                        |
| Accounts payable                                     | -                                | 20,623                 |
| Amounts held in escrow                               | <u>-</u>                         | <u>131,575</u>         |
| Total liabilities                                    | <u>-</u>                         | <u>\$ 152,198</u>      |
| <b>NET POSITION</b>                                  |                                  |                        |
| Net position held in trust for employee benefit plan | <u><u>\$ 3,070,652</u></u>       |                        |

The notes to financial statements are an integral part of this statement.

**The Mayor and Commissioners of the Town of North East**  
**Statement of Changes in Fiduciary Net Position – Fiduciary Funds**  
**For the Year Ended June 30, 2018**

|   | <u>Employee<br/>Benefit Plan</u> |
|---|----------------------------------|
| <b>ADDITIONS</b>                              |                                  |
| Contributions:                                |                                  |
| Employer                                      | \$ 77,183                        |
| Plan members                                  | 109,564                          |
| Total contributions                           | <u>186,747</u>                   |
| Investment earnings:                          |                                  |
| Net increase in the fair value of investments | <u>193,537</u>                   |
| Total investment earnings                     | 193,537                          |
| Less investment expense                       | <u>18,468</u>                    |
| Net investment earnings                       | <u>175,069</u>                   |
| Total additions                               | <u>361,816</u>                   |
| <b>DEDUCTIONS</b>                             |                                  |
| Benefits                                      | <u>559,994</u>                   |
| Total deductions                              | <u>559,994</u>                   |
| Change in net position                        | (198,178)                        |
| Net position - beginning                      | <u>3,268,830</u>                 |
| Net position - ending                         | <u><u>\$ 3,070,652</u></u>       |

The notes to financial statements are an integral part of this statement.

# Notes to Basic Financial Statements

|      |  |    |
|------|--|----|
| I.   | Summary of significant accounting policies .....   | 32 |
| A.   | Description of government wide financial statements .....  | 32 |
| B.   | Reporting entity .....   | 32 |
| C.   | Basis of presentation – government-wide financial statements .....   | 32 |
| D.   | Basis of presentation – fund financial statements .....  | 32 |
| E.   | Measurement focus and basis of accounting .....  | 33 |
| F.   | Budgetary information .....  | 34 |
| G.   | Assets, liabilities, deferred outflows/inflows of resources and net position/fund balance  | 34 |
| H.   | Revenues and expenditures/expenses.....  | 38 |
| I.   | Implementation of new accounting principles .....  | 39 |
| II.  | Reconciliation of government-wide and fund financial statements  | 39 |
| A.   | Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.....  | 39 |
| B.   | Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities..... | 40 |
| III. | Detailed notes on all activities and funds .....   | 40 |
| A.   | Cash deposits and investments with financial institutions .....  | 40 |
| B.   | Receivables.....   | 41 |
| C.   | Capital assets .....   | 42 |
| D.   | Accrued liabilities .....  | 43 |
| E.   | Other post-employment benefits (OPEB) obligation .....   | 43 |
| F.   | Construction and other significant commitments .....   | 45 |
| G.   | Deferred compensation plan .....   | 45 |
| H.   | Risk management .....  | 45 |
| I.   | Lease obligations .....  | 46 |
| J.   | Long term liabilities .....  | 47 |
| K.   | Fund balance .....   | 49 |
| L.   | Interfund receivables and payables .....   | 49 |
| M.   | Interfund transfers .....  | 49 |
| N.   | Agreements .....   | 50 |
| O.   | Contingencies .....  | 50 |
| P.   | Subsequent events .....  | 50 |



**THE MAYOR AND COMMISSIONERS OF THE TOWN OF NORTH EAST**  
**Notes to the Financial Statements**  
**June 30, 2018**

**I. Summary of significant accounting policies**

**A. Description of government-wide financial statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the government. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support.

**B. Reporting entity**

The Town of North East (the Town) is a municipal corporation (incorporated in 1850) located in Cecil County, Maryland. The Town is governed by an elected mayor and four member commission (the Board). The Board assumes responsibilities conferred upon them by the Maryland General Assembly and provides the following services: public safety, public works, sanitation, recreation, public water, and general administration.

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 governing body is able to exercise oversight responsibilities. Based on this criteria, management has concluded there are no component units of the Town.

**C. Basis of presentation – government-wide financial statements**

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

**D. Basis of presentation – fund financial statements**

The fund financial statements provide information about the Town's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. The Town has one nonmajor special revenue fund which is reported as a separate column on the governmental funds financial statements.

The Town reports the following major governmental funds:

The *general fund* is the Town's primary operating fund. It accounts for all financial resources of the general government except those accounted for in another fund.

The *capital projects fund* accounts for the acquisition and construction of the Town's major capital facilities, other than those financed by proprietary funds.

The *special revenue fund* accounts for financial resources associated with a loan program for the rehabilitation of private properties as well as Community Development Block Grant loans for assisted housing projects.

The Town reports the following non-major governmental fund:

The *special revenue fund* accounts for financial resources associated with the Cecil County Christmas Parade.

The Town reports the following major enterprise fund:

The *water fund* accounts for the activities of the Town's water service operations.

Additionally, the Town reports the following fiduciary funds:

The *employee benefit plan fund* accounts for assets held in trust for the payment of benefits under the Town's deferred compensation plan.

The *agency fund* accounts for assets held in an agency capacity related to development projects.

During the course of operations the Town has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in the governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between funds included in business-type activities are eliminated so that only the net amount is included in the business-type activities column.

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 the 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 the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

#### **E. Measurement focus and basis of accounting**

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 accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

The 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. Revenues are considered to be available when they are collectible within the

current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally 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.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of yearend). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other 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). All other revenue items are considered to be measurable and available only when cash is received by the Town.

The proprietary and employee benefit trust fund are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

## **F. Budgetary information**

### **1. Budgetary basis of accounting**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general, capital projects, and enterprise funds. The capital projects fund is appropriated on a project-length basis. Special revenue funds do not have appropriated budgets since other means control the use of these resources (e.g., grant awards and endowment requirements) and sometimes span a period of more than one fiscal year.

The appropriated budget is prepared by fund, function and department. Town department heads may make transfers within a department. Transfers of appropriations between departments require the approval of the Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

Appropriations in all budgeted funds lapse at that end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e. purchase orders, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget.

## **G. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance**

### **1. Cash and cash equivalents**

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, deposits in the Maryland Local Government Investment Pool, and short term investments with original maturities of three months or less from the date of acquisition.

## ***2. Investments***

State regulations authorize the Town to invest in U.S. treasury obligations, U.S. government agency and instrumentality obligations, repurchase agreements (collateralized), certificates of deposit, bankers' acceptances, commercial paper, money market mutual funds and the Maryland Local Government Investment Pool.

The Maryland Local Government Investment Pool (MLGIP) was created by the state legislature through Section 22G of Article 95 of the Annotated Code of Maryland and is under the supervision of the state treasurer. The pool is operated in accordance with Rule 2a-7 (SEC-Registered) of the Investment Company Act of 1940 as amended. The pool has a credit rating of AAAm from Standards and Poor's Financial Services. Local government investment pools in this category meet the highest standards for credit quality, conservative investment policies, and safety of principal.

The Town has multiple segregated sub accounts with the MLGIP which allows for earnings to be allocated to each fund based on the source of the funds invested.

Investments for the Town are reported at fair value (generally based on quoted market prices) except for the position in the MLGIP which is reported at net asset value of \$1.00 per share. As of June 30, 2018, all pool holdings are in cash and cash equivalents.

## ***3. Inventories and prepaid items***

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies and repair items. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expense when consumed rather than when purchased.

## ***4. Capital assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Proprietary fund capital assets are also reported in their fund financial statements.

The Town has been exempted from retroactively reporting infrastructure assets. As the Town constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase capacity or efficiency of the item or increase its estimated useful life. Donated capital assets received on or before June 30, 2015 are recorded at the estimated fair value at the date of donation. Donated capital assets received on or after July 1, 2015 are recorded at acquisition value.

Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed. The amount of interest capitalized depends on the specific circumstances. This year no tax-exempt bond anticipation notes (BANS) were issued, consequently, no interest was capitalized.

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the government are depreciated using the straight line method over the following useful lives:

| <u>Capital asset classes</u> | <u>Lives</u> |
|------------------------------|--------------|
| Infrastructure               | 15-80        |
| Buildings and improvements   | 30-50        |
| Equipment                    | 5-10         |

#### **5. *Deferred outflows/inflows of resources***

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Town did not have any deferred outflows of resources for the current year.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town reports a deferred inflow of resources for *unavailable revenue*, reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from income taxes as well as loans receivable. The amount is deferred and recognized as an inflow of resources in the period the amount becomes available.

#### **6. *Net position flow assumption***

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate amounts reported as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

#### **7. *Fund balance flow assumptions***

Sometimes the Town will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. 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.

#### **8. *Fund balance policies***

Fund balance of the governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Town reports the following fund balances in governmental activities:

Nonspendable – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact. The Town reports the following nonspendable fund balances:

| Fund         | Fund<br>Balance | Nonspendable Category |
|--------------|-----------------|-----------------------|
| General Fund | \$100,528       | Prepaid Expenditures  |

Restricted – Amounts that can only be spent for specific purposes because of enabling legislation, constitutional provisions, or externally imposed conditions by grantors, creditors, or contributors. The Town reports the following restricted fund balances:

| Fund                           | Fund<br>Balance | Restricted by                       |
|--------------------------------|-----------------|-------------------------------------|
| General Fund                   |                 |                                     |
| Offsite mitigation             | \$28,891        | Natural Resources Article 5-1610    |
| Shore erosion control          | \$ 2,432        | Federal Emergency Management Agency |
| Walking path at park           | \$ 3,500        | Grant from Walmart, Inc.            |
| Old town lock-up               | \$ 1,000        | Grant from Women's Civic League     |
| Fishing tournament             | \$ 2,450        | Grant from Cecil County             |
| Non-major special revenue fund |                 |                                     |
| Christmas Parade               | \$12,197        | Donations from parade sponsors      |

Committed – Amounts that can only be used for specific purposes are determined by formal action (adoption or amendment) by the Mayor and Commissioners of the Town of North East who are the highest level of decision making authority. Once adopted, the limitation imposed by ordinance or resolution remains in place until a similar action is taken (the adoption of another ordinance or resolution) to remove or revise the limitation. The Town reported the following committed fund balances:

| Fund                   | Fund<br>Balance | Committed by          |
|------------------------|-----------------|-----------------------|
| General Fund           |                 |                       |
| CDA 2014 Series A Bond | \$1,698,500     | Resolution 2015-05-10 |
| Sick leave payouts     | \$ 43,956       | Resolution 2015-08-01 |

Assigned – Amounts in the assigned fund balance classification are intended to be used by the Town for specific purposes but do not meet the criteria to be classified as committed. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, additional action is essential to either remove or revise a commitment. The Town reported the following assigned fund balances:

| Fund                               | Fund<br>Balance | Assigned by               |
|------------------------------------|-----------------|---------------------------|
| General Fund                       |                 |                           |
| Appropriation for FY 2019          | \$150,359       | Town of North East Budget |
| Special Revenue Fund               |                 |                           |
| Revitalization Loans               | \$226,191       | Town of North East Budget |
| Housing & Community<br>Development | \$576,672       | Town of North East Budget |
| Capital Projects Fund              | \$751,602       | Town of North East Budget |

Unassigned – Amounts that are not included in other fund balance classifications. The General fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds it is not appropriate to report a positive unassigned fund balance amount. However, in governmental funds other than the general fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

## H. Revenues and expenditures/expenses

### 1. *Program revenues*

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than program revenues.

### 2. *Property taxes*

Property taxes attach as an enforceable lien on real property and are levied as of July 1<sup>st</sup>. Payments are due by September 30<sup>th</sup> for all non-principal residences and commercial properties not classified as qualified small businesses. Beginning October 1<sup>st</sup>, interest is charged each month the taxes remain unpaid. For principal residences and qualifying small businesses (tax liabilities less than \$100,000 with certain commercial use designations), a two part installment plan is offered. The first installment is due by September 30<sup>th</sup>. Beginning October 1<sup>st</sup>, interest is charged on the amount of the first installment only. The second installment is due by December 31<sup>st</sup>. Beginning on January 1<sup>st</sup>, interest is charged on all outstanding balances. Property taxes are levied at rates enacted by the Mayor and Commissioners in the annual budget on the assessed value as determined by the Maryland Department of Assessments and Taxation. The tax rate for the fiscal year ended June 30, 2018 was \$0.48 per \$100 of assessed value for real property and \$1.20 per \$100 of assessed value for public utility and railroad operating property. Taxes not collected and remitted to the Town within the availability period are immaterial.

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:

| <u>Year</u> | <u>Credit</u> |
|-------------|---------------|
| 1-5         | 80%           |
| 6           | 70%           |
| 7           | 60%           |
| 8           | 50%           |
| 9           | 40%           |
| 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 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, 2018 \$1,950 in real property taxes was abated as part of this program with \$975 to be reimbursed to the Town in Fiscal Year 2019 to offset 50% of the credit.



### **3. *Compensated absences***

*Vacation Leave Time.* The Town's policy permits employees to accumulate earned but unused vacation time benefits, up to 400 hours, which are eligible for payment upon separation from Town service. The liability for such leave is reported as incurred in the government-wide and proprietary fund financial statements. A liability for such leave is reported as incurred in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary-related benefits where applicable. As of June 30, 2018 a total of \$146,999 in unused vacation time has been recorded as compensated absences payable on the Statement of Net Position.

*Sick Leave.* The Town's policy is to permit employees to accumulate earned but unused sick leave without limitation. The Town will pay employees that had ten years of service as of January 1, 2015 unused sick leave up to 500 hours upon retirement. The accumulated sick leave liability is based on the amount that is expected to ultimately be paid. A liability for such leave is reported as incurred in the government-wide and proprietary fund financial statements. A liability for such leave is reported as incurred in the governmental funds only if the liability has matured as a result of employee retirements. The liability for compensated absences includes salary-related benefits where applicable. As of June 30, 2018 a total of \$79,926 in unused sick leave has been recorded as compensated absences on the Statement of Net Position.

### **4. *Proprietary funds operating and nonoperating revenues and expenses***

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water services fund is charges to customers for the sale of water. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### **I. Implementation of new accounting principles**

During the year ended June 30, 2018, GASB issued Statement No. 88 *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* and Statement No. 89 *Accounting for Interest Cost Incurred before the End of a Construction Period*.

The Town has begun analyzing the effects of these pronouncements and plans to implement them by their respective effective dates.

#### **II. Reconciliation of government-wide and fund financial statements**

##### **A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.**

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. Reconciling items include the following:

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

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.

Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and, therefore, are not reported in the funds.

Deferred inflows of resources represent acquisition of net position that applies to a future period(s) and, therefore are not reported in the funds.

Details of these reconciling transactions can be found on page 23.

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures and, changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. Reconciling items include the following:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.

The net effect of various miscellaneous transactions involving capital assets (i.e. sales and donations) is to increase net position.

The issuance of long-term debt (i.e. bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes current financial resources of the governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Some expenses reported in the statement of activities do not require current financial resources and, therefore, are not reported in the funds.

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and, therefore, are not reported in the funds.

Detail of these reconciling transactions can be found on page 25.

**III. Detailed notes on all activities and funds**

**A. Cash deposits and investments with financial institutions**

*Custodial credit risk-deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town maintains the following accounts:

| Financial Institution                           | Bank Balance<br>June 30, 2018 |
|---|-------------------------------|
| Howard Bank (main operating account)            | \$2,328,094                   |
| Cecil Bank (Offsite Mitigation Checking)        | 28,890                        |
| Cecil Bank (Major Facilities Checking)          | 2,989                         |
| Cecil Bank (Revitalization Loan Checking)       | 977                           |
| PNC (Maryland Local Government Investment Pool) | 6,377,960                     |

None of the Town's deposits are exposed to custodial credit risk. The deposits at Howard Bank are covered by the Federal Deposit Insurance Corporation and collateralized with securities held in the Town's name by an independent third party in a three party agreement. The deposits at Cecil Bank are

insured by the Federal Deposit Insurance Corporation. For more information about the Maryland Local Government Investment Pool see note I.G.2., *Investments*.

The Town maintains a cash pool (Howard Bank main operating account) that is available for use by all funds except the employee benefit fund. All interest earned accrues to the general fund, while all associated fees for the account are also charged to the general fund. Each fund's position in the pool is displayed as *equity in pooled cash* on the balance sheet and statement of net position.

*Interest rate risk.* The Town manages its exposure to declines in fair values by investing primarily in short-term holdings, including demand deposits and the Maryland Local Government Investment Pool.

*Credit risk.* As of June 30, 2018, the Town was not exposed to credit risk.

*Concentration of credit risk.* The Town manages concentration of credit risk by investing primarily in the Maryland Local Government Investment Pool or other collateralized investments as outlined in the Town's Investment Policy and Maryland Law.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2018, the Town was not exposed to any custodial credit risk.

*Investment policy.* The Town has adopted an investment policy that is designed to provide maximum safety and liquidity of funds while providing a reasonable rate of return. Permissible investments include U.S. Treasury Obligations, U.S. Government Agency and U.S. Government-Sponsored Enterprises, repurchase agreements, collateralized certificates of deposit, the Maryland Local Government Investment Pool, and mutual funds dealing in government securities. The Town's policy and State law requires that the underlying collateral for repurchase agreements and certificates of deposit must have a market value of at least 102% of the investment's cost plus accrued interest.

## B. Receivables

Below is the detail of receivables for the governmental and business-type activities:

| Receivables                       | General Fund      | Special<br>Revenue Fund | Total<br>Governmental<br>Funds | Business-type<br>Funds | Total             |
|-----------------------------------|-------------------|-------------------------|--------------------------------|------------------------|-------------------|
| Property tax                      | \$ 2,833          | \$ -                    | \$ 2,833                       | \$ -                   | \$ 2,833          |
| Intergovernmental                 |                   |                         |                                |                        |                   |
| Collected taxes                   | \$ 10,695         | \$ -                    | \$ 10,695                      | \$ -                   | \$ 10,695         |
| Motel tax                         | 18,022            | -                       | 18,022                         | -                      | 18,022            |
| Admission and amusement taxes     | 2,582             | -                       | 2,582                          | -                      | 2,582             |
| Income taxes                      | 92,007            | -                       | 92,007                         | -                      | 92,007            |
| Safe streets grant                | 1,596             | -                       | 1,596                          | -                      | 1,596             |
| Business licenses                 | 1,400             | -                       | 1,400                          | -                      | 1,400             |
| Highway user revenues             | 4,957             | -                       | 4,957                          | -                      | 4,957             |
| Enterprise zone credits           | 975               | -                       | 975                            | -                      | 975               |
|                                   | <u>\$ 132,234</u> | <u>\$ -</u>             | <u>\$ 132,234</u>              | <u>\$ -</u>            | <u>\$ 132,234</u> |
| Other accounts                    |                   |                         |                                |                        |                   |
| Public Utility Operating Property | \$ 113            |                         | \$ 113                         |                        | \$ 113            |
| Customer service charges          | 390               | -                       | 390                            | 667,356                | 667,746           |
| Rents and royalties               | 10,382            | -                       | 10,382                         | -                      | 10,382            |
|                                   | <u>\$ 10,885</u>  | <u>\$ -</u>             | <u>\$ 10,885</u>               | <u>\$ 667,356</u>      | <u>\$ 678,241</u> |
| Loans                             |                   |                         |                                |                        |                   |
| Revitalization loan               | \$ -              | \$ 4,408                | \$ 4,408                       | \$ -                   | \$ 4,408          |
| Assisted housing loans            | -                 | 957,718                 | 957,718                        | -                      | 957,718           |
|                                   | <u>\$ -</u>       | <u>\$ 962,126</u>       | <u>\$ 962,126</u>              | <u>\$ -</u>            | <u>\$ 962,126</u> |

The Town does not have any allowance for doubtful accounts related to the above receivables. The Town expects to receive all of the receivables listed above within one year except for the following:

1. The State has estimated that they are holding \$67,209 of the Town's income tax revenue for tax years 2017 and prior. It will take several years for the State to remit these monies to the Town, however, the State estimates their liability to the Town and the Town reports this receivable in accordance with generally accepted accounting principles.
2. The Town has loan agreements with two assisted housing projects located in the corporate limits of the Town. Proceeds of grants from the State of Maryland (\$250,000) and the U.S Department of Housing and Community Development's Community Development Block Grant (\$750,000) were loaned to the developers of the projects in prior years. The promissory notes bear interest at 1% and are to be repaid in annual installments of principal and interest based on the availability of funds as defined in the promissory notes. The notes are secured by deeds of trust that are subordinate to senior debt. Principal payments of \$5,806 and interest payments of \$1,810 were received during the year ended June 30, 2018 on one of the loans. No principal or interest payments have been received to date on the other loan. The loans have a maturity date of July 1, 2052 and August 1, 2055 respectively.
3. The Town offers a loan program for the rehabilitation of private properties within the corporate limits of the Town. Loans are available under this program to upgrade the exterior of the property. Loans are for a period of 6-48 months and have interest charged at a fixed rate based on 80% of the prime rate at closing. Loans are based on the creditworthiness of the applicants and are secured by a deed of trust.
4. 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.

### C. Capital assets

Capital assets activity for the year ended June 30, 2018 was as follows:

#### Governmental activities:

|   | Balance<br>July 1, 2017 | Increases    | Decreases | Balance<br>June 30, 2018 |
|---|-------------------------|--------------|-----------|--------------------------|
| Capital assets, not being depreciated:      |                         |              |           |                          |
| Land  | \$ 1,713,599            | \$ -         | \$ -      | \$ 1,713,599             |
| Total capital assets, not being depreciated | 1,713,599               | -            | -         | 1,713,599                |
| Capital assets, being depreciated:          |                         |              |           |                          |
| Buildings                                   | 1,232,255               | -            | -         | 1,232,255                |
| Equipment                                   | 1,021,515               | 70,461       | 45,735    | 1,046,241                |
| Infrastructure                              | 4,072,385               | -            | -         | 4,072,385                |
| Total capital assets, being depreciated     | 6,326,155               | 70,461       | 45,735    | 6,350,881                |
| Less accumulated depreciation for:          |                         |              |           |                          |
| Buildings                                   | 483,612                 | 24,481       | -         | 508,093                  |
| Equipment                                   | 700,088                 | 99,497       | 45,735    | 753,850                  |
| Infrastructure                              | 2,470,421               | 247,392      | -         | 2,717,813                |
| Total accumulated depreciation              | 3,654,121               | 371,370      | 45,735    | 3,979,756                |
| Total capital assets being depreciated, net | 2,672,034               | (300,909)    | -         | 2,371,125                |
| Governmental activities capital assets, net | \$ 4,385,633            | \$ (300,909) | \$ -      | \$ 4,084,724             |

Depreciation expense was charged to the functions/programs of the governmental activities as follows:

|  |                   |
|--|-------------------|
| General government                                   | \$ 37,937         |
| Public safety  | 49,817            |
| Public works   | 282,867           |
| Parks and recreation                                 | 749               |
| Total depreciation expense - governmental activities | <u>\$ 371,370</u> |

**Business-type activities:**

|   | Balance<br>July 1, 2017 | Increases           | Decreases   | Balance<br>June 30, 2018 |
|---|-------------------------|---------------------|-------------|--------------------------|
| Capital assets, not being depreciated:      |                         |                     |             |                          |
| Land  | \$ 960,450              | \$ -                | \$ -        | \$ 960,450               |
| Total capital assets, not being depreciated | <u>960,450</u>          | <u>-</u>            | <u>-</u>    | <u>960,450</u>           |
| Capital assets, being depreciated:          |                         |                     |             |                          |
| Buildings                                   | 264,517                 | -                   | -           | 264,517                  |
| Equipment                                   | 188,838                 | -                   | -           | 188,838                  |
| Infrastructure                              | 36,675,396              | -                   | -           | 36,675,396               |
| Total capital assets, being depreciated     | <u>37,128,751</u>       | <u>-</u>            | <u>-</u>    | <u>37,128,751</u>        |
| Less accumulated depreciation for:          |                         |                     |             |                          |
| Buildings                                   | 149,657                 | 9,320               | -           | 158,977                  |
| Equipment                                   | 108,026                 | 22,726              | -           | 130,752                  |
| Infrastructure                              | 11,765,239              | 966,289             | -           | 12,731,528               |
| Total accumulated depreciation              | <u>12,022,922</u>       | <u>998,335</u>      | <u>-</u>    | <u>13,021,257</u>        |
| Total capital assets being depreciated, net | <u>25,105,829</u>       | <u>(998,335)</u>    | <u>-</u>    | <u>24,107,494</u>        |
| Governmental activities capital assets, net | <u>\$ 26,066,279</u>    | <u>\$ (998,335)</u> | <u>\$ -</u> | <u>\$ 25,067,944</u>     |

**D. Accrued liabilities**

Accrued liabilities reported in the fund financial statements at June 30, 2018 were as follows:

|                                | General<br>Fund  | Proprietary<br>Fund |
|--------------------------------|------------------|---------------------|
| Salaries and employee benefits | \$ 23,354        | \$ 11,606           |
| Interest                       | -                | 40,336              |
| Total accrued liabilities      | <u>\$ 23,354</u> | <u>\$ 51,942</u>    |

**E. Other post-employment benefits (OPEB) obligation**

Plan Description – 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 premiums for employees who have retired from the Town. The Plan is a single-employer defined benefit plan administered by the Town established by a resolution of the Mayor and Commissioners, and may be terminated by the same at any time. Under the Plan, should the 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 the employee only for a period of up to 18 months. In addition, the Town will also contribute the cost of the Plan’s deductible to the electing retiree’s Health Savings Account, based on the level of coverage elected. As of June 30, 2018 the Town had 30 active employees who were covered by the benefit terms. There were no inactive employees currently receiving nor entitled to benefits.

Funding Policy – As of June 30, 2018 no trust that meets the criteria of GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* paragraph 4 has been established and the Town is not accumulating assets to provide these benefits. The Town funds the premiums on a pay-as-you-go basis. In fiscal year 2018 the Town did not pay any premiums for retirees. In fiscal year 2018 no plan members received benefits.

Annual OPEB cost and Net OPEB obligation – The Town’s OPEB obligation of \$271,347 was measured as of June 30, 2018, and was determined using the alternative measurement method in lieu of an actuarial valuation as of that date. The Town’s net OPEB obligation was determined using the following assumptions and inputs, applied to all periods included in this measurement:

|                            |                                  |
|----------------------------|----------------------------------|
| Inflation                  | 3.00%                            |
| Salary increases           | 3.00%                            |
| Discount rate              | 2.98%                            |
| Healthcare cost trend rate | 4.60%                            |
| Retirees’ share of costs   | 0%-50% based on years of service |

The alternative measurement assumes 100% of the employees will retire upon reaching 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; therefore, mortality rates were not factored into the alternative measurement.

The probability 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 U.S. Office of Personnel Management regarding the experience of the employee group covered by the Federal Employees Retirement System.

The expected rate of increase in healthcare costs is based on the average of projections of the Office of the Actuary at the Centers for Medicare and Medicaid Services in *National Health Expenditures Projections; Aggregate and per Capita Amounts, Percent Distribution and Annual Percent Change by Source of Funds: Calendar Years 2010-2026*.

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

The end of the year net OPEB obligation is determined as follows:

|  |                   |
|--|-------------------|
| Service cost                               | \$ 6,222          |
| Interest                                   | 7,647             |
| Changes in assumptions and other inputs    | 13,163            |
| Benefit payments                           | -0-               |
| Increase (decrease) in net OPEB obligation | 27,032            |
| Net OPEB obligation, beginning of year     | 244,315           |
| Net OPEB obligation, end of year           | <u>\$ 271,347</u> |

Changes of assumptions and other inputs reflects a change in the discount rate from 3.13% in 2017 to 2.98% in 2018.

During the year ended June 30, 2018, the Town recognized OBEP expense of \$27,032.

Sensitivity of Net OPEB obligation to changes in the discount rate – The following presents the net OPEB obligation of the Town, as well as what the Town’s net OPEB obligation would be if it were

calculated using a discount rate that is one percentage point lower (1.98%) or one percentage point higher (3.98%) than the current discount rate.

|                     | 1% Decrease<br>(1.98%) | Discount Rate<br>(2.98%) | 1% Increase<br>(3.98%) |
|---------------------|------------------------|--------------------------|------------------------|
| Net OPEB Obligation | \$ 301,211             | \$ 271,347               | \$ 243,068             |

Sensitivity of Net OPEB obligation to changes in the health care cost trend rate – The following present the net OPEB obligation of the Town, as well as what the Town's net OPEB obligation would be if it were calculated using a health care cost trend rate that is one percentage point lower (3.60%) or one percentage point higher (5.60%) than the current cost trend rate.

|                     | 1% Decrease<br>(3.60%) | Discount Rate<br>(4.60%) | 1% Increase<br>(5.60%) |
|---------------------|------------------------|--------------------------|------------------------|
| Net OPEB Obligation | \$ 239,212             | \$ 271,347               | \$ 308,727             |

#### F. Construction and other significant commitments

The Town is holding retainage funds for vendors for work completed but the project is pending final acceptance. These funds are expected to be released to the vendors during fiscal year 2019. At year end the retainage amounts being held are as follows:

| <u>Project</u>                  | <u>Retainage</u> |
|---------------------------------|------------------|
| Painting of Bayview Water Tower | \$41,428         |

#### G. Deferred compensation plan

The Town offers employees deferred compensation plan created in accordance with Internal Revenue Code Section 401(a) and 457(b). The plan, available to all full time employees of the Town, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, or death. The Town contributes \$1,500 to the 401(a) plan for each full time employee who had completed six months of employment. In addition, the Town contributes up to an additional \$1,500 to the 401(a) plan as a match for employee contributions to their 457(b) plan. Town contributions to the plan may be amended by Town annually as part of the budget process. All Town contributions are fully vested at the time they are made. During the year ended June 30, 2018, there were 28 employees who participated in and made contributions to the plan. Employees made contributions totaling \$109,564 while the Town contributions were \$77,183.

All amounts of compensation deferred and Town contributions under the plan as well as all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are solely the property and rights of the participants. The Town has no liability for losses under the plan. Investments are managed by the plan's administrator under several different investment options, or combinations thereof. The choice of the investment option(s) is made by the participants.

#### H. Risk management

The Town is exposed to various risks related to torts: theft of, damage to; and destruction of assets; errors and omissions; and natural disasters. The Town's risk financing techniques include participation in a public entity risk pool and the purchase of commercial insurance. During the year ended June 30, 2018, 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.

For property, general excess and environmental liability coverage, the Town is a member of the Maryland Local Government Insurance Trust (LGIT). This trust is a public entity risk pool, which is



owned and directed by the local governments that subscribe to its coverages and operates under the terms of a Trust Agreement.

Subscribers to coverage provided by LGIT share the risk among the participants of the pools. As a result, the Town's annual premium requirements will be affected by the loss experience of the various insurance pools in which it participates. Also, the Town may be subjected to additional assessments from time to time. These amounts would be recorded as expenditures when they are probable and can be reasonably estimated. Conversely, favorable performance of certain pools may result in reduced premiums.

The Town pays LGIT an annual premium. Claims are processed and recoveries and administrative costs are paid by LGIT. Similar to a commercial insurance carrier, recoveries are subject to deductibles and to annual aggregate/per occurrence dollar limits. No insurance settlement has exceeded the coverage to date.

Complete financial statements can be obtained from their administrative offices:

**Local Government Insurance Trust**

7225 Parkway Drive  
Hanover, MD 21076

The Town is fully insured for worker's compensation through Chesapeake Employers Insurance Company. Employees are bonded and insured through Standard Insurance.

**I. Lease obligations**

***1. Operating Leases***

The Town leases a building for the maintenance shop, as well as technology equipment. Total costs for operating leases were approximately \$31,600 for the year ended June 30, 2018. Future minimum lease payments under significant non-cancelable operating leases are as follows:

Fiscal Year Ending June 30, Amount

|       |          |
|-------|----------|
| 2019  | \$12,500 |
| Total | \$12,500 |

## J. Long-term liabilities

### General Obligation Bonds, Notes, Other Post-Employment Benefits, Compensated Absences

The Town issues general obligation bonds and notes payable to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds are direct obligations and pledge the full faith and credit of the Town. These bonds generally are issued as serial bonds with equal amounts of principal maturing each year with maturities that range from 5 to 40 years. General obligation bonds and notes payable outstanding at June 30, 2018, are as follows:

| Description   | Issue Date | Original Borrowing | Interest Rate | Maturity Date | Outstanding 6/30/2018 |
|---|------------|--------------------|---------------|---------------|-----------------------|
| <b>General Obligation Bonds</b>                                       |            |                    |               |               |                       |
| <u>Community Development Administration</u>                           |            |                    |               |               |                       |
| FY 2014 Streets and Sidewalks Repair                                  | 08/28/14   | \$ 2,018,940       | 3.51%         | 05/01/34      | \$ 1,698,527          |
| <i>Annual principal and semiannual interest payments of \$142,884</i> |            |                    |               |               |                       |
| <b>Notes Payable</b>  |            |                    |               |               |                       |
| <u>Maryland Department of Natural Resources</u>                       |            |                    |               |               |                       |
| Shoreline Erosion Control - North East Community Park                 | 07/01/09   | 88,560             | 0.00%         | 07/01/29      | 48,708                |
| <i>Annual principal payments of \$4,428</i>                           |            |                    |               |               |                       |
|   |            |                    |               |               | <u>\$ 1,747,235</u>   |

#### **Business-type Activities:**

| Description  | Issue Date | Original Borrowing | Interest Rate | Maturity Date | Outstanding 6/30/2018 |
|--|------------|--------------------|---------------|---------------|-----------------------|
| <b>General Obligation Bonds</b>  |            |                    |               |               |                       |
| <u>Maryland Water Quality Financing Administration</u>                 |            |                    |               |               |                       |
| FY 2009 Water System Improvements Phase 5                              | 04/30/09   | \$ 1,375,000       | 0.00%         | 02/01/26      | \$ 506,092            |
| <i>Annual principal payments of \$68,750</i>                           |            |                    |               |               |                       |
| FY 2007 Water System Improvements Phase 6, 6a & 7                      | 03/28/07   | 15,590,777         | 0.40%         | 02/01/38      | 10,943,253            |
| <i>Annual principal and semi-annual interest payments of \$570,435</i> |            |                    |               |               |                       |
|  |            |                    |               |               | <u>\$ 11,449,345</u>  |

The debt services requirement for the Town's bonds, loans, and notes are as follows:

#### **Governmental Activities:**

| Fiscal Year Ending June 30, | Principal           | Interest          | Total               |
|-----------------------------|---------------------|-------------------|---------------------|
| 2019                        | \$ 90,428           | \$ 56,770         | \$ 147,198          |
| 2020                        | 91,928              | 55,342            | 147,270             |
| 2021                        | 93,428              | 53,627            | 147,055             |
| 2022                        | 95,428              | 51,616            | 147,044             |
| 2023                        | 97,928              | 49,332            | 147,260             |
| 2024-2028                   | 531,140             | 203,399           | 734,539             |
| 2029-2033                   | 610,455             | 105,114           | 715,569             |
| 2034-2038                   | 136,500             | 5,678             | 142,178             |
|                             | <u>\$ 1,747,235</u> | <u>\$ 580,878</u> | <u>\$ 2,328,113</u> |

**Business-type Activities:**

| Fiscal<br>Year Ending<br>June 30, | Principal            | Interest          | Total                |
|-----------------------------------|----------------------|-------------------|----------------------|
| 2019                              | \$ 595,411           | \$ 43,773         | \$ 639,184           |
| 2020                              | 597,518              | 41,666            | 639,184              |
| 2021                              | 599,633              | 39,552            | 639,185              |
| 2022                              | 601,756              | 37,428            | 639,184              |
| 2023                              | 603,888              | 35,296            | 639,184              |
| 2024-2028                         | 2,870,314            | 144,017           | 3,014,331            |
| 2029-2033                         | 2,762,565            | 89,606            | 2,852,171            |
| 2034-2038                         | 2,818,260            | 34,808            | 2,853,068            |
|                                   | <u>\$ 11,449,345</u> | <u>\$ 466,146</u> | <u>\$ 11,915,491</u> |

Total interest and administrative fees paid for the year ended June 30, 2018 included as direct function expense of public works in the governmental activities totaled \$58,293. Total interest and administrative fees paid for the year ended June 30, 2018 included as direct function expense of water services in the business-type activities totaled \$71,827.

**Legal Debt Margin**

In accordance with the Town's *Debt Policy* which was established by Resolution 2009-12-01 adopted on December 21, 2009 and amended by Resolution 2018-04-01 the Town's total general obligation debt cannot exceed 10% of the assessed valuation of taxable property as certified in the annual Constant Yield Rate Certification from the State of Maryland. During fiscal year 2018, the Town's assessed valuation of taxable property was \$314,110,410 while the Town's total outstanding debt was \$13,196,580, which is 4% of assessed values.

**Changes in Long-Term Liabilities**

Changes in the government's long-term liabilities for the year ended June 30, 2018, are as follows:

|   | Balance<br>July 1, 2017 | Additions         | Reductions          | Balance<br>June 30, 2018 | Due Within<br>One Year |
|---|-------------------------|-------------------|---------------------|--------------------------|------------------------|
| <b>Governmental Activities:</b>               |                         |                   |                     |                          |                        |
| General obligation bonds                      | \$ 1,783,527            | \$ -              | \$ (85,000)         | \$ 1,698,527             | \$ 86,000              |
| Notes payable                                 | 53,136                  | -                 | (4,428)             | 48,708                   | 4,428                  |
| Compensated absences                          | 156,091                 | 107,481           | (83,779)            | 179,793                  | -                      |
| Net other post-employment benefit obligation  | 137,475                 | 24,174            | -                   | 161,649                  | -                      |
| Governmental activities long-term liabilities | <u>\$ 2,130,229</u>     | <u>\$ 131,655</u> | <u>\$ (173,207)</u> | <u>\$ 2,088,677</u>      | <u>\$ 90,428</u>       |
|   |                         |                   |                     |                          |                        |
|   | Balance<br>July 1, 2017 | Additions         | Reductions          | Balance<br>June 30, 2018 | Due Within<br>One Year |
| <b>Business-type Activities:</b>              |                         |                   |                     |                          |                        |
| General obligation bonds                      | \$ 12,042,658           | \$ -              | \$ (593,313)        | \$ 11,449,345            | \$ 595,411             |
| Compensated absences                          | 45,851                  | 48,996            | (47,715)            | 47,132                   | -                      |
| Net other post-employment benefit obligation  | 106,840                 | 2,858             | -                   | 109,698                  | -                      |
| Governmental activities long-term liabilities | <u>\$ 12,195,349</u>    | <u>\$ 51,854</u>  | <u>\$ (641,028)</u> | <u>\$ 11,606,175</u>     | <u>\$ 595,411</u>      |

**Funding Sources for Other Non-Debt Related Liabilities**

Compensated absences liabilities and net other post-employment obligations are liquidated by the fund that incurred the personnel cost.

## K. Fund balance

**Minimum fund balance policy.** In 2018, the Mayor and Commissioners amended the Town's Code of Ordinances to require an unassigned/unrestricted fund balance of 90 days (25%) of annual expenditures/expenses in both the general and proprietary funds to provide fiscal stability when economic downturns and other unexpected events occur. Fiscal year 2018 was the first year the Town had a minimum fund balance policy, and the Town maintained an unrestricted fund balance above the 25% target.

**Stabilization arrangement.** In 2018, the Mayor and Commissioners amended the Town's Code of Ordinances to require a budgetary stabilization fund in an amount equal to 10% of the upcoming year's budget in both the general and enterprise funds, as the Town's budget in those funds goes up or down from year to year, the fund will be adjusted. At the end of 2018, the Town had \$304,000 in the general fund and \$340,000 in the enterprise fund which was in compliance with the Ordinance.

Expenditure of the amounts in the revenue stabilization fund may occur only when specific circumstances exist. The Ordinance states funds may be used in the event of an unexpected drop in revenues or increase in expenditures as a result of a natural disaster or service delivery costs that are short-term or temporary in nature which would adversely affect the level of service the Town provides.

Use of the funds is contingent upon a declaration of a fiscal emergency by the Mayor, after which a plan must be submitted to the Board for approval which details how the funds are to be spent and what will be done long-term to correct any ongoing or underlying issues that caused the funds to be used, and plan to replenish the funds within two years from the date of the declaration of the emergency.

## L. Interfund receivables and payables

Interfund receivables and payables are usually used by the Town to cover temporary cash deficits in individual funds until a grant or similar resources are received. Occasionally, these receivables and payables are used in lieu of short-term external borrowing for capital projects. The composition of interfund balances as of June 30, 2018, is as follows:

|                 | Due From<br>All Funds | Due To<br>All Funds |
|-----------------|-----------------------|---------------------|
| General Fund    | \$ 88,688             | \$ -                |
| Enterprise Fund | -                     | 88,688              |
| Total           | <u>\$ 88,688</u>      | <u>\$ 88,688</u>    |

## M. Interfund Transfers

Interfund transfers represent a transfer of resources from one fund to another without expectation of repayment. Usually these transfers are undertaken to enable the receiving fund to provide services that the government has determined to be in the best interest of the Town. The composition of interfund transfers for the year ended June 30, 2018, is as follows:

|                                | Transfers<br>In | Transfers<br>Out |
|--------------------------------|-----------------|------------------|
| General Fund                   | \$ -            | \$ 2,000         |
| Non-major special revenue fund | 2,000           | -                |
| Total                          | <u>\$ 2,000</u> | <u>\$ 2,000</u>  |

Significant interfund transfers in 2018 included:

- \$2,000 from the general fund to the Non-major special revenue fund accounts for the Town's contribution to the annual Cecil County Christmas Parade to help defray costs.

#### **N. Agreements**

The Town has an agreement with Cecil County to provide water services to a service area outside the corporate limits of the Town and which sets the rate for those customers at two times the rate the Town charges in town customers. The Town owns and maintains the lines, towers, pump stations and other related infrastructure to serve those customers.

The Town has an interconnection agreement with Artesian Water Maryland, Inc. to sell a minimum of 35,000 gallons of water per day (up to 105,000 gallons per day) at a rate of \$4.46 per thousand gallons based on an agreed upon methodology for setting the rate to ensure Artesian Water Maryland bears the full cost of the additional water the Town needs to produce to provide water in accordance with the agreement. The Town will own the meter vault, meter and all facilities on the Town's side of the meter. All infrastructure past the meter is owned and maintained by Artesian Water Maryland, Inc. As of the date of these statements the interconnection has not yet been constructed nor has any revenue has been received.

#### **O. Contingencies**

The Town is the recipient of various federal and state grant and/or loan programs, which are governed by various rules and regulations of grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies. If the Town has not complied with the rules and regulations governing the programs, refunds of money received may be required and the collectability of any related receivable may be impaired. To date, the Town has not been notified of any significant unallowable costs relating to its grants or contracts. In the opinion of the Town, adjustments for unallowable costs, if any, resulting from such audits will not have a material effect on the accompanying financial statements.

#### **P. Subsequent events**

In preparing the accompanying financial statements, the Town has evaluated events and transactions for potential recognition through October 16, 2018 the date the financial statements were available to be issued.

1. On September 28, 2018 the Town accepted deeds of conveyance for roads and water mains and appurtenances constructed by the developer of the Ridgley Forest subdivision located in the Town. As of the date of the statements, the Town's engineer has not determined the acquisition value of the assets.

# Required Supplementary Information



**The Mayor and Commissioners of the Town of North East**  
**General Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual**  
**For the Year Ended June 30, 2018**

|                              | Budgeted Amounts |              |              | Variance with |
|------------------------------|------------------|--------------|--------------|---------------|
|                              | Original         | Final        | Actual       | Final Budget  |
| REVENUES                     |                  |              |              |               |
| Taxes                        |                  |              |              |               |
| Property                     | \$ 1,574,190     | \$ 1,572,404 | \$ 1,572,407 | \$ 3          |
| Other                        | 293,500          | 219,186      | 253,153      | 33,967        |
| Licenses and permits         | 67,150           | 74,717       | 74,719       | 2             |
| Intergovernmental            | 363,177          | 449,623      | 454,581      | 4,958         |
| Charges for services         | 245,243          | 254,870      | 254,870      | -             |
| Fines and forfeitures        | 750              | 255          | 255          | -             |
| Miscellaneous                | 105,223          | 167,820      | 169,183      | 1,363         |
| Total revenues               | 2,649,233        | 2,738,875    | 2,779,168    | 40,293        |
| EXPENDITURES                 |                  |              |              |               |
| General government           |                  |              |              |               |
| Mayor and commissioners      | 29,051           | 23,051       | 22,723       | 328           |
| Administration               | 55,131           | 56,552       | 53,870       | 2,682         |
| Elections                    | 600              | 1,522        | 1,522        | -             |
| Finance                      | 73,783           | 70,075       | 65,504       | 4,571         |
| Accounting and auditing      | 18,000           | 12,150       | 12,150       | -             |
| Law                          | 11,250           | 14,193       | 12,491       | 1,702         |
| Planning and zoning          | 134,308          | 126,394      | 112,454      | 13,940        |
| General services             | 99,250           | 68,245       | 43,886       | 24,359        |
| Total general government     | 421,373          | 372,182      | 324,600      | 47,582        |
| Public safety                |                  |              |              |               |
| Police                       | 1,231,710        | 1,233,834    | 1,201,015    | 32,819        |
| Fire                         | 7,500            | 7,500        | 7,500        | -             |
| Total public safety          | 1,239,210        | 1,241,334    | 1,208,515    | 32,819        |
| Public works                 |                  |              |              |               |
| Highways and streets         | 783,020          | 750,188      | 741,678      | 8,510         |
| Sanitation                   | 188,060          | 188,060      | 187,344      | 716           |
| Total public works           | 971,080          | 938,248      | 929,022      | 9,226         |
| Health                       |                  |              |              |               |
| Mosquito control             | 2,500            | 2,500        | 1,440        | 1,060         |
| Total health                 | 2,500            | 2,500        | 1,440        | 1,060         |
| Recreation and culture       |                  |              |              |               |
| Parks                        | 26,950           | 29,785       | 20,363       | 9,422         |
| Total recreation and culture | 26,950           | 29,785       | 20,363       | 9,422         |

The notes to financial statements are an integral part of this statement.

(Continued)

**The Mayor and Commissioners of the Town of North East**  
**General Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual**  
**For the Year Ended June 30, 2018**

|   | Budgeted Amounts               |                            |                            | Variance with                |
|---|--------------------------------|----------------------------|----------------------------|------------------------------|
|   | Original                       | Final                      | Actual                     | Final Budget                 |
| Debt service  |                                |                            |                            |                              |
| Debt service principal                                | \$ 89,428                      | \$ 89,428                  | \$ 89,428                  | \$ -                         |
| Debt service interest                                 | 58,293                         | 58,293                     | 58,293                     | -                            |
| Total debt service                                    | <u>147,721</u>                 | <u>147,721</u>             | <u>147,721</u>             | <u>-</u>                     |
| <br>Total expenditures                                | <br>2,808,834                  | <br>2,731,770              | <br>2,631,661              | <br>100,109                  |
| <br>Excess (deficiency) of revenues over expenditures | <br><u>(159,601)</u>           | <br><u>7,105</u>           | <br><u>147,507</u>         | <br><u>140,402</u>           |
| <br>OTHER FINANCING SOURCES (USES)                    |                                |                            |                            |                              |
| Transfers out   | <u>(2,000)</u>                 | <u>(2,000)</u>             | <u>(2,000)</u>             | <u>-</u>                     |
| Total other financing sources (uses)                  | <u>(2,000)</u>                 | <u>(2,000)</u>             | <u>(2,000)</u>             | <u>-</u>                     |
| <br>Net change in fund balances *                     | <br><u><u>\$ (161,601)</u></u> | <br><u><u>\$ 5,105</u></u> | <br>145,507                | <br><u><u>\$ 140,402</u></u> |
| <br>Fund balance - beginning                          |                                |                            | <u>4,507,538</u>           |                              |
| Fund balance - ending                                 |                                |                            | <u><u>\$ 4,653,045</u></u> |                              |

\* The net change in fund balance was included in the budget as an appropriation (i.e., spenddown) of fund balance.

The notes to financial statements are an integral part of this statement.



**The Mayor and Commissioners of the Town of North East**  
**Schedule of Changes in Total OPEB Obligation and Related Ratios**  
**Last Ten Fiscal Years**

|   | <b>2018</b>       | <b>2017</b>       | <b>2016</b> |
|---|-------------------|-------------------|-------------|
| <b>Total OPEB Obligation</b>  |                   |                   |             |
| Service cost  | \$ 6,222          | \$ 6,444          | N/A         |
| Interest  | 7,647             | 9,914             | N/A         |
| Changes in assumptions or other inputs                                | 13,163            | (134,195)         | N/A         |
| Benefit payments  | -                 | (3,690)           | N/A         |
| Net change in total OPEB obligation                                   | 27,032            | (121,527)         | N/A         |
| Total OPEB obligation - beginning                                     | 244,315           | 365,842           | N/A         |
| Total OPEB obligation - ending  | <u>\$ 271,347</u> | <u>\$ 244,315</u> | <u>N/A</u>  |
| <br>Covered-employee payroll  | <br>\$ 1,684,660  | <br>\$ 1,699,274  | <br>N/A     |
| <br>Total OPEB obligation as a percentage of covered employee payroll | <br>16.11%        | <br>14.38%        | <br>N/A     |

**Notes to Schedule:**

Benefits changes: none

Changes in assumptions:

| <u>Discount Rate</u> |       |
|----------------------|-------|
| 06/30/2016           | 2.71% |
| 06/30/2017           | 3.13% |
| 06/30/2018           | 2.98% |

As of June 30, 2018 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.

The above schedule is intended to show information for ten years. Additional years' information will be displayed as they become available.

The notes to financial statements are an integral part of this statement.

# Statistical Section

The Statistical Section fully incorporates information mandated by Governmental Accounting Standards Board (GASB) Statement No. 44, *Economic Condition Reporting: The Statistical Section*. This section presents detailed information for the Town in the following areas, which provide a context for understanding what the information in the Financial Section says about the Town's overall financial health.

**FINANCIAL TRENDS** – Information to help the reader understand how the Town's financial performance and well-being have changed over time.

**REVENUE CAPACITY** – Information to help the reader assess the Town's most significant revenue sources.

**DEBT CAPACITY** – Information to help the reader assess the affordability of the Town's current levels of outstanding debt and the Town's ability to issue additional debt in the future.

**DEMOGRAPHIC AND ECONOMIC INFORMATION** – Indicator to help the reader understand the environment within which the Town's financial activities take place.

**OPERATING INFORMATION** – Service and infrastructure data to help the reader understand how the information in the Town's financial report relates to the services the Town provides and the activities it performs.

Many of the tables cover more than two fiscal years and present data from outside the accounting records. Therefore, the Statistical Section is unaudited.

**The Mayor and Commissioners of the Town of North East**  
**Financial Trends: Net Position by Component – Government Wide**  
**Last Ten Fiscal Years**

|                          | 2009          | 2010          | 2011          | 2012          | 2013          | 2014          | 2015          | 2016          | 2017          | 2018          |
|--------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Governmental Activities  |               |               |               |               |               |               |               |               |               |               |
| Net Investment in        |               |               |               |               |               |               |               |               |               |               |
| Capital Assets           | \$ 4,843,350  | \$ 4,654,321  | \$ 4,532,619  | \$ 5,261,188  | \$ 5,182,414  | \$ 4,973,475  | \$ 3,347,833  | \$ 2,672,891  | \$ 2,548,970  | \$ 2,337,489  |
| Restricted               | 17,690        | 40,748        | 43,969        | 40,252        | 49,833        | 65,083        | 63,747        | 64,064        | 62,833        | 50,470        |
| Unrestricted             | 4,509,173     | 4,824,838     | 5,126,199     | 5,522,879     | 5,649,574     | 6,585,814     | 6,822,858     | 6,800,111     | 6,735,123     | 6,857,130     |
|                          | 9,370,213     | 9,519,907     | 9,702,787     | 10,824,319    | 10,881,821    | 11,624,372    | 10,234,438    | 9,537,066     | 9,346,926     | 9,245,089     |
| Business-Type Activities |               |               |               |               |               |               |               |               |               |               |
| Net Investment in        |               |               |               |               |               |               |               |               |               |               |
| Capital Assets           | 495,376       | 8,512,219     | 8,444,917     | 9,219,521     | 9,797,747     | 10,414,266    | 13,341,714    | 13,586,099    | 14,023,621    | 13,618,599    |
| Restricted               | -             | -             | -             | -             | -             | -             | 2,518,491     | 1,048,880     | 1,075,300     | 658,055       |
| Unrestricted             | 8,302,572     | 8,790,812     | 8,570,719     | 7,547,373     | 6,446,529     | 6,440,315     | 514,846       | 1,353,313     | 1,169,164     | 1,696,887     |
|                          | 8,797,948     | 17,303,031    | 17,015,636    | 16,766,894    | 16,244,276    | 16,854,581    | 16,375,051    | 15,988,292    | 16,268,085    | 15,973,541    |
| Primary Government       |               |               |               |               |               |               |               |               |               |               |
| Net Investment in        |               |               |               |               |               |               |               |               |               |               |
| Capital Assets           | 5,338,726     | 13,166,540    | 12,977,536    | 14,480,709    | 14,980,161    | 15,387,741    | 16,689,547    | 16,258,990    | 16,572,591    | 15,956,088    |
| Restricted               | 17,690        | 40,748        | 43,969        | 40,252        | 49,833        | 65,083        | 2,582,238     | 1,112,944     | 1,138,133     | 708,525       |
| Unrestricted             | 12,811,745    | 13,615,650    | 13,696,918    | 13,070,252    | 12,096,103    | 13,026,129    | 7,337,704     | 8,153,424     | 7,904,287     | 8,554,017     |
|                          | \$ 18,168,161 | \$ 26,822,938 | \$ 26,718,423 | \$ 27,591,213 | \$ 27,126,097 | \$ 28,478,953 | \$ 26,609,489 | \$ 25,525,358 | \$ 25,615,011 | \$ 25,218,630 |

\* Accounting Standards require that assets be reported in three components in the financial statements: net investment in capital assets, restricted, and unrestricted. Net assets are considered restricted when (1) an external party, such as the state or federal government, places a restriction on how the resources may be used, or (2) enabling legislation is enacted by the Town.

**The Mayor and Commissioners of the Town of North East**  
**Financial Trends: Changes in Net Position – Government Wide**  
**Last Ten Fiscal Years**

|  | 2009       | 2010       | 2011       | 2012       | 2013       | 2014       | 2015       | 2016       | 2017       | 2018       |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Expenses                               |            |            |            |            |            |            |            |            |            |            |
| Governmental activities:               |            |            |            |            |            |            |            |            |            |            |
| General government                     | \$ 415,933 | \$ 407,710 | \$ 410,324 | \$ 412,627 | \$ 386,568 | \$ 412,157 | \$ 418,129 | \$ 358,103 | \$ 372,700 | \$ 386,259 |
| Public safety                          | 948,070    | 1,058,805  | 1,075,229  | 1,088,306  | 1,137,282  | 1,204,775  | 1,175,068  | 1,332,442  | 1,166,355  | 1,284,419  |
| Public works                           | 809,090    | 866,369    | 899,660    | 916,408    | 897,895    | 977,282    | 2,470,053  | 1,726,783  | 1,081,463  | 1,212,274  |
| Health                                 | 150        | 225        | 240        | 840        | 960        | 865        | 2,450      | 1,100      | 2,280      | 1,440      |
| Culture and recreation                 | 35,693     | 58,154     | 35,385     | 31,568     | 12,758     | 9,980      | 43,065     | 64,326     | 16,617     | 21,392     |
| Total governmental activities expense  | 2,208,936  | 2,391,263  | 2,420,838  | 2,449,749  | 2,435,463  | 2,605,059  | 4,108,765  | 3,482,754  | 2,639,415  | 2,905,784  |
| Business-type activities:              |            |            |            |            |            |            |            |            |            |            |
| Water services                         | 1,700,916  | 2,401,428  | 3,104,435  | 3,152,726  | 3,516,963  | 2,804,166  | 3,798,975  | 2,982,599  | 2,746,227  | 3,233,844  |
| Total business-type activities expense | 1,700,916  | 2,401,428  | 3,104,435  | 3,152,726  | 3,516,963  | 2,804,166  | 3,798,975  | 2,982,599  | 2,746,227  | 3,233,844  |
| Total primary government               | 3,909,852  | 4,792,691  | 5,525,273  | 5,602,475  | 5,952,426  | 5,409,225  | 7,907,740  | 6,465,353  | 5,385,642  | 6,139,628  |
| Program Revenues                       |            |            |            |            |            |            |            |            |            |            |
| Governmental activities:               |            |            |            |            |            |            |            |            |            |            |
| General government                     |            |            |            |            |            |            |            |            |            |            |
| Charges for services                   | 54,389     | 71,675     | 53,977     | 13,621     | 12,384     | 13,935     | 14,689     | 27,264     | 24,522     | 30,924     |
| Operating grants and contributions     | 42,235     | 63,661     | 34,732     | 31,632     | 37,304     | 15,416     | 13,215     | 56,724     | 18,992     | 16,149     |
| Capital grants and contributions       | 33,824     | -          | -          | -          | 12,183     | -          | -          | -          | -          | -          |
| Total revenue                          | 130,448    | 135,336    | 88,709     | 45,253     | 61,871     | 29,351     | 27,904     | 83,988     | 43,514     | 47,073     |
| Public Safety                          |            |            |            |            |            |            |            |            |            |            |
| Charges for services                   | 6,222      | 2,170      | 6,922      | 843        | 6,697      | 3,567      | 7,120      | 594        | 10,729     | 800        |
| Operating grants and contributions     | 55,224     | 39,954     | 37,954     | 37,954     | 37,954     | 62,753     | 63,504     | 63,083     | 68,530     | 73,661     |
| Capital grants and contributions       | -          | -          | -          | -          | -          | -          | 21,800     | -          | -          | -          |
| Total revenue                          | 61,446     | 42,124     | 44,876     | 38,797     | 44,651     | 66,320     | 92,424     | 63,677     | 79,259     | 74,461     |
| Public works                           |            |            |            |            |            |            |            |            |            |            |
| Charges for services                   | 179,354    | 191,155    | 211,244    | 176,438    | 188,342    | 185,411    | 176,066    | 178,164    | 184,376    | 236,535    |
| Operating grants and contributions     | 92,840     | 13,377     | 10,679     | 29,623     | 33,982     | 80,473     | 121,468    | 118,699    | 105,343    | 111,503    |
| Capital grants and contributions       | 1,973,609  | -          | -          | 909,686    | -          | -          | -          | -          | -          | -          |
| Total revenue                          | 2,245,803  | 204,532    | 221,923    | 1,115,747  | 222,324    | 265,884    | 297,534    | 296,863    | 289,719    | 348,038    |

(Continued)

**The Mayor and Commissioners of the Town of North East  
Financial Trends: Changes in Net Position – Government Wide  
Last Ten Fiscal Years**

|  | 2009         | 2010           | 2011           | 2012           | 2013           | 2014           | 2015           | 2016           | 2017           | 2018           |
|--|--------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Health   |              |                |                |                |                |                |                |                |                |                |
| Operating grants and contributions             | \$ 1,126     | \$ 1,052       | \$ 539         | \$ 520         | \$ 449         | \$ 552         | \$ -           | \$ -           | \$ -           | \$ -           |
| Total revenue                                  | 1,126        | 1,052          | 539            | 520            | 449            | 552            | -              | -              | -              | -              |
| Culture and Recreation                         |              |                |                |                |                |                |                |                |                |                |
| Charges for services                           | -            | -              | -              | -              | 3,625          | 3,120          | 3,470          | 2,850          | 2,225          | 2,675          |
| Operating grants and contributions             | 1,867        | -              | 2,108          | 795            | -              | -              | -              | -              | -              | -              |
| Capital grants and contributions               | 8,219        | 23,183         | -              | -              | -              | -              | -              | -              | 8,122          | -              |
| Total revenue                                  | 10,086       | 23,183         | 2,108          | 795            | 3,625          | 3,120          | 3,470          | 2,850          | 10,347         | 2,675          |
| Total governmental activities program revenue  | 2,448,909    | 406,227        | 358,155        | 1,201,112      | 332,920        | 365,227        | 421,332        | 447,378        | 422,839        | 472,247        |
| Business-type activities                       |              |                |                |                |                |                |                |                |                |                |
| Water services                                 |              |                |                |                |                |                |                |                |                |                |
| Charges for services                           | 2,124,224    | 2,834,384      | 2,154,298      | 2,048,948      | 2,444,967      | 2,826,624      | 2,505,983      | 2,325,749      | 2,338,188      | 2,845,525      |
| Capital grants and contributions               | 3,180,949    | 52,630         | 38,188         | 846,580        | -              | 577,212        | 810,456        | 276,320        | 786,437        | -              |
| Total revenue                                  | 5,305,173    | 2,887,014      | 2,192,486      | 2,895,528      | 2,444,967      | 3,403,836      | 3,316,439      | 2,602,069      | 3,124,625      | 2,845,525      |
| Total business-type activities program revenue | 5,305,173    | 2,887,014      | 2,192,486      | 2,895,528      | 2,444,967      | 3,403,836      | 3,316,439      | 2,602,069      | 3,124,625      | 2,845,525      |
| Net (expense) revenue                          |              |                |                |                |                |                |                |                |                |                |
| Governmental activities                        | 239,973      | (1,985,036)    | (2,062,683)    | (1,248,637)    | (2,102,543)    | (2,239,832)    | (3,687,433)    | (3,035,376)    | (2,216,576)    | (2,433,537)    |
| Business-type activities                       | 3,604,257    | 485,586        | (911,949)      | (257,198)      | (1,071,996)    | 599,670        | (482,536)      | (380,530)      | 378,398        | (388,319)      |
| Total primary government net expense           | \$ 3,844,230 | \$ (1,499,450) | \$ (2,974,632) | \$ (1,505,835) | \$ (3,174,539) | \$ (1,640,162) | \$ (4,169,969) | \$ (3,415,906) | \$ (1,838,178) | \$ (2,821,856) |

(Continued)

**The Mayor and Commissioners of the Town of North East**  
**Financial Trends: Changes in Net Position – Government Wide**  
**Last Ten Fiscal Years**

|  | 2009         | 2010         | 2011         | 2012         | 2013         | 2014         | 2015           | 2016           | 2017         | 2018         |
|--|--------------|--------------|--------------|--------------|--------------|--------------|----------------|----------------|--------------|--------------|
| General revenues and other changes in net assets             |              |              |              |              |              |              |                |                |              |              |
| Governmental activities                                      |              |              |              |              |              |              |                |                |              |              |
| Property taxes   | \$ 1,442,799 | \$ 1,548,212 | \$ 1,666,830 | \$ 1,715,832 | \$ 1,485,690 | \$ 1,500,108 | \$ 1,513,030   | \$ 1,525,165   | \$ 1,547,607 | \$ 1,565,981 |
| Income and other taxes                                       | 272,295      | 308,976      | 266,588      | 310,191      | 337,881      | 402,369      | 427,704        | 387,855        | 315,126      | 261,388      |
| Grants and contributions not restricted to specific programs | 165,356      | 169,443      | 185,235      | 197,861      | 174,309      | 178,334      | 187,854        | 167,447        | 171,669      | 258,268      |
| Investment income  | 67,113       | 10,791       | 9,407        | 5,585        | 7,682        | 4,141        | 14,882         | 18,016         | 36,118       | 71,383       |
| Miscellaneous  | 89,928       | 97,308       | 117,503      | 140,600      | 154,483      | 147,425      | 154,029        | 156,875        | 187,780      | 174,680      |
| Special items  | -            | -            | -            | -            | -            | 750,000      | -              | -              | -            | -            |
| Total governmental activities                                | 2,037,491    | 2,134,730    | 2,245,563    | 2,370,069    | 2,160,045    | 2,982,377    | 2,297,499      | 2,255,358      | 2,258,300    | 2,331,700    |
| Business-type activities                                     |              |              |              |              |              |              |                |                |              |              |
| Investment income  | 122,713      | 19,497       | 16,148       | 8,459        | 8,879        | 10,642       | 3,006          | 5,072          | 12,157       | 27,275       |
| Miscellaneous  | -            | -            | -            | -            | -            | -            | -              | 42,097         | 23,216       | 66,500       |
| Special items  | -            | -            | -            | -            | 400,000      | -            | -              | -              | -            | -            |
| Total business-type activities                               | 122,713      | 19,497       | 16,148       | 8,459        | 408,879      | 10,642       | 3,006          | 47,169         | 35,373       | 93,775       |
| Total primary government                                     | 2,160,204    | 2,154,227    | 2,261,711    | 2,378,528    | 2,568,924    | 2,993,019    | 2,300,505      | 2,302,527      | 2,293,673    | 2,425,475    |
| Change in net position                                       |              |              |              |              |              |              |                |                |              |              |
| Governmental activities                                      | 2,277,464    | 149,694      | 182,880      | 1,121,432    | 57,502       | 742,545      | (1,389,934)    | (780,018)      | 41,724       | (101,837)    |
| Business-type activities                                     | 3,726,970    | 505,083      | (895,801)    | (248,739)    | (663,117)    | 610,312      | (479,530)      | (333,361)      | 413,771      | (294,544)    |
| Total primary government                                     | \$ 6,004,434 | \$ 654,777   | \$ (712,921) | \$ 872,693   | \$ (605,615) | \$ 1,352,857 | \$ (1,869,464) | \$ (1,113,379) | \$ 455,495   | \$ (396,381) |

**The Mayor and Commissioners of the Town of North East**  
**Financial Trends: Fund Balances – Governmental Funds**  
**Last Ten Fiscal Years**

|  | 2009         | 2010         | 2011         | 2012         | 2013         | 2014         | 2015         | 2016         | 2017         | 2018         |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| General Fund   |              |              |              |              |              |              |              |              |              |              |
| Reserved   | \$ 280,272   | \$ 303,377   | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         |
| Unreserved, designated for<br>future year's expenditures | 428,401      | 484,141      | -            | -            | -            | -            | -            | -            | -            | -            |
| Undesignated   | 3,366,231    | 3,660,548    | -            | -            | -            | -            | -            | -            | -            | -            |
| Nonspendable (1)   | -            | -            | 285,169      | 283,793      | 286,091      | 9,830        | 34,267       | 57,596       | 35,297       | 100,528      |
| Restricted (1)   | -            | -            | 43,969       | 40,432       | 49,833       | 65,083       | 63,747       | 64,064       | 47,321       | 38,273       |
| Committed (1)  | -            | -            | 380,610      | 492,910      | 489,980      | 619,509      | 2,312,614    | 2,563,732    | 1,989,057    | 1,742,456    |
| Assigned (1)   | -            | -            | -            | -            | -            | -            | -            | -            | -            | 150,359      |
| Unassigned (1)   | -            | -            | 4,080,664    | 4,362,401    | 4,509,494    | 4,598,539    | 2,617,526    | 2,263,533    | 2,435,863    | 2,621,429    |
| Total general fund                                       | 4,074,904    | 4,448,066    | 4,790,412    | 5,179,536    | 5,335,398    | 5,292,961    | 5,028,154    | 4,948,925    | 4,507,538    | 4,653,045    |
| All Other Governmental Funds                             |              |              |              |              |              |              |              |              |              |              |
| Reserved   | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            |
| Unreserved, designated for<br>future year's expenditures | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            |
| Undesignated   | 676,863      | 678,443      | -            | -            | -            | -            | -            | -            | -            | -            |
| Nonspendable (1)   | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            |
| Restricted (1)   | -            | -            | -            | -            | -            | -            | -            | -            | 15,512       | 12,197       |
| Committed (1)  | -            | -            | -            | -            | -            | -            | 376,318      | 113,000      | 533,000      | -            |
| Assigned (1)   | -            | -            | 679,818      | 680,711      | 682,308      | 655,429      | 691,200      | 988,437      | 1,005,134    | 1,554,465    |
| Unassigned (1)   | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            |
| Total all other governmental funds                       | 676,863      | 678,443      | 679,818      | 680,711      | 682,308      | 655,429      | 1,067,518    | 1,101,437    | 1,553,646    | 1,566,662    |
| Total all governmental funds                             | \$ 4,751,767 | \$ 5,126,509 | \$ 5,470,230 | \$ 5,860,247 | \$ 6,017,706 | \$ 5,948,390 | \$ 6,095,672 | \$ 6,050,362 | \$ 6,061,184 | \$ 6,219,707 |

(1) As of June 30, 2011, fund balance classifications changed due to the implementation of GASB 54.

**The Mayor and Commissioners of the Town of North East**  
**Financial Trends: Changes in Fund Balances – Governmental Funds**  
**Last Ten Fiscal Years**

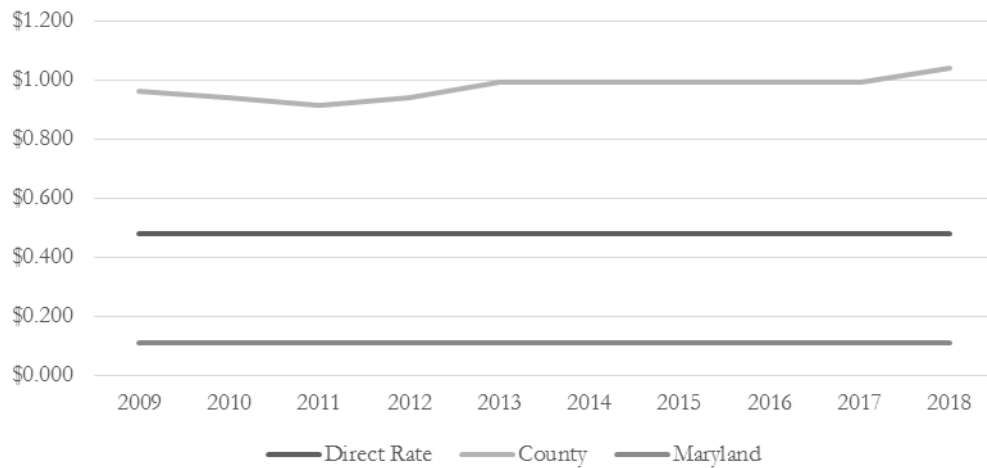
|   | 2009         | 2010         | 2011         | 2012         | 2013         | 2014         | 2015         | 2016         | 2017         | 2018         |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Revenues  |              |              |              |              |              |              |              |              |              |              |
| Taxes   |              |              |              |              |              |              |              |              |              |              |
| Property  | \$ 1,453,834 | \$ 1,560,877 | \$ 1,680,313 | \$ 1,726,521 | \$ 1,495,553 | \$ 1,505,983 | \$ 1,513,030 | \$ 1,525,165 | \$ 1,540,157 | \$ 1,572,407 |
| Other   | 272,295      | 308,976      | 266,588      | 283,004      | 364,194      | 402,369      | 427,704      | 389,826      | 337,802      | 253,153      |
| Licenses and permits                                    | 46,439       | 47,253       | 45,977       | 47,307       | 54,851       | 58,377       | 65,676       | 67,036       | 80,264       | 74,719       |
| Intergovernmental                                       | 398,618      | 296,804      | 260,512      | 298,385      | 283,531      | 328,358      | 399,626      | 398,453      | 371,358      | 454,581      |
| Service charges for current services                    | 191,951      | 216,272      | 226,166      | 179,181      | 189,505      | 192,848      | 187,456      | 193,032      | 195,187      | 254,870      |
| Fines and forfeitures                                   | 1,573        | 1,475        | 1,170        | 1,480        | 775          | 10,696       | 155          | 182          | 11,729       | 255          |
| Miscellaneous   | 167,257      | 109,300      | 122,992      | 98,430       | 107,604      | 94,598       | 92,862       | 118,687      | 141,391      | 171,098      |
| Total Revenues  | 2,531,967    | 2,540,957    | 2,603,718    | 2,634,308    | 2,496,013    | 2,593,229    | 2,686,509    | 2,692,381    | 2,677,888    | 2,781,083    |
| Expenditures  |              |              |              |              |              |              |              |              |              |              |
| General government                                      | 230,092      | 360,160      | 314,713      | 367,748      | 265,673      | 382,670      | 415,874      | 329,017      | 345,819      | 339,086      |
| Public safety   | 942,934      | 989,032      | 1,056,986    | 1,057,166    | 1,134,734    | 1,156,344    | 1,179,070    | 1,294,737    | 1,264,658    | 1,208,515    |
| Public works  | 662,988      | 645,367      | 683,146      | 671,037      | 687,843      | 712,770      | 2,190,678    | 1,395,729    | 772,771      | 858,561      |
| Health  | 150          | 225          | 240          | 840          | 960          | 865          | 2,450        | 1,100        | 2,280        | 1,440        |
| Recreation and culture                                  | 16,899       | 38,991       | 15,318       | 12,045       | 12,580       | 8,985        | 42,455       | 64,101       | 16,392       | 20,643       |
| Debt service  |              |              |              |              |              |              |              |              |              |              |
| Principal   | 86,722       | 83,678       | 87,707       | 91,737       | 95,766       | 4,428        | 71,868       | 87,928       | 88,928       | 89,428       |
| Interest  | 10,159       | 16,873       | 13,228       | 9,376        | 5,229        | -            | 45,414       | 59,588       | 59,061       | 58,293       |
| Capital outlays   | 236,006      | 31,889       | 88,659       | 34,342       | 135,769      | 118,287      | 115,617      | 132,876      | 145,821      | 70,461       |
| Total expenditures                                      | 2,185,950    | 2,166,215    | 2,259,997    | 2,244,291    | 2,338,554    | 2,384,349    | 4,063,426    | 3,365,076    | 2,695,730    | 2,646,427    |
| Excess (deficiency) of revenues over expenditures       | 346,017      | 374,742      | 343,721      | 390,017      | 157,459      | 208,880      | (1,376,917)  | (672,695)    | (17,842)     | 134,656      |
| Other financing sources (uses)                          |              |              |              |              |              |              |              |              |              |              |
| Proceeds from long-term debt                            | -            | -            | -            | -            | -            | -            | 1,470,383    | 548,584      | -            | -            |
| Sale of capital assets                                  | -            | -            | -            | -            | -            | -            | 20,742       | 5,820        | 14,938       | 11,335       |
| Issuance of loan receivable                             | -            | -            | -            | -            | -            | (750,000)    | -            | -            | (11,496)     | -            |
| Interest on loans receivable                            | -            | -            | -            | -            | -            | -            | 10,923       | 17,972       | 2,632        | 2,003        |
| Repayment on loans receivable                           | -            | -            | -            | -            | -            | 12,103       | 22,151       | 55,009       | 22,589       | 10,531       |
| Special items   | -            | -            | -            | -            | -            | 750,000      | 22,151       | 55,009       | 22,589       | -            |
|   | -            | -            | -            | -            | -            | 12,103       | 1,546,350    | 682,394      | 51,252       | 23,869       |
| Net increase (decrease) in fund balance                 | \$ 346,017   | \$ 374,742   | \$ 343,721   | \$ 390,017   | \$ 157,459   | \$ 220,983   | \$ 169,433   | \$ 9,699     | \$ 33,410    | \$ 158,525   |
| Debt service as a percentage of noncapital expenditures | 5.23%        | 4.94%        | 4.88%        | 4.79%        | 4.81%        | 0.20%        | 3.06%        | 4.78%        | 6.16%        | 6.08%        |



**The Mayor and Commissioners of the Town of North East**  
**Revenue Capacity: Property Tax Rates – Direct and Overlapping Governments**  
**Last Ten Fiscal Years**

| Fiscal Year | Town<br>Direct Rate (1) | Cecil<br>County (1) | State of<br>Maryland (1) |
|-------------|-------------------------|---------------------|--------------------------|
| 2009        | \$ 0.4800               | \$ 0.9600           | \$ 0.1120                |
| 2010        | 0.4800                  | 0.9400              | 0.1120                   |
| 2011        | 0.4800                  | 0.9150              | 0.1120                   |
| 2012        | 0.4800                  | 0.9400              | 0.1120                   |
| 2013        | 0.4800                  | 0.9910              | 0.1120                   |
| 2014        | 0.4800                  | 0.9910              | 0.1120                   |
| 2015        | 0.4800                  | 0.9910              | 0.1120                   |
| 2016        | 0.4800                  | 0.9910              | 0.1120                   |
| 2017        | 0.4800                  | 0.9910              | 0.1120                   |
| 2018        | 0.4800                  | 1.0414              | 0.1120                   |

(1) Rates per \$100 of assessed value



**The Mayor and Commissioners of the Town of North East**  
**Revenue Capacity: Assessed Value of Taxable and Exempt Property**  
**Last Ten Fiscal Years**

| Fiscal Year | Real Property Assessed Value | Exempt Homestead Credit | Total Assessed Value | Direct Rate | Public Utility Operating Property | Taxable & Exempt Assessed Value |
|-------------|------------------------------|-------------------------|----------------------|-------------|-----------------------------------|---------------------------------|
| 2009        | \$ 304,025,040               | \$ 15,210,913           | \$ 288,814,127       | \$ 0.48     | \$ 4,639,250                      | \$ 293,453,377                  |
| 2010        | n/a                          | n/a                     | 306,283,958          | 0.48        | 4,537,250                         | 310,821,208                     |
| 2011        | 342,620,970                  | 5,619,097               | 337,001,873          | 0.48        | 4,235,083                         | 341,236,956                     |
| 2012        | 348,226,950                  | 3,683,992               | 344,542,958          | 0.48        | 4,172,750                         | 348,715,708                     |
| 2013        | 298,760,300                  | 83,319                  | 298,676,981          | 0.48        | 4,467,917                         | 303,144,898                     |
| 2014        | 298,987,600                  | 43,772                  | 298,943,828          | 0.48        | 5,307,750                         | 304,251,578                     |
| 2015        | 300,892,200                  | 36,434                  | 300,855,766          | 0.48        | 4,949,250                         | 305,805,016                     |
| 2016        | 303,517,303                  | 34,645                  | 303,482,658          | 0.48        | 5,192,667                         | 308,675,325                     |
| 2017        | 307,017,742                  | 25,726                  | 306,992,016          | 0.48        | 4,804,583                         | 311,796,599                     |
| 2018        | 314,447,410                  | -                       | 314,447,410          | 0.48        | 4,771,140                         | 319,218,550                     |

n/a - data not readily available or not available in a manner consistent with this display.

Source for Real Property and Homestead Credit exemptions Maryland State Department of Assessment and Taxation's annual Constant Yield Tax Rate Certification.

**The Mayor and Commissioners of the Town of North East**  
**Revenue Capacity: Ten Highest Property Tax Payers**  
**Current and Nine Years Ago**

**Fiscal Year 2018**

| Rank | Name                           | Assessment    | % of Levy |
|------|--------------------------------|---------------|-----------|
| 1    | 4 Center Drive Title Holder LP | \$ 18,715,800 | 5.36%     |
| 2    | C & S Property LLC             | 11,708,900    | 3.35%     |
| 3    | Lowe's Home Centers Inc        | 10,220,300    | 2.93%     |
| 4    | North East Commerce Center LLC | 9,152,400     | 2.62%     |
| 5    | North East Lodging LLC         | 6,643,100     | 1.90%     |
| 6    | DK North East Station          | 6,580,200     | 1.88%     |
| 7    | CFJ Properties                 | 4,225,900     | 1.21%     |
| 8    | Eleven Willow CT Inc           | 4,126,800     | 1.18%     |
| 9    | Rhine Properties LLC           | 2,746,200     | 0.79%     |
| 10   | Riverwoods at North East LP    | 2,308,800     | 0.66%     |

**Fiscal Year 2009**

| Rank | Name                            | Assessment    | % of Levy |
|------|---------------------------------|---------------|-----------|
| 1    | C & S Property LLC              | \$ 17,068,600 | 5.60%     |
| 2    | Northeast Commerce Center LLC   | 12,434,400    | 4.08%     |
| 3    | Northeast Commerce Center I LLC | 9,739,000     | 3.19%     |
| 4    | North East Station              | 7,186,700     | 2.36%     |
| 5    | Northeast Lodging LLC           | 4,716,300     | 1.55%     |
| 6    | CFJ Properties                  | 4,438,600     | 1.46%     |
| 7    | Eleven Willow Court Inc         | 3,782,600     | 1.24%     |
| 8    | Victoria Park Northeast LLC     | 3,091,300     | 1.01%     |
| 9    | Acorn Investment Company IV LLC | 1,698,300     | 0.56%     |
| 10   | Elk River Manor II Ltd Partners | 1,263,500     | 0.41%     |

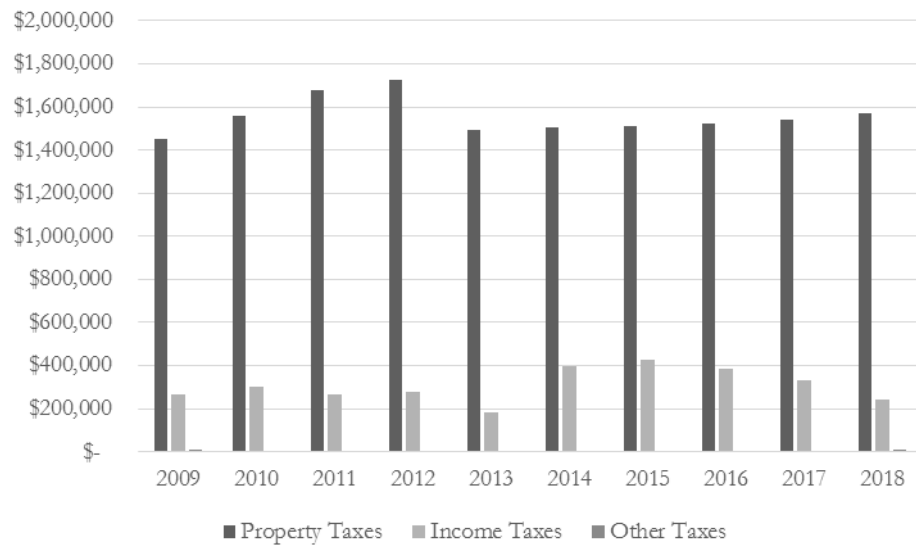
**The Mayor and Commissioners of the Town of North East**  
**Revenue Capacity: Property Tax Levies and Collections**  
**Last Ten Fiscal Years**

| Collected within the |              |                         |               |                |                           |               |  |
|----------------------|--------------|-------------------------|---------------|----------------|---------------------------|---------------|--|
| Taxes Levied         |              | Fiscal Year of the Levy |               | Collections in | Total Collections to Date |               |  |
| Fiscal               | for the      | Percentage of           |               | Subsequent     | Percentage of             |               |  |
| Year                 | Fiscal Year  | Amount                  | Original Levy | Years          | Amount                    | Original Levy |  |
| 2009                 | \$ 1,453,834 | \$ 1,453,834            | 100.00%       | \$ -           | \$ 1,453,834              | 100.00%       |  |
| 2010                 | 1,560,877    | 1,560,877               | 100.00%       | -              | 1,560,877                 | 100.00%       |  |
| 2011                 | 1,680,313    | 1,680,313               | 100.00%       | -              | 1,680,313                 | 100.00%       |  |
| 2012                 | 1,726,521    | 1,726,521               | 100.00%       | -              | 1,726,521                 | 100.00%       |  |
| 2013                 | 1,495,553    | 1,495,553               | 100.00%       | -              | 1,495,553                 | 100.00%       |  |
| 2014                 | 1,505,983    | 1,505,964               | 100.00%       | 19             | 1,505,983                 | 100.00%       |  |
| 2015                 | 1,513,030    | 1,511,681               | 99.91%        | 993            | 1,512,674                 | 99.98%        |  |
| 2016                 | 1,525,165    | 1,523,402               | 99.88%        | 1,436          | 1,524,838                 | 99.98%        |  |
| 2017                 | 1,540,157    | 1,539,830               | 99.98%        | -              | 1,539,830                 | 99.98%        |  |
| 2018                 | 1,572,407    | 1,570,584               | 99.88%        | n/a            | 1,570,584                 | 99.88%        |  |

n/a - data not readily available or not available in a manner consistent with this display.

**The Mayor and Commissioners of the Town of North East**  
**Revenue Capacity: Local General Tax Revenues**  
**Last Ten Fiscal Years**

|      | Property Taxes | Income Taxes | Other Taxes | Total Taxes  |
|------|----------------|--------------|-------------|--------------|
| 2009 | \$ 1,453,834   | \$ 264,452   | \$ 7,843    | \$ 1,726,129 |
| 2010 | 1,560,877      | 302,585      | 6,391       | 1,869,853    |
| 2011 | 1,680,313      | 264,136      | 2,452       | 1,946,901    |
| 2012 | 1,726,521      | 279,084      | 3,920       | 2,009,525    |
| 2013 | 1,495,553      | 184,147      | 4,047       | 1,683,747    |
| 2014 | 1,505,983      | 398,304      | 4,065       | 1,908,352    |
| 2015 | 1,513,030      | 424,354      | 3,350       | 1,940,734    |
| 2016 | 1,525,165      | 385,947      | 3,879       | 1,914,991    |
| 2017 | 1,540,157      | 330,959      | 6,843       | 1,877,959    |
| 2018 | 1,572,407      | 244,834      | 8,319       | 1,825,560    |



**The Mayor and Commissioners of the Town of North East**  
**Debt Capacity: Ratio of Outstanding Debt by Type**  
**Last Ten Fiscal Years**

| Fiscal<br>Year | General Government             |                  |            | Business-Type Activities       |                  |               | Total<br>Primary<br>Government | Fiscal<br>Year | Ratios (a)                        |                                 |
|----------------|--------------------------------|------------------|------------|--------------------------------|------------------|---------------|--------------------------------|----------------|-----------------------------------|---------------------------------|
|                | General<br>Obligation<br>Bonds | Notes<br>Payable | Total      | General<br>Obligation<br>Bonds | Notes<br>Payable | Total         |                                |                | Debt to<br>Personal<br>Income (1) | Total<br>Debt per<br>Capita (1) |
| 2009           | \$ 345,686                     | \$ 84,050        | \$ 429,736 | \$ 18,711,009                  | \$ -             | \$ 18,711,009 | \$ 19,140,745                  | 2009           | 26.48%                            | \$ 5,358.55                     |
| 2010           | 264,181                        | 81,877           | 346,058    | 18,707,754                     | -                | 18,707,754    | 19,053,812                     | 2010           | 21.77%                            | 5,456.42                        |
| 2011           | 178,647                        | 79,704           | 258,351    | 18,505,379                     | -                | 18,505,379    | 18,763,730                     | 2011           | 19.59%                            | 5,260.37                        |
| 2012           | 91,338                         | 75,276           | 166,614    | 17,702,333                     | -                | 17,702,333    | 17,868,947                     | 2012           | 16.70%                            | 4,948.48                        |
| 2013           | -                              | 70,848           | 70,848     | 16,892,711                     | -                | 16,892,711    | 16,963,559                     | 2013           | 17.76%                            | 4,646.28                        |
| 2014           | -                              | 66,420           | 66,420     | 16,076,388                     | -                | 16,076,388    | 16,142,808                     | 2014           | 16.98%                            | 4,367.64                        |
| 2015           | 1,402,943                      | 61,992           | 1,464,935  | 13,223,022                     | -                | 13,223,022    | 14,687,957                     | 2015           | 13.65%                            | 3,969.72                        |
| 2016           | 1,868,027                      | 57,564           | 1,925,591  | 12,633,881                     | -                | 12,633,881    | 14,559,472                     | 2016           | 14.32%                            | 4,015.30                        |
| 2017           | 1,783,527                      | 53,136           | 1,836,663  | 12,042,658                     | -                | 12,042,658    | 13,879,321                     | 2017           | n/a                               | 3,818.25                        |
| 2018           | 1,698,527                      | 48,708           | 1,747,235  | 11,449,345                     | -                | 11,449,345    | 13,196,580                     | 2018           | n/a                               | n/a                             |

(1) See Demographic Statistics on page 71

(a) The Town serves water to customers outside the corporate limits of the Town per an agreement with Cecil County. The Town intends to liquidate all Business-Type Activities debt through user charges, if the out of Town population served by the Town's water system were to be included in the calculation, these ratios would be significantly lower.

n/a - data not readily available or not available in a manner consistent with this display.

**The Mayor and Commissioners of the Town of North East**  
**Debt Capacity: Ratios of Bonded Debt Outstanding**  
**Last Ten Fiscal Years**

| Fiscal<br>Year | General<br>Bonded Debt * (1) | Percentage of<br>Total Taxable<br>Assessable Base (2) | Per<br>Capita (3) |
|----------------|------------------------------|---|-------------------|
| 2009           | \$ 19,056,695                | 6.27%   | \$ 5,335          |
| 2010           | 18,971,935                   | n/a   | 5,433             |
| 2011           | 18,684,026                   | 5.45%   | 5,238             |
| 2012           | 17,793,671                   | 5.11%   | 4,928             |
| 2013           | 16,892,711                   | 5.65%   | 4,627             |
| 2014           | 16,076,388                   | 5.38%   | 4,350             |
| 2015           | 14,625,965                   | 4.86%   | 3,953             |
| 2016           | 14,501,908                   | 4.78%   | 3,999             |
| 2017           | 13,826,185                   | 4.50%   | 3,804             |
| 2018           | 13,147,872                   | 4.18%   | n/a               |

\*General Bonded Debt includes all general obligation debt, regardless of purpose or repayment source, and other bonded debt financed with general government resources. Other debt is excluded because it is not in the form of bonds.

- (1) General bonded debt is comprised of both governmental and business-type activities from the previous table.
- (2) See Assessed Value of Taxable and Exempt Property on page 63.
- (3) See Demographic Statistics for population data on page 71.

n/a - data not readily available or not available in a manner consistent with this display.

**The Mayor and Commissioners of the Town of North East**  
**Debt Capacity: Computation of Net Direct and Overlapping Debt**  
**June 30, 2017**

| Name of Jurisdiction               | Debt<br>Outstanding | Estimated<br>Percentage<br>Applicable (a) | Estimated<br>Share of<br>Overlapping<br>Debt |
|------------------------------------|---------------------|---|--|
| Cecil County, overlapping Debt (1) | \$ 245,061,795      | 3.32%                                     | \$ 8,130,572                                 |
| Town of North East Direct Debt (2) |                     |   | <u>13,196,580</u>                            |
| Total direct and overlapping debt  |                     |   | <u><u>\$ 21,327,152</u></u>                  |

(1) Provided by Cecil County government

(2) Net direct debt of the Town includes general obligation bonds, notes payable and capital leases. See Debt by Type on page 67.

(a) Cecil County's estimated taxable assessable base for real property for FY 2018 is \$9,477,691,000  
The Town of North East's taxable assessable base for FY 2018 is \$314,447,410 per the Maryland State Department of Assessment and Taxation.



**The Mayor and Commissioners of the Town of North East**  
**Debt Capacity: Computation of Legal Debt Margin**  
**Last Ten Fiscal Years**

|                            | 2009          | 2010          | 2011          | 2012          | 2013          | 2014          | 2015          | 2016          | 2017          | 2018          |
|----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Debt limit per Debt Policy | \$ 28,881,413 | \$ 30,628,396 | \$ 33,700,187 | \$ 34,454,296 | \$ 29,867,698 | \$ 29,894,383 | \$ 30,085,577 | \$ 30,348,266 | \$ 30,699,202 | \$ 31,444,741 |
| Debt Outstanding           | \$ 19,140,745 | \$ 19,053,812 | \$ 18,763,730 | \$ 17,868,947 | \$ 16,963,559 | \$ 16,142,808 | \$ 14,687,957 | \$ 14,559,472 | \$ 13,879,321 | \$ 13,196,580 |
| Legal Debt Margin          | \$ 9,740,668  | \$ 11,574,584 | \$ 14,936,457 | \$ 16,585,349 | \$ 12,904,139 | \$ 13,751,575 | \$ 15,397,620 | \$ 15,788,794 | \$ 16,819,881 | \$ 18,248,161 |

Per Town's debt policy adopted by Resolution 2009-12-01, amended by Resolution 2018-04-01.

**The Mayor and Commissioners of the Town of North East**  
**Demographic and Economic Information: Demographic Statistics**  
**Last Ten Fiscal Years**

| Calendar<br>Year | Population (1) | Personal<br>Income (1)(2) | Per Capita<br>Income (3) | Average<br>Unemployment<br>Rate (4)(5) |
|------------------|----------------|---------------------------|--------------------------|--|
| 2008             | n/a            | n/a                       | n/a                      | 5.30%                                  |
| 2009             | 3,572          | \$ 72,272,081             | \$ 20,233                | 9.00%                                  |
| 2010             | 3,492          | 87,539,000                | 25,068                   | 9.90%                                  |
| 2011             | 3,567          | 95,801,000                | 26,858                   | 8.80%                                  |
| 2012             | 3,611          | 106,999,000               | 29,631                   | 8.40%                                  |
| 2013             | 3,651          | 95,518,000                | 26,162                   | 7.70%                                  |
| 2014             | 3,696          | 95,049,000                | 25,717                   | 6.60%                                  |
| 2015             | 3,700          | 107,623,000               | 29,087                   | 6.00%                                  |
| 2016             | 3,626          | 101,652,000               | 28,034                   | 4.70%                                  |
| 2017             | 3,635          | n/a                       | n/a                      | 4.80%                                  |

(1) United States Census Bureau

(2) Mean household income multiplied by number of households.

(3) Personal income divided by population.

(4) Maryland Department of Labor Licensing and Regulation (DLLR)

(5) This statistic is reported at the county level. Detail at the municipal level is not available.

n/a data not readily available or not available in a manner consistent with this display.

**The Mayor and Commissioners of the Town of North East**  
**Demographic and Economic Information: Major Employers**  
**Current and Nine Years Ago**

**Calendar Year 2017**

| Employer                        | Employees | Rank | % of County<br>Employment |
|---------------------------------|-----------|------|---------------------------|
| W.L. Gore & Associates, Inc     | 2,405     | 1    | 4.76%                     |
| Cecil County Board of Education | 2,159     | 2    | 4.27%                     |
| Perry Point V.A. Hospital       | 1,500     | 3    | 2.97%                     |
| Union Hospital                  | 1,235     | 4    | 2.44%                     |
| Amazon                          | 1,100     | 5    | 2.18%                     |
| Wal-Mart Stores, Inc            | 830       | 6    | 1.64%                     |
| Cecil County Government         | 614       | 7    | 1.21%                     |
| Terumo Medical Group            | 610       | 8    | 1.21%                     |
| IKEA/Genco                      | 580       | 9    | 1.15%                     |
| Cecil College                   | 530       | 10   | 1.05%                     |

**Calendar Year 2008**

| Employer                        | Employees | Rank | % of County<br>Employment |
|---------------------------------|-----------|------|---------------------------|
| W.L. Gore & Associates, Inc     | 2,667     | 1    | 5.52%                     |
| Cecil County Board of Education | 2,464     | 2    | 5.10%                     |
| Perry Point V.A. Hospital       | 1,000     | 3    | 2.07%                     |
| Union Hospital                  | 864       | 4    | 1.79%                     |
| Orbital ATK                     | 682       | 5    | 1.41%                     |
| Cecil County Government         | 551       | 6    | 1.14%                     |
| Wal-Mart Stores, Inc            | 500       | 7    | 1.03%                     |
| IKEA Maryland                   | 370       | 8    | 0.77%                     |
| Terumo Medical Corp.            | 345       | 9    | 0.71%                     |
| Cecil College                   | 300       | 10   | 0.62%                     |

\* This information is presented at the county level. Detail at the municipal level is not available.  
Source: Cecil County

**The Mayor and Commissioners of the Town of North East**  
**Operating Information: Town Government Employees – Full Time Equivalents**  
**Last Ten Fiscal Years**

|                                 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---------------------------------|------|------|------|------|------|------|------|------|------|------|
| Part time positions (FTE)       | 0.7  | 0.7  | 0.7  | 0.7  | 0.7  | 0.7  | 0.7  | 0.7  | 0.7  | 0.7  |
| Exempt - full time              | 4    | 4    | 4    | 4    | 4    | 4    | 4    | 5    | 5    | 5    |
| Non-Exempt - full time          | 18   | 18   | 18   | 18   | 18   | 18   | 18   | 24   | 24   | 24   |
| Total Town Government employees | 22.7 | 22.7 | 22.7 | 22.7 | 22.7 | 22.7 | 22.7 | 29.7 | 29.7 | 29.7 |

Source: Personnel Officer

**The Mayor and Commissioners of the Town of North East**  
**Operating Information: Town Government Employees – Full Time Equivalents by Function**  
**Last Ten Fiscal Years**

|                    | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--------------------|------|------|------|------|------|------|------|------|------|------|
| General Government | 7    | 7    | 7    | 7    | 7    | 7    | 7    | 7    | 7    | 7    |
| Maintenance        | 5    | 5    | 5    | 5    | 5    | 5    | 6    | 6    | 6    | 6    |
| Public Safety      | 10   | 10   | 10   | 10   | 10   | 10   | 11   | 11   | 12   | 11   |
| Water Services     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 5    | 5    | 5    |
|                    | 22   | 22   | 22   | 22   | 22   | 22   | 24   | 29   | 30   | 29   |

Source: Personnel Officer

**The Mayor and Commissioners of the Town of North East**  
**Operating Information: Capital Asset Statistics by Function**  
**Last Ten Fiscal Years**

|                             | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-----------------------------|------|------|------|------|------|------|------|------|------|------|
| Public Facilities           |      |      |      |      |      |      |      |      |      |      |
| Police Stations             | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 1    |
| Fire & Rescue Stations      | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 1    |
| Parks/Recreation Facilities | 3    | 3    | 3    | 3    | 3    | 3    | 3    | 3    | 3    | 3    |
| Libraries                   | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 1    | 1    |
| Public Works                |      |      |      |      |      |      |      |      |      |      |
| Water treatment plants      | 2    | 2    | 2    | 2    | 2    | 2    | 2    | 2    | 2    | 2    |
| Water towers                | 4    | 4    | 4    | 4    | 4    | 4    | 4    | 4    | 4    | 4    |
| Pump stations               | 5    | 5    | 5    | 5    | 5    | 5    | 5    | 5    | 5    | 5    |
| Public Safety               |      |      |      |      |      |      |      |      |      |      |
| Vehicles in service         | 10   | 10   | 10   | 10   | 10   | 10   | 10   | 10   | 10   | 10   |

Source: Town departments and outside agencies

**The Mayor and Commissioners of the Town of North East**  
**Operating Information: Operating Indicators by Function**  
**Last Ten Fiscal Years**

|  | 2009  | 2010 | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018 |
|--|-------|------|-------|-------|-------|-------|-------|-------|-------|------|
| General Government                         |       |      |       |       |       |       |       |       |       |      |
| Planning & Zoning                          |       |      |       |       |       |       |       |       |       |      |
| Number of building permits issued          | 232   | n/a  | 128   | 83    | 82    | 188   | 111   | 120   | 133   | n/a  |
| Number of code violations issued           | 246   | n/a  | 228   | 192   | 310   | 203   | 1,117 | 1,212 | 1,265 | n/a  |
| Public Safety                              |       |      |       |       |       |       |       |       |       |      |
| Number of physical arrests                 | 433   | 381  | 377   | 382   | 369   | 334   | 225   | 187   | 257   | n/a  |
| Traffic violations                         | 664   | 648  | 468   | 364   | 428   | 379   | 340   | 250   | 143   | n/a  |
| Public Works                               |       |      |       |       |       |       |       |       |       |      |
| Total water treated annually (in millions) | 223.4 | n/a  | 260.4 | 228.0 | 224.4 | 223.9 | 232.9 | 229.9 | 235.2 | n/a  |

Source: Town departments

This schedule shows calendar year totals.

n/a data not readily available or not available in a manner consistent with this display.







The Mayor and Commissioners of  
the Town of North East, Maryland  
106 South Main Street ■ North East, MD 21901