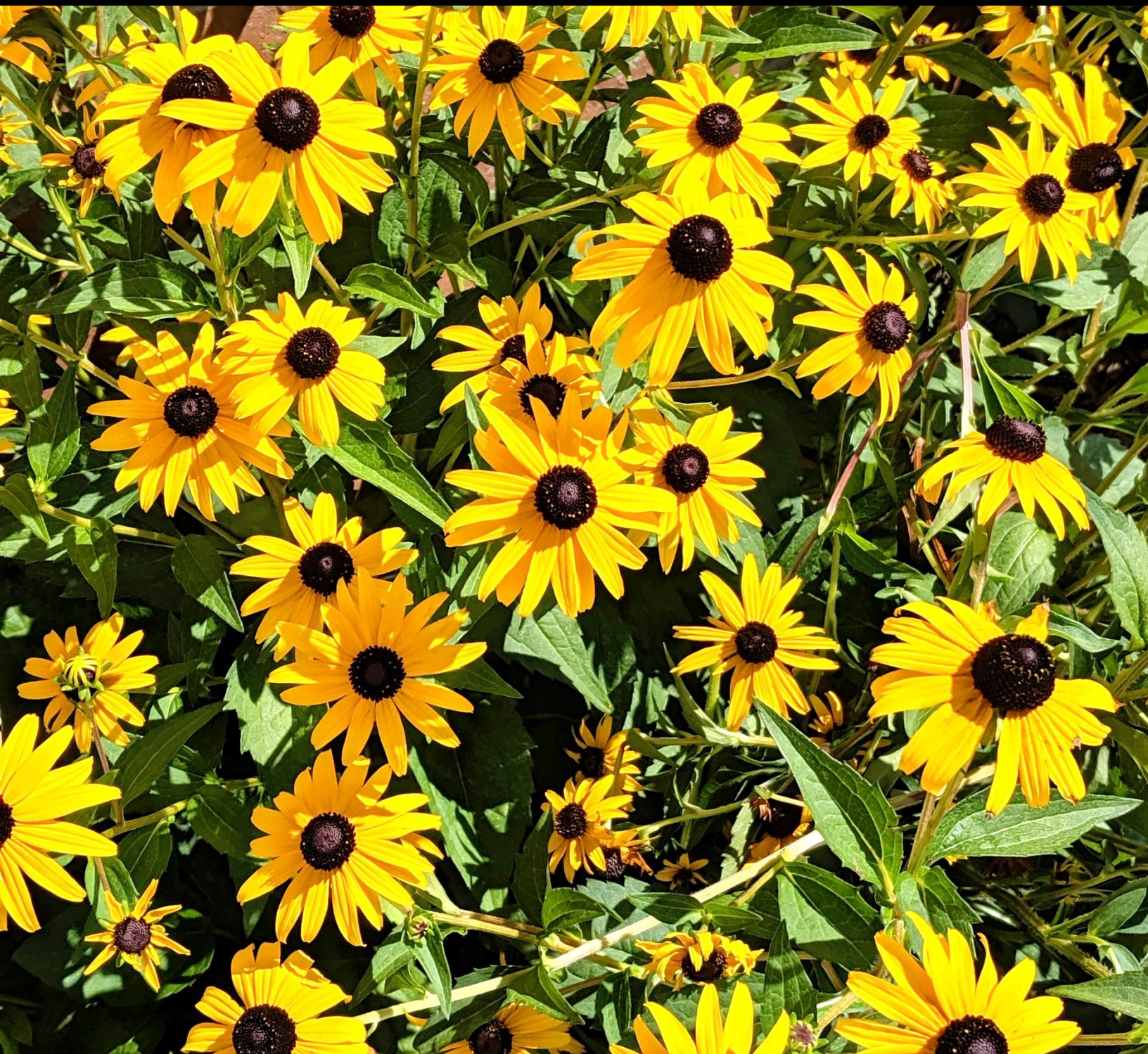


The Mayor and Commissioners of the Town of North East, Maryland



**Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2019**

**The Mayor and Commissioners of the Town of North East, Maryland
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2019**

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, 2019

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Introductory Section





TOWN OF NORTH EAST

October 16, 2019

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, 2019, 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, 2019, the Town contracted with Weyrich, Cronin and Sorra, LLC of Hunt Valley, Maryland to audit the financial statements. The Independent Auditor's Report is included on pages 10-11.

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, 2019, 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, 2019, 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.

106 South Main Street • PO Box 528 • North East, Maryland 21901-0528

T: (410) 287-5801 • F: (410) 287-8267 • 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, 2019

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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 3,632 as of 2018 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, 2019

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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 Forest, 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.

After years of no progress being made on several developments in town, a housing development and a warehouse are both under construction. According to permit data from the Cecil County Land Use and Development Services department, more permits have been issued for parcels in North East than any other area of the County in calendar year 2018. These projects will increase the tax base as well as help to ensure the continued long-term viability of the Town's water utility.

Long-term Financial Planning

In October 2018, the Town was issued a Phase II, National Pollutant Discharge Elimination System General Permit for Discharges from Small Municipal Separate Storm Sewer System General Discharge (MS4) Permit by the Maryland Department of the Environment. In fiscal year 2019, the Town commissioned a study by an engineering firm to determine what steps the Town needs to take to meet the permit requirements. The study aided the Town in developing a stormwater utility to be established in fiscal year 2020 which will provide a dedicated revenue source to meet the requirements of the permit.

In addition, the Town's water system will continue to be a major 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. Tending to aging infrastructure and buildings will be an ongoing priority.

Financial Policies

Chapter 2, Article 6 of the Code of Ordinances for the Town, covers various financial policies of the Town. Such policies include only using fund balance for non-recurring expenditures, maintaining a minimum unrestricted or unassigned fund balance in both the General and Enterprise funds equal to 90 days operating expenditures, and maintaining a budgetary stabilization fund of 10% of the budgeted expenditures for use in a fiscal emergency. All of these policies have been followed during fiscal year 2019.

AWARDS & ACKNOWLEDGEMENTS

The Government Finance Officers Association of United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of North East for its comprehensive annual financial report for the fiscal year ended June 30, 2018. This was the first year the Town achieved

Formal Transmittal of the Comprehensive Annual Financial Report (CAFR)

October 16, 2019

Page 4

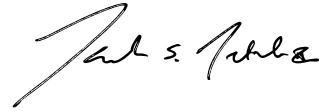
this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

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



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Town of North East
Maryland**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2018

Christopher P. Morill

Executive Director/CEO

The Mayor and Commissioners of the Town of North East
Certain Elected and Other Officials
June 30, 2019

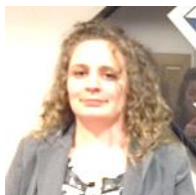
Elected Officials



Robert F. McKnight
Mayor



Cynthia G. Billig
Commissioner



Hilary A.
Crothers-Moore
Commissioner



Michael Kline
Commissioner



Raymond Mitchell
Commissioner

Certain Other Officials

Town Administrator
Town Attorneys

Planning Commission, Chair
Board of Appeals, Chair
Board of Elections, Chair
Economic Development Commission, Chair

Melissa B. Cook-MacKenzie
Dennis S. Clower, Esq
David Beste, Esq
Mark Dobbins
Peggiann Hardin
Ulysses G. Demond IV
Thomas Lofland

Department Heads

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

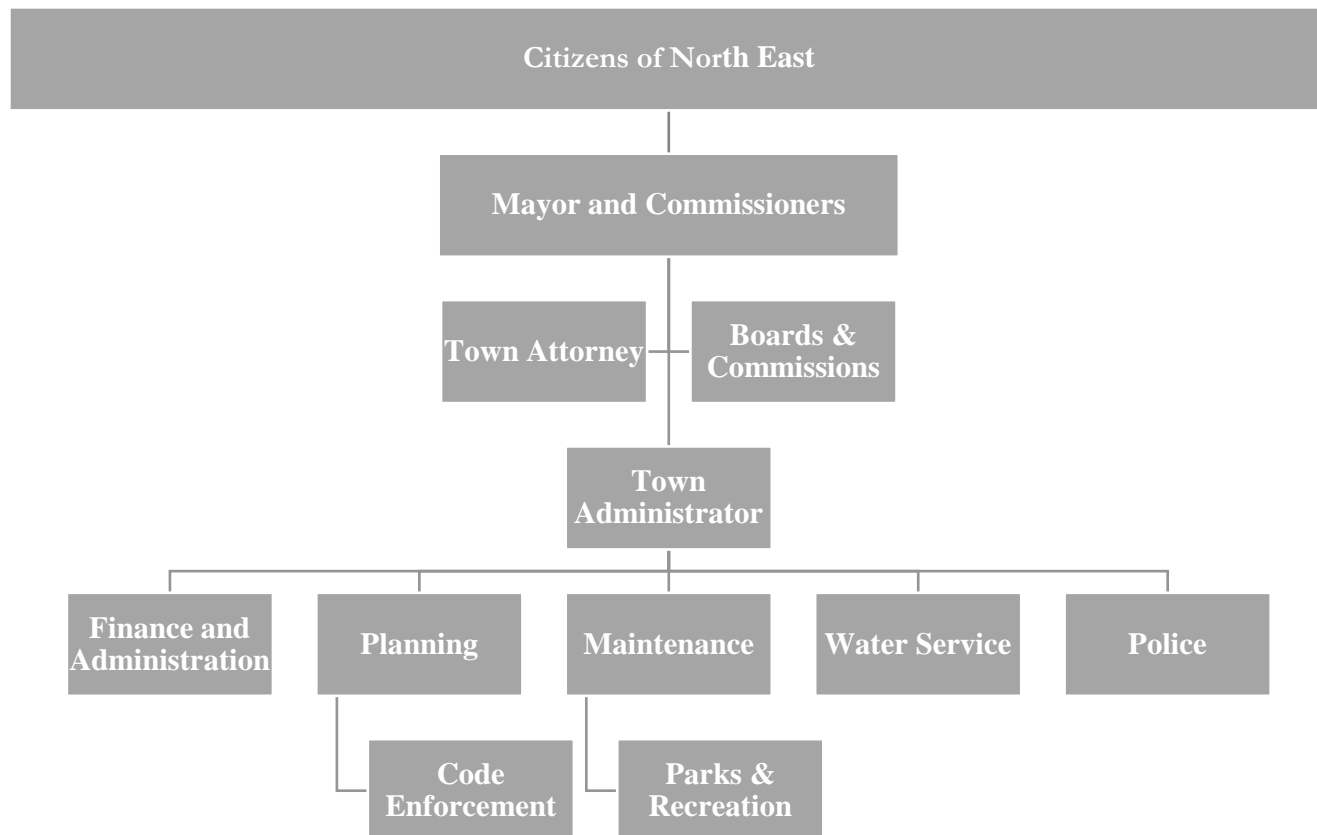
Independent Auditors

Weyrich, Coronin & Sorra, LLC
Certified Public Accountants
Hunt Valley, Maryland

Bond Counsel

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, 2019



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, 2019, 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, 2019, 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 12 through 20 and 54 through 56 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.

Emphasis of Matter

Change in Accounting Principle and Adjustments Related to Prior Periods

As discussed in Note III.M to the financial statements, it was determined that amounts related to long-term mortgages receivable had previously been improperly classified as deferred inflows of resources. Accordingly, an adjustment has been made to beginning special revenue nonspendable fund balance, for amounts previously reported as deferred inflows of resources to correct the error. Additionally, it was determined that a receivable had not been booked in the enterprise fund when a repayment agreement with a developer was executed in a prior period. Accordingly, an adjustment has been made to beginning enterprise fund balance.

As discussed in Note III.M to the financial statements, in 2019 the Town implemented the provisions of GASB Statement No. 87 *Leases*. The adoption of this statement resulted in a restatement of governmental activities net position for the balance of leases receivable.

Our opinion is not modified with respect to these matters.

Weyrauch, Cronin & Sarra

October 16, 2019
Hunt Valley, 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, 2019. 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 2-5 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 2019 by \$27.7 million (*net position*).
- The Town's total net position increased by \$2.5 million. This includes a \$987,836 increase in net position for fiscal year 2019 activities and a \$1.55 million increase in net position for prior period adjustments (\$1.3 million for the implementation of GASB Statement No. 87 *Leases* and \$215,434 for a previously unreported receivable for the water utility)
- As of the close of fiscal year 2019, the Town's governmental funds reported combined ending fund balances of \$7 million; an increase of \$805,251 in comparison with the prior year. This includes a decrease of \$156,875 for fiscal year 2019 activities and a \$962,126 increase in fund balance for a prior period adjustment to reclassify loans receivable which were originally reported as deferred inflows to non-spendable fund balance. Approximately 37% of this amount is available for spending at the Town's discretion (*unassigned fund balance*).
- At the end of fiscal year 2019, the unrestricted fund balance (*committed, assigned and unassigned component of fund balance*) for the general fund was \$4.68 million or approximately 168% of the total general fund expenditures.
- The Town's government-wide long-term liabilities decreased by \$648,316 during fiscal year 2019 due to principal payments on outstanding bonds and notes of \$685,839, a net decrease in compensated absences of 17,126 (due to employee's using more accrued leave during the year) and a net increase in the Town's other post-employment benefit liability of \$54,649 (due to projected health care cost increases), as detailed on pages 49-51.

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 22-23 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 24-27 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 28-30 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 fiduciary funds. The Town has one *Private-purpose trust fund* that is used to report resources held in trust under the Town's Defined Contribution Employee Pension 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 statement can be found on page 31-32 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 33-52 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 liabilities and related ratios can be found on pages 54 and 56 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 \$27.7 million, at the close of fiscal year 2019.

Town of North East, Maryland's Net Position

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 8,502,438	\$ 7,335,228	\$ 3,696,387	\$ 2,661,603	\$ 12,198,825	\$ 9,996,831
Capital assets, net	4,162,959	4,084,724	24,685,931	25,067,945	28,848,890	29,152,669
Total assets	12,665,397	11,419,952	28,382,318	27,729,548	41,047,715	39,149,500
Long-term liabilities outstanding	2,020,891	2,088,677	11,025,645	11,606,175	13,046,536	13,694,852
Other liabilities	94,558	86,186	149,609	149,832	244,167	236,018
Total liabilities	2,115,449	2,174,863	11,175,254	11,756,007	13,290,703	13,930,870
Net position:						
Net invested in capital assets	2,506,152	2,337,489	13,831,997	13,618,599	16,338,149	15,956,088
Restricted	47,527	50,470	476,589	658,055	524,116	708,525
Unrestricted	7,996,269	6,857,130	2,898,478	1,696,887	10,894,747	8,554,017
Total net position	\$ 10,549,948	\$ 9,245,089	\$ 17,207,064	\$ 15,973,541	\$ 27,757,012	\$ 25,218,630

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, \$524,116 or 1.8% 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, conservation of natural resources, and capital improvements.

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 increased by \$2.5 million. The reasons for this overall increase are discussed in the following sections for governmental and business-type activities.

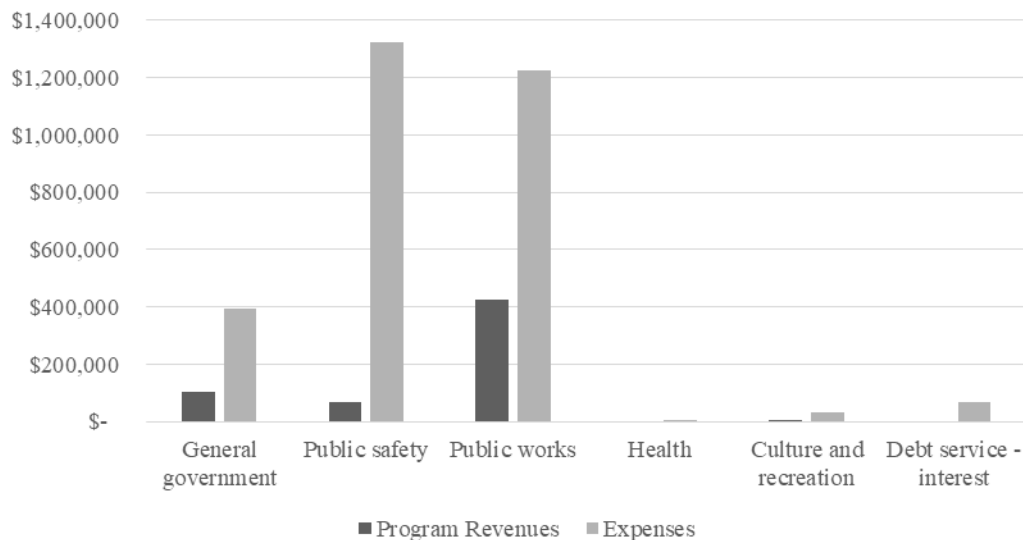
Governmental Activities

During fiscal year 2019, the net position for governmental activities decreased by \$30,253 from the prior fiscal year. The Town received \$96,690 in capital grants (\$60,000 from the State Highway Administration to assist with the purchase of the Town's Maintenance Shop, and a half acre parcel from a developer, valued at \$36,690). Additionally, investment revenues increased by \$57,000 from the previous year due to increased rates at the Local Government Investment Pool. Tax revenues were \$51,000 higher and expenses were \$158,953 lower than originally budgeted. Depreciation expense on the Town's capital assets was \$370,750. Additionally, there was a prior period adjustment increase of \$1.3 million dollars to reflect the implementation of GASB Statement No. 87 *Leases* for lease receivables which resulted in an ending balance of \$10.55 million.

Town of North East, Maryland Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$ 283,515	\$ 270,934	\$ 3,124,756	\$ 2,845,525	\$ 3,408,271	\$ 3,116,459
Operating grants and contributions	220,023	201,313	-	-	220,023	201,313
Capital grants and contributions	96,690	-	562,385	-	659,075	-
General revenues:						
Property taxes	1,620,470	1,565,981	-	-	1,620,470	1,565,981
Income and other taxes	302,800	261,388	-	-	302,800	261,388
Other revenues	493,963	504,331	361,192	93,775	855,155	598,106
Total revenues	3,017,461	2,803,947	4,048,333	2,939,300	7,065,794	5,743,247
Expenses:						
General government	392,999	386,259	-	-	392,999	386,259
Public safety	1,323,485	1,284,419	-	-	1,323,485	1,284,419
Public works	1,227,648	1,153,981	-	-	1,227,648	1,153,981
Health	3,210	1,440	-	-	3,210	1,440
Culture and recreation	34,003	21,392	-	-	34,003	21,392
Debt service - interest	66,369	58,293	-	-	66,369	58,293
Water services	-	-	3,030,244	3,233,844	3,030,244	3,233,844
Total expenses	3,047,714	2,905,784	3,030,244	3,233,844	6,077,958	6,139,628
Increase/(decrease) in net position	(30,253)	(101,837)	1,018,089	(294,544)	987,836	(396,381)
Net position - beginning	9,245,089	9,346,926	15,973,541	16,268,085	25,218,630	25,615,011
Prior period adjustment	1,335,112	-	215,434	-	1,550,546	-
Net position - ending	\$ 10,549,948	\$ 9,245,089	\$ 17,207,064	\$ 15,973,541	\$ 27,757,012	\$ 25,218,630

Expenses and Program Revenues – Governmental Activities



Business-type Activities

For the Town's business-type activities, the results for fiscal year 2019 were positive in that overall net position increased, to reach an ending balance of \$17.2 million. The total increase in net position for business-type activities (water services) was \$1.2 million which includes a \$1,018,089 increase from operations and a \$215,434 prior period adjustment for a previously unreported receivable from a developer to reimburse the Town for the cost of running a water main to the project location. The \$1,018,089 increase from operations is from a delay in starting several system improvement projects which were to be funded by charges to customers (\$522,000), and \$512,000 in additional revenue from major facility and connection fees.

Financial Analysis of the Governmental Funds

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

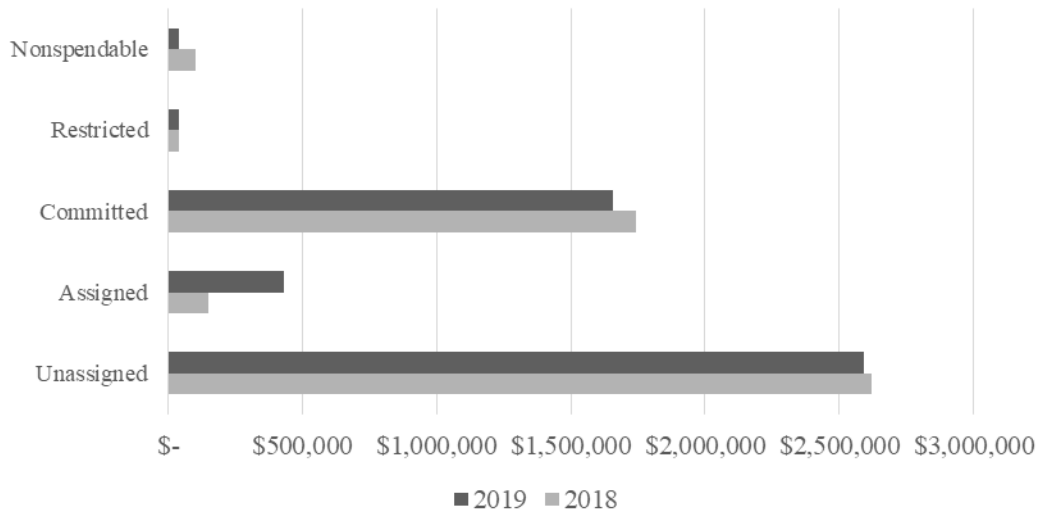
Governmental Funds

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 fiscal year 2019, the Town's *governmental funds* reported combined fund balances of \$7 million, an increase of \$805,251 in comparison with the prior year, this is net of a \$156,875 decrease from operations and a \$962,126 increase from a prior period adjustment to reclassify outstanding loans receivable from deferred inflows of resources to non-spendable fund balance. Major aspects of operations include the purchase of the shop the Town's maintenance department had been leasing (\$335,504), increased investment returns of \$57,000 due to increased rates from the Local Government Investment Pool, and an increase in tax revenues of \$51,000. Approximately 37% of the fund balance (\$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 (\$828,812), 2) restricted for a particular purposes (\$47,527), 3) committed for particular purposes (\$1,656,456) or 4) assigned for particular purposes (\$1,899,372).

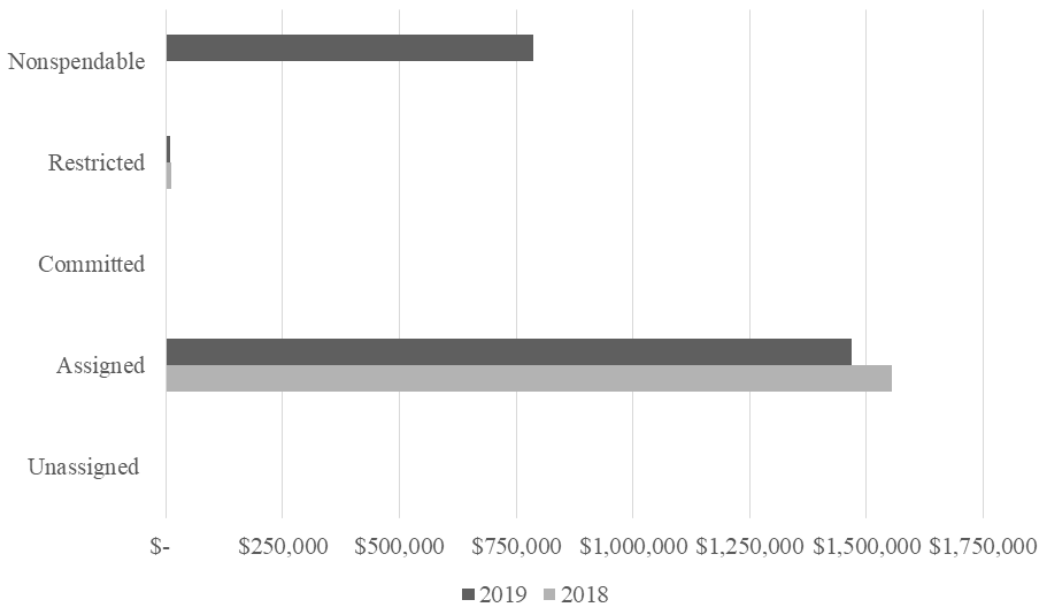
General Fund - Components of Fund Balance June 30, 2019 and 2018



The general fund is the chief operating fund of the Town. At the end of fiscal year 2019, unassigned fund balance of the general fund was \$2.6 million, while total fund balance was \$4.8 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 93% of total expenditures, while total fund balance represents approximately 170% of that same amount.

The fund balance of the Town's general fund increased by \$106,237. This was primarily due increased investment income from the Local Government Investment Pool of \$39,000, increased income tax revenue of \$31,000, and increased real property tax revenues of \$17,000.

Other Governmental Funds - Components of Fund Balance June 30, 2019 and 2018



The Town's other governmental funds, the capital projects fund, and special revenue funds had various changes in their fund balances for 2019. The capital projects fund had a fund balance of \$466,239 which

was a decrease of \$285,363 from the prior year, related to the purchase of a facility for the Town's maintenance department. The fund balance of the major special revenue fund increased by \$987,320 (\$25,194 is the result of investment revenue and interest repayments on various loans and a prior period adjustment of \$962,126 to reclassify loans receivable from deferred inflows to nonspendable fund balance) to \$1.8 million. The non-major special revenue fund had a fund balance of \$9,254 which is a decrease of \$2,943 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 \$17,207,064. The total increase in net position of \$1.2 million was discussed on page 16.

General Fund Budgetary Highlights

Original budget compared to final budget

The original general fund expenditure budget of \$2,881,520 was amended by \$70,207 to a final general fund expenditure budget of \$2,951,727. The major amendments to the budget were:

- \$12,060 – Chesapeake Bay Trust Grant for conceptual design of a green streets project.
- \$12,000 – Increased street sweeping costs
- \$16,795 – Increased motor fuel costs
- \$27,380 – Replacement of the generator at the North East Police Department

Final budget compared to actual results

Actual expenditures for the year were \$158,953 less than estimated. The most significant differences occurred in the following areas:

- \$20,000 in Administration for an annexation study that was deferred until FY 2020.
- \$24,000 in several departments due to costs for professional services (i.e. lawyers and engineers) being less than anticipated.
- \$24,000 in Police salary and benefits savings due to actual enrollment in Town sponsored insurance plans being lower than anticipated.
- \$18,000 in the Maintenance Department for repairs and maintenance costs being lower than anticipated.
- \$24,000 in Parks and Recreation for the deferral of the purchase of a security camera system to future years.

Capital Assets and Debt Administration

The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2019, amounts to \$28,848,890 (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 1%.

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

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 1,872,789	\$ 1,713,599	\$ 960,450	\$ 960,450	\$ 2,833,239	\$ 2,674,049
Buildings	909,323	724,162	96,219	105,539	1,005,542	829,701
Equipment	271,439	292,391	61,348	83,094	332,787	375,485
Infrastructure	1,109,408	1,354,572	23,567,914	23,918,862	24,677,322	25,273,434
Total	\$ 4,162,959	\$ 4,084,724	\$ 24,685,931	\$ 25,067,945	\$ 28,848,890	\$ 29,152,669

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

- The Town purchased a 2018 Ford Interceptor for the police department at a cost of \$34,411 to replace a Crown Victoria which was fully depreciated and at the end of its useful life. The Crown Victoria was sold at auction and generated \$2,273 of revenue, after sale fees were deducted by the auctioneer.
- The Town replaced the generator at the police department which failed. The old generator was past its estimated useful life and fully depreciated. The new generator cost \$27,380.
- The Town purchased 137 N. Main Extended which it had been leasing for the maintenance department for \$325,000.
- The Town disposed of an International Dump Truck which was fully depreciated at auction. The sale generated \$2,485 of revenue, after sale fees were deducted by the auctioneer.
- The Town accepted a donation of a half-acre parcel of land from a developer valued at \$36,690.
- The Town purchased a code enforcement and planning module for its existing ERP system for the planning office at a cost of \$15,000.
- The Town accepted donated water assets (water mains and appurtenances) valued at \$562,385
- The Town replaced two pumps in the Razor Strap Road Pump Station that were past their useful lives at a cost of \$28,150 per pump.

Additional information on the Town's capital assets can be found on pages 45-46 of this report.

Long-term Debt

At the end of the current fiscal year, the Town had total debt outstanding of \$12,510,741.

Town of North East, Maryland's Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Notes from direct borrowings and direct placements	\$ 44,280	\$ 48,708	\$ -	\$ -	\$ 44,280	\$ 48,708
General obligation bonds	1,612,527	1,698,527	10,853,934	11,449,345	12,466,461	13,147,872
Total	\$ 1,656,807	\$ 1,747,235	\$ 10,853,934	\$ 11,449,345	\$ 12,510,741	\$ 13,196,580

During the current fiscal year, the Town's total debt decreased by \$685,839. The Town's significant debt activities included:

- \$90,428 of governmental activities debt was retired.
- \$595,411 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 2019 the limit was \$32,154,931. The Town did not issue any new debt in fiscal year 2019.

Additional information on the Town's long-term debt can be found on pages 49-51 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 2020 fiscal year budget.

- Revenues are expected to remain relatively consistent in fiscal year 2020.
- The Town will use \$430,238 of fund balance resources in fiscal year 2020 for capital projects/equipment needs and onetime non-recurring expenditures. Those uses include:
 - \$168,802 for road repairs.
 - \$87,500 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.
 - \$20,000 for legal and engineering expenses related to an annexation of parcels along US Route 40.
 - \$20,000 for a compensation study for all town positions.
 - \$56,070 for a transfer to a new Storm Water Utility Enterprise Fund for operating cash.
 - \$20,000 for replacement of police department uniforms due to the Town's vendor going out of business.
 - \$12,686 to replace a mower for the maintenance department at the end of its useful life.
 - \$57,090 for replacement of all computers used by the Town which are at the end of their useful lives and the operating system will fall out of service during FY 2020.
 - The Town will also increase committed fund balance by \$11,910 for sick leave payouts for eligible employees at retirement.
- The fiscal year 2020 property tax rate remains \$0.48 per \$100 of assessed property value.
- The fiscal year 2020 water rates were not increased 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 Town'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, 2019

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 5,568,313	\$ 1,347,344	\$ 6,915,657
Equity in pooled cash	567,913	845,945	1,413,858
Restricted cash	28,890	476,588	505,478
Property taxes receivable	1,130	-	1,130
Intergovernmental receivable	205,764	-	205,764
Loans receivable	787,288	-	787,288
Other receivables	1,301,616	927,581	2,229,197
Inventories	-	85,018	85,018
Prepays	41,524	13,911	55,435
Capital assets not being depreciated:			
Land	1,872,789	960,450	2,833,239
Capital assets net of accumulated depreciation:			
Buildings	909,323	96,219	1,005,542
Equipment	271,439	61,348	332,787
Infrastructure	1,109,408	23,567,914	24,677,322
Total Assets	<u>12,665,397</u>	<u>28,382,318</u>	<u>41,047,715</u>
LIABILITIES			
Accounts payable	60,888	97,315	158,203
Accrued liabilities	33,324	52,294	85,618
Intergovernmental payable	346	-	346
Noncurrent liabilities:			
Due within one year	91,928	597,518	689,446
Due in more than one year	1,928,963	10,428,127	12,357,090
Total Liabilities	<u>2,115,449</u>	<u>11,175,254</u>	<u>13,290,703</u>
NET POSITION			
Net investment in capital assets	2,506,152	13,831,997	16,338,149
Restricted for:			
Off site mitigation	31,323	-	31,323
Capital projects	4,500	476,589	481,089
Special events	11,704	-	11,704
Unrestricted	7,996,269	2,898,478	10,894,747
Total Net Position	<u>\$ 10,549,948</u>	<u>\$ 17,207,064</u>	<u>\$ 27,757,012</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, 2019

	Program Revenues				Net (Expense) Revenue and Change in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Functions/Programs:							
Governmental activities:							
General government	\$ 392,999	\$ 38,360	\$ 29,324	\$ 36,690	\$ (288,625)	\$ -	\$ (288,625)
Public safety	1,323,485	905	66,211	-	(1,256,369)	-	(1,256,369)
Public works	1,227,648	241,400	124,488	60,000	(801,760)	-	(801,760)
Health	3,210	-	-	-	(3,210)	-	(3,210)
Culture and recreation	34,003	2,850	-	-	(31,153)	-	(31,153)
Debt service - interest	66,369	-	-	-	(66,369)	-	(66,369)
Total governmental activities	<u>3,047,714</u>	<u>283,515</u>	<u>220,023</u>	<u>96,690</u>	<u>(2,447,486)</u>	<u>-</u>	<u>(2,447,486)</u>
Business-type activities:							
Water services	3,030,244	3,124,756	-	562,385	-	656,897	656,897
Total business-type activities	<u>3,030,244</u>	<u>3,124,756</u>	<u>-</u>	<u>562,385</u>	<u>-</u>	<u>656,897</u>	<u>656,897</u>
Total primary government	<u>\$ 6,077,958</u>	<u>\$ 3,408,271</u>	<u>\$ 220,023</u>	<u>\$ 659,075</u>	<u>\$ (2,447,486)</u>	<u>\$ 656,897</u>	<u>\$ (1,790,589)</u>
General revenues:							
Property Taxes					1,620,470	-	1,620,470
Income and other taxes					302,800	-	302,800
Grants and contributions not restricted to specific programs					270,523	-	270,523
Investment income					110,098	40,875	150,973
Miscellaneous					<u>113,342</u>	<u>320,317</u>	<u>433,659</u>
Total general revenues					<u>2,417,233</u>	<u>361,192</u>	<u>2,778,425</u>
Change in net position					<u>(30,253)</u>	<u>1,018,089</u>	<u>987,836</u>
Net position - beginning							
As previously reported					9,245,089	15,973,541	25,218,630
Adjustments affecting prior periods					<u>1,335,112</u>	<u>215,434</u>	<u>1,550,546</u>
Net position - beginning, as restated					<u>10,580,201</u>	<u>16,188,975</u>	<u>26,769,176</u>
Net position - ending					<u>\$ 10,549,948</u>	<u>\$ 17,207,064</u>	<u>\$ 27,757,012</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, 2019

	General	Special Revenue	Capital Projects	NonMajor Special Revenue	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 4,565,808	\$ 1,002,505	\$ -	\$ -	\$ 5,568,313
Equity in pooled cash	82,171	390	476,098	9,254	567,913
Restricted cash	28,890	-	-	-	28,890
Property taxes receivable	1,130	-	-	-	1,130
Intergovernmental receivable	205,764	-	-	-	205,764
Other receivables	1,301,616	-	-	-	1,301,616
Prepaid items	41,524	-	-	-	41,524
Loan receivable	-	787,288	-	-	787,288
Total assets	<u>\$ 6,226,903</u>	<u>\$ 1,790,183</u>	<u>\$ 476,098</u>	<u>\$ 9,254</u>	<u>\$ 8,502,438</u>
LIABILITIES					
Accounts payable	\$ 51,029	\$ -	\$ 9,859	\$ -	\$ 60,888
Accrued liabilities	24,134	-	-	-	24,134
Intergovernmental payable	346	-	-	-	346
Total liabilities	<u>75,509</u>	<u>-</u>	<u>9,859</u>	<u>-</u>	<u>85,368</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - taxes	90,986	-	-	-	90,986
Unavailable revenue - federal grants	22,000	-	-	-	22,000
Unavailable leases receivable	1,279,126	-	-	-	1,279,126
Total deferred inflows of resources	<u>1,392,112</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,392,112</u>
FUND BALANCES					
Nonspendable:					
Housing loans receivable	-	787,288	-	-	787,288
Prepaid expenditures	41,524	-	-	-	41,524
Restricted:					
Capital improvements	4,500	-	-	-	4,500
Resource conservation	31,323	-	-	-	31,323
Special events	2,450	-	-	9,254	11,704
Committed:					
General government	43,956	-	-	-	43,956
General obligation debt	1,612,500	-	-	-	1,612,500
Assigned:					
Appropriation of fund balance	430,238	-	-	-	430,238
Capital improvements	-	-	466,239	-	466,239
Housing and community development	-	1,002,895	-	-	1,002,895
Unassigned	<u>2,592,791</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,592,791</u>
Total fund balances	4,759,282	1,790,183	466,239	9,254	7,024,958
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 6,226,903</u>	<u>\$ 1,790,183</u>	<u>\$ 476,098</u>	<u>\$ 9,254</u>	<u>\$ 8,502,438</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, 2019

Amounts reported for governmental activities in the statement of net position (page 22) are different because:

Total fund balance - governmental funds (page 24)	\$	7,024,958
---------------------------------------------------	----	-----------

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

Nondepreciable capital assets:

Land	\$	1,872,789
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Depreciable capital assets:

Buildings		1,445,259
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Equipment		1,081,175
-----------	--	-----------

Infrastructure		4,072,385
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Total capital assets		8,471,608
----------------------	--	-----------

Less accumulated depreciation		(4,308,649)
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4,162,959

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		(1,656,807)
--------------------------------------------	--	-------------

Compensated absences		(166,198)
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Net other post employment benefits liability		(197,886)
----------------------------------------------	--	-----------

Accrued interest payable		(9,190)
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(2,030,081)

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

Taxes		90,986
-------	--	--------

Federal Grants		22,000
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Leases		1,279,126
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1,392,112

Net position of governmental activities (page 22)	\$	10,549,948
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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, 2019

	General	Special Revenue	Capital Projects	Nonmajor Special Revenue	Total Governmental
REVENUES					
Taxes	\$ 1,899,493	\$ -	\$ -	\$ -	\$ 1,899,493
Licenses and permits	74,323	-	-	-	74,323
Intergovernmental	463,772	-	60,000	-	523,772
Charges for services	263,067	-	-	-	263,067
Fines and forfeitures	205	-	-	-	205
Miscellaneous	195,393	25,194	-	4,775	225,362
Total Revenues	<u>2,896,253</u>	<u>25,194</u>	<u>60,000</u>	<u>4,775</u>	<u>2,986,222</u>
EXPENDITURES					
Current:					
General government	336,252	-	6,668	9,718	352,638
Public safety	1,266,782	-	-	-	1,266,782
Public works	932,069	-	-	-	932,069
Health	3,210	-	-	-	3,210
Recreation and culture	30,063	-	3,191	-	33,254
Debt service:					
Principal	90,428	-	-	-	90,428
Interest	57,179	-	-	-	57,179
Capital outlay:					
General government	15,000	-	-	-	15,000
Public safety	61,791	-	-	-	61,791
Public works	-	-	335,504	-	335,504
Total expenditures	<u>2,792,774</u>	<u>-</u>	<u>345,363</u>	<u>9,718</u>	<u>3,147,855</u>
Excess (deficiency) of revenues over expenditures	<u>103,479</u>	<u>25,194</u>	<u>(285,363)</u>	<u>(4,943)</u>	<u>(161,633)</u>
OTHER FINANCING SOURCES (USES)					
Sale of capital assets	4,758	-	-	-	4,758
Transfer in (out)	(2,000)	-	-	2,000	-
Total other financing sources (uses)	<u>2,758</u>	<u>-</u>	<u>-</u>	<u>2,000</u>	<u>4,758</u>
Net change in fund balances	<u>106,237</u>	<u>25,194</u>	<u>(285,363)</u>	<u>(2,943)</u>	<u>(156,875)</u>
Fund balances - beginning					
As previously reported	4,653,045	802,863	751,602	12,197	6,219,707
Adjustments related to prior periods	-	962,126	-	-	962,126
Fund balances - beginning as restated	<u>4,653,045</u>	<u>1,764,989</u>	<u>751,602</u>	<u>12,197</u>	<u>7,181,833</u>
Fund balances - ending	<u>\$ 4,759,282</u>	<u>\$ 1,790,183</u>	<u>\$ 466,239</u>	<u>\$ 9,254</u>	<u>\$ 7,024,958</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, 2019

Amounts reported for governmental activities in the statement of activities (page 23) are different because:

Net change in fund balances - total governmental funds (page 26)	\$ (156,875)
------------------------------------------------------------------	--------------

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	\$ 412,295	
Depreciation expense	<u>(370,750)</u>	
		41,545

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.

Federal Grants	22,000	
Taxes	<u>23,777</u>	
		45,777

Some revenues reported in the statement of activities do not provide current financial resources in governmental funds.

Acceptance of donated land	36,690
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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	90,428

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:

Accrued interest payable	(9,190)	
Accrued Total other post-employment benefits liability	(36,237)	
Accrued compensated absences	<u>13,595</u>	
		(31,832)

The issuance of long-term loan and lease 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	<u>(55,986)</u>
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Change in net position of governmental activities (page 23)	<u><u>\$ (30,253)</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, 2019

	<u>Enterprise Fund</u> <u>Water Services</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,347,344
Equity in pooled cash	845,945
Restricted cash	476,588
Accounts receivable	927,581
Inventories	85,018
Prepays	13,911
Total current assets	<u>3,696,387</u>
Noncurrent assets:	
Capital assets	
Land	960,450
Buildings	264,516
Equipment	188,784
Infrastructure	37,294,135
Less accumulated depreciation	<u>(14,021,954)</u>
Total noncurrent assets	<u>24,685,931</u>
Total assets	<u>28,382,318</u>
LIABILITIES	
Current liabilities:	
Accounts payable	97,315
Accrued liabilities	52,294
Bonds payable	597,518
Total current liabilities	<u>747,127</u>
Noncurrent liabilities:	
Compensated absences	43,601
Bonds payable	10,256,416
Other post employment benefits liability	128,110
Total noncurrent liabilities	<u>10,428,127</u>
Total liabilities	<u>11,175,254</u>
NET POSITION	
Net investment in capital assets	13,831,997
Restricted for capital projects	476,589
Unrestricted	2,898,478
Total net position	<u><u>\$ 17,207,064</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 Net Position – Proprietary Funds
For the Year Ended June 30, 2019

	<u>Enterprise Fund</u> <u>Water Services</u>
Operating revenues:	
Charges for services	
Water sales	\$ 2,844,366
Connection fees	204,525
Service charge penalties	75,865
Miscellaneous	12,072
Total operating revenues	<u>3,136,828</u>
Operating expenses:	
Salaries and benefits	816,421
Repairs and maintenance	446,374
Supplies	227,579
Utilities	186,352
Insurance	17,172
Professional fees	230,649
Administraion	29,190
Miscellaneous	6,175
Depreciation	1,000,698
Total operating expenses	<u>2,960,610</u>
Operating income (loss)	<u>176,218</u>
Nonoperating revenues (expenses):	
Major facilites fees	307,025
Interest income	40,875
Interest expense	(69,634)
Insurance proceeds	1,220
Total nonoperating revenues	<u>279,486</u>
Income before capital contributions	455,704
Capital contributions	<u>562,385</u>
Change in net position	1,018,089
Net position - beginning	
As previously reported	15,973,541
Adjustments affecting prior periods	215,434
Net position - beginning, as restated	<u>16,188,975</u>
Net position - ending	<u><u>\$ 17,207,064</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 Cash Flows – Proprietary Funds
For the Year Ended June 30, 2019

	Enterprise Fund
	Water Services
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 3,092,037
Payments to suppliers for goods and services	(1,136,092)
Payments to employees for salaries and benefits	(801,188)
Net cash provided by (used for) operating activities	<u>1,154,757</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from (to) other funds	(88,688)
Net cash provided by (used for) operating activities	<u>(88,688)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(56,300)
Receipts from customers for future capital improvements	307,025
Principal paid on capital debt	(595,411)
Interest paid on capital debt	(69,634)
Proceeds from insurance for damage to capital assets	1,220
Net cash provided by (used for) capital and related financing activities	<u>(413,100)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	40,875
Net cash provided by investing activities	<u>40,875</u>
Net increase (decrease) in cash and cash equivalents	693,844
Cash and cash equivalents July 1 (including \$658,055 reported in restricted accounts)	<u>1,976,033</u>
Cash and cash equivalents June 30 (including \$476,588 reported in restricted accounts).	<u><u>\$ 2,669,877</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	\$ 176,218
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation expense	1,000,698
(Increase) decrease in accounts receivable	(44,791)
(Increase) decrease in inventories	(395)
(Increase) decrease in prepaid items	8,369
(Decrease) increase in accounts payable	(575)
(Decrease) increase in accrued liabilities	352
(Decrease) increase in compensated absences	(3,531)
Increase (decrease) in other post-employment benefits liability	18,412
Total adjustments	<u>978,539</u>
Net Cash Provided by (Used for) Operating Activities	<u><u>\$ 1,154,757</u></u>
Schedule of non-cash capital and related financing activities:	
Contributions of capital assets	562,385

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, 2019

	Defined Contribution Employee Pension Plan	Agency Fund
ASSETS		
Equity in pooled cash	\$ -	\$ 142,292
Cash and cash equivalents	768,612	-
Investments:		
Mutual Funds	562,178	-
Bonds	442,201	-
International Securities	444,341	-
US Corporate Securities	856,196	-
Real Estate Investment Trusts	68,882	-
Total assets	<u>3,142,410</u>	<u>142,292</u>
LIABILITIES		
Accounts payable	-	11,015
Amounts held in escrow	-	131,277
Total liabilities	<u>-</u>	<u>\$ 142,292</u>
NET POSITION		
Net position held in trust for pension benefits	<u>\$ 3,142,410</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
June 30, 2019

	<u>Defined Contribution Employee Pension Plan</u>
ADDITIONS	
Contributions:	
Employer	\$ 80,243
Plan members	95,630
Total contributions	<u>175,873</u>
Investment earnings:	
Net increase in the fair value of investments	<u>145,106</u>
Total investment earnings	145,106
Less investment expense	<u>7,658</u>
Net investment earnings	137,448
Total additions	<u>313,321</u>
DEDUCTIONS	
Benefits	<u>241,563</u>
Total deductions	<u>241,563</u>
Change in net position	71,758
Net position - beginning	<u>3,070,652</u>
Net position - ending	<u><u>\$ 3,142,410</u></u>

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

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THE MAYOR AND COMMISSIONERS OF THE TOWN OF NORTH EAST
Notes to the Financial Statements
June 30, 2019

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. Exceptions to this general rule are charges for interfund services provided and used.

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

Additionally, the Town reports the following fiduciary fund:

The *private-purpose trust fund* accounts for assets held in trust for the payment of benefits under the Town's defined contribution pension 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 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 fund is 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 more recently defined by Title 17, Subtitle 3 of the Local Government Article of the Annotated Code of Maryland. The pool 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 Standard 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, 2019, 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>Useful 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, grants, and lease receivables. 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 Balance	Nonspendable Category
General Fund	\$ 41,524	Prepaid Expenditures
Special Revenue	\$787,288	Housing Loans Receivable

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 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	\$ 9,254	Donations from parade sponsors

Committed – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action such as an ordinance or resolution of the Town's highest level of decision-making authority, the Mayor and Commissioners, are reported as committed fund balance. Both of the above actions require a majority vote of the Mayor and Commissioners to impose or remove a restriction, and thus either action could establish the most binding constraint. The Town reported the following committed fund balances:

Fund	Fund Balance	Committed by
General Fund		
CDA 2014 Series A Bond	\$1,612,500	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 Balance	Assigned by
General Fund		
Appropriation for FY 2020	\$430,238	Town of North East Budget
Special Revenue Fund		
Revitalization Loans	\$426,223	Town of North East Budget
Housing & Community Development	\$576,672	Town of North East Budget
Capital Projects Fund	\$466,239	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 1st. Payments are due by September 30th for all non-principal residences and commercial properties not classified as qualified small businesses. Beginning October 1st, 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 30th. Beginning October 1st, interest is charged on the amount of the first installment only. The second installment is due by December 31st. Beginning on January 1st, 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, 2019 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, 2019 \$1,525 of real property taxes were abated as part of this program while \$763 will be reimbursed by the state to offset 50% of the credit in fiscal year 2020.

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, 2019 a total of \$136,609 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, 2019 a total of \$73,190 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 revenue 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, 2019, the Town implemented GASB Statement No. 87 *Leases*, and Statement No. 88 *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. Management has also reviewed GASB Statement No. 83 *Certain Asset Retirement Obligations* and determined at this time the Town has no assets retirement obligations which qualify for recognition under the new standard. The implementation of GASB Statement No. 87, has resulted in a prior period adjustment of \$1,335,112 in the governmental activities on the Statement of Activities to account for lease receivables related to cell tower leases.

The Town is reviewing GASB Statement No. 84 *Fiduciary Activities*, Statement No 89 *Accounting for Interest Cost Incurred before the End of a Construction Period*, Statement No. 90 *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61* and Statement No. 91 *Conduit Debt Obligations* and intends 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 25.

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 27.

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 June 30, 2019
Howard Bank (main operating account)	\$1,687,960
Cecil Bank (Offsite Mitigation Checking)	28,890
Cecil Bank (Major Facilities Checking)	3,003
Cecil Bank (Revitalization Loan Checking)	977
PNC (Maryland Local Government Investment Pool)	7,309,566

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. 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, 2019, 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, 2019, 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 Revenue Fund	Total Governmental Funds	Business-type Funds	Total
Property tax	\$ 1,130	\$ -	\$ 1,130	\$ -	\$ 1,130
Intergovernmental					
Collected taxes	\$ 4,830	\$ -	\$ 4,830	\$ -	\$ 4,830
Federal grants	22,000	-	22,000	-	22,000
Motel tax	23,740	-	23,740	-	23,740
Admission and amusement taxes	2,055	-	2,055	-	2,055
Income taxes	130,623	-	130,623	-	130,623
Safe streets grant	542	-	542	-	542
State Aid for Police Protection	15,293	-	15,293	-	15,293
Business licenses	682	-	682	-	682
Highway user revenues	5,236	-	5,236	-	5,236
Enterprise zone credits	763	-	763	-	763
	<u>\$ 205,764</u>	<u>\$ -</u>	<u>\$ 205,764</u>	<u>\$ -</u>	<u>\$ 205,764</u>
Other accounts					
Refunds from vendors	\$ 297	\$ -	\$ 297	\$ -	\$ 297
Customer service charges	400	-	400	927,581	927,981
Leases - Cell Tower	1,300,919	-	1,300,919	-	1,300,919
	<u>\$ 1,301,616</u>	<u>\$ -</u>	<u>\$ 1,301,616</u>	<u>\$ 927,581</u>	<u>\$ 2,229,197</u>
Loans					
Assisted housing loans	\$ -	\$ 787,288	\$ 787,288	\$ -	\$ 787,288
	<u>\$ -</u>	<u>\$ 787,288</u>	<u>\$ 787,288</u>	<u>\$ -</u>	<u>\$ 787,288</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 \$90,986 of the Town's income tax revenue for tax years 2018 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 a loan agreement with an assisted housing project located in the corporate limits of the Town. Proceeds of a grant from the U.S Department of Housing and Community Development's Community Development Block Grant (\$750,000) were loaned to the developer of the project in prior years. The promissory note bears interest at 1% and is to be repaid in annual installments of principal and interest based on the availability of funds as defined in the

promissory note. The note is secured by a deed of trust that is subordinate to senior debt. No principal payments were received during the year ended June 30, 2019, however accrued interest in the amount of \$2,926 was paid. The loan has a maturity date of August 1, 2055. No adjustment to the fair value of the note has been reflected in these financial statements as management has determined fair value approximates cost basis.

3. The Town has an agreement with a developer for the developer to reimburse the Town \$215,435 for the cost of the construction of a water main to service the project. The agreement has been recorded in the land records of Cecil County. To date no payments have been received. The developer has agreed to begin making quarterly payments beginning in February of 2020 with the full amount being repaid by November 2020.

4. The Town has lease agreements with several cellular telephone companies. See Note III.C.

C. Lease Receivables

The Town is the lessor to several cellular telephone companies. The companies lease space at the Town's water towers for antenna's and ancillary equipment. The lease agreements have lease escalation clauses which range from 0.00% to 3.00%, and can only be canceled at the end of five year intervals. During the year ended June 30, 2019 the Town received \$55,986 in lease revenue and \$29,064 in interest revenue. As of June 30, 2019 the outstanding lease receivables totaled \$1,300,919.

D. Capital assets

Capital assets activity for the year ended June 30, 2019 was as follows:

Governmental activities:

	Balance July 1, 2018	Increases	Decreases	Balance June 30, 2019
Capital assets, not being depreciated:				
Land	\$ 1,713,599	\$ 159,190	\$ -	\$ 1,872,789
Total capital assets, not being depreciated	1,713,599	159,190	-	1,872,789
Capital assets, being depreciated:				
Buildings	1,232,255	213,004	-	1,445,259
Equipment	1,046,241	76,791	41,857	1,081,175
Infrastructure	4,072,385	-	-	4,072,385
Total capital assets, being depreciated	6,350,881	289,795	41,857	6,598,819
Less accumulated depreciation for:				
Buildings	508,093	27,843	-	535,936
Equipment	753,850	97,743	41,857	809,736
Infrastructure	2,717,813	245,164	-	2,962,977
Total accumulated depreciation	3,979,756	370,750	41,857	4,308,649
Total capital assets being depreciated, net	2,371,125	(80,955)	-	2,290,170
Governmental activities capital assets, net	\$ 4,084,724	\$ 78,235	\$ -	\$ 4,162,959

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

General government	\$ 36,690
Public safety	43,323
Public works	289,988
Parks and recreation	749
Total depreciation expense - governmental activities	<u>\$ 370,750</u>

Business-type activities:

	Balance July 1, 2018	Increases	Decreases	Balance June 30, 2019
Capital assets, not being depreciated:				
Land	\$ 960,450	\$ -	\$ -	\$ 960,450
Total capital assets, not being depreciated	960,450	-	-	960,450
Capital assets, being depreciated:				
Buildings	264,516	-	-	264,516
Equipment	188,784	-	-	188,784
Infrastructure	36,675,451	618,684	-	37,294,135
Total capital assets, being depreciated	37,128,751	618,684	-	37,747,435
Less accumulated depreciation for:				
Buildings	158,977	9,320	-	168,297
Equipment	105,690	21,746	-	127,436
Infrastructure	12,756,589	969,632	-	13,726,221
Total accumulated depreciation	13,021,256	1,000,698	-	14,021,954
Total capital assets being depreciated, net	24,107,495	(382,014)	-	23,725,481
Business-type activities capital assets, net	\$ 25,067,945	\$ (382,014)	\$ -	\$ 24,685,931

E. Accrued liabilities

Accrued liabilities reported in the fund financial statements at June 30, 2019 were as follows:

	General Fund	Proprietary Fund
Salaries and employee benefits	\$ 24,134	\$ 12,879
Interest	-	39,415
Total accrued liabilities	\$ 24,134	\$ 52,294

F. Other post-employment benefits (OPEB) liability

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, 2019 the Town had 29 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, 2019 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 2019 the Town did not pay any premiums for retirees. In fiscal year 2019 no plan members received benefits.

Annual OPEB cost and Total OPEB liability – The Town’s OPEB liability of \$325,996 was measured as of June 30, 2019, and was determined using the alternative measurement method in lieu of an actuarial valuation as of that date. The Town’s total OPEB liability 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	2.79%
Healthcare cost trend rate	5.70%
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 2018-2027*.

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

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

Service cost	\$ 7,052
Interest	7,570
Changes in assumptions and other inputs	40,027
Benefit payments	-0-
Increase (decrease) in net OPEB liability	54,649
Total OPEB liability, beginning of year	271,347
Total OPEB liability, end of year	<u>\$ 325,996</u>

Changes of assumptions and other inputs reflects a change in the discount rate from 2.98% in 2018 to 2.79% in 2019.

During the year ended June 30, 2019, the Town recognized OPEB expense of \$54,649.

Sensitivity of Total OPEB liability to changes in the discount rate – The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.79%) or one percentage point higher (3.79%) than the current discount rate.

	1% Decrease (1.79%)	Discount Rate (2.79%)	1% Increase (3.79%)
Total OPEB Liability	\$ 377,181	\$ 325,996	\$ 284,366

Sensitivity of Total OPEB liability to changes in the health care cost trend rate – The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a health care cost trend rate that is one percentage point lower (4.70%) or one percentage point higher (6.70%) than the current cost trend rate.

	1% Decrease (4.70%)	Health Care Cost Trend Rate (5.70%)	1% Increase (6.70%)
Total OPEB Liability	\$ 282,596	\$ 325,996	\$ 378,852

G. Defined contribution pension plan

The Town offers employees a 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 and there are no forfeiture provisions. During the year ended June 30, 2019, there were 31 employees who participated in and made contributions to the plan. Employees made contributions totaling \$95,630 while the Town contributions were \$80,243. All Town contributions were paid each week as part of the normal payroll process.

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, Nationwide Retirement Solutions, 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, 2019, 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 liabilities

The Town has implemented GASB Statement No. 87. The Mayor and Commissioners of the Town of North East adopted Resolution 2019-03-01 to establish a capitalization threshold of \$5,000. Management has reviewed all contracts and agreements that may meet the definition of a lease under GASB Statement No. 87 and determined there are no agreements meeting the requirements for recognition of a lease liability.

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. The Town's outstanding bonds contain acceleration provisions that in the event of default the full amount outstanding becomes due and payable. Defaults would be triggered by events such as bankruptcy or failure to pay principal and interest when due, or failure to maintain the assets financed by the bond. In the event of default, the trustee could intercept revenues due from the State (such as income taxes) to satisfy the debt. The Town's outstanding note, contains no such default provisions. General obligation bonds and notes payable outstanding at June 30, 2019, are as follows:

Governmental Activities:

Description	Issue Date	Original Borrowing	Interest Rate	Maturity Date	Outstanding 6/30/2019
General Obligation Bonds					
<u>Community Development Administration</u>					
FY 2014 Streets & Sidewalks Repair	08/28/14	\$ 2,018,940	3.51%	05/01/34	\$ 1,612,527
<i>Annual principal and semiannual interest payment of \$142,884</i>					
Notes from Direct Borrowings and Direct Placements					
<u>Maryland Department of Natural Resources</u>					
Shore Erosion Control - North East Community Park	07/01/09	88,560	0.00%	07/01/29	44,280
<i>Annual principal payments of \$4,428</i>					
					<u>\$ 1,656,807</u>

Business-type Activities

Description	Issue Date	Original Borrowing	Interest Rate	Maturity Date	Outstanding 6/30/2019
General Obligation Bonds					
<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	\$ 437,342
Annual principal payments of \$68,750					
FY 2007 Water System Improvements Phase 6, 6a, & 7	03/28/07	15,590,777	0.40%	02/01/38	10,416,592
					<u>\$ 10,853,934</u>

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

Fiscal Year Ending June 30,	Governmental Activities				Business-type Activities	
	Bonds		Notes from Direct Borrowings and Direct Placements		Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 87,500	\$ 55,342	\$ 4,428	\$ -	\$ 597,518	\$ 41,666
2021	89,000	53,627	4,428	-	599,633	39,552
2022	91,000	51,616	4,428	-	601,756	37,428
2023	93,500	49,332	4,428	-	603,888	35,296
2024	96,000	46,751	4,428	-	606,029	33,156
2025-2029	524,500	187,126	22,140	-	2,812,396	133,185
2030-2034	631,027	80,314	-	-	2,773,615	78,555
2035-2039	-	-	-	-	2,259,099	23,535
	<u>\$ 1,612,527</u>	<u>\$ 524,108</u>	<u>\$ 44,280</u>	<u>\$ -</u>	<u>\$ 10,853,934</u>	<u>\$ 422,373</u>

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 2019, the Town's assessed valuation of taxable property was \$321,549,311 while the Town's total outstanding debt was \$12,510,741, which is 3.8% of assessed values.

Changes in Long-Term Liabilities

Changes in the government's long-term liabilities for the year ended June 30, 2019, are as follows:

	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Due Within One Year
Governmental Activities:					
General obligation bonds	\$ 1,698,527	\$ -	\$ (86,000)	\$ 1,612,527	\$ 87,500
Notes from direct borrowings and direct placements	48,708	-	(4,428)	44,280	4,428
Compensated absences	179,793	104,906	(118,501)	166,198	13,622
Net other post-employment benefit liability	161,649	36,237	-	197,886	-
Governmental activities long-term liabilities	<u>\$ 2,088,677</u>	<u>\$ 141,143</u>	<u>\$ (208,929)</u>	<u>\$ 2,020,891</u>	<u>\$ 105,550</u>
	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Due Within One Year
Business-type Activities:					
General obligation bonds	\$ 11,449,345	\$ -	\$ (595,411)	\$ 10,853,934	\$ 597,518
Compensated absences	47,132	49,679	(53,210)	43,601	3,593
Net other post-employment benefit liability	109,698	18,412	-	128,110	-
Business-type activities long-term liabilities	<u>\$ 11,606,175</u>	<u>\$ 68,091</u>	<u>\$ (648,621)</u>	<u>\$ 11,025,645</u>	<u>\$ 601,111</u>

Funding Sources for Other Non-Debt Related Liabilities

Compensated absences liabilities and net other post-employment liabilities are liquidated by the fund that incurred the personnel cost (i.e. general or water services funds).

K. Fund balance

Minimum fund balance policy. Section 2-605(2) of the Code of Ordinances of the Town of North East requires 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. The Town maintained an unrestricted fund balance above the 25% requirement during fiscal year 2019.

Stabilization arrangement. Section 2-606 of the Code of Ordinances of the Town of North East requires 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 2019, the Town complied with the ordinance with \$326,000 in the general fund and \$398,100 in the enterprise fund.

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 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, 2019, is as follows:

	Transfers In	Transfers Out
General Fund	\$ -	\$ 2,000
Non-major special revenue fund	2,000	-
Total	\$ 2,000	\$ 2,000

Significant interfund transfers in 2019 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.

M. Adjustments for Prior Periods

During the year ended June 30, 2019, the Town made several changes which resulted in the need to restate the beginning net position and fund balances for the year.

- The implementation of GASB Statement No. 87 *Leases* resulted in a prior period adjustment in the governmental activities on the Statement of Activities in the amount of \$1,335,112 to account for lease receivables related to cell tower leases.
- A review of GASB Statement No 65 *Items Previously Reported as Assets and Liabilities* resulted in \$962,126 which was previously reported as Deferred Inflows of Resources for Loans Receivable being reclassified to non-spendable fund balance in the Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds
- An agreement was signed in December of 2006 between the Town and a developer for the developer to repay the Town \$215,435 for the cost of a water main installation. The agreement was never recorded as a receivable in the enterprise fund at the time of its execution. The developer will begin to make quarterly payments beginning in February 2020, with the balance being paid off in November 2020. An adjustment to beginning net position of \$215,435 was made on the Statement of Activities and the Statement of Revenues, Expenditures and Changes in Fund Balance – Proprietary Fund.

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, Inc. bears the full cost of the additional water the Town needs to produce to provide water in accordance with the agreement. The Town owns 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. Construction of the interconnection was completed in March 2019 with service beginning on April 1. For the first quarter the interconnection was in operation, Artesian Water Maryland, Inc. was billed \$15,330.

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, 2019 the date the financial statements were available to be issued.

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, 2019

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Taxes				
Property	\$ 1,602,799	\$ 1,620,471	\$ 1,621,445	\$ 974
Other	246,000	278,049	278,048	(1)
Licenses and permits	75,350	72,972	74,323	1,351
Intergovernmental	435,567	463,733	463,772	39
Charges for services	247,600	263,067	263,067	-
Fines and forfeitures	500	205	205	-
Miscellaneous	125,345	173,550	195,393	21,843
Total revenues	2,733,161	2,872,047	2,896,253	24,206
EXPENDITURES				
General government				
Mayor and commissioners	27,658	28,391	24,599	3,792
Administration	83,436	83,436	54,397	29,039
Elections	600	1,200	1,111	89
Finance	71,081	71,681	64,872	6,809
Accounting and auditing	15,015	14,715	13,485	1,230
Law	15,250	13,041	3,833	9,208
Planning and zoning	137,911	168,366	155,050	13,316
General services	84,145	47,464	33,905	13,559
Total general government	435,096	428,294	351,252	77,042
Public safety				
Police	1,309,210	1,360,709	1,321,073	39,636
Fire	7,500	7,500	7,500	-
Total public safety	1,316,710	1,368,209	1,328,573	39,636
Public works				
Highways and streets	678,821	701,993	683,906	18,087
Sanitation	246,535	248,163	248,163	-
Total public works	925,356	950,156	932,069	18,087
Health				
Mosquito control	2,500	3,210	3,210	-
Total health	2,500	3,210	3,210	-
Recreation and culture				
Parks	54,250	54,250	30,063	24,187
Total recreation and culture	54,250	54,250	30,063	24,187

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, 2019

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Debt service				
Debt service principal	\$ 90,428	\$ 90,428	\$ 90,428	\$ -
Debt service interest	57,180	57,180	57,179	1
Total debt service	147,608	147,608	147,607	1
 Total expenditures	 2,881,520	 2,951,727	 2,792,774	 158,953
 Excess (deficiency) of revenues over expenditures	 (148,359)	 (79,680)	 103,479	 183,159
 OTHER FINANCING SOURCES (USES)				
Transfers out	(2,000)	(2,000)	(2,000)	-
Sale of capital asset	-	4,758	4,758	-
Total other financing sources (uses)	(2,000)	2,758	2,758	-
 Net change in fund balances *	 \$ (150,359)	 \$ (76,922)	 106,237	 \$ 183,159
 Fund balance - beginning			 4,653,045	
Fund balance - ending			<u>\$ 4,759,282</u>	

Notes to Schedule:

The Town's basis of budgeting is GAAP.

*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 Liability and Related Ratios
Last Ten Fiscal Years

	2019	2018	2017	2016
Total OPEB Liability				
Service cost	\$ 7,052	\$ 6,222	\$ 6,444	N/A
Interest	7,570	7,647	9,914	N/A
Changes in assumptions or other inputs	40,027	13,163	(134,195)	N/A
Benefit payments	-	-	(3,690)	N/A
Net change in total OPEB liability	54,649	27,032	(121,527)	N/A
Total OPEB liability - beginning	271,347	244,315	365,842	N/A
Total OPEB liability - ending	<u>\$ 325,996</u>	<u>\$ 271,347</u>	<u>\$ 244,315</u>	<u>N/A</u>
 Covered-employee payroll	 \$ 1,774,758	 \$ 1,684,660	 \$ 1,699,274	 N/A
 Total OPEB liability as a percentage of covered employee payroll	 18.37%	 16.11%	 14.38%	 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%
06/30/2019	2.79%

As of June 30, 2019 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

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Governmental Activities										
Net Investment in										
Capital Assets	\$ 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	\$ 2,506,152
Restricted	40,748	43,969	40,252	49,833	65,083	63,747	64,064	62,833	50,470	47,527
Unrestricted	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	7,996,269
	<u>9,519,907</u>	<u>9,702,787</u>	<u>10,824,319</u>	<u>10,881,821</u>	<u>11,624,372</u>	<u>10,234,438</u>	<u>9,537,066</u>	<u>9,346,926</u>	<u>9,245,089</u>	<u>10,549,948</u>
Business-Type Activities										
Net Investment in										
Capital Assets	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	13,831,997
Restricted	-	-	-	-	-	2,518,491	1,048,880	1,075,300	658,055	476,589
Unrestricted	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	2,898,478
	<u>17,303,031</u>	<u>17,015,636</u>	<u>16,766,894</u>	<u>16,244,276</u>	<u>16,854,581</u>	<u>16,375,051</u>	<u>15,988,292</u>	<u>16,268,085</u>	<u>15,973,541</u>	<u>17,207,064</u>
Primary Government										
Net Investment in										
Capital Assets	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	16,338,149
Restricted	40,748	43,969	40,252	49,833	65,083	2,582,238	1,112,944	1,138,133	708,525	524,116
Unrestricted	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	10,894,747
	<u>\$26,822,938</u>	<u>\$26,718,423</u>	<u>\$27,591,213</u>	<u>\$27,126,097</u>	<u>\$28,478,953</u>	<u>\$26,609,489</u>	<u>\$25,525,358</u>	<u>\$25,615,011</u>	<u>\$25,218,630</u>	<u>\$27,757,012</u>

* 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

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Expenses										
Governmental activities:										
General government	\$ 407,710	\$ 410,324	\$ 412,627	\$ 386,568	\$ 412,157	\$ 418,129	\$ 358,103	\$ 372,700	\$ 386,259	\$ 392,999
Public safety	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	1,323,485
Public works	849,496	886,432	907,032	892,666	977,282	2,424,639	1,667,195	1,022,402	1,153,981	1,227,648
Health	225	240	840	960	865	2,450	1,100	2,280	1,440	3,210
Culture and recreation	58,154	35,385	31,568	12,758	9,980	43,065	64,326	16,617	21,392	34,003
Debt service - interest	16,873	13,228	9,376	5,229	-	45,414	59,588	59,061	58,293	66,369
Total governmental activities expense	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	3,047,714
Business-type activities:										
Water services	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	3,030,244
Total business-type activities expense	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	3,030,244
Total primary government	4,792,691	5,525,273	5,602,475	5,952,426	5,409,225	7,907,740	6,465,353	2,746,227	3,233,844	6,077,958
Program Revenues										
Governmental activities:										
General government										
Charges for services	71,675	53,977	13,621	12,384	13,935	14,689	27,264	24,522	30,924	38,360
Operating grants and contributions	63,661	34,732	31,632	37,304	15,416	13,215	56,724	18,992	16,149	29,324
Capital grants and contributions	-	-	-	12,183	-	-	-	-	-	36,690
Total revenue	135,336	88,709	45,253	61,871	29,351	27,904	83,988	43,514	47,073	104,374
Public Safety										
Charges for services	2,170	6,922	843	6,697	3,567	7,120	594	10,729	800	905
Operating grants and contributions	39,954	37,954	37,954	37,954	62,753	63,504	63,083	68,530	73,661	66,211
Capital grants and contributions	-	-	-	-	-	21,800	-	-	-	-
Total revenue	42,124	44,876	38,797	44,651	66,320	92,424	63,677	79,259	74,461	67,116
Public works										
Charges for services	191,155	211,244	176,438	188,342	185,411	176,066	178,164	184,376	236,535	241,400
Operating grants and contributions	13,377	10,679	29,623	33,982	80,473	121,468	118,699	105,343	111,503	124,488
Capital grants and contributions	-	-	909,686	-	-	-	-	-	-	60,000
Total revenue	204,532	221,923	1,115,747	222,324	265,884	297,534	296,863	289,719	348,038	425,888

(Continued)

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

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Health										
Operating grants and contributions	\$ 1,052	\$ 539	\$ 520	\$ 449	\$ 552	\$ -	\$ -	\$ -	\$ -	\$ -
Total revenue	1,052	539	520	449	552	-	-	-	-	-
Culture and Recreation										
Charges for services	-	-	-	3,625	3,120	3,470	2,850	2,225	2,675	2,850
Operating grants and contributions	-	2,108	795	-	-	-	-	-	-	-
Capital grants and contributions	23,183	-	-	-	-	-	-	8,122	-	-
Total revenue	23,183	2,108	795	3,625	3,120	3,470	2,850	10,347	2,675	2,850
Total governmental activities program revenue	406,227	358,155	1,201,112	332,920	365,227	421,332	447,378	422,839	472,247	600,228
Business-type activities										
Water services										
Charges for services	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	3,124,756
Capital grants and contributions	52,630	38,188	846,580	-	577,212	810,456	276,320	786,437	-	562,385
Total revenue	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	3,687,141
Total business-type activities program revenue	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	3,687,141
Net (expense) revenue										
Governmental activities	(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)	(2,447,486)
Business-type activities	485,586	(911,949)	(257,198)	(1,071,996)	599,670	(482,536)	(380,530)	378,398	(388,319)	656,897
Total primary government net expense	\$ (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)	\$ (1,790,589)

(Continued)

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

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
General revenues and other changes in net assets										
Governmental activities										
Property taxes	\$ 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	\$ 1,620,470
Income and other taxes	308,976	266,588	310,191	337,881	402,369	427,704	387,855	315,126	261,388	302,800
Grants and contributions not restricted to specific programs	169,443	185,235	197,861	174,309	178,334	187,854	167,447	171,669	258,268	270,523
Investment income	10,791	9,407	5,585	7,682	4,141	14,882	18,016	36,118	71,383	110,098
Miscellaneous	97,308	117,503	140,600	154,483	147,425	154,029	156,875	187,780	174,680	113,342
Special items	-	-	-	-	750,000	-	-	-	-	-
Total governmental activities	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	2,417,233
Business-type activities										
Investment income	19,497	16,148	8,459	8,879	10,642	3,006	5,072	12,157	27,275	40,875
Miscellaneous	-	-	-	-	-	-	42,097	23,216	66,500	320,317
Special items	-	-	-	400,000	-	-	-	-	-	-
Total business-type activities	19,497	16,148	8,459	408,879	10,642	3,006	47,169	35,373	93,775	361,192
Total primary government	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	2,778,425
Change in net position										
Governmental activities	149,694	182,880	1,121,432	57,502	742,545	(1,389,934)	(780,018)	41,724	(101,837)	(30,253)
Business-type activities	505,083	(895,801)	(248,739)	(663,117)	610,312	(479,530)	(333,361)	413,771	(294,544)	1,018,089
Total primary government	\$ 654,777	\$ (712,921)	\$ 872,693	\$ (605,615)	\$ 1,352,857	\$ (1,869,464)	\$ (1,113,379)	\$ 455,495	\$ (396,381)	\$ 987,836

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

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
General Fund										
Reserved	\$ 303,377	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, designated for future year's expenditures	484,141	-	-	-	-	-	-	-	-	-
Undesignated	3,660,548	-	-	-	-	-	-	-	-	-
Nonspendable (1)	-	285,169	283,793	286,091	9,830	34,267	57,596	35,297	100,528	41,524
Restricted (1)	-	43,969	40,432	49,833	65,083	63,747	64,064	47,321	38,273	38,273
Committed (1)	-	380,610	492,910	489,980	619,509	2,312,614	2,563,732	1,989,057	1,742,456	1,656,456
Assigned (1)	-	-	-	-	-	-	-	-	150,359	430,238
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	2,592,791
Total general fund	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	4,759,282
All Other Governmental Funds										
Reserved	-	-	-	-	-	-	-	-	-	-
Unreserved, designated for future year's expenditures	-	-	-	-	-	-	-	-	-	-
Undesignated	678,443	-	-	-	-	-	-	-	-	-
Nonspendable (1)	-	-	-	-	-	-	-	-	-	787,288
Restricted (1)	-	-	-	-	-	-	-	15,512	12,197	9,254
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	1,469,134
Unassigned (1)	-	-	-	-	-	-	-	-	-	-
Total all other governmental funds	678,443	679,818	680,711	682,308	655,429	1,067,518	1,101,437	1,553,646	1,566,662	2,265,676
Total all governmental funds	\$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	\$7,024,958

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

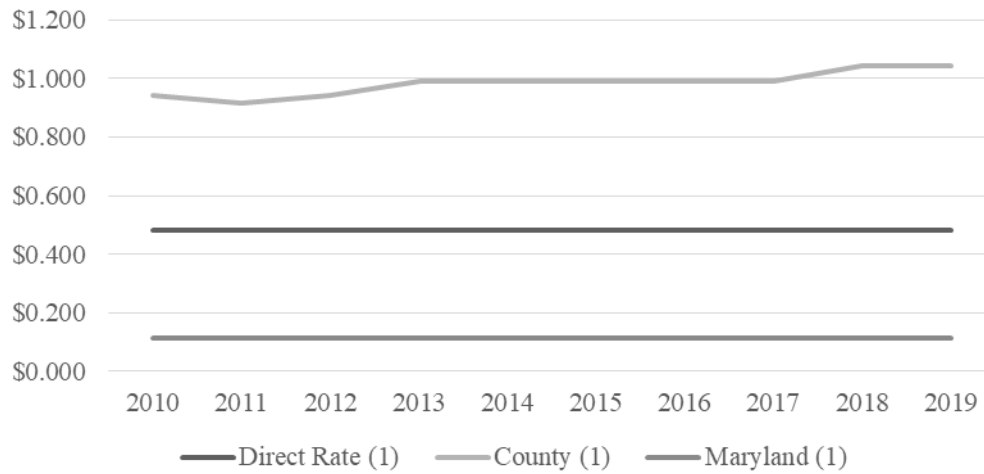
The Mayor and Commissioners of the Town of North East
Financial Trends: Changes in Fund Balances – Governmental Funds
Last Ten Fiscal Years

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenues										
Taxes										
Property	\$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	\$1,621,445
Other	308,976	266,588	283,004	364,194	402,369	427,704	389,826	337,802	253,153	278,048
Licenses and permits	47,253	45,977	47,307	54,851	58,377	65,676	67,036	80,264	74,719	74,323
Intergovernmental	296,804	260,512	298,385	283,531	328,358	399,626	398,453	371,358	454,581	523,772
Service charges for current services	216,272	226,166	179,181	189,505	192,848	187,456	193,032	195,187	254,870	263,067
Fines and forfeitures	1,475	1,170	1,480	775	10,696	155	182	11,729	255	205
Miscellaneous	109,300	122,992	98,430	107,604	94,598	92,862	118,687	141,391	171,098	225,362
Total Revenues	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	2,986,222
Expenditures										
General government	360,160	314,713	367,748	265,673	382,670	415,874	329,017	345,819	339,086	352,638
Public safety	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	1,266,782
Public works	645,367	683,146	671,037	687,843	712,770	2,190,678	1,395,729	772,771	858,561	932,069
Health	225	240	840	960	865	2,450	1,100	2,280	1,440	3,210
Recreation and culture	38,991	15,318	12,045	12,580	8,985	42,455	64,101	16,392	20,643	33,254
Debt service										
Principal	83,678	87,707	91,737	95,766	4,428	71,868	87,928	88,928	89,428	90,428
Interest	16,873	13,228	9,376	5,229	-	45,414	59,588	59,061	58,293	57,179
Capital outlays	31,889	88,659	34,342	135,769	118,287	115,617	132,876	145,821	70,461	412,295
Total expenditures	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	3,147,855
Excess (deficiency) of revenues over expenditures	374,742	343,721	390,017	157,459	208,880	(1,376,917)	(672,695)	(17,842)	134,656	(161,633)
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	4,758
Issuance of loan receivable	-	-	-	-	(750,000)	-	-	(11,496)	-	-
Interest on loans receivable	-	-	-	-	-	10,923	17,972	2,632	2,003	-
Interest on lease receivable	-	-	-	-	-	-	-	-	-	-
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	4,758
Net increase (decrease) in fund balance	\$ 374,742	\$ 343,721	\$ 390,017	\$ 157,459	\$ 220,983	\$ 169,433	\$ 9,699	\$ 33,410	\$ 158,525	\$ (156,875)
Debt service as a percentage of noncapital expenditures	4.71%	4.65%	4.58%	4.58%	0.20%	2.97%	4.56%	5.80%	5.73%	5.40%

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 Direct Rate (1)	Cecil County (1)	State of Maryland (1)
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
2019	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
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
2019	321,549,311	479,708	321,069,603	0.48	5,259,500	326,329,103

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 2019

Rank	Name	Assessment	% of Levy
1	Center Drive Title Holder LP	18,726,100	5.82%
2	C & S Property LLC	11,880,033	3.69%
3	Lowe's Home Centers Inc	11,120,100	3.46%
4	North East Commerce Center I LLC	10,705,567	3.33%
5	Northeast Lodging LLC	6,895,400	2.14%
6	DK North East Station LLC	6,666,567	2.07%
7	Eleven Willow Court Inc	5,214,733	1.62%
8	CFJ Properties	4,246,033	1.32%
9	DRI/TCC NE Commons LLC	2,894,233	0.90%
10	Riverwoods at North East LP	2,336,200	0.73%

Fiscal Year 2010

Rank	Name	Assessment	% of Levy
1	C & S Property LLC	16,766,200.00	5.20%
2	Northeast Commerce Center LLC	11,759,200.00	3.65%
3	Northeast Commerce Center I LLC	9,492,000.00	2.94%
4	North East Station	6,434,800.00	2.00%
5	Northeast Lodging LLC	4,871,166.00	1.51%
6	CFJ Properties	4,529,700.00	1.40%
7	Eleven Willow Court Inc	4,026,166.00	1.25%
8	Victoria Park Northeast LLC	2,827,200.00	0.88%
9	Stoney Run Associates LP	1,927,200.00	0.60%
10	Acorn Investment Company IV	1,923,733.00	0.60%

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

Fiscal Year	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Original Levy		Amount	Percentage of Original Levy
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%	1,349	1,513,030	100.00%
2016	1,525,165	1,523,402	99.88%	1,763	1,525,165	100.00%
2017	1,540,157	1,539,830	99.98%	327	1,540,157	100.00%
2018	1,572,407	1,570,584	99.88%	-	1,570,584	99.88%
2019	1,621,445	1,619,622	99.89%	n/a	1,619,622	99.89%

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
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
2019	1,621,445	270,773	7,275	1,899,493



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

Fiscal Year	General Government			Business-Type Activities			Total Primary Government	Fiscal Year	Ratios (a)	
	General Obligation Bonds	Notes from Direct Borrowings and Direct Placements	Total	General Obligation Bonds	Notes from Direct Borrowings and Direct Placements	Total			Debt to Personal Income (1)	Total Debt per Capita (1)
2010	\$ 264,181	\$ 81,877	\$ 346,058	\$ 18,707,754	\$ -	\$ 18,707,754	\$ 19,053,812	2010	21.77%	\$ 5,456
2011	178,647	79,704	258,351	18,505,379	-	18,505,379	18,763,730	2011	19.59%	5,260
2012	91,338	75,276	166,614	17,702,333	-	17,702,333	17,868,947	2012	16.70%	4,948
2013	-	70,848	70,848	16,892,711	-	16,892,711	16,963,559	2013	17.76%	4,646
2014	-	66,420	66,420	16,076,388	-	16,076,388	16,142,808	2014	16.98%	4,368
2015	1,402,943	61,992	1,464,935	13,223,022	-	13,223,022	14,687,957	2015	13.65%	3,970
2016	1,868,027	57,564	1,925,591	12,633,881	-	12,633,881	14,559,472	2016	14.32%	4,015
2017	1,783,527	53,136	1,836,663	12,042,658	-	12,042,658	13,879,321	2017	13.60%	3,818
2018	1,698,527	48,708	1,747,235	11,449,345	-	11,449,345	13,196,580	2018	n/a	3,633
2019	1,612,527	44,280	1,656,807	10,853,934	-	10,853,934	12,510,741	2019	n/a	n/a

(1) See Demographic Statistics on page 73.

(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 Year	General Bonded Debt * (1)	Percentage of Total Taxable Assessable Base (2)	Per Capita (3)
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%	3,620
2019	12,466,461	3.88%	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 65.
- (3) See Demographic Statistics for population data on page 73.

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 Outstanding	Estimated Percentage Applicable (a)	Estimated Share of Overlapping Debt
Cecil County, overlapping Debt (1)	\$ 227,490,238	3.27%	\$ 7,448,207
Town of North East Direct Debt (2)			<u>1,656,807</u>
Total direct and overlapping debt			<u>\$ 9,105,014</u>

(1) Provided by Cecil County government

(2) Net direct debt of the Town includes general obligation bonds, notes payable and leases.
See Debt by Type on page 69.

(a) Cecil County's estimated taxable assessable base for real property for FY 2019 is \$9,821,065,000
The Town of North East's taxable assessable base for FY 2019 is \$321,069,603 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	2019
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	\$32,154,931
Debt Outstaning	\$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	\$12,510,741
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	\$19,644,190

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 Year	Population (1)	Personal Income (1)(2)	Per Capita Income (3)	Average Unemployment Rate (4)(5)
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	102,084,000	28,084	4.80%
2018	3,632	n/a	n/a	4.20%

(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 2018

Employer	Employees	Rank	% of County Employment
W.L. Gore & Associates, Inc.	2,405	1	4.74%
Cecil County Board of Education	2,056	2	4.05%
Perry Point V.A. Hospital	1,500	3	2.96%
Union Hospital	1,235	4	2.44%
Amazon	1,100	5	2.17%
Walmart Stores, Inc.	700	6	1.38%
Cecil County Government	640	7	1.26%
Terumo Medical Group	610	8	1.20%
IKEA/Genco	580	9	1.14%
Cecil College	565	10	1.11%

Calendar Year 2009

Employer	Employees	Rank	% of County Employment
Cecil County Board of Education	2,328	1	5.03%
W.L. Gore & Associates, Inc	2,302	2	4.98%
Perry Point V.A. Hospital	1,125	3	2.43%
Union Hospital	1,000	4	2.16%
ATK Tactical Systems	750	5	1.62%
Cecil County Government	577	6	1.25%
Wal-Mart Stores, Inc	500	7	1.08%
IKEA Maryland	370	8	0.80%
Terumo Medical Corp	345	9	0.75%
Cecil College	300	10	0.65%

* 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

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
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	5	5	5	5
Non-Exempt - full time	18	18	18	18	18	18	24	25	24	24
Total Town Government employees	22.7	22.7	22.7	22.7	22.7	22.7	29.7	30.7	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

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
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	12	11	11
Water Services	0	0	0	0	0	0	5	5	5	5
	22	22	22	22	22	22	29	30	29	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

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
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

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
General Government										
Planning & Zoning										
Number of building permits issued	n/a	128	83	82	188	111	120	133	91	n/a
Number of code violations issued	n/a	228	192	310	203	1,117	1,212	1,265	428	n/a
Public Safety										
Number of physical arrests	381	377	382	369	334	225	187	257	196	n/a
Traffic violations	648	468	364	428	379	340	250	143	345	n/a
Public Works										
Total water treated annually (in millions)	n/a	260.4	228.0	224.4	223.9	232.9	229.9	235.2	234.8	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.



Town of North East

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