

Town of North East, Maryland
Financial Statements
For the Fiscal Year Ended June 30, 2023



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Financial Statements
For the Fiscal Year Ended June 30, 2023

Table of Contents

Financial Section.....	4
INDEPENDENT AUDITORS' REPORT.....	5
Basic Financial Statements.....	18
Statement of Net Position	19
Statement of Activities.....	20
Balance Sheet – Governmental Funds	21
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	22
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	23
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	24
Statement of Net Position – Proprietary Funds.....	25
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds.....	26
Statement of Cash Flows – Proprietary Funds.....	27
Notes to Basic Financial Statements.....	28
Required Supplementary Information.....	48
General Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual.....	49
Nonmajor Governmental Funds	51
Combining Balance Sheet – Nonmajor Governmental Funds	52
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds.....	53

Financial Section



INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of North East, Maryland (the Town), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

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, as of June 30, 2023, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Town's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison schedule of the general fund be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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.

Mayor and Town Commissioners
Town of North East, Maryland

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The combining nonmajor governmental fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures. In accordance with GAAS. In our opinion, the combining nonmajor government fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2023, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Baltimore, Maryland
October 24, 2023

Management's Discussion and Analysis

Introduction

As management of the Town of North East, Maryland (the Town), 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, 2023. We encourage readers to consider the information presented here in conjunction with the financial statements.

Financial Highlights

- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows at the close of fiscal year 2023 by \$45.4 million (*net position*).
- The Town's total net position increased by \$6.2 million. This includes \$4.2 million increase in net position for fiscal year 2023 activities and \$2.0 million in donated infrastructure assets from developers.
- As of the close of fiscal year 2023, the Town's governmental funds reported combined ending fund balances of \$8.4 million; an increase of approx. \$822,000 in comparison with the prior year. Approximately 50% of the governmental funds combined ending fund balance is available for spending at the Town's discretion (*unassigned fund balance*).
- At the end of fiscal year 2023, the unrestricted fund balance (*committed, assigned and unassigned component of fund balance*) for the general fund was \$5.9 million or approximately 147% of the total general fund expenditures.
- The Town's government-wide long-term liabilities decreased by \$0.7 million during fiscal year 2023 due to principal payments on outstanding bonds and notes of \$706,244 and a net decrease in compensated absences of \$12,343 (due to several large payouts during the year), as detailed on pages 43-45.

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 and stormwater management.

The government-wide financial statements can be found on pages 19-20 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 two categories: governmental funds and proprietary 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 five 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-loans, and capital projects funds are all considered to be major funds. There are two non-major special revenue funds for developer inspection fees and the Cecil County Christmas Parade. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 21-24 of this report.

Proprietary Funds

The Town maintains two enterprise funds which are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses the enterprise funds to account for its water services and stormwater management 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 25-27 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 28-46 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* and other supplementary information. The general fund schedule of revenues, expenditures, and changes in fund balance – budget to actual, schedule of changes in total other post-employment benefit liabilities and related ratios, and combining balance sheet and combining statement of revenues, expenditures, and changes in fund balances for non-major governmental funds

Required supplementary information and other supplementary information can be found on pages 48-53 of this report.

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 \$45.4 million, at the close of fiscal year 2023.

Town of North East, Maryland’s Net Position

	Governmental Activities		Business-type Activities		Total	
	2023	2022	2023	2022	2023	2022
Current and other assets	\$ 10,093,658	\$ 9,396,136	\$ 11,164,384	\$ 8,482,213	\$ 21,258,042	\$ 17,878,349
Capital assets, net	12,386,072	9,985,566	26,680,335	25,605,184	39,066,407	35,590,750
Total assets	22,479,730	19,381,702	37,844,719	34,087,397	60,324,449	53,469,099
Long-term liabilities outstanding	1,370,288	1,475,340	8,511,421	9,124,956	9,881,709	10,600,296
Other liabilities	183,460	259,313	3,563,089	2,072,864	3,746,549	2,332,177
Total liabilities	1,553,748	1,734,653	12,074,510	11,197,820	13,628,258	12,932,473
Total deferred inflows of resources	1,260,754	1,333,349	-	-	1,260,754	1,333,349
Net position:						
Net invested in capital assets	11,112,405	8,609,543	18,193,794	16,550,156	29,306,199	25,159,699
Restricted	1,340,414	1,159,159	1,840,684	1,247,955	3,181,098	2,407,114
Unrestricted	7,212,409	6,544,998	5,735,730	5,091,466	12,948,139	11,636,464
Total net position	\$ 19,665,228	\$ 16,313,700	\$ 25,770,208	\$ 22,889,577	\$ 45,435,436	\$ 39,203,277

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, \$5.0 million or 11% represents resources that are subject to external restrictions on how they may be used. The majority of restricted net position include funds for 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 \$6.2 million. The reasons for this overall increase are discussed in the following sections for governmental and business-type activities.

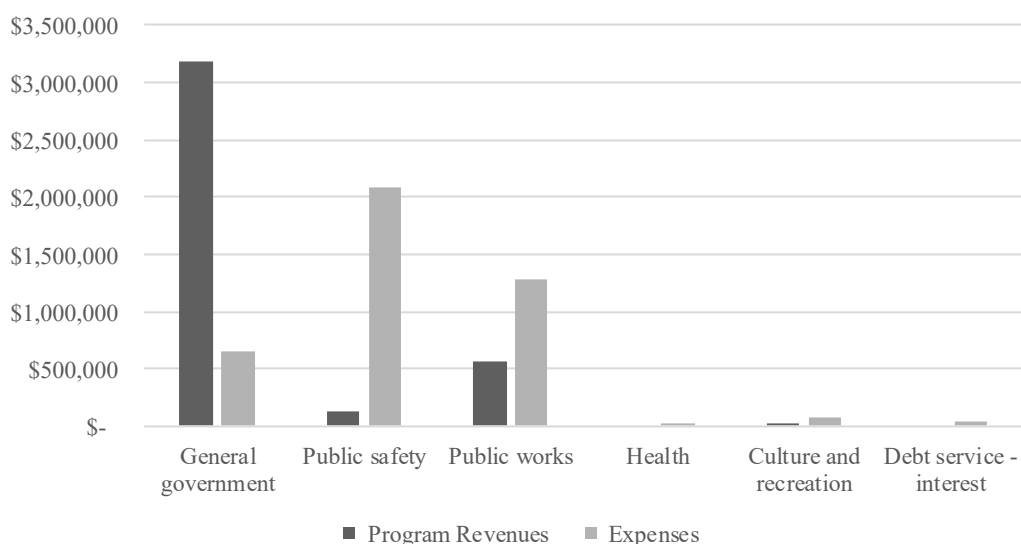
Governmental Activities

During fiscal year 2023, the net position for governmental activities increased by \$3.4 million from the prior fiscal year. The Town received \$2.5 million in donated capital assets from developers (capital grants & contributions) which resulted in an ending net position of \$19.7 million.

Town of North East, Maryland Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2023	2022	2023	2022	2023	2022
Revenues:						
Program revenues:						
Charges for services	\$ 724,032	\$ 302,751	\$ 3,821,277	\$ 3,799,627	\$ 4,545,309	\$ 4,102,378
Operating grants and contributions	588,703	209,470	-	2,657	588,703	212,127
Capital grants and contributions	2,559,783	1,026,657	2,025,136	667,515	4,584,919	1,694,172
General revenues:						
Property taxes	2,324,000	2,041,968	-	-	2,324,000	2,041,968
Income and other taxes	555,899	548,719	-	-	555,899	548,719
Other revenues	744,460	556,816	580,856	654,488	1,325,316	1,211,304
Total revenues	7,496,877	4,686,381	6,427,269	5,124,287	13,924,146	9,810,668
Expenses:						
General government	657,625	863,552	-	-	657,625	863,552
Public safety	2,087,610	1,625,918	-	-	2,087,610	1,625,918
Public works	1,279,370	843,532	-	-	1,279,370	843,532
Health	1,820	2,240	-	-	1,820	2,240
Culture and recreation	76,098	97,261	-	-	76,098	97,261
Debt service - interest	42,826	57,988	-	-	42,826	57,988
Water services	-	-	3,376,156	3,419,259	3,376,156	3,419,259
Stormwater management	-	-	170,482	145,589	170,482	145,589
Total expenses	4,145,349	3,490,491	3,546,638	3,564,848	7,691,987	7,055,339
Excess in revenues over expenses	3,351,528	1,195,890	2,880,631	1,559,439	6,232,159	2,755,329
Transfers	-	-	-	-	-	-
Increase in net position	3,351,528	1,195,890	2,880,631	1,559,439	6,232,159	2,755,329
Net position - beginning	16,313,700	15,117,810	22,889,577	21,330,138	39,203,277	36,447,948
Net position - ending	\$ 19,665,228	\$ 16,313,700	\$ 25,770,208	\$ 22,889,577	\$ 45,435,436	\$ 39,203,277

Expenses and Program Revenues – Governmental Activities



Business-type Activities

For the Town’s business-type activities, the results for fiscal year 2023 were positive in that overall net position increased, to reach an ending balance of \$25.8 million. The total increase in net position for business-type activities (water services and stormwater management) was \$2.9 million which includes a \$0.9 million increase from operations and a \$2.0 million donation of capital assets from developers. The \$0.9 million increase from operations is mainly the result of a delay in starting several system improvement projects which were to be funded by charges to customers and grants.

Financial Analysis of the Governmental Funds

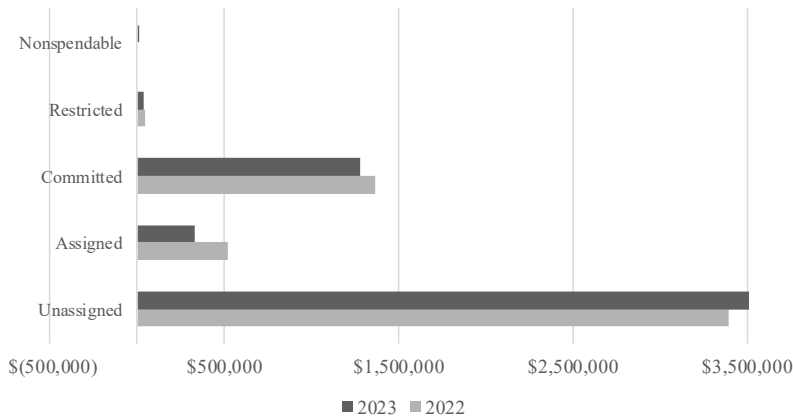
As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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 2023, the Town’s *governmental funds* reported combined fund balances of \$8.4 million, an increase of approx. \$822,000 in comparison with the prior year, as a result of an increase from operations. The increase from operations is due to the delay in starting projects requiring the completion of a bid process, delay receiving assets ordered, vacant positions, and conservative operational spending. Approximately 50% of the fund balance (\$4.3 million) constitutes *unassigned fund balance*, which is available for spending at the Town’s discretion. The remainder of the fund balance is either, *restricted*, *committed*, or *assigned* to indicate that it is 1) restricted for a particular purposes (\$1,340,414), 2) committed for particular purposes (\$1,276,707) or 3) assigned for particular purposes (\$1,505,500).

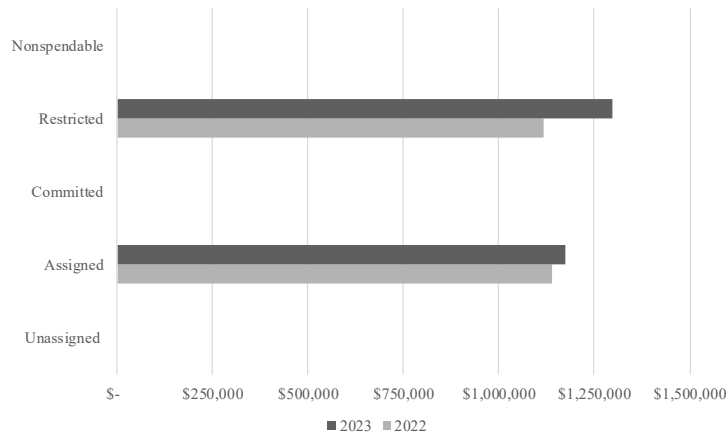
**General Fund - Components of Fund Balance
June 30, 2023 and 2022**



The general fund is the chief operating fund of the Town. At the end of fiscal year 2023, unassigned fund balance of the general fund was \$4.3 million, while total fund balance was \$5.9 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 91% of total expenditures, while total fund balance represents approximately 144% of that same amount.

The fund balance of the Town’s general fund increased by \$605,076. The increase is due to the delay in starting projects requiring the completion of a bid process, delay receiving assets ordered, vacant positions, and conservative operational spending.

**Other Governmental Funds - Components of Fund Balance
June 30, 2023 and 2022**



The Town’s other governmental funds, the capital projects fund, and special revenue funds had various changes in their fund balances for 2023. The capital projects fund had a fund balance of \$305,759 which remained the same from the prior year. The parade special revenue fund had a fund balance of \$4,909 which decreased from the prior year due to expenses exceeding fundraising for the annual Cecil County Christmas Parade. The developer inspection fund had a fund balance of \$294,000, an increase of \$181,959 due to new escrowed projects not completed.

Proprietary Funds

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 water services fund at the end of the fiscal year was \$23,225,952, while the net position of the stormwater management fund was \$2,544,256. The total increase in net position of \$2.9 million was discussed on page 12.

General Fund Budgetary Highlights

Original budget compared to final budget

The original general fund expenditure budget of \$4,228,602 was amended during 2023 by \$401,480.

Final budget compared to actual results

Actual expenditures for the year were \$625,074 less than estimated. The most significant differences occurred in the following areas:

- \$52,000 in Administration due to vacant position and delayed projects in bid process.
- \$38,000 in Planning and Zoning due to delayed projects in bid process and conservative spending.
- \$204,000 in General Government due to delayed projects in bid process and conservative spending.
- \$141,000 in Public Safety due to delayed projects in bid process and delay receiving assets ordered.
- \$84,000 in Public Works due to vacant position and delay receiving assets ordered.
- \$74,000 in Parks & Recreation due to delayed projects in bid process and delay in receipt of repair services.

Capital Assets and Debt Administration

The Town’s investment in capital assets for its governmental and business-type activities as of June 30, 2023, amounts to \$39,066,405 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, machinery, equipment, vehicles, park facilities, and infrastructure. The total increase in capital assets for the current fiscal year was 9.8%.

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

	Governmental Activities		Business-type Activities		Total	
	2023	2022	2023	2022	2023	2022
Land	\$ 3,730,789	\$ 3,730,789	\$ 960,450	\$ 960,450	\$ 4,691,239	\$ 4,691,239
Construction in Progress	5,000	5,000	45,576	45,576	50,576	50,576
Buildings	787,966	818,306	58,939	68,259	846,905	886,565
Equipment	719,628	555,890	605,242	531,577	1,324,870	1,087,467
Infrastructure	7,142,689	4,875,581	25,010,127	23,999,322	32,152,816	28,874,903
Total	<u>\$ 12,386,072</u>	<u>\$ 9,985,566</u>	<u>\$ 26,680,334</u>	<u>\$ 25,605,184</u>	<u>\$ 39,066,406</u>	<u>\$ 35,590,750</u>

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

- \$2,328,135 Ridgely Forest Section 2, 3A, & 4 – roadway, storm drain, water infrastructure, and sidewalk donation accepted.
- \$2,155,516 Center Drive – NE Commerce Center – roadway, storm drain, and water infrastructure donation accepted.
- \$142,331 Three 2022 Ford Police Interceptors.
- \$72,952 partial payment for camera, access control and alarm system for Town Hall, street cameras, North East Park, and departments of Public Safety, Public Works, and Water.
- \$62,498 2022 Ford F350 – Water Department.
- \$28,350 Cecil County Tourism parking and North East Park walking path paving.

- \$24,866 2022 Can-Am Defender ATV – Public Safety.
- \$22,133 Livescan System – Public Safety.
- \$19,221 Turbidity replacement – Water department.
- \$18,875 Three computer workstations – Public Safety.
- \$9,170 Herring Snatcher Park steps.
- \$8,135 HVAC replacement – Public Safety.
- \$8,099 Salt Dog Spreader – Public Works.
- \$7,884 Six AEDs

Additional information on the Town’s capital assets can be found on pages 40-41 of this report.

Long-term Debt

At the end of the current fiscal year, the Town had total debt outstanding of \$9,724,807.

Town of North East, Maryland’s Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2023	2022	2023	2022	2023	2022
Notes from direct borrowings and direct placements	\$ 22,140	\$ 30,996	\$ -	\$ -	\$ 22,140	\$ 30,996
General obligation bonds	1,251,527	1,345,027	8,451,140	9,055,028	9,702,667	10,400,055
Total	\$ 1,273,667	\$ 1,376,023	\$ 8,451,140	\$ 9,055,028	\$ 9,724,807	\$ 10,431,051

During the current fiscal year, the Town’s total debt decreased by \$706,244. The Town’s significant debt activities included:

- \$102,356 of governmental activities debt was retired.
- \$603,888 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 2023 the limit was \$48,471,202. The Town did not issue any new debt in fiscal year 2023.

Additional information on the Town’s long-term debt can be found on pages 43-45 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 2024 fiscal year budget.

- Property tax revenues for fiscal year 2024 are expected to rise due to the continued construction of Ridgely Forest.
- The Town will use \$426,026 of unassigned fund balance resources in fiscal year 2024 for capital projects/equipment needs and onetime non-recurring expenditures. Those uses include:
 - \$84,031 convert dump truck to trash truck.
 - \$69,000 2024 Ford Police Interceptor.
 - \$52,569 Safe Route to School project.
 - \$47,000 renovate former library to Public Safety administration.
 - \$40,000 Leslie WTP building repairs/upgrades.
 - \$28,264 IT upgrades
 - \$25,000 replace Town Hall front and rear entry French doors.
 - \$25,000 Razor Strap Road Booster Pump Station building upgrades.
 - \$19,500 Hydrant locks, line locating tool, valve exercising tool – Water department.
 - \$18,000 Irishtown Booster Pump Station building upgrades.
 - \$10,000 8x10 enclosed trailer – Public Safety.
 - \$7,662 Livescan system – Public Safety.

- The fiscal year 2024 property tax rate remains \$0.48 per \$100 of assessed property value.
- The fiscal year 2024 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

Attn; Director of Finance
106 South Main Street
North East, Maryland 21901



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.

Town of North East, Maryland
Statement of Net Position
June 30, 2023

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 3,835,525	\$ 2,628,211	\$ 6,463,736
Equity in pooled cash	3,673,267	6,457,731	10,130,998
Restricted cash	32,814	1,056,899	1,089,713
Property taxes receivable	6,826	-	6,826
Intergovernmental receivable	310,159	-	310,159
Loans receivable	801,217	-	801,217
Other receivables	1,433,517	822,788	2,256,305
Inventories	-	188,791	188,791
Prepays	333	9,964	10,297
Capital assets not being depreciated:			
Land	3,730,789	960,450	4,691,239
Construction in progress	5,000	45,576	50,576
Capital assets net of accumulated depreciation:			
Buildings	787,966	58,939	846,905
Equipment	719,628	605,242	1,324,870
Infrastructure	7,142,689	25,010,128	32,152,817
Total Assets	<u>22,479,730</u>	<u>37,844,719</u>	<u>60,324,449</u>
LIABILITIES			
Accounts payable	144,094	149,569	293,663
Accrued liabilities	39,350	50,559	89,909
Intergovernmental payable	16	-	16
Unearned revenues	-	3,362,961	3,362,961
Noncurrent liabilities:			
Due within one year	105,978	612,851	718,829
Due in more than one year	1,264,310	7,898,570	9,162,880
Total Liabilities	<u>1,553,748</u>	<u>12,074,510</u>	<u>13,628,258</u>
DEFERRED INFLOWS OF RESOURCES			
Lease related	1,260,754	-	1,260,754
	<u>1,260,754</u>	<u>-</u>	<u>1,260,754</u>
NET POSITION			
Net investment in capital assets	11,112,405	18,193,794	29,306,199
Restricted for:			
Off site mitigation	35,246	-	35,246
Capital projects	1,000	1,840,684	1,841,684
Opioid Settlement	5,251	-	5,251
Special events	4,909	-	4,909
Inspections	294,008	-	294,008
Housing & community development	1,000,000	-	1,000,000
Unrestricted	7,212,409	5,735,730	12,948,139
Total Net Position	<u>\$ 19,665,228</u>	<u>\$ 25,770,208</u>	<u>\$ 45,435,436</u>

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

Town of North East, Maryland
Statement of Activities
For the Year Ended June 30, 2023

	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Change in Net Position</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Functions/Programs:							
Governmental activities:							
General government	\$ 657,625	\$ 296,135	\$ 321,052	\$ 2,559,783	\$ 2,519,345	\$ -	\$ 2,519,345
Public safety	2,087,610	1,241	126,666	-	(1,959,703)	-	(1,959,703)
Public works	1,279,370	423,274	140,985	-	(715,111)	-	(715,111)
Health	1,820	-	-	-	(1,820)	-	(1,820)
Culture and recreation	76,098	3,382	-	-	(72,716)	-	(72,716)
Debt service - interest	42,826	-	-	-	(42,826)	-	(42,826)
Total governmental activities	<u>4,145,349</u>	<u>724,032</u>	<u>588,703</u>	<u>2,559,783</u>	<u>(272,831)</u>	<u>-</u>	<u>(272,831)</u>
Business-type activities:							
Water services	3,376,156	3,630,941	-	1,352,235	-	1,607,020	1,607,020
Stormwater management	170,482	190,336	-	672,901	-	692,755	692,755
Total business-type activities	<u>3,546,638</u>	<u>3,821,277</u>	<u>-</u>	<u>2,025,136</u>	<u>-</u>	<u>2,299,775</u>	<u>2,299,775</u>
Total primary government	<u>\$ 7,691,987</u>	<u>\$ 4,545,309</u>	<u>\$ 588,703</u>	<u>\$ 4,584,919</u>	<u>\$ (272,831)</u>	<u>\$ 2,299,775</u>	<u>\$ 2,026,944</u>
General revenues:							
Property Taxes					2,324,000	-	2,324,000
Income and other taxes					555,899	-	555,899
Grants and contributions not restricted to specific programs					342,473	-	342,473
Investment income					172,734	123,025	295,759
Miscellaneous					229,253	457,831	687,084
Total general revenues					<u>3,624,359</u>	<u>580,856</u>	<u>4,205,215</u>
Change in net position					<u>3,351,528</u>	<u>2,880,631</u>	<u>6,232,159</u>
Net position - beginning					<u>16,313,700</u>	<u>22,889,577</u>	<u>39,203,277</u>
Net position - ending					<u>\$ 19,665,228</u>	<u>\$ 25,770,208</u>	<u>\$ 45,435,436</u>

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

Town of North East, Maryland
Balance Sheet – Governmental Funds
June 30, 2023

	General	Special Revenue	Capital Projects	NonMajor Special Revenue	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 2,778,246	\$ 1,057,279	\$ -	\$ -	\$ 3,835,525
Equity in pooled cash	3,058,694	9,897	305,759	298,917	3,673,267
Restricted cash	32,814	-	-	-	32,814
Property taxes receivable	6,826	-	-	-	6,826
Intergovernmental receivable	310,159	-	-	-	310,159
Other receivables	1,433,517	-	-	-	1,433,517
Prepaid items	333	-	-	-	333
Loan receivable	-	801,217	-	-	801,217
Total assets	<u>\$ 7,620,589</u>	<u>\$ 1,868,393</u>	<u>\$ 305,759</u>	<u>\$ 298,917</u>	<u>\$ 10,093,658</u>
LIABILITIES					
Accounts payable	\$ 144,094	\$ -	\$ -	\$ -	\$ 144,094
Accrued liabilities	31,558	-	-	-	31,558
Intergovernmental payable	16	-	-	-	16
Total liabilities	<u>175,668</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>175,668</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	248,453	-	-	-	248,453
Unavailable leases receivable	1,260,754	-	-	-	1,260,754
Total deferred inflows of resources	<u>1,509,207</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,509,207</u>
FUND BALANCES					
Nonspendable:					
Prepaid items	333	-	-	-	333
Restricted:					
Capital improvements	1,000	-	-	-	1,000
Opioid Settlement	5,251	-	-	-	5,251
Resource conservation	35,246	-	-	-	35,246
Special events	-	-	-	4,909	4,909
Inspections	-	-	-	294,008	294,008
Housing and community development	-	1,000,000	-	-	1,000,000
Committed:					
General government	25,207	-	-	-	25,207
General obligation debt	1,251,500	-	-	-	1,251,500
Assigned:					
Capital improvements	331,348	-	305,759	-	637,107
Housing and community development	-	868,393	-	-	868,393
Unassigned	<u>4,285,829</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,285,829</u>
Total fund balances	5,935,714	1,868,393	305,759	298,917	8,408,783
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 7,620,589</u>	<u>\$ 1,868,393</u>	<u>\$ 305,759</u>	<u>\$ 298,917</u>	<u>\$ 10,093,658</u>

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

Town of North East, Maryland
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2023

Amounts reported for governmental activities in the statement of net position (page 19) are different because:

Total fund balance - governmental funds (page 21)		\$ 8,408,783
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:

Nondepreciable capital assets:		
Land	\$ 3,730,789	
Construction in progress	5,000	
Depreciable capital assets:		
Buildings	1,439,453	
Equipment	1,768,170	
Infrastructure	<u>10,148,708</u>	
Total capital assets	17,092,120	
Less accumulated depreciation	<u>(4,706,048)</u>	12,386,072

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	(1,273,667)	
Accrued Interest	(7,792)	
Compensated absences	<u>(96,621)</u>	(1,378,080)

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

Taxes	<u>248,453</u>	
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Net position of governmental activities (page 19)		<u>\$ 19,665,228</u>
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Town of North East, Maryland
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the Year Ended June 30, 2023

	General	Special Revenue	Capital Projects	Nonmajor Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 2,863,193	\$ -	\$ -	\$ -	\$ 2,863,193
Licenses and permits	81,671	-	-	-	81,671
Intergovernmental	926,878	-	-	-	926,878
Charges for services	440,654	-	-	274,990	715,644
Fines and forfeitures	1,559	-	-	-	1,559
Miscellaneous	292,094	35,290	-	-	327,384
Total Revenues	<u>4,606,049</u>	<u>35,290</u>	<u>-</u>	<u>274,990</u>	<u>4,916,329</u>
EXPENDITURES					
Current:					
General government	541,651	-	-	93,031	634,682
Public safety	1,997,542	-	-	-	1,997,542
Public works	1,006,830	-	-	-	1,006,830
Health	1,820	-	-	-	1,820
Recreation and culture	70,170	-	-	-	70,170
Debt service:					
Principal	102,356	-	-	-	102,356
Interest	49,741	-	-	-	49,741
Capital outlay:					
Public safety	197,215	-	-	-	197,215
Public works	37,683	-	-	-	37,683
Total expenditures	<u>4,005,008</u>	<u>-</u>	<u>-</u>	<u>93,031</u>	<u>4,098,039</u>
Excess (deficiency) of revenues over expenditures	<u>601,041</u>	<u>35,290</u>	<u>-</u>	<u>181,959</u>	<u>818,290</u>
OTHER FINANCING SOURCES (USES)					
Sale of capital assets	4,035	-	-	-	4,035
Total other financing sources	<u>4,035</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,035</u>
Net change in fund balances	605,076	35,290	-	181,959	822,325
Fund balances - beginning	<u>5,330,638</u>	<u>1,833,103</u>	<u>305,759</u>	<u>116,958</u>	<u>7,586,458</u>
Fund balances - ending	<u>\$ 5,935,714</u>	<u>\$ 1,868,393</u>	<u>\$ 305,759</u>	<u>\$ 298,917</u>	<u>\$ 8,408,783</u>

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

Town of North East, Maryland
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, 2023

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

Net change in fund balances - total governmental funds (page 23)		\$ 822,325
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	\$ 234,898	
Depreciation expense	<u>(394,175)</u>	(159,277)
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.		
Taxes		16,730
Some revenues reported in the statement of activities do not provide current financial resources in governmental funds.		
Acceptance of donated assets (land and infrastructure)		2,559,783
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		102,356
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	6,915	
Accrued compensated absences	<u>2,696</u>	
		<u>9,611</u>
Change in net position of governmental activities (page 20)		<u><u>\$3,351,528</u></u>

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

Town of North East, Maryland
Statement of Net Position – Proprietary Funds
June 30, 2023

	Enterprise Funds		Total Enterprise Funds
	Water Services	Stormwater Management	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,628,211	\$ -	\$ 2,628,211
Equity in pooled cash	5,944,980	512,751	6,457,731
Restricted cash	1,056,899	-	1,056,899
Accounts receivable	777,007	45,781	822,788
Inventories	188,791	-	188,791
Prepays	9,964	-	9,964
Total current assets	<u>10,605,852</u>	<u>558,532</u>	<u>11,164,384</u>
Noncurrent assets:			
Capital assets			
Land	960,450	-	960,450
Construction in progress	45,576	-	45,576
Buildings	264,517	-	264,517
Equipment	849,806	-	849,806
Infrastructure	40,493,104	3,158,950	43,652,054
Less accumulated depreciation	<u>(17,923,596)</u>	<u>(1,168,473)</u>	<u>(19,092,069)</u>
Total noncurrent assets	<u>24,689,857</u>	<u>1,990,477</u>	<u>26,680,334</u>
Total assets	<u>35,295,709</u>	<u>2,549,009</u>	<u>37,844,718</u>
LIABILITIES			
Current liabilities:			
Accounts payable	147,434	2,135	149,569
Accrued liabilities	49,997	562	50,559
Compensated absences	6,703	119	6,822
Bonds payable	606,029	-	606,029
Unearned revenue	<u>3,362,961</u>	<u>-</u>	<u>3,362,961</u>
Total current liabilities	<u>4,173,124</u>	<u>2,816</u>	<u>4,175,940</u>
Noncurrent liabilities:			
Compensated absences	51,522	1,937	53,459
Bonds payable	<u>7,845,111</u>	<u>-</u>	<u>7,845,111</u>
Total noncurrent liabilities	<u>7,896,633</u>	<u>1,937</u>	<u>7,898,570</u>
Total liabilities	<u>12,069,757</u>	<u>4,753</u>	<u>12,074,510</u>
NET POSITION			
Net investment in capital assets	16,203,317	1,990,477	18,193,794
Restricted for capital projects	1,840,684	-	1,840,684
Unrestricted	<u>5,181,951</u>	<u>553,779</u>	<u>5,735,730</u>
Total net position	<u>\$ 23,225,952</u>	<u>\$ 2,544,256</u>	<u>\$ 25,770,208</u>

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

Town of North East, Maryland
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds
For the Year Ended June 30, 2023

	<u>Enterprise Funds</u>		<u>Total Enterprise Funds</u>
	<u>Water Services</u>	<u>Stormwater Management</u>	
Operating revenues:			
Charges for services			
Water sales	\$ 3,281,687	\$ -	\$ 3,281,687
Stormwater management	-	190,336	190,336
Connection fees	272,700	-	272,700
Service charge penalties	76,554	-	76,554
Miscellaneous	9,831	-	9,831
Total operating revenues	<u>3,640,772</u>	<u>190,336</u>	<u>3,831,108</u>
Operating expenses:			
Salaries and benefits	890,793	27,843	918,636
Repairs and maintenance	360,194	30,904	391,098
Supplies	299,096	50	299,146
Utilities	385,950	-	385,950
Insurance	32,530	-	32,530
Professional fees	96,526	8,193	104,719
Administration	275,872	-	275,872
Miscellaneous	5,512	-	5,512
Depreciation	968,582	103,492	1,072,074
Total operating expenses	<u>3,315,055</u>	<u>170,482</u>	<u>3,485,537</u>
Operating income	<u>325,717</u>	<u>19,854</u>	<u>345,571</u>
Nonoperating revenues (expenses):			
Major facilities fees	448,000	-	448,000
Interest income	123,025	-	123,025
Interest expense	(61,101)	-	(61,101)
Total nonoperating revenues	<u>509,924</u>	<u>-</u>	<u>509,924</u>
Income before capital contributions	835,641	19,854	855,495
Capital contributions	<u>1,352,235</u>	<u>672,901</u>	<u>2,025,136</u>
Change in net position	<u>2,187,876</u>	<u>692,755</u>	<u>2,880,631</u>
Net position - beginning	<u>21,038,076</u>	<u>1,851,501</u>	<u>22,889,577</u>
Net position - ending	<u>\$ 23,225,952</u>	<u>\$ 2,544,256</u>	<u>\$ 25,770,208</u>

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

Town of North East, Maryland
Statement of Cash Flows – Proprietary Funds
For the Year Ended June 30, 2023

	<u>Enterprise Funds</u>		<u>Total Enterprise Funds</u>
	<u>Water Services</u>	<u>Stormwater Management</u>	
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 5,243,917	\$ 192,798	\$ 5,436,715
Payments to suppliers for goods and services	(1,608,611)	(38,264)	\$ (1,646,875)
Payments to employees for salaries and benefits	(894,485)	(27,715)	\$ (922,200)
Net cash provided by operating activities	<u>2,740,821</u>	<u>126,819</u>	<u>2,867,640</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(122,088)	-	(122,088)
Receipts from customers for future capital improvements	448,000	-	448,000
Principal paid on capital debt	(603,888)	-	(603,888)
Interest paid on capital debt	(61,101)	-	(61,101)
Net cash used for capital and related financing activities	<u>(339,077)</u>	<u>-</u>	<u>(339,077)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	123,025	-	123,025
Net cash provided by investing activities	<u>123,025</u>	<u>-</u>	<u>123,025</u>
Net increase in cash and cash equivalents	2,524,769	126,819	2,651,588
Cash and cash equivalents July 1 (including \$1,021,684 reported in restricted accounts)	7,105,321	385,932	7,491,253
Cash and cash equivalents June 30 (including \$1,056,899 reported in restricted accounts)	<u>\$ 9,630,090</u>	<u>\$ 512,751</u>	<u>\$ 10,142,841</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income	\$ 325,717	\$ 19,854	\$ 345,571
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation expense	968,582	103,492	1,072,074
(Increase) decrease in accounts receivable	(1,759,816)	2,462	(1,757,354)
(Increase) decrease in inventories	(66,603)	-	(66,603)
(Increase) decrease in prepaid items	(784)	-	(784)
(Decrease) increase in accounts payable	(85,544)	883	(84,661)
(Decrease) increase in accrued liabilities	5,727	356	6,083
(Decrease) increase in accrued liabilities	3,362,961	-	3,362,961
(Decrease) increase in compensated absences	(9,419)	(228)	(9,647)
Total adjustments	<u>2,415,104</u>	<u>106,965</u>	<u>2,522,069</u>
Net Cash Provided by Operating Activities	<u>\$ 2,740,821</u>	<u>\$ 126,819</u>	<u>\$ 2,867,640</u>
Schedule of non-cash capital and related financing activities:			
Contributions of capital assets	\$ 1,352,235	\$ 672,901	\$ 2,025,136

Notes to Basic Financial Statements

I.	Summary of significant accounting policies	29
	A. Description of government wide financial statements	29
	B. Reporting entity	29
	C. Basis of presentation – government-wide financial statements	29
	D. Basis of presentation – fund financial statements	29
	E. Measurement focus and basis of accounting	30
	F. Budgetary information	31
	G. Assets, liabilities, deferred outflows/inflows of resources and net position/fund balance	31
	H. Revenues and expenditures/expenses.....	35
II.	Reconciliation of government-wide and fund financial statements	36
	A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.....	36
	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	37
III.	Detailed notes on all activities and funds	37
	A. Cash deposits and investments with financial institutions	37
	B. Receivables.....	39
	C. Lease Receivables	40
	D. Capital assets	40
	E. Accrued liabilities	41
	F. Defined contribution pension plan	41
	G. Construction and other significant commitments	42
	H. Risk management	42
	I. Lease liabilities	43
	J. Long term liabilities.....	43
	K. Fund balance	45
	L. Agreements	46
	M. Contingencies	46
	N. Subsequent event	46

TOWN OF NORTH EAST, MARYLAND
Notes to the Financial Statements
June 30, 2023

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 activities of the government. *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, stormwater management, 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 funds. Separate financial statements are provided for governmental funds and proprietary funds.

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. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds. Major individual governmental and enterprise funds are reported as separate columns in the fund 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 loan 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 nonmajor governmental funds:

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

The *special revenue developer inspection fund* accounts for financial resources associated with inspection and other related fees paid for by developers for their projects.

The Town reports the following major enterprise funds:

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

The *stormwater management fund* accounts for the activities of the Town's stormwater management operations.

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 judgements 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 funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

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. MLGIP is a Rule 2a-7 like pool, which is not registered with the Securities Exchange Commission, but generally operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940 (Rule 2a-7). Unit value is computed using the amortized cost method and maintains a \$1.00 per share value. 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. As of June 30, 2023, all pool holdings are in cash and cash equivalents.

3. Inventories and prepaid items

Inventories are valued at cost using the average cost 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.

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 assets 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 assets 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*. The governmental funds report unavailable revenues from income taxes and lease receivables. The amount is deferred and recognized as an inflow of resources in the period the amount becomes available. The government wide statements report unavailable revenue from lease receivables.

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 \$333 for nonspendable fund balance associated with prepaid items as of June 30, 2023.

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	\$ 35,246	Natural Resources Article 5-1610
Old town lock-up	\$ 1,000	Grant from Women’s Civic League
Opioid Settlement	\$ 5,251	National Opioid Settlement
Special revenue fund-loans		
Housing & Community Development	\$1,000,000	Community Development Block Grants
Non-major special revenue funds		
Christmas Parade	\$ 4,909	Donations from parade sponsors
Inspection fees	\$ 294,008	Escrow agreements with developers

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	\$1,251,500	Resolution 2015-05-10
Sick leave payouts	\$ 25,207	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		
Capital Improvements	\$331,348	Town of North East Budget
Special Revenue Fund		
Revitalization Loans	\$247,189	Town of North East Budget
Housing & Community Development	\$621,204	Town of North East Budget
Capital Projects Fund	\$305,759	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, 2023 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, 2023 no real property taxes were abated as part of this program.

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, 2023, a total of \$133,487 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, 2023, a total of \$23,415 in unused sick leave has been recorded as compensated absences on the Statement of Net Position.

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water services and stormwater management funds are charges to customers for the sale of water and treating stormwater runoff. 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.

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 assets that applies to a future period(s) and, therefore, are not reported in the funds.

Deferred inflows of resources represent acquisition of net assets 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 22.

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 24.

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:

<u>Financial Institution</u>	<u>Bank Balance June 30, 2023</u>
First National Bank (main operating account)	\$ 6,517,481
First National Bank (ARPA Checking)	3,661,565
Cecil Bank (Offsite Mitigation Checking)	32,815
Cecil Bank (Major Facilities Checking)	3,038
Cecil Bank (Revitalization Loan Checking)	975
PNC (Maryland Local Government Investment Pool)	7,514,924

None of the Town's deposits are exposed to custodial credit risk. The deposits at First National Bank are covered by the Federal Deposit Insurance Corporation and collateralized with securities held in the First National Bank's name for the Town. 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 (First National 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, 2023, 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, 2023, 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	Total					Total
	General Fund	Special Revenue Fund	Governmental Funds	Business-type Funds		
Property tax	\$ 6,826	\$ -	\$ 6,826	\$ -		\$ 6,826
Intergovernmental						
Collected taxes	\$ 9,869	\$ -	\$ 9,869	\$ -		\$ 9,869
County grants	47	-	47	-		47
Motel tax	23,665	-	23,665	-		23,665
Admission and amusement taxes	1,079	-	1,079	-		1,079
Income taxes	222,261	-	222,261	-		222,261
State grants	21,521	-	21,521	-		21,521
Highway user revenues	31,717	-	31,717	-		31,717
	<u>\$ 310,159</u>	<u>\$ -</u>	<u>\$ 310,159</u>	<u>\$ -</u>		<u>\$ 310,159</u>
Other accounts						
Opioid Settlement	\$ 27,231	\$ -	\$ 27,231	-		\$ 27,231
Customer service charges	4,716	-	4,716	822,788		827,504
Leases - Cell Tower	1,401,570	-	1,401,570	-		1,401,570
	<u>\$ 1,433,517</u>	<u>\$ -</u>	<u>\$ 1,433,517</u>	<u>\$ 822,788</u>		<u>\$ 2,256,305</u>
Loans						
Assisted housing loans	\$ -	\$ 801,217	\$ 801,217	\$ -		\$ 801,217
	<u>\$ -</u>	<u>\$ 801,217</u>	<u>\$ 801,217</u>	<u>\$ -</u>		<u>\$ 801,217</u>

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

1. The State has estimated that they are holding \$222,261 of the Town's income tax revenue for tax years 2022 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 or interest payments were received during the year ended June 30, 2023. 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 lease agreements with several cellular telephone companies as well as Cecil County. See Note III.C.

C. Lease Receivables

The Town is the lessor to several cellular telephone companies as well as Cecil County. 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. The Town also entered into a new lease for 300 Cherry Street to the County during 2021. During the year ended June 30, 2023 the Town received \$48,008 in lease revenue and \$48,945 in interest revenue. As of June 30, 2023, the outstanding lease receivables totaled \$1,401,570.

D. Capital assets

Capital assets activity for the year ended June 30, 2023 was as follows:

Governmental activities:

	Balance July 1, 2022	Increases	Decreases	Balance June 30, 2023
Capital assets, not being depreciated:				
Land	\$ 3,730,789	\$ -	\$ -	\$ 3,730,789
Construction in progress	5,000	-	-	5,000
Total capital assets, not being depreciated	<u>3,735,789</u>	<u>-</u>	<u>-</u>	<u>3,735,789</u>
Capital assets, being depreciated:				
Buildings	1,439,453	-	-	1,439,453
Equipment	1,497,874	270,296	-	1,768,170
Infrastructure	7,624,323	2,524,385	-	10,148,708
Total capital assets, being depreciated	<u>10,561,650</u>	<u>2,794,681</u>	<u>-</u>	<u>13,356,331</u>
Less accumulated depreciation for:				
Buildings	621,147	30,340	-	651,487
Equipment	941,984	106,558	-	1,048,542
Infrastructure	2,748,742	257,277	-	3,006,019
Total accumulated depreciation	<u>4,311,873</u>	<u>394,175</u>	<u>-</u>	<u>4,706,048</u>
Total capital assets being depreciated, net	<u>6,249,777</u>	<u>2,400,506</u>	<u>-</u>	<u>8,650,283</u>
Governmental activities capital assets, net	<u>\$ 9,985,566</u>	<u>\$ 2,400,506</u>	<u>\$ -</u>	<u>\$ 12,386,072</u>

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

General government	\$ 19,057
Public safety	96,052
Public works	273,138
Parks and recreation	5,928
Total depreciation expense - governmental activities	<u>\$ 394,175</u>

Business-type activities:

	Balance July 1, 2022	Increases	Decreases	Balance June 30, 2023
Capital assets, not being depreciated:				
Land	\$ 960,450	\$ -	\$ -	\$ 960,450
Construction in progress	45,576	-	-	45,576
Total capital assets, not being depreciated	<u>1,006,026</u>	<u>-</u>	<u>-</u>	<u>1,006,026</u>
Capital assets, being depreciated:				
Buildings	264,516	-	-	264,516
Equipment	727,719	122,088	-	849,807
Infrastructure	41,626,918	2,025,136	-	43,652,054
Total capital assets, being depreciated	<u>42,619,153</u>	<u>2,147,224</u>	<u>-</u>	<u>44,766,377</u>
Less accumulated depreciation for:				
Buildings	196,257	9,320	-	205,577
Equipment	196,142	48,423	-	244,565
Infrastructure	17,627,596	1,014,331	-	18,641,927
Total accumulated depreciation	<u>18,019,995</u>	<u>1,072,074</u>	<u>-</u>	<u>19,092,069</u>
Total capital assets being depreciated, net	<u>24,599,158</u>	<u>1,075,150</u>	<u>-</u>	<u>25,674,308</u>
Business-type activities capital assets, net	<u>\$ 25,605,184</u>	<u>\$ 1,075,150</u>	<u>\$ -</u>	<u>\$ 26,680,334</u>

E. Accrued liabilities

Accrued liabilities reported in the fund financial statements at June 30, 2023 were as follows:

	General Fund	Proprietary Funds
Salaries and employee benefits	\$ 31,558	15,004
Interest	-	35,555
Total accrued liabilities	<u>\$ 31,558</u>	<u>\$ 50,559</u>

F. 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, 2023, there were 36 employees who participated in and made contributions to the plan. Employees made contributions totaling \$92,077 while the Town contributions were \$79,870. 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.

G. Construction and other significant commitments

The Town has an active construction project as of June 30, 2022 to install tank mixers in water tanks around the Town. The total amount of the contract is \$707,360. At year end, the remaining commitment was \$137,100. The remaining commitment amount of \$137,100 was re-appropriated in fiscal year 2023. As discussed earlier in note I.F.1, *Budgetary Information, Budgetary Basis of Accounting*, the encumbrances and related appropriations technically lapse at the end of the year, but are re-appropriated and become part of a subsequent year's budget because performance under the executory contract is expected in the next year.

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, 2023, 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 and Subscription-Based Information Technology Arrangement Liabilities

The Town has implemented GASB Statement No. 87 and No. 96. 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 or a subscription-based information technology arrangement under GASB Statement No. 96 and determined there are no agreements meeting the requirements for recognition of a 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 from direct borrowing contains no such default provisions. General obligation bonds and notes payable outstanding at June 30, 2023, are as follows:

Business-type Activities

Description	Issue Date	Original Borrowing	Interest Rate	Maturity Date	Outstanding 6/30/2023
General Obligation Bonds					
<u>Maryland Water Quality Financing Administration</u>					
FY 2009 Water System Improvements Phase 5 <i>Annual principal payments of \$68,750</i>	04/30/09	\$ 1,375,000	0.00%	02/01/26	\$ 162,342
FY 2007 Water System Improvements Phase 6, 6a, & 7 <i>Annual principal and semiannual interest payments of \$570,434</i>	03/28/07	15,590,777	0.40%	02/01/38	8,288,798
					\$ 8,451,140

Governmental Activities:

Description	Issue Date	Original Borrowing	Interest Rate	Maturity Date	Outstanding 6/30/2023
General Obligation Bonds					
<u>Community Development Administration</u>					
FY 2014 Streets & Sidewalks Repair	08/28/14	\$ 2,018,940	3.51%	05/01/34	\$ 1,251,527
<i>Annual principal and semiannual interest payment of \$142,627</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	22,140
<i>Annual principal payments of \$4,428</i>					
					<u>\$ 1,273,667</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		
2024	\$ 96,000	\$ 46,751	\$ -	\$ -	\$ 606,029	\$ 33,156		
2025	98,500	43,958	4,428	-	608,178	31,006		
2026	101,500	40,894	4,428	-	566,428	28,666		
2027	105,000	37,636	4,428	-	543,752	26,682		
2028	108,000	34,160	4,428	-	545,927	24,507		
2029-2033	606,000	105,114	4,428	-	2,762,565	89,606		
2034-2038	136,527	5,678	-	-	2,818,261	34,808		
	<u>\$ 1,251,527</u>	<u>\$ 314,191</u>	<u>\$ 22,140</u>	<u>\$ -</u>	<u>\$ 8,451,140</u>	<u>\$ 268,431</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 2023, the Town's assessed valuation of taxable property was \$484,712,024 while the Town's total outstanding debt was \$9,724,807, which is 2.0% of assessed values.

Changes in Long-Term Liabilities

Changes in the town’s long-term liabilities for the year ended June 30, 2023, are as follows:

	Balance July 1, 2022	Additions	Reductions	Balance June 30, 2023	Due Within One Year
Governmental Activities:					
General obligation bonds	\$ 1,345,027	\$ -	\$ (93,500)	\$ 1,251,527	\$ 96,000
Notes from direct borrowings and direct placements	30,996	-	(8,856)	22,140	-
Compensated absences	99,317	94,212	(96,908)	96,621	9,978
Governmental activities long-term liabilities	<u>\$ 1,475,340</u>	<u>\$ 94,212</u>	<u>\$ (199,264)</u>	<u>\$ 1,370,288</u>	<u>\$ 105,978</u>

	Balance July 1, 2022	Additions	Reductions	Balance June 30, 2023	Due Within One Year
Business-type Activities:					
General obligation bonds	\$ 9,055,028	\$ -	\$ (603,888)	\$ 8,451,140	\$ 606,029
Compensated absences	69,928	61,036	(70,683)	60,281	6,822
Business-type activities long-term liabilities	<u>\$ 9,124,956</u>	<u>\$ 61,036</u>	<u>\$ (674,571)</u>	<u>\$ 8,511,421</u>	<u>\$ 612,851</u>

Funding Sources for Other Non-Debt Related Liabilities

Compensated absences 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 enterprise 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 2023.

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 2023, the Town was in compliance with the ordinance.

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

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

L. 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, 2019. In fiscal year 2023, Artesian Water Maryland, Inc. was billed \$59,055.

M. 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.

N. Subsequent events

In preparing the accompanying financial statements, the Town has evaluated events and transactions for potential recognition through October 24, 2023 the date the financial statements were available to be issued.



Required Supplementary Information



Town of North East, Maryland
General Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual
For the Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes				
Property	\$ 2,484,819	\$ 2,484,819	\$ 2,324,024	\$ (160,795)
Other	374,200	374,200	539,169	164,969
Licenses and permits	75,100	75,100	81,671	6,571
Intergovernmental	570,011	971,491	926,878	(44,613)
Charges for services	392,361	392,361	440,654	48,293
Fines and forfeitures	150	150	1,559	1,409
Miscellaneous	73,234	73,234	292,094	218,860
Total revenues	<u>3,969,875</u>	<u>4,371,355</u>	<u>4,606,049</u>	<u>234,694</u>
EXPENDITURES				
General government				
Mayor and commissioners	44,520	44,520	31,069	13,451
Administration	227,817	227,817	176,162	51,655
Elections	1,000	1,000	531	469
Finance	87,540	87,540	72,287	15,253
Accounting and auditing	18,990	18,990	18,990	-
Law	10,668	10,668	8,456	2,212
Planning and zoning	170,940	170,940	135,390	35,550
General services	304,723	304,723	98,766	205,957
Total general government	<u>866,198</u>	<u>866,198</u>	<u>541,651</u>	<u>324,547</u>
Public safety				
Police	1,936,959	2,094,718	1,953,200	141,518
Fire	10,000	241,557	241,557	-
Total public safety	<u>1,946,959</u>	<u>2,336,275</u>	<u>2,194,757</u>	<u>141,518</u>
Public works				
Highways and streets	681,982	694,146	642,113	52,033
Sanitation	402,400	402,400	402,400	-
Total public works	<u>1,084,382</u>	<u>1,096,546</u>	<u>1,044,513</u>	<u>52,033</u>
Health				
Mosquito control	4,000	4,000	1,820	2,180
Total health	<u>4,000</u>	<u>4,000</u>	<u>1,820</u>	<u>2,180</u>
Recreation and culture				
Parks	179,394	179,394	70,170	109,224
Total recreation and culture	<u>179,394</u>	<u>179,394</u>	<u>70,170</u>	<u>109,224</u>

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

(Continued)

Town of North East, Maryland
General Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual
For the Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Debt service				
Debt service principal	\$ 97,928	\$ 97,928	\$ 102,356	\$ (4,428)
Debt service interest	49,741	49,741	49,741	-
Total debt service	<u>147,669</u>	<u>147,669</u>	<u>152,097</u>	<u>(4,428)</u>
Total expenditures	<u>4,228,602</u>	<u>4,630,082</u>	<u>4,005,008</u>	<u>625,074</u>
Excess (deficiency) of revenues over expenditures	<u>(258,727)</u>	<u>(258,727)</u>	<u>601,041</u>	<u>859,768</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	-	-	-	-
Sale of capital asset	1,000	1,000	4,035	(3,035)
Total other financing sources (uses)	<u>1,000</u>	<u>1,000</u>	<u>4,035</u>	<u>(3,035)</u>
Net change in fund balances *	<u>\$ (257,727)</u>	<u>\$ (257,727)</u>	605,076	<u>\$ 856,733</u>
Fund balance - beginning			<u>5,330,638</u>	
Fund balance - ending			<u>\$ 5,935,714</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 of fund balance.

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

Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for specific revenue sources that are restricted, committed, or assigned to expenditures for particular purposes.

Town of North East, Maryland
Combining Balance Sheet – Nonmajor Governmental Funds
June 30, 2023

	Parade	Developer Inspections	Total Nonmajor Governmental Funds
ASSETS			
Equity in pooled cash	\$ 4,909	\$ 294,008	\$ 298,917
Total assets	4,909	294,008	298,917
LIABILITIES			
Accounts payable	-	-	-
Total liabilities	-	-	-
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - taxes	-	-	-
Unavailable revenue - federal grants	-	-	-
Unavailable leases receivable	-	-	-
Total deferred inflows of resources	-	-	-
FUND BALANCES			
Restricted:			
Special events	4,909	-	4,909
Inspections	-	294,008	294,008
Total fund balances	4,909	294,008	298,917
Total liabilities, deferred inflows of resources and fund balances	\$ 4,909	\$ 294,008	\$ 298,917

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

Town of North East, Maryland
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor
Governmental Funds
June 30, 2023

	Parade	Developer Inspections	Total Nonmajor Governmental Funds
REVENUES			
Charges for services	\$ 10,450	264,540	\$ 274,990
Total Revenues	10,450	264,540	274,990
EXPENDITURES			
Current:			
General government	11,901	81,130	93,031
Total expenditures	11,901	81,130	93,031
Excess (deficiency) of revenues over expenditures	(1,451)	183,410	181,959
Net change in fund balances	(1,451)	183,410	181,959
Fund balances - beginning	6,360	110,598	116,958
Fund balances - ending	\$ 4,909	\$ 294,008	\$ 298,917

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



Town of North East

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