

TOWN OF DENTON, MARYLAND

FINANCIAL REPORT

JUNE 30, 2018

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INDEPENDENT AUDITORS' REPORT

Town of Denton, Maryland
Denton, Maryland

Report on the Financial Statements

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 Denton, Maryland (the "Town") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The other supplementary information (OSI), as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The OSI 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. Such 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 auditing standards generally accepted in the United States of America. In our opinion, the OSI is 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 26, 2018, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is 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 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 the Town's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "JSM Group LLC". The signature is written in a cursive, stylized font.

Salisbury, Maryland
October 26, 2018

Town of Denton, Maryland
Management Discussion and Analysis
Year Ended June 30, 2018

As Management of the Town of Denton, Maryland (the "Town"), we offer readers the Town's financial statements. This narrative overview and analysis of the financial activities of the Town are for the fiscal year ending June 30, 2018. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements which will follow this narrative.

FINANCIAL HIGHLIGHTS

- The Town's combined net position was \$27,148,532, with \$21,855,100 of that amount invested in capital assets, net of related debt.
- The governmental activities total net position increased by \$431,850.
- The business-type activities total net position increased by \$193,773.
- The Towns governmental funds reported a combined fund balance of \$4,316,552, of which \$3,367,718 is unassigned.
- The Town's governmental funds fund balance increased by \$539,979 during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements provide two views of the Town's financial position: the Government-wide Financial Statements and the Fund Financial Statements.

On the Government-wide Financial Statements, the statements summarize all of the Town's funds into one statement using the full accrual method of accounting.

- The Statement of Net Position provides information on assets, deferred outflows, liabilities, deferred inflows and the difference, which is called net position. Over time increases and decreases in net position can serve as a barometer of financial health. The Statement of Net Position is similar to a balance sheet in private sector accounting.
- The Statement of Activities reflects revenue and expenses that report the underlying cause of the change in net position. All changes in net position are reported as the change occurs. This means the statement includes depreciation on the assets. This statement does not report any capital projects. Capital projects are reported on the Statement of Net Position.

Town of Denton, Maryland
Management Discussion and Analysis
Year Ended June 30, 2018

Fund Focus is the traditional governmental accounting which focuses on the individual funds. A fund is defined as a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Funds are used to insure compliance with finance-related, legal or regulatory compliance. Funds are classified as either governmental funds, proprietary funds or fiduciary funds (The Town has no fiduciary funds).

- Governmental Funds are essentially the same as the governmental activities. Governmental funds facilitate cost allocation of centralized services such as building maintenance, street repair, accounting, printing, office equipment, engineering services, etc.
- Governmental funds use a modified accrual basis of accounting. Governmental funds focus on near-term inflows and outflows of spendable resources and on the balances of spendable resources. In the governmental statements, the accounting for items such as capital outlay, depreciation, debt payments, and accrued vacation is different than in the government-wide statements. In government funds, capital outlay and debt principal are reported on the Statement of Revenues, Expenditures and Changes in Fund Balance. Depreciation is not recorded. The rule for reporting accrued vacation is more restrictive. The Balance Sheet for governmental funds does not include any capital assets or long-term debt.

Major Funds – Major funds are the largest funds in terms of assets, liabilities, revenues or expenses. This allows the reader to see more detailed activities of the Major Funds. The following governmental funds meet this requirement:

- General
- Business Loan

Proprietary Funds use the full accrual method of accounting for both government-wide statements and fund level statements. Enterprise funds are used to report business like activities. These funds charge a fee for their services.

All enterprise funds qualify as major funds, which are the Water, Sewer and Industrial Funds.

Notes to the Financial Statements follow immediately after the basic financial statements. The notes are an integral part of the financial statements. The notes contain many additional disclosures about the financial health of the Town.

Town of Denton, Maryland
Management Discussion and Analysis
Year Ended June 30, 2018

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

Net position - The Town's statement of net position provides an overview of the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. Over time, this can provide a good indicator of the Town's fiscal health.

	Governmental Activities		Business Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 6,040,499	\$ 5,394,160	\$ 2,473,470	\$ 2,089,542	\$ 8,513,969	\$ 7,483,702
Capital assets	14,751,020	14,959,933	12,291,567	12,617,312	27,042,587	27,577,245
Total assets	\$ 20,791,519	\$ 20,354,093	\$ 14,765,037	\$ 14,706,854	\$ 35,556,556	\$ 35,060,947
 Deferred outflows	 \$ 431,994	 \$ 499,530	 \$ 192,654	 \$ 232,102	 \$ 624,648	 \$ 731,632
Current and other liabilities	\$ 739,122	\$ 576,988	\$ 220,259	\$ 233,739	\$ 959,381	\$ 810,727
Long-term debt outstanding	4,878,494	5,236,497	2,934,975	3,155,396	7,813,469	8,391,893
Total liabilities	\$ 5,617,616	\$ 5,813,485	\$ 3,155,234	\$ 3,389,135	\$ 8,772,850	\$ 9,202,620
 Deferred inflows	 \$ 179,688	 \$ 45,779	 \$ 80,134	 \$ 21,271	 \$ 259,822	 \$ 67,050
Net investment in capital assets	\$ 11,478,832	\$ 11,524,841	\$ 10,376,268	\$ 10,601,949	\$ 21,855,100	\$ 22,126,790
Restricted	657,818	601,726	86,321	86,321	744,139	688,047
Unrestricted	3,289,559	2,867,792	1,259,734	840,280	4,549,293	3,708,072
Total net position	\$ 15,426,209	\$ 14,994,359	\$ 11,722,323	\$ 11,528,550	\$ 27,148,532	\$ 26,522,909

Town of Denton, Maryland
Management Discussion and Analysis
Year Ended June 30, 2018

The Statement of Activities presented below is a condensed version of the more detailed one presented in the Financial Statements section of this report. Program revenues are listed first followed by general revenues and then expenses attributable to each function of the Town's government. The change in net position is equal to the revenues minus expenses and is added (subtracted) to net position beginning of year to reach net position end of year.

	Governmental Activities		Business Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues						
Program revenues						
Charge for services	\$ 225,335	\$ 130,185	\$ 2,133,286	\$ 1,728,229	\$ 2,358,621	\$ 1,858,414
Operating grants and contributions	124,207	83,941	-	-	124,207	83,941
Capital grants and contributions	574,718	1,856,464	-	-	574,718	1,856,464
General revenues						
Property taxes	2,591,540	2,556,105	-	-	2,591,540	2,556,105
Income taxes	306,278	316,683	-	-	306,278	316,683
Other taxes	277,562	242,919	-	-	277,562	242,919
Other	373,576	323,452	18,049	7,030	391,625	330,482
Total Revenue	\$ 4,473,216	\$ 5,509,749	\$ 2,151,335	\$ 1,735,259	\$ 6,624,551	\$ 7,245,008
Expenses						
General government	496,068	507,816	-	-	496,068	507,816
Public safety	2,068,174	2,006,504	-	-	2,068,174	2,006,504
Public works	725,442	677,082	-	-	725,442	677,082
Recreation and culture	132,785	129,443	-	-	132,785	129,443
Urban development and housing	560,046	433,632	-	-	560,046	433,632
Interest on long-term debt	92,551	94,957	-	-	92,551	94,957
Water	-	-	645,714	617,078	645,714	617,078
Sewer	-	-	1,276,490	1,280,277	1,276,490	1,280,277
Industrial park	-	-	1,658	-	1,658	-
Total Expenses	4,075,066	3,849,434	1,923,862	1,897,355	5,998,928	5,746,789
Transfers in (out)	33,700	33,700	(33,700)	(33,700)	-	-
Change in net position	431,850	1,694,015	193,773	(195,796)	625,623	1,498,219
Net position, beginning of year	14,994,359	13,300,344	11,528,550	11,724,346	26,522,909	25,024,690
Net position end of year	\$ 15,426,209	\$ 14,994,359	\$ 11,722,323	\$ 11,528,550	\$ 27,148,532	\$ 26,522,909

Town of Denton, Maryland
Management Discussion and Analysis
Year Ended June 30, 2018

Governmental activities' revenues totaled \$4,473,216 compared to \$5,509,749 in the prior year. Expenses totaled \$4,075,066 compared to \$3,849,434 in the prior year. The resulting increase in governmental activities' net position for fiscal year 2018 was \$431,850. This increase mostly relates to an increase in building permit fees and impact fees collected due to an increase in construction activity within Town limits.

Business type activities' revenues totaled \$2,151,335 compared to \$1,735,259 in the prior year. Expenses totaled \$1,923,862 compared to \$1,897,355 in the prior year. The resulting increase in business-type activities' net position for fiscal year 2018 was \$193,773. The increase mostly relates to water and sewer connections fees being approximately \$400,000 more than the prior year.

GENERAL FUND BUDGETARY ANALYSIS

- Total revenues were over budget by \$70,766, which mostly relates to taxes being over budget by \$51,048.
- Total expenditures were under budget by \$34,211, which mostly relates to the general government and public safety departments being under budget by \$12,980 and \$14,050, respectively.
- Actual results beat budget by \$391,317 mostly due to a budgeted reserve amount of \$279,602 in which there are no actual expenses.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Town's capital assets as of June 30, 2018, are as follows:

	Capital Asset Summary					
	Governmental Activities		Business Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 895,372	\$ 895,372	\$ -	\$ -	\$ 895,372	\$ 895,372
Construction in process	-	1,793,828	123,130	32,871	123,130	1,826,699
Land improvements	1,407,950	1,407,950	-	-	1,407,950	1,407,950
Buildings	4,619,422	2,756,797	-	-	4,619,422	2,756,797
Infrastructure	13,642,054	13,493,457	-	-	13,642,054	13,493,457
Furniture and equipment	779,595	634,517	500,123	512,917	1,279,718	1,147,434
Vehicles	1,255,917	1,215,428	-	-	1,255,917	1,215,428
Municipal water system	-	-	4,376,050	4,376,050	4,376,050	4,376,050
Municipal sewer system	-	-	17,363,128	17,250,093	17,363,128	17,250,093
Total capital assets	22,600,310	22,197,349	22,362,431	22,171,931	44,962,741	44,369,280
Less Accumulated Depreciation	7,849,290	7,237,416	10,070,864	9,554,619	17,920,154	16,792,035
Capital assets, net	\$ 14,751,020	\$ 14,959,933	\$ 12,291,567	\$ 12,617,312	\$ 27,042,587	\$ 27,577,245

Notable additions included the following:

Description	Governmental Activities	Business-type Activities
Fiber Installation	\$52,500	
Black top roads	\$83,597	
Police Vehicles	\$68,019	
Town Hall Roof Replacement	\$58,150	
Sewer System Upgrades		\$113,035
WWTP UV CIP		\$90,259

Town of Denton, Maryland
Management Discussion and Analysis
Year Ended June 30, 2018

The Town's long-term liabilities as of June 30, 2018, are as follows:

	Long-Term Liabilities					
	Governmental		Business Type		Total	
	Activities		Activities			
	2018	2017	2018	2017	2018	2017
Compensated absences	\$ 184,592	\$ 180,190	\$ 79,349	\$ 74,233	\$ 263,941	\$ 254,423
Net pension liability	1,628,949	1,830,281	726,456	850,426	2,355,405	2,680,707
Capital lease	-	16,611	-	-	-	16,611
Bonds and notes payable	3,272,188	3,418,481	2,284,149	2,384,213	5,556,337	5,802,694
Total long-term debt	\$ 5,085,729	\$ 5,445,563	\$ 3,089,954	\$ 3,308,872	\$ 8,175,683	\$ 8,754,435

A detailed listing of long-term debt is provided in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The Town anticipates to incur approximately \$37,500 in new debt for police cars and \$80,000 for a mini excavator.
- The Town anticipates approximately \$135,000 for road improvements.
- Effective July 1, 2018, the Town's Real Property Tax rate increased from \$.75/\$100 to \$.77/\$100.
- Upon completion of the 2018 Utility Rate Study and recommendation from the Town's Utility Commission, the sewer rates will increase effective October 1, 2018. Sewer base fee increased from \$25.00 quarterly to \$41.00 quarterly, and the sewer usage fee increased from \$6.41 per 1,000 gallons of usage to \$7.00 per 1,000 gallons of usage.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Director of Finance, 4 N. 2nd St. Denton, Maryland 21629.

TOWN OF DENTON, MARYLAND
STATEMENT OF NET POSITION
June 30, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 4,576,860	\$ 1,587,751	\$ 6,164,611
Tax receivables	6,873	-	6,873
Service charge receivable	-	362,690	362,690
Note receivable	822,572	6,873	829,445
Other receivable	45,302	-	45,302
Internal balances	18,543	(18,543)	-
Due from other governments	203,829	79,528	283,357
Land held for resale	366,520	455,171	821,691
Capital assets, not being depreciated	895,372	123,130	1,018,502
Capital assets, being depreciated	13,855,648	12,168,437	26,024,085
Total assets	20,791,519	14,765,037	35,556,556
DEFERRED OUTFLOWS OF RESOURCES			
Pension	431,994	192,654	624,648
LIABILITIES			
Accounts payable and accrued expenses	171,778	65,280	237,058
Unearned revenues	360,109	-	360,109
Bonds and notes payable	207,235	154,979	362,214
Due in more than one year:			
Compensated absences	184,592	79,349	263,941
Net pension liability	1,628,949	726,456	2,355,405
Bonds and notes payable	3,064,953	2,129,170	5,194,123
Total liabilities	5,617,616	3,155,234	8,772,850
DEFERRED INFLOWS OF RESOURCES			
Pension	179,688	80,134	259,822
NET POSITION			
Net investment in capital assets	11,478,832	10,376,268	21,855,100
Restricted	657,818	86,321	744,139
Unrestricted	3,289,559	1,259,734	4,549,293
Total net position	\$ 15,426,209	\$ 11,722,323	\$ 27,148,532

The Notes to Financial Statements are an integral part of this statement.

TOWN OF DENTON, MARYLAND
STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

		Net (Expense) Revenue and Changes in Net Position					
		Program Revenue		Primary Government			
Function/Program	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants, Contributions, and Interest	Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES							
General government	\$ 496,068	\$ 88,890	\$ -	\$ -	\$ (407,178)	\$ -	\$ (407,178)
Public safety	2,068,174	54,520	122,457	3,600	(1,887,597)	-	(1,887,597)
Public works	725,442	42,890	-	519,215	(163,337)	-	(163,337)
Recreation and culture	132,785	23,439	-	51,903	(57,443)	-	(57,443)
Urban development and housing	560,046	15,596	1,750	-	(542,700)	-	(542,700)
Interest on long-term debt	92,551	-	-	-	(92,551)	-	(92,551)
Total governmental activities	4,075,066	225,335	124,207	574,718	(3,150,806)	-	(3,150,806)
BUSINESS-TYPE ACTIVITIES							
Water	645,714	846,579	-	-	-	200,865	200,865
Sewer	1,276,490	1,286,707	-	-	-	10,217	10,217
Industrial park	1,658	-	-	-	-	(1,658)	(1,658)
Total business-type activities	1,923,862	2,133,286	-	-	-	209,424	209,424
Total Primary Government	\$ 5,998,928	\$ 2,358,621	\$ 124,207	\$ 574,718	\$ (3,150,806)	\$ 209,424	\$ (2,941,382)

General Revenues

Taxes:			
Property	2,591,540	-	2,591,540
Income	306,278	-	306,278
Other	277,562	-	277,562
Interest	31,645	18,049	49,694
Other	341,931	-	341,931
Total General Revenues	3,548,956	18,049	3,567,005
Transfers in (out)	33,700	(33,700)	-
Change in Net Position	431,850	193,773	625,623
Net Position Beginning of Year	14,994,359	11,528,550	26,522,909
Net Position End of Year	\$ 15,426,209	\$ 11,722,323	\$ 27,148,532

The Notes to Financial Statements are an integral part of this statement.

TOWN OF DENTON, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

	General Fund	Business Loan Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 3,558,656	\$ 443,192	\$ 575,012	\$ 4,576,860
Receivables:				
Taxes	6,873	-	-	6,873
Notes	-	822,572	-	822,572
Other receivables	40,372	4,930	-	45,302
Due from other funds	102,140	-	-	102,140
Due from other governments	127,374	-	76,455	203,829
Total assets	\$ 3,835,415	\$ 1,270,694	\$ 651,467	\$ 5,757,576
Liabilities, deferred inflows and fund balances				
Liabilities:				
Accounts payable and accrued expenses	\$ 74,091	\$ -	\$ 97,687	\$ 171,778
Due to other funds	-	-	83,597	83,597
Unearned revenues	348,239	-	11,870	360,109
Total liabilities	422,330	-	193,154	615,484
Deferred inflows of resources:				
Business loans	-	822,572	-	822,572
Unavailable revenue-property taxes	2,968	-	-	2,968
Total deferred inflows of resources	2,968	822,572	-	825,540
Fund balances:				
Restricted	-	448,122	209,696	657,818
Assigned	-	-	291,016	291,016
Unassigned	3,410,117	-	(42,399)	3,367,718
Total fund balances	3,410,117	448,122	458,313	4,316,552
Total liabilities, deferred inflows and fund balances	\$ 3,835,415	\$ 1,270,694	\$ 651,467	\$ 5,757,576

The Notes to Financial Statements are an integral part of this statement.

TOWN OF DENTON, MARYLAND

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION**

June 30, 2018

Total fund balances, governmental funds	\$ 4,316,552
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.	14,751,020
Land held for resale used in governmental activities are not financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.	366,520
Deferred outflows of resources - pension	431,994
Certain resources are not available to pay for current-period expenditures and therefore are reported as deferred inflows of resources in the governmental funds. Those deferred inflow of resources consist of:	
Property tax	2,968
Business loans	822,572
Deferred inflows of resources - pension	(179,688)
Some liabilities are not due and payable in the current period and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position. Those liabilities consist of:	
Compensated absences	(184,592)
Net pension liability	(1,628,949)
Bonds and notes payable	(3,272,188)
Net position of governmental activities in the Statement of Net Position	<u>\$15,426,209</u>

TOWN OF DENTON, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2018

	General Fund	Business Loan Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 3,129,276	\$ -	\$ 48,720	\$ 3,177,996
Licenses and permits	56,700	-	129,970	186,670
Revenue from other agencies	138,149	-	573,470	711,619
Service charges	25,971	-	-	25,971
Interest income	-	30,435	1,210	31,645
Miscellaneous	256,209	55,655	30,067	341,931
Total revenues	3,606,305	86,090	783,437	4,475,832
Expenditures				
Current:				
General government	414,132	-	-	414,132
Public safety	1,972,669	-	-	1,972,669
Public works	354,849	-	148,691	503,540
Recreation and culture	57,387	-	-	57,387
Urban development and housing	59,440	2,699	271,962	334,101
Capital outlay and projects	233,056	-	199,213	432,269
Debt service - principal	158,707	27,013	44,890	230,610
Debt service - interest	42,168	4,825	45,558	92,551
Total expenditures	3,292,408	34,537	710,314	4,037,259
Excess (deficiency) of revenues over (under) expenditures	313,897	51,553	73,123	438,573
Other financing sources (uses)				
Transfers in	177,993	-	185,279	363,272
Transfers out	(168,279)	(20,000)	(141,293)	(329,572)
Note issued	67,706	-	-	67,706
Total other financing sources (uses)	77,420	(20,000)	43,986	101,406
Net change in fund balances	391,317	31,553	117,109	539,979
Fund balance - beginning	3,018,800	416,569	341,204	3,776,573
Fund balance - ending	\$ 3,410,117	\$ 448,122	\$ 458,313	\$ 4,316,552

The Notes to Financial Statements are an integral part of this statement.

TOWN OF DENTON, MARYLAND

RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES Year Ended June 30, 2018

Net change in fund balances, governmental funds	\$ 539,979
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:

Capital outlay	432,269
Depreciation expense	(639,404)

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the cost of assets disposed of, less accumulated depreciation. (1,778)

Loan proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the Statement of Net Position. In the current period, loans of this amount were issued: (67,706)

Governmental funds report repayment of debt principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. 230,610

Revenues are reported in the statement of activities on the accrual basis and in the governmental funds when they provide for current financial resources.

The net difference consist of:

Property tax	(2,616)
Business loans	(54,989)

Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) decrease in compensated absences	(4,402)
Increase (decrease) in deferred outflows of resources - pensions	(67,536)
(Increase) decrease in deferred inflows of resources - pensions	(133,909)
(Increase) decrease in net pension liability	201,332

Change in net position of governmental activities	\$ 431,850
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TOWN OF DENTON, MARYLAND
STATEMENT OF FUND NET POSITION
BUSINESS-TYPE ACTIVITIES
June 30, 2018

	Water Fund	Sewer Fund	Industrial Park Fund	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 988,283	\$ 571,193	\$ 28,275	\$ 1,587,751
Receivables:				
Service charges	138,182	224,508	-	362,690
Notes receivable	-	-	6,873	6,873
Due from other governments	-	79,528	-	79,528
Total current assets	1,126,465	875,229	35,148	2,036,842
Noncurrent assets:				
Land held for resale	-	-	455,171	455,171
Capital assets, net	2,663,540	9,628,027	-	12,291,567
Total noncurrent assets	2,663,540	9,628,027	455,171	12,746,738
Total assets	3,790,005	10,503,256	490,319	14,783,580
Deferred Outflows of Resources				
Deferred outflows related to pensions	67,146	125,508	-	192,654
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	9,484	55,796	-	65,280
Due to other funds	-	-	18,543	18,543
Bonds and notes payable	22,656	132,323	-	154,979
Total current liabilities	32,140	188,119	18,543	238,802
Noncurrent liabilities:				
Compensated absences	30,886	48,463	-	79,349
Net pension liability	253,192	473,264	-	726,456
Bonds and notes payable	978,119	782,201	368,850	2,129,170
Total noncurrent liabilities	1,262,197	1,303,928	368,850	2,934,975
Total liabilities	1,294,337	1,492,047	387,393	3,173,777
Deferred Inflows of Resources				
Deferred inflows related to pensions	27,929	52,205	-	80,134
Net position				
Net investment in capital assets	1,662,765	8,713,503	-	10,376,268
Restricted	-	-	86,321	86,321
Unrestricted	872,120	371,009	16,605	1,259,734
Total net position	\$ 2,534,885	\$ 9,084,512	\$ 102,926	\$ 11,722,323

The Notes to Financial Statements are an integral part of this statement.

TOWN OF DENTON, MARYLAND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION
BUSINESS-TYPE ACTIVITIES
Year Ended June 30, 2018

	Water Fund	Sewer Fund	Industrial Park Fund	Total
Operating revenues				
Charges for services, net	\$ 835,425	\$ 1,092,709	\$ -	\$ 1,928,134
Vacant lots	-	10,926	-	10,926
Other revenues	11,154	183,072	-	194,226
Total operating revenues	846,579	1,286,707	-	2,133,286
Operating expenses				
Salaries and wages	178,583	298,893	-	477,476
Fringe benefits	89,548	145,810	-	235,358
Materials and supplies	3,589	6,960	-	10,549
Electric and telephone	44,146	103,006	-	147,152
Automotive expenses	8,511	9,037	-	17,548
Professional services	19,434	14,741	1,658	35,833
Repairs and maintenance	39,793	54,595	-	94,388
Depreciation	118,382	420,527	-	538,909
Other operating expenses	107,378	209,168	-	316,546
Total operating expenses	609,364	1,262,737	1,658	1,873,759
Operating income (loss)	237,215	23,970	(1,658)	259,527
Nonoperating revenues (expenses)				
Interest income	11,459	6,150	440	18,049
Interest expense	(36,350)	(13,753)	-	(50,103)
Net nonoperating revenues (expenses)	(24,891)	(7,603)	440	(32,054)
Income (loss) before transfers	212,324	16,367	(1,218)	227,473
Transfers in	26,000	9,936	-	35,936
Transfers out	(26,718)	(42,918)	-	(69,636)
Change in net position	211,606	(16,615)	(1,218)	193,773
Total net position - beginning	2,323,279	9,101,127	104,144	11,528,550
Total net position - ending	\$ 2,534,885	\$ 9,084,512	\$ 102,926	\$ 11,722,323

The Notes to Financial Statements are an integral part of this statement.

TOWN OF DENTON, MARYLAND
STATEMENT OF CASH FLOWS
BUSINESS-TYPE ACTIVITIES
Year Ended June 30, 2018

	Water Fund	Sewer Fund	Industrial Park Fund	Total
OPERATING ACTIVITIES:				
Receipts from customers	\$ 853,360	\$ 1,249,223	\$ 2,170	\$ 2,104,753
Payments to vendors	(237,729)	(397,612)	(1,658)	(636,999)
Payments to employees	(275,693)	(457,684)	-	(733,377)
Net cash provided by operating activities	339,938	393,927	512	734,377
NONCAPITAL FINANCING ACTIVITIES:				
Receipts (payments) interfund loans	(76,122)	76,122	-	-
Transfers in (out)	(718)	(32,982)	-	(33,700)
Net cash (used) provided by noncapital financing activities	(76,840)	43,140	-	(33,700)
CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of capital assets	(2,287)	(210,877)	-	(213,164)
Issuance of long-term debt	-	53,517	-	53,517
Principal paid on long-term debt	(22,034)	(131,547)	-	(153,581)
Interest paid on long-term debt	(36,350)	(13,753)	-	(50,103)
Net cash used by capital and related financing activities	(60,671)	(302,660)	-	(363,331)
INVESTING ACTIVITIES:				
Interest income	11,459	6,150	440	18,049
Net cash provided by investing activities	11,459	6,150	440	18,049
Net change in cash and cash equivalents	213,886	140,557	952	355,395
Cash, Beginning of year	774,397	430,636	27,323	1,232,356
Cash, End of year	\$ 988,283	\$ 571,193	\$ 28,275	\$ 1,587,751
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 237,215	\$ 23,970	\$ (1,658)	\$ 259,527
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	118,382	420,527	-	538,909
Pension obligation	(9,107)	(16,552)	-	(25,659)
Changes in assets and liabilities:				
Receivables	6,781	(37,484)	2,170	(28,533)
Accounts and other payables	(14,878)	(105)	-	(14,983)
Compensated absences	1,545	3,571	-	5,116
Net cash provided by operating activities	\$ 339,938	\$ 393,927	\$ 512	\$ 734,377

The Notes to Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

Note 1. Description of Town of Denton, Maryland

The Town of Denton, Maryland (the "Town") began as a tiny settlement on the Choptank River in 1781 and quickly became a trade center for a wide agricultural area. Today, the Town serves as the seat of Caroline County and provides a range of municipal services, including general administration, public safety, economic and community development, street maintenance and sanitation, and water and wastewater utilities.

A. Financial Reporting Entity

In evaluating how to define the Town, for financial reporting purposes, management has considered all potential component units. The decision of whether to include a potential component unit was made by applying the criteria set forth in the GASB standards related to component units. The basis, but not the only criterion for including a potential component unit, is the exercise of oversight responsibility by the Town's elected officials. Based upon the application of these criteria, there are no component units accompanying these statements.

Note 2. Summary of Significant Accounting Policies

The financial statements of the Town have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The most significant of the Town's accounting policies are described below.

A. Basis of Presentation

The Town's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities display information about the Town as a whole. These statements include the financial activities of the Town. The statements distinguish between those activities of the Town that are governmental and those that are considered business-type activities.

The statement of net position presents the financial condition of the governmental and business-type activities of the Town at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Town's governmental activities and for business-type activities of the Town. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Town, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from general revenues of the Town.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

FUND FINANCIAL STATEMENTS

During the year, the Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Town at a more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

The Town uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Town's governmental funds:

General Fund (major) accounts for all revenues and expenditures applicable to the general operations of the Town, which are not accounted for in other funds.

Special Revenue Funds account for the proceeds of specific revenue sources (other than those derived from special assessments, expendable trusts, or dedicated for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. Special Revenue Funds consist of the *major* Business Loan Fund (loans made to various businesses for economic development) and the *non-major* Highway Fund (various highway improvement projects).

Capital Projects Funds accounts for other general capital improvement projects of the Town using the *non-major* Special Projects (various economic, urban, and housing development projects) and the *non-major* Capital Improvement Fund (other projects) to account for the projects.

PROPRIETARY FUNDS

Enterprise funds account for operations that are financed in a manner similar to private business enterprises. The Proprietary Fund measurement focus is based upon determination of net income, financial position, and changes in financial position. Proprietary Funds, all *major funds*, consist of the Water, Sewer, and Industrial Park (accounts for parcels of land purchased by the Town for future development and sale to private businesses) Funds.

The total enterprise fund columns in the proprietary fund Statement of Net Position and Statement of Revenues, Expenses and Changes in Fund Net Position are equal to the business-type activity column in the government-wide statements.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net position. The Town does not have any fiduciary funds.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

C. Measurement Focus

Government-wide financial statements – The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Town are included on the statement of net position.

Fund financial statements – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for government funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the Town finances and meets the cash flow needs of its proprietary activities.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter (within 60 days after year end) to be used to pay liabilities of the current fiscal year.

Non-exchange transactions, in which the Town receives value without directly giving equal value in return, include primarily grants. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Town must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Town on a reimbursable basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under modified accrual basis, the following revenue sources are considered both measurable and available at year end: charges for services, fines and forfeitures, state-levied locally shared taxes (including gasoline tax and motor vehicle license tax), grants, interest and rent.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated assets during the year is reported in the operating statement as an expense with a like amount reported as donated revenue. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgetary Process

The following procedures are used by the Town in establishing the budgetary data reflected in the financial statements.

1. At or before the first Town Council meeting in April of each year, the Mayor submits to the Town Council a budget for the ensuing fiscal year and an accompanying message.
2. The budget shows in detail all estimated income, proposed expenditures for current operations and capital expenditures. Total proposed expenditures cannot exceed the total of estimated income and applied surplus, if any.
3. A public hearing is conducted to obtain citizen comments.
4. The Town Council adopts the budget on or before June 10. However, if the budget is not adopted by July 1, 1/12 of the current budget can be extended for a 30 day period by majority vote.
5. The budget is legally enacted through passage of an appropriations ordinance.
6. All budgets are adopted on a basis consistent with GAAP.
7. Appropriations lapse at June 30 for all Town departments.
8. All budget data presented in the accompanying financial statements is the legally amended or revised budget as of June 30.

F. Property Tax

By June 10 of each year, the Town Council adopts a budget, effective the following July 1, which establishes the property tax levy for the coming year. Tax bills are due and payable on July 1 and are considered in arrears on the following October 1. Property on which taxes remain unpaid for six months after the original due date is sold at public auction in the manner prescribed by State law.

G. Cash and cash equivalents

The Town considers cash and cash equivalents to be all highly liquid investments with a maturity of three months or less.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

H. Allowance for uncollectible accounts

The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. There was no allowance recorded at June 30, 2018.

I. Land held for resale

Land held for resale is carried at the lower of cost or net realizable value. Cost includes the original acquisition price and all development costs.

J. Capital Assets

General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical costs) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Town maintains a capitalization threshold of \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value to the asset or materially extend an asset's life are not.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

	Governmental Activities Useful Lives	Business-type Activities Useful Lives
Land improvements	5 - 40	N/A
Buildings	15 - 40	N/A
Infrastructure	15 - 40	N/A
Furniture and equipment	5 - 7	5 - 10
Vehicles	5	N/A
Water and sewer systems	N/A	25 - 75

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

K. Deferred Outflows and Inflows of Resources

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

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

The Town has an item, which arises only on a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

In addition, see Note 8 for further details relating to the deferred outflows / inflows of resources relating to the Town's pension plan.

L. Vacation and sick pay liability

Town employees earn vacation and sick leave at various rates. Accumulated vacation and half of accumulated sick leave is paid upon termination for all employees with more than five years of service. The current portions are not recorded as liabilities in the governmental funds' financial statements until they have matured as a result of employee resignations and retirements. In the proprietary funds, both the expense and the liability are recorded as benefits are earned. All vacation pay is accrued when incurred in the government-wide financial statements.

M. Net Position

Net position represents the net amount of assets, deferred outflows or resources, liabilities and deferred inflows of resources. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Restricted components of net position are reported when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by grantors, contributors, creditors, or laws and regulations of other governments.

Restricted resources are applied first when an expense is incurred for purposes for which both restricted and unrestricted net position is available. Furthermore, committed fund balances are reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those fund balance classifications can be used.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

N. Governmental Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

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.

Restricted – amounts that can only be spent for specific purposes because of the Town charter or code, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed – amounts that can be used only for specific purposes determined by formal action by the Town Council ordinance or resolutions.

Assigned – amounts that are designated by the Council or management with intent to be used for specific purposes, but are neither restricted nor committed by ordinance or resolution.

Unassigned – amounts not included in other spendable classifications.

The Town typically uses restricted fund balances first, followed by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Treasurer has the authority to deviate from this policy if it is in the best interest of the Town.

O. Due to/from other funds and Transfers

On fund financial statements, receivables and payables resulting from interfund loans or interfund services provided and used are classified as “Due to/from other funds.” Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net position. The only interfund balances which remain on the government-wide statement of net position are those between governmental and business-type activities. These amounts are reflected as “Internal Balances.”

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general revenues. Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flow of cash or goods from one fund to another without a requirement for repayment are reported as Interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in enterprise funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

P. Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Cash Equivalents

Deposits: At year end, the carrying value of the Town's deposits with banks and financial institutions was \$6,164,111 and the bank balance was \$6,313,608. The entire bank balance was covered by Federal Depository Insurance and the remaining balance was collateralized in accordance with Article 95, Section 22 of the *Annotated Code of Maryland*.

Investments: In accordance with the *Annotated Code of Maryland* and other applicable laws and regulations, the Town's investment policy permits investments in obligations of the United States or agencies thereof, obligations of the State of Maryland, interest-bearing time deposits and savings accounts in any federally insured banks or savings and loans associations in the State of Maryland, repurchase agreements, and the Maryland Local Government Investment Pool ("MLGIP"), which is carried at amortized cost consistent with the pool's valuation in accordance with GAAP.

At June 30, 2018, the Town's deposit and investment balances are as follows:

	Fair Value
MLGIP	\$ 5,699,014
Deposits	465,097
Cash on hand	500
<hr/>	
Total cash and cash equivalents	\$ 6,164,611

Interest rate risk: Given the cash flow needs for operations as well as capital and special projects, it is the Town's policy to maintain the liquidity of its investments. The MLGIP is not subject to maturity limits.

Credit risk: The Town's investments in the MLGIP are rated AAAm by Standard and Poor's.

Note 4. Note Receivable

The Business Loan fund and the Industrial Park fund have \$822,572 and \$6,873 in outstanding loan payments as of June 30, 2018, respectively. Business loans are granted by the Town to local businesses with Council approval. Payment terms on these loans vary.

NOTES TO FINANCIAL STATEMENTS

Note 5. Due to/from other funds and Transfers

Due to/from other funds are as follows:

	Interfund Receivable	Interfund Payables	Net
General Fund	\$ 102,140	\$ -	\$ 102,140
Special Projects Fund	-	(83,597)	(83,597)
Business Loan Fund	-	-	-
Capital Improvement Fund	-	-	-
Highway Fund	-	-	-
Water Fund	-	-	-
Sewer Fund	-	-	-
Industrial Park Fund	-	(18,543)	(18,543)
Total	\$ 102,140	\$ (102,140)	\$ -

Transfers to other funds are as follows:

	Transfers In	Transfers Out	Net
General Fund	\$ 177,993	\$ (168,279)	\$ 9,714
Special Projects Fund	45,359	(17,000)	28,359
Business Loan Fund	-	(20,000)	(20,000)
Capital Improvement Fund	-	(124,293)	(124,293)
Highway Fund	139,920	-	139,920
Water Fund	26,000	(26,718)	(718)
Sewer Fund	9,936	(42,918)	(32,982)
Industrial Park Fund	-	-	-
Total	\$ 399,208	\$ (399,208)	\$ -

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets

The following is a summary of changes in capital assets for the year ended June 30, 2018:

	June 30, 2017	Additions	Transfers / Deductions	June 30, 2018
GOVERNMENTAL ACTIVITIES				
Capital assets, not being depreciated:				
Land	\$ 895,372	\$ -	\$ -	\$ 895,372
Construction in process	1,793,828	34,149	(1,827,977)	-
Total capital assets, not being depreciated	2,689,200	34,149	(1,827,977)	895,372
Capital assets, being depreciated:				
Land improvements	1,407,950	-	-	1,407,950
Buildings	2,756,797	58,150	1,804,475	4,619,422
Infrastructure	13,493,457	148,597	-	13,642,054
Furniture and equipment	634,517	123,354	21,724	779,595
Vehicles	1,215,428	68,019	(27,530)	1,255,917
Total capital assets, being depreciated	19,508,149	398,120	1,798,669	21,704,938
Less accumulated depreciation:				
Land improvements	1,109,089	61,788	-	1,170,877
Buildings	1,317,152	105,688	-	1,422,840
Infrastructure	3,307,527	342,817	-	3,650,344
Furniture and equipment	471,669	51,374	-	523,043
Vehicles	1,031,979	77,737	(27,530)	1,082,186
Total accumulated depreciation	7,237,416	639,404	(27,530)	7,849,290
Total capital assets, being depreciated, net	12,270,733	(241,284)	1,826,199	13,855,648
Governmental activities capital assets, net	\$ 14,959,933	\$ (207,135)	\$ (1,778)	\$ 14,751,020

Depreciation expense was charged to governmental functions as follows:

General government	\$ 76,192
Public safety	97,645
Public works	221,214
Recreation and culture	73,397
Urban development and housing	170,956
	<u>\$ 639,404</u>

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets (continued)

	June 30, 2017	Additions	Transfers / Deductions	June 30, 2018
BUSINESS-TYPE ACTIVITIES				
Capital assets, not being depreciated:				
Construction in process	\$ 32,871	\$ 90,259	\$ -	\$ 123,130
Total capital assets, not being depreciated	32,871	90,259	-	123,130
Capital assets, being depreciated:				
Municipal water system	4,376,050	-	-	4,376,050
Municipal sewer system	17,250,093	113,035	-	17,363,128
Machinery and equipment	512,917	9,870	(22,664)	500,123
Total capital assets, being depreciated	22,139,060	122,905	(22,664)	22,239,301
Less accumulated depreciation:				
Municipal water system	1,649,165	103,121	-	1,752,286
Municipal sewer system	7,532,820	401,421	-	7,934,241
Machinery and equipment	372,634	34,367	(22,664)	384,337
Total accumulated depreciation	9,554,619	538,909	(22,664)	10,070,864
Total capital assets, being depreciated, net	12,584,441	(416,004)	-	12,168,437
Business-type activities capital assets, net	\$ 12,617,312	\$ (325,745)	\$ -	\$ 12,291,567

Depreciation expense was charged to business-type activities as follows:

Water	\$ 118,382
Sewer	420,527
	\$ 538,909

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-term Obligations

The following is a summary of the changes in long-term debt obligations:

	Balances June 30, 2017	Additions	Retirements and Repayments	Balances June 30, 2018	Amount Due In One Year
Governmental activities:					
Compensated absences	\$ 180,190	\$ 4,402	\$ -	\$ 184,592	\$ -
Net pension liability	1,830,281	-	201,332	1,628,949	-
Capital Lease	16,611	-	16,611	-	-
Bonds and notes payable	3,418,481	67,706	213,999	3,272,188	207,235
Total governmental activities long-term obligations	\$ 5,445,563	\$ 72,108	\$ 431,942	\$ 5,085,729	\$ 207,235
Business-type activities					
Compensated absences	\$ 74,233	\$ 5,116	\$ -	\$ 79,349	\$ -
Net pension liability	850,426	-	123,970	726,456	-
Bonds and notes payable	2,384,213	53,517	153,581	2,284,149	154,979
Total business-type activities long-term obligations	\$ 3,308,872	\$ 58,633	\$ 277,551	\$ 3,089,954	\$ 154,979

Interest expense in the governmental activities and business-type activities for the year ended June 30, 2018 is \$92,551 and \$50,103, respectively.

Annual requirements to amortize bonds and notes payable and related interest is as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2019	\$ 207,235	\$ 86,212	\$ 154,979	\$ 42,087
2020	191,943	81,397	156,520	40,546
2021	177,799	76,915	251,379	38,965
2022	170,487	72,540	148,090	68,364
2023	162,163	68,379	419,069	35,983
2024 - 2028	1,133,177	281,464	274,178	159,143
2029 - 2033	325,967	164,559	142,900	133,075
2034 - 2038	219,043	128,762	160,780	106,121
2039 - 2043	238,826	92,513	193,080	73,821
2044 - 2048	276,862	49,787	223,320	34,774
2049 - 2053	168,686	9,596	159,854	4,944
Total	\$ 3,272,188	\$ 1,112,124	\$ 2,284,149	\$ 737,823

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-term Obligations (continued)

The following is a summary of governmental activities bonds and notes payable as of June 30, 2018:

\$1,240,000 Highway fund share of 5 th Ave project loan issued by USDA, due in quarterly installments of \$4,333 until 2052, interest at 3.01%.	\$ 1,096,149
\$266,950 Series 2008 Maryland Public Improvement Bonds issued by USDA, due in quarterly installments through June 30, 2047, interest at 4.38%.	234,211
\$145,000 installment note payable, due in monthly payments of \$806 variable interest at 65% of Prime Rate floating with a floor 2.11% and a ceiling of 2.99% for 15 years.	92,676
\$685,000 installment note payable, due in monthly principal payments of \$2,854, variable interest at 65% of Prime Rate floating with a floor of 2.11% and a ceiling of 2.99% for 15 years with a 20 year amortization.	486,676
\$1,100,000 installment note payable, due in monthly payments of \$4,583, variable interest at 65% of Prime Rate floating with a floor of 2.11% and a ceiling of 2.99% for 15 years with a 20 year amortization.	755,710
\$30,616 installment note payable, financing of one police car, due in monthly payments of \$546 through 2019, interest at 2.71%.	7,512
\$32,118 installment note payable, financing of one police car, due in monthly payments of \$556 through 2020, interest at 1.52%.	12,062
\$71,833 installment note payable, financing of two police trucks, due in monthly payments of \$1,543 through 2019, interest at 1.52%.	25,959
\$13,807 Highway fund share of installment note payable, financing of one trackloader, split due in semi-annually payments of \$1,438 through 2020, interest at 1.49%.	6,949
\$53,867 installment note payable, financing of two police cars, due in monthly payments of \$944 through 2022, interest at 1.98%.	36,482
\$67,706 installment note payable, financing of two police cars, due in monthly payments of \$1,205 through 2021, interest at 2.58%.	62,331
Intermediary relending program note, issued by the USDA, of which \$745,000 was drawn down, due in annual payments of \$31,837 through 2036, interest at 1%.	455,471
Total Governmental Activities bonds and notes payable	\$ 3,272,188

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-term Obligations (continued)

The following is a summary of business-type activities bonds and notes payable as of June 30, 2018:

\$500,000 Series 2008 Maryland Public Improvement Bonds issued by USDA, due in quarterly installments through June 30, 2047, interest at 4.38%.	\$ 438,800
\$2,332,577 MDE note issued September 23, 2004, due in annual installments of \$121,589 including interest at 0.4% through February 2024.	719,431
\$140,000, Rural Development Loan due in quarterly installments of \$1,892 including interest at 4.5%, through September 2027.	55,423
\$623,560 Water and Sewer fund share of 5th Ave project loan issued by USDA, due in quarterly installments of \$6,709 until 2052, interest at 3.01%.	564,534
\$53,500 MDE note issued January 28, 2011, due in annual installments including interest at 1.2% through February 2031.	36,208
\$55,230 Water and Sewer fund share of installment note payable, financing of one trackloader, split due in semi-annually payments of \$5,752 through 2020, interest at 1.49%.	27,798
\$1,329,200 Water Quality State Revolving Fund loan, 30 year amortization with interest ranging from .7% - 1.5%.	73,105
\$370,000 State note to be repaid from net proceeds of the sale of lots in the new industrial park after the first \$125,000 is retained by the Town. All proceeds in excess of that are to go towards the repayment, which is due August 2020, no interest.	368,850
Total Business-type Activities bonds and notes payable	\$ 2,284,149

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-term Obligations (continued)

Capital Lease

The Town has a \$77,831 capital lease for tractors and mowers, due in annual installments of \$17,734 through November 2017, interest at 6.77%. This capital lease was paid in full as of June 30, 2018. Net book value of these assets as of June 30, 2018 is \$0.

Operating Lease

The Town leases certain equipment under operating lease arrangements. Current year expense was approximately \$13,500. Future minimum lease payments are as follows:

2019	\$	12,600
2020		11,900
2021		7,600
2022		6,500
2023		500
<hr/>		
Total	\$	39,100
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NOTES TO FINANCIAL STATEMENTS

Note 8. Pension and Retirement Plans

Organization

The State Retirement Agency is the administrator of the Maryland State Retirement and Pension System (the System). The System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland to provide retirement allowances and other benefits to State employees, teachers, police, judges, legislators, and employees of participating governmental units. Responsibility for the System's administration and operation is vested in a 15 member Board of Trustees. The System is made up of two cost-sharing employer pools: the "State Pool" and the "Municipal Pool". The State Pool consists of the State agencies, boards of education, community colleges, and libraries. The Municipal Pool consists of participating governmental units that elected to join the System. Neither pool shares in each other's actuarial liabilities, thus participating governmental units that elect to join the System (the "Municipal Pool") share in the liabilities of the Municipal Pool only. The State Retirement Agency issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the State Retirement and Pension System of Maryland, 120 E. Baltimore Street, Suite 1660, Baltimore, Maryland 21202-1600 or on-line at www.sra.maryland.gov.

The System is comprised of the Teachers' Retirement and Pension Systems, Employees' Retirement and Pension Systems, State Police Retirement System, Judges' Retirement System, and the Law Enforcement Officers' Pension System.

Generally, employees of the Town participate in the Employees' Retirement and Pension Systems (Employee's Systems). The Employees' Systems are cost sharing multiple-employer defined benefit pension plans.

Basis of Accounting

The System's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the System and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Covered Members

Employees' Retirement and Pension Systems

On October 1, 1941, the Employees' Retirement System was established to provide retirement allowances and other benefits to State employees, elected and appointed officials and the employees of participating governmental units. Effective January 1, 1980, the Employees' Retirement System was essentially closed to new members and the Employees' Pension system was established. As a result, State employees (other than correctional officers) and employees of participating governmental units hired after December 31, 1979, became members of the Employees' Pension System as a condition of employment, while all State correctional officers and members of the Maryland General Assembly continue to be enrolled as members of the Employees' Retirement System. On or after January 1, 2005, an individual who is a member of the Employees' Retirement System may not transfer membership to the Employees' Pension System.

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (continued)

Summary of Significant Plan Provisions

All plan benefits are specified by the State Personnel and Pensions Article of the Annotated Code of Maryland. For all individuals who are members of the Employees', Teachers', Correctional Officers' or State Police Retirement System on or before June 30, 2011, retirement allowances are computed using both the highest three years' Average Final Compensation (AFC) and the actual number of years of accumulated creditable service. For all individuals who are members of the pension systems of the State Retirement and Pension System on or before June 30, 2011, pension allowances are computed using both the highest three consecutive years' AFC and the actual number of years of accumulated creditable service. For any individual who becomes a member of one of the pension systems on or after July 1, 2011, pension allowances are computed using both the highest five consecutive year's AFC and the actual number of years of accumulated creditable service. Various retirement options are available under each system which ultimately determines how a retiree's benefit allowance will be computed. Some of these options require actuarial reductions based on the retiree's and/or designated beneficiary's attained age and similar actuarial factors.

Beginning July 1, 2011, the member contribution rate was increased for members of the Employees' Pension Systems from 5% to 7%, in fiscal year 2013.

In addition, the benefit attributable to service on or after July 1, 2011 in many of the pension systems now will be subject to different cost-of-living adjustments (COLA) that is based on the increase in the Consumer Price Index (CPI) and capped at 2.5% or 1.0% based on whether the market value investment return for the preceding calendar year was higher or lower than the investment return assumption used in the valuation.

A brief summary of the retirement eligibility requirements of and the benefits available under the various systems in effect during fiscal year 2017 are as follows:

Service Retirement Allowances

A member of either the Teachers' or Employees' Retirement System is generally eligible for full retirement benefits upon the earlier of attaining age 60 or accumulating 30 years of creditable service regardless of age. The annual retirement allowance equals 1/55 (1.81%) of the member's AFC multiplied by the number of years of accumulated creditable service.

An individual who is a member of either the Teachers' or Employees' Pension System on or before June 30, 2011, is eligible for full retirement benefits upon the earlier of attaining age 62, with specified years of eligibility service, or accumulating 30 years of eligibility service regardless of age. An individual who becomes a member of either the Teachers' or Employees' Pension System on or after July 1, 2011, is eligible for full retirement benefits if the member's combined age and eligibility service equals at least 90 years or if the member is at least age 65 and has accrued at least 10 years of eligibility service.

For most individuals who retired from either the Teachers' or Employees' Pension System on or before June 30, 2006, the annual pension allowance equals 1.2% of the member's AFC, multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.4% of the member's AFC, multiplied by the number of years of creditable service accumulated subsequent to June 30, 1998. With certain exceptions, for individuals who are members of the Teachers' or Employees' Pension System on or after July 1, 2006, the annual pension allowance equals 1.2% of the member's AFC, multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.8% of the member's AFC, multiplied by the number of years of creditable service accumulated subsequent to June 30, 1998. Beginning July 1, 2011, any new member of the Teachers' or Employees' Pension System shall earn an annual pension allowance equal to 1.5% of the member's AFC multiplied by the number of years of creditable service accumulated as a member of the Teachers' or Employee's Pension System.

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (continued)

Exceptions to these benefit formulas apply to members of the Employees' Pension System, who are employed by a participating governmental unit that does not provide the 1998 or 2006 enhanced pension benefits or the 2011 reformed pension benefits. The pension allowance for those members equals 0.8% of the member's AFC up to the social security integration level (SSIL), plus 1.5% of the member's AFC in excess of the SSIL, multiplied by the number of years of accumulated creditable service. For the purpose of computing pension allowances, the SSIL is the average of the social security wage bases for the past 35 calendar years ending with the year the retiree separated from service.

Vested Allowances

Any individual who is a member of the State Retirement and Pension System on or before June 30, 2011 (other than a judge or a legislator), and who terminates employment before attaining retirement age but after accumulating 5 years of eligibility service is eligible for a vested retirement allowance. Any individual who joins the State Retirement and Pension System on or after July 1, 2011 (other than a judge or a legislator), and who terminates employment before attaining retirement age but after accumulating 10 years of eligibility service is eligible for a vested retirement allowance. A member, who terminates employment prior to attaining retirement age and before vesting, receives a refund of all member contributions and interest.

Early Service Retirement

A member of either the Teachers' or Employees' Retirement System may retire with reduced benefits after completing 25 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree either attains age 60 or would have accumulated 30 years of creditable service, whichever is less. The maximum reduction for a Teachers' or Employees' Retirement System member is 30%.

An individual who is a member of either the Teachers' or Employees' Pension System on or before June 30, 2011 may retire with reduced benefits upon attaining age 55 with a least 15 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 62. The maximum reduction for these members of the Teachers' or Employees' Pension System is 42%. An individual who become a member of either the Teachers' or Employees' Pension System on or after July 1, 2011, may retire with reduced benefits upon attaining age 60 with at least 15 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 65. The maximum reduction for these members of the Teachers' or Employees' Pensions System is 30%.

Members of the State Police, Judges', Law Enforcement Officers' and Local Fire and Police Systems are not eligible for early service benefits.

Disability and Death Benefits

Generally, a member covered under retirement plan provisions who is permanently disabled after 5 years of service receives a service allowance based on a minimum percentage (usually 25%) of the member's AFC. A member covered under pension plan provisions who is permanently disabled after accumulating 5 years of eligibility service receives a service allowance computed as if service had continued with no change in salary until the retiree attained age 62. A member (other than a member of the Maryland General Assembly or a judge, both of which are ineligible for accidental disability benefits) who is permanently and totally disabled as the result of an accident occurring in the line of duty receives 2/3 (66.7%) of the member's AFC plus an annuity based on all member contributions and interest. Death benefits are equal to a member's annual salary as of the date of death plus all member contributions and interest.

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (continued)

Adjusted Retirement Allowances

Retirement and pension allowances are increased annually to provide for changes in the cost of living according to prescribed formulae. Such adjustments for retirees are based on the annual change in the CPI. For the Teachers' and Employees' Retirement Systems (TRS/ERS) the method by which the annual COLA's are computed depends upon elections made by members who were active on July 1, 1984 (or within 90 days of returning to service, for members who were inactive on July 1, 1984) enabling the member to receive either an unlimited COLA, a COLA limited to 5% or a two part combination COLA depending upon the COLA election made by the member.

However, beginning July 1, 2011, for benefits attributable to service earned on or after July 1, 2011, in all of the systems except the judges' and legislators' systems, the adjustment is capped in the lesser of 2.5% or the increase in CPI if the most recent calendar year market value rate of return was greater than or equal to the assumed rate. The adjustment is capped at the lesser of 1% or the increase in CPI if the market value return was less than the assumed rate of return. In years in which COLAs would be less than zero due to a decline in the CPI, retirement allowances will not be adjusted. COLAs in succeeding years are adjusted until the difference between the negative COLA that would have applied and the zero COLA is fully recovered.

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	In the 2016 actuarial valuation, 2.90% general, 3.20% wage. In the 2017 actuarial valuation, 2.65% general, 3.15% wage.
Salary Increases	In the 2016 actuarial valuation, 3.20% to 9.20%. In the 2017 actuarial valuation, 3.15% to 9.15%.
Investment Rate of Return	In the 2016 actuarial valuation, 7.55%. In the 2017 actuarial valuation, 7.50%.
Discount Rate	7.50%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014.
Mortality	RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRPS experience.

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (continued)

Investments

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the Board of Trustees after considering input from the System's investment consultant(s) and actuary(s). For each major asset class that is included in the System's target asset allocation as of June 30, 2017, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	36%	5.3%
Private Equity	11%	7.0%
Rate Sensitive	21%	1.2%
Credit Opportunity	9%	3.6%
Real Assets	15%	5.7%
Absolute Return	8%	3.1%
Total	100%	

The above was the Board of Trustees adopted asset allocation policy and best estimate of geometric real rates of return for each major asset class as of June 30, 2017.

For the year ended June 30, 2017, the annual money-weighted rate of return on pension plan investments, net of the pension plan investment expense, was 10.02%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount rate

A single discount rate of 7.50% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 7.50%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (continued)

Sensitivity of the Net Pension Liability

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.50%, as well as what the plan's net pension liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher:

System	1% Decrease to 6.50%	Discount Rate 7.50%	1% Increase to 8.50%
Employees	\$ 3,338,066	\$ 2,355,405	\$ 1,540,062

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was calculated as follows by the System(s):

1. Calculate the net pension liability for the entire System. For purposes of funding the System, all calculations are determined on an actuarial basis and are completed through the development of rates based on two separate asset pools, one for employees of the State of Maryland (the State) and one for the Participating Governmental Units ("PGUs"). These pools are kept on an actuarial basis and allow for the State to fund only State employees and PGUs to fund only PGU employees. For the accounting of the System, however, the assets of the System are accounted in a single pool which is audited annually.
2. Determined the total contributions to the System by the State and PGUs, inclusive of any underfunding of contributions.
3. Calculated for each participating government, their percentage of the adjusted System contribution by dividing the total adjusted System contribution into each PGU's contribution.
4. Provide each PGU its adjusted percentage of contribution and the System's net pension liability and other related amounts as of June 30, 2017, under GASB No. 67 requirements.

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (continued)

At June 30, 2018, the Town reported the following related to pensions:

Employer's proportionate (percentage) of the collective net pension liability	0.0108927%
Employer's proportionate share of the collective net pension liability	\$ 2,355,405
Pension expense recognized by the employer for the year ended June 30, 2018	\$ 217,591
Deferred outflows of resources June 30, 2017	\$ 731,632
Year end June 30, 2017 contributions	(221,703)
Difference between expected and actual experience	-
Change in assumptions	11,726
Amortization of items allowed by GASB 68	(140,144)
Year end June 30, 2018 contributions	243,137
Deferred outflows of resources June 30, 2018	<u>\$ 624,648</u>
Deferred inflows of resources June 30, 2017	\$ 67,050
Net difference between projected and actual investment earnings	94,104
Difference between expected and actual experience	114,126
Amortization of items allowed by GASB 68	(15,458)
Deferred inflows of resources June 30, 2018	<u>\$ 259,822</u>
NPL June 30, 2017	\$ 2,680,707
Change in NPL factored for contributions	(325,302)
NPL June 30, 2018	<u>\$ 2,355,405</u>

The \$243,137 of deferred outflows of resources resulting from the Town's contributions to the Employees' Systems subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources will be amortized over a five year period, as follows:

June 30,	Deferred Outflows	Deferred Inflows
2019	\$ 142,598	\$ (62,865)
2020	142,596	(62,865)
2021	91,954	(62,864)
2022	2,454	(52,626)
2023	1,909	(18,602)
Total	<u>\$ 381,511</u>	<u>\$ (259,822)</u>

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (continued)

For the year ended June 30, 2018 the Town's total payroll for all employees was \$1,765,610. Total covered payroll was \$1,592,428. Covered payroll refers to all compensation paid by the Town to active employees covered by Employees' Systems.

Special Actuarial Liability: The Town is required to pay a special accrued liability to cover the cost of the past service liability that has been brought into the system. The Town anticipates approximately \$110,000 in cost for fiscal years 2019 and 2020 associated with this special actuarial liability. The liability is scheduled to be paid in full in 2020.

Note 9. Defined Contribution Plan

The Town administers the Employee Benefits Plan of the Town, a voluntary defined contribution plan, to accept employee contributions. The Town does not contribute to the plan.

Note 10. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town's risk financing techniques include participation in a public entity pool and the purchase of commercial insurance.

For general, property, 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 by LGIT share in the risk among participants of the pools. As a result, the Town's annual premium requirements are affected by the loss experience of the various insurance pools in which it participates. The Town may be required to make additional assessments from time to time. These amounts are recorded as an expenditure when they are probable and can be reasonably estimated. Conversely, favorable performance of certain insurance pools may result in reduced premiums.

The Town is fully insured for workers' compensation, employee health, and accident insurance through commercial insurance, and employees are bonded to limit the loss to the Town in the event of employees committing acts of embezzlement or theft. There has been no significant reduction in insurance coverage from the prior year by major categories of risk, and amounts of settlements have not exceeded insurance coverage for each of the past three fiscal years.

Note 11. Related Party Transaction

The Town expects to have in the ordinary course of business lending, transactions with Town Council members. The Town believes these transactions are made on substantially the same terms as those prevailing at the time for comparable transactions with other persons and do not involve more than a normal risk of collectability or present any unfavorable terms. As of June 30, 2018 there are no outstanding loans to Town Council members.

NOTES TO FINANCIAL STATEMENTS

Note 12. Commitments, Contingencies and Subsequent Events

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The Town does not anticipate losses as a result of these transactions.

In the normal course of operations, the Town received grant funds from various Federal and state agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

The Town participates in the State of Maryland Community Legacy Program, from which the Town receives funds to invest in older neighborhoods and to support revitalization plans in business districts. The payments are in the form of an interest free note, repayment from which comes from either future sales of properties that have been rehabilitated, or any other payments received relating to the property. The Town has applied, and will continue to apply, for a deferral of any principal payment, and expects that the loans will either be forgiven or only paid when properties are sold. Total payments received to date under this program are \$385,500.

Note 13. Individual Fund Disclosures

The following funds had an excess of expenditures over appropriations for the year ended June 30, 2018:

Fund	Budgeted Expenditures	Actual Expenditures	Excess of Actual Over Budgeted Expenditures
Highway Fund	\$ 254,397	\$ 351,703	\$ (97,306)
Water Fund	575,971	609,364	(33,393)

Funds available to provide for the excess expenditures were made available from other sources including revenues exceeding budgeted amounts, within these funds. In management's opinion the excess expenditures had no material impact on the financial results of the Town.

For the Highway fund, the excess actual over budgeted expenditures relates mostly to an unbudgeted transportation grant of approximately \$84,000.

For the Water fund, the excess actual over budgeted expenditures relates mostly to unbudgeted depreciation expense.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF DENTON, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Taxes	\$ 2,980,224	\$ 3,078,228	\$ 3,129,276	\$ 51,048
Licenses and permits	21,650	56,625	56,700	75
Revenue from other agencies	85,530	127,714	138,149	10,435
Service charges	17,650	25,970	25,971	1
Miscellaneous	107,800	246,992	256,209	9,217
Total revenues	3,212,854	3,535,529	3,606,305	70,776
Expenditures				
Current:				
General government	460,497	506,308	493,328	12,980
Public safety	2,073,385	2,108,284	2,094,234	14,050
Public works	368,320	362,789	354,849	7,940
Recreation and culture	86,876	95,979	89,682	6,297
Urban development and housing	97,153	59,368	59,440	(72)
Debt service - principal	143,320	153,178	158,707	(5,529)
Debt service - interest	56,377	40,713	42,168	(1,455)
Total expenditures	3,285,928	3,326,619	3,292,408	34,211
Excess (deficiency) of revenues over (under) expenditures	(73,074)	208,910	313,897	104,987
Other financing sources (uses)				
Transfers in	55,500	171,265	177,993	6,728
Transfers out	(139,920)	(168,279)	(168,279)	-
Reserve	88,994	(279,602)	-	279,602
Note issued	68,500	67,706	67,706	-
Total other financing sources (uses)	73,074	(208,910)	77,420	286,330
Net change in fund balances	\$ -	\$ -	\$ 391,317	\$ 391,317

TOWN OF DENTON, MARYLAND
MARYLAND STATE RETIREMENT AND PENSION SYSTEMS
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (as of measurement date)
June 30, 2018

Measurement Date	Employer's Proportion (Percentage) of the Collective NPL A	Employer's Proportion Share of the Collective NPL B	Employer's Covered Employee Payroll C	Proportionate Share as a Percentage of Covered Payroll (B / C)	Plan's Total Fiduciary Net Position D	Plan's Total Pension Liability E	Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (D / E)
June 30, 2014	0.009746%	\$ 1,729,543	\$ 1,392,250	124%	\$ 45,339,988,000	\$ 63,086,719,000	72%
June 30, 2015	0.011067%	2,299,809	1,448,844	159%	45,789,840,000	66,571,552,000	69%
June 30, 2016	0.011362%	2,680,707	1,458,891	184%	45,365,927,000	68,959,954,000	66%
June 30, 2017	0.011362%	2,355,405	1,468,367	160%	48,987,184,000	70,610,885,000	69%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which the information is available.

TOWN OF DENTON, MARYLAND
MARYLAND STATE RETIREMENT AND PENSION SYSTEMS
SCHEDULE OF CONTRIBUTIONS (as of fiscal year end)
June 30, 2018

Fiscal Year	Contractually Required Contribution A	Actual Contribution B	Contribution Deficiency (Excess) (A - B)	Employer's Covered Employee Payroll C	Actual Contribution as a Percentage of Covered Payroll (B / C)
2015	\$ 233,251	\$ 233,251	\$ -	\$ 1,448,844	16%
2016	221,337	221,337	-	1,458,891	15%
2017	221,703	221,703	-	1,468,367	15%
2018	243,137	243,137	-	1,592,428	15%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which the information is available.

TOWN OF DENTON, MARYLAND
MARYLAND STATE RETIREMENT AND PENSION SYSTEMS
ACTUARIAL ASSUMPTIONS - PENSION PLAN
June 30, 2018

Changes in Benefit Terms

There were no benefit changes during the year.

Changes in Assumptions

Adjustments to the roll-forward liabilities were made to reflect the following assumptions change in the 2017 valuation:

Inflation assumptions changed from 2.90% to 2.65%

Method and Assumptions used in Calculations of Actuarially Determined Contributions

Actuarial	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	In the 2016 actuarial valuation: 25-year closed schedule ending June 30, 2039; 22 years remaining. In the 2017 actuarial valuation: 25-year closed schedule ending June 30, 2039; 21 years remaining.
Asset Valuation Model	Five-year smoothed market (max. 120% and min 80% of the market value)
Inflation	In the 2016 actuarial valuation. 2.90% general, 3.20% wage. In the 2017 actuarial valuation, 2.65% general, 3.15% wage.
Salary Increases	In the 2016 actuarial valuation, 3.20% to 9.20% including inflation. In the 2017 actuarial valuation, 3.15% to 9.15% including inflation.
Investment Rate of Return	In the 2016 actuarial valuation, 7.55%. In the 2017 actuarial valuation, 7.50%.
Retirement Age	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to the 2015 Experience Study of the period July 1, 2010 to June 30, 2014.
Mortality	RP-2014 Mortality Tables with generational mortality projections using scale MP-2014 2-dimensional mortality improvement scale.

OTHER SUPPLEMENTARY INFORMATION

TOWN OF DENTON, MARYLAND
OTHER SUPPLEMENTARY INFORMATION
COMBINING BALANCE SHEETS
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2018

	Capital Improvement	Highway Fund	Special Projects Fund	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents	\$ 291,016	\$ 283,996	\$ -	\$ 575,012
Due from other governments	-	11,069	65,386	76,455
Total assets	\$ 291,016	\$ 295,065	\$ 65,386	\$ 651,467
Liabilities				
Accounts payable and accrued expenses	\$ -	\$ 85,369	\$ 12,318	\$ 97,687
Due to other funds	-	-	83,597	83,597
Unearned revenues	-	-	11,870	11,870
Total liabilities	-	85,369	107,785	193,154
Fund balances				
Restricted	-	209,696	-	209,696
Assigned	291,016	-	-	291,016
Unassigned	-	-	(42,399)	(42,399)
Total fund balances	291,016	209,696	(42,399)	458,313
Total liabilities and fund balances	\$ 291,016	\$ 295,065	\$ 65,386	\$ 651,467

TOWN OF DENTON, MARYLAND
OTHER SUPPLEMENTARY INFORMATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2018

	Capital Improvement	Highway Fund	Special Projects Fund	Total Nonmajor Governmental Funds
Revenues				
Taxes	\$ -	\$ 48,720	\$ -	\$ 48,720
Licenses and permits	129,970	-	-	129,970
Revenue from other agencies	-	184,687	388,783	573,470
Interest income	-	-	1,210	1,210
Miscellaneous	4,185	2,915	22,967	30,067
Total revenues	134,155	236,322	412,960	783,437
Expenditures				
Current:				
Public works	-	148,691	-	148,691
Urban development and housing	-	-	271,962	271,962
Capital outlay and projects	-	112,564	86,649	199,213
Debt service - principal	-	44,890	-	44,890
Debt service - interest	-	45,558	-	45,558
Total expenditures	-	351,703	358,611	710,314
Excess (deficiency) of revenues over (under) expenditures	134,155	(115,381)	54,349	73,123
Other financing sources (uses)				
Transfers in	-	139,920	45,359	185,279
Transfers out	(124,293)	-	(17,000)	(141,293)
Total other financing sources (uses), net	(124,293)	139,920	28,359	43,986
Net change in fund balances	9,862	24,539	82,708	117,109
Fund balance - beginning	281,154	185,157	(125,107)	341,204
Fund balance - ending	\$ 291,016	\$ 209,696	\$ (42,399)	\$ 458,313

TOWN OF DENTON, MARYLAND
OTHER SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - HIGHWAY FUND
Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Taxes	\$ 48,977	\$ 48,977	\$ 48,720	\$ (257)
Licenses and permits	10,500	10,500	-	(10,500)
Revenue from other agencies	-	-	184,687	184,687
Miscellaneous	-	-	2,915	2,915
Total revenues	59,477	59,477	236,322	176,845
Expenditures				
Current:				
Public works	163,786	163,786	261,255	(97,469)
Debt service - principal	45,420	45,420	44,890	530
Debt service - interest	45,191	45,191	45,558	(367)
Total expenditures	254,397	254,397	351,703	(97,306)
Excess (deficiency) of revenues over (under) expenditures	(194,920)	(194,920)	(115,381)	79,539
Other financing sources (uses)				
Transfers in	139,920	139,920	139,920	-
Reserve	55,000	55,000	-	(55,000)
Total other financing sources (uses)	194,920	194,920	139,920	(55,000)
Net change in fund balances	\$ -	\$ -	\$ 24,539	\$ 24,539

TOWN OF DENTON, MARYLAND
OTHER SUPPLEMENTARY INFORMATION
INCOME AND EXPENSE DETAIL
BUDGET AND ACTUAL
WATER FUND
Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
Operating revenues				
Charges for services, net	\$ 748,380	\$ 748,380	\$ 835,425	\$ 87,045
Other revenues	36,500	36,500	11,154	(25,346)
Total operating revenues	784,880	784,880	846,579	61,699
Operating expenses				
Salaries and wages	183,406	183,406	178,583	4,823
Fringe benefits	111,530	111,530	89,548	21,982
Materials and supplies	3,700	3,700	3,589	111
Electric and telephone	46,352	46,352	44,146	2,206
Automotive expenses	21,905	21,905	8,511	13,394
Professional services	20,978	20,978	19,434	1,544
Repairs and maintenance	48,150	48,150	39,793	8,357
Depreciation	-	-	118,382	(118,382)
Other operating expenses	139,950	139,950	107,378	32,572
Total operating expenses	575,971	575,971	609,364	(33,393)
Operating income (loss)	208,909	208,909	237,215	28,306
Nonoperating revenues (expenses)				
Interest income	1,500	1,500	11,459	9,959
Debt service - principal payments	(126,795)	(126,795)	-	126,795
Debt service - interest expense	(38,442)	(38,442)	(36,350)	2,092
Reserve	(57,922)	(57,922)	-	57,922
Net nonoperating revenues (expenses)	(221,659)	(221,659)	(24,891)	196,768
Income (loss) before transfers	(12,750)	(12,750)	212,324	225,074
Transfers in	26,000	26,000	26,000	-
Transfers out	(13,250)	(13,250)	(26,718)	(13,468)
Change in net position	\$ -	\$ -	\$ 211,606	\$ 211,606

TOWN OF DENTON, MARYLAND
OTHER SUPPLEMENTARY INFORMATION
INCOME AND EXPENSE DETAIL
BUDGET AND ACTUAL
SEWER FUND
Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Operating revenues				
Charges for services, net	\$ 984,464	\$ 984,464	\$ 1,092,709	\$ 108,245
Vacant lots	11,233	11,233	10,926	(307)
Other revenues	1,614,118	1,614,118	183,072	(1,431,046)
Total operating revenues	2,609,815	2,609,815	1,286,707	(1,323,108)
Operating expenses				
Salaries and wages	306,519	306,519	298,893	7,626
Fringe benefits	186,774	186,774	145,810	40,964
Materials and supplies	6,657	6,657	6,960	(303)
Electric and telephone	96,350	96,350	103,006	(6,656)
Automotive expenses	25,635	25,635	9,037	16,598
Professional services	30,100	30,100	14,741	15,359
Repairs and maintenance	65,625	65,625	54,595	11,030
Depreciation	-	-	420,527	(420,527)
Other operating expenses	1,825,794	1,825,794	209,168	1,616,626
Total operating expenses	2,543,454	2,543,454	1,262,737	1,280,717
Operating income (loss)	66,361	66,361	23,970	(42,391)
Nonoperating revenues (expenses)				
Interest income	100	100	6,150	6,050
Debt service - principal payments	(136,341)	(136,341)	-	136,341
Debt service - interest expense	(15,899)	(15,899)	(13,753)	2,146
Reserve	25,029	25,029	-	(25,029)
Net nonoperating revenues (expenses)	(127,111)	(127,111)	(7,603)	119,508
Income (loss) before transfers	(60,750)	(60,750)	16,367	77,117
Transfers in	100,000	100,000	9,936	(90,064)
Transfers out	(39,250)	(39,250)	(42,918)	(3,668)
Change in net position	\$ -	\$ -	\$ (16,615)	\$ (16,615)

Herbert J. Geary III
Corey N. Duncan
Roy J. Geiser
Chris A. Hall
Ronald W. Hickman
Charles M. Meenehan
Craig A. Walter
Mark A. Welsh



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Town of Denton, Maryland
Denton, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Denton, Maryland (the "Town") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated October 26, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "J. M. Humpal". The signature is stylized with a large, looped initial "J" and a cursive "Humpal".

Salisbury, Maryland
October 26, 2018