

**TOWN OF DENTON, MARYLAND**

**FINANCIAL REPORT**

**JUNE 30, 2021**

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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, 2021, 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, 2021, 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 December 3, 2021, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "JPM Group LLC". The signature is written in a cursive, flowing style.

Salisbury, Maryland  
December 3, 2021

**Town of Denton, Maryland**  
**Management Discussion and Analysis**  
**Year Ended June 30, 2021**

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, 2021. 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 \$28,609,892, with \$22,118,531 of that amount invested in capital assets, net of related debt.
- The governmental activities total net position increased by \$239,786.
- The business-type activities total net position decreased by \$251,607.
- The Towns governmental funds reported a combined fund balance of \$6,272,843, of which \$5,274,936 is unassigned.
- The Town’s governmental funds fund balance increased by \$719,166 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, 2021**

**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 ensure 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. The Water and Sewer funds are treated as major 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, 2021**

**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	
	2021	2020	2021	2020	2021	2020
Current and other assets	\$ 7,455,687	\$ 6,948,075	\$ 2,807,311	\$ 2,733,479	\$ 10,262,998	\$ 9,681,554
Capital assets	14,667,632	14,861,157	12,939,682	13,463,858	27,607,314	28,325,015
<b>Total assets</b>	<b>\$ 22,123,319</b>	<b>\$ 21,809,232</b>	<b>\$ 15,746,993</b>	<b>\$ 16,197,337</b>	<b>\$ 37,870,312</b>	<b>\$ 38,006,569</b>
 <b>Deferred outflows</b>	 <b>\$ 349,505</b>	 <b>\$ 315,956</b>	 <b>\$ 132,843</b>	 <b>\$ 139,520</b>	 <b>\$ 482,348</b>	 <b>\$ 455,476</b>
Current and other liabilities	\$ 415,052	\$ 506,658	\$ 675,196	\$ 390,591	\$ 1,090,248	\$ 897,249
Long-term debt outstanding	4,992,678	4,730,469	3,454,556	3,907,718	8,447,234	8,638,187
<b>Total liabilities</b>	<b>\$ 5,407,730</b>	<b>\$ 5,237,127</b>	<b>\$ 4,129,752</b>	<b>\$ 4,298,309</b>	<b>\$ 9,537,482</b>	<b>\$ 9,535,436</b>
 <b>Deferred inflows</b>	 <b>\$ 148,748</b>	 <b>\$ 211,501</b>	 <b>\$ 56,538</b>	 <b>\$ 93,395</b>	 <b>\$ 205,286</b>	 <b>\$ 304,896</b>
Net investment in capital assets	\$ 11,916,386	\$ 11,989,185	\$ 10,202,145	\$ 10,494,974	\$ 22,118,531	\$ 22,484,159
Restricted	684,059	686,191	86,321	86,321	770,380	772,512
Unrestricted	4,315,901	4,001,184	1,405,080	1,363,858	5,720,981	5,365,042
<b>Total net position</b>	<b>\$ 16,916,346</b>	<b>\$ 16,676,560</b>	<b>\$ 11,693,546</b>	<b>\$ 11,945,153</b>	<b>\$ 28,609,892</b>	<b>\$ 28,621,713</b>



**Town of Denton, Maryland**  
**Management Discussion and Analysis**  
**Year Ended June 30, 2021**

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	
	2021	2020	2021	2020	2021	2020
<b>Revenues</b>						
Program revenues						
Charge for services	\$ 194,168	\$ 136,627	\$ 1,960,367	\$ 2,226,875	\$ 2,154,535	\$ 2,363,502
Operating grants and contributions	129,569	168,874	-	-	129,569	168,874
Capital grants and contributions	47,220	858,754	-	-	47,220	858,754
General revenues						
Property taxes	2,904,281	2,806,917	-	-	2,904,281	2,806,917
Income taxes	462,404	381,614	-	-	462,404	381,614
Other taxes	451,192	450,097	-	-	451,192	450,097
Gain on sale/disposal of asset	1,397	855	-	219	1,397	1,074
Other	324,932	548,363	1,505	18,241	326,437	566,604
<b>Total Revenue</b>	<b>\$ 4,515,163</b>	<b>\$ 5,352,101</b>	<b>\$ 1,961,872</b>	<b>\$ 2,245,335</b>	<b>\$ 6,477,035</b>	<b>\$ 7,597,436</b>
<b>Expenses</b>						
General government	645,031	595,639	-	-	645,031	595,639
Public safety	2,303,677	2,318,945	-	-	2,303,677	2,318,945
Public works	696,823	659,361	-	-	696,823	659,361
Recreation and culture	169,113	146,865	-	-	169,113	146,865
Urban development and housing	423,040	467,043	-	-	423,040	467,043
Interest on long-term debt	71,393	82,239	-	-	71,393	82,239
Water	-	-	743,493	738,332	743,493	738,332
Sewer	-	-	1,436,286	1,502,943	1,436,286	1,502,943
Industrial park	-	-	-	-	-	-
<b>Total Expenses</b>	<b>4,309,077</b>	<b>4,270,092</b>	<b>2,179,779</b>	<b>2,241,275</b>	<b>6,488,856</b>	<b>6,511,367</b>
Transfers in (out)	33,700	33,700	(33,700)	(33,700)	-	-
<b>Change in net position</b>	<b>239,786</b>	<b>1,115,709</b>	<b>(251,607)</b>	<b>(29,640)</b>	<b>(11,821)</b>	<b>1,086,069</b>
Net position, beginning of year	16,676,560	15,560,851	11,945,153	11,974,793	28,621,713	27,535,644
Net position end of year	<b>\$ 16,916,346</b>	<b>\$ 16,676,560</b>	<b>\$ 11,693,546</b>	<b>\$ 11,945,153</b>	<b>\$ 28,609,892</b>	<b>\$ 28,621,713</b>

**Town of Denton, Maryland**  
**Management Discussion and Analysis**  
**Year Ended June 30, 2021**

Governmental activities' revenues totaled \$4,515,163 compared to \$5,352,101 in the prior year. Expenses totaled \$4,309,077 compared to \$4,270,092 in the prior year. The resulting increase in governmental activities' net position for fiscal year 2021 and 2020 were \$239,786 and \$1,115,709, respectively. The decrease in the change in net position from 2020 to 2021 of \$875,923 mostly relates to a decrease in capital grants and contributions.

Business type activities' revenues totaled \$1,961,872 compared to \$2,245,335 in the prior year. Expenses totaled \$2,179,779 compared to \$2,241,275 in the prior year. This resulted in a decrease in business-type activities' net position \$251,607 for 2021 and a decrease \$29,640 for 2020. The decrease in the change in net position from 2020 to 2021 of \$221,967 mostly relates to a decrease in charge for services.

**GENERAL FUND BUDGETARY ANALYSIS**

- Total revenues were over budget by \$2,522, which mostly relates to taxes being over budget by \$2,523.
- Total expenditures were over budget by \$23,478, which mostly relates to public safety being over budget by \$14,513 and debt service being over budget by \$7,201.
- Actual results exceeded budget by \$761,726 mostly due to a budgeted reserve amount of \$775,482 in which there are no actual expenses.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

The Town's capital assets as of June 30, 2021, are as follows:

	Capital Asset Summary					
	Governmental		Business Type		Total	
	Activities		Activities			
	2021	2020	2021	2020	2021	2020
Land	\$ 1,513,935	\$ 1,513,935	\$ -	\$ -	\$ 1,513,935	\$ 1,513,935
Construction in process	-	-	74,495	72,640	74,495	72,640
Land improvements	1,678,541	1,599,655	-	-	1,678,541	1,599,655
Buildings	4,815,341	4,794,510	-	-	4,815,341	4,794,510
Infrastructure	14,139,933	13,879,058	-	-	14,139,933	13,879,058
Furniture and equipment	658,827	639,041	677,218	621,741	1,336,045	1,260,782
Vehicles	1,407,845	1,287,632	-	-	1,407,845	1,287,632
Municipal water system	-	-	4,376,050	4,376,050	4,376,050	4,376,050
Municipal sewer system	-	-	19,542,622	19,505,711	19,542,622	19,505,711
Total capital assets	24,214,422	23,713,831	24,670,385	24,576,142	48,884,807	48,289,973
Less Accumulated Depreciation	9,546,790	8,852,674	11,730,703	11,112,284	21,277,493	19,964,958
Capital assets, net	\$ 14,667,632	\$ 14,861,157	\$ 12,939,682	\$ 13,463,858	\$ 27,607,314	\$ 28,325,015

**Town of Denton, Maryland**  
**Management Discussion and Analysis**  
**Year Ended June 30, 2021**

Notable additions included the following:

<b>Description</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>
Window and Security Upgrades – Town Hall	\$38,696	
Street Paving	\$260,875	
Sharp Road Park Improvements	\$78,886	
Vehicles and equipment	\$122,134	\$55,477
Franklin St. Water Main CIP		\$1,855
Biolac Blower – Sewer System		\$36,911

The Town's long-term liabilities as of June 30, 2021, are as follows:

	Long-Term Liabilities					
	Governmental Activities		Business Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Compensated absences	\$ 215,763	\$ 221,047	\$ 96,632	\$ 94,019	\$ 312,395	\$ 315,066
Net pension liability	2,235,896	1,828,562	849,839	807,460	3,085,735	2,636,022
Bonds and notes payable	2,751,246	2,871,972	3,106,387	3,337,734	5,857,633	6,209,706
Total long-term debt	\$ 5,202,905	\$ 4,921,581	\$ 4,052,858	\$ 4,239,213	\$ 9,255,763	\$ 9,160,794

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**

- For FY22, the Town anticipates a slight increase in the real property assessable tax base due to:
  - The rise in property tax values when the reassessment was completed in 2021 and with the Town's Homestead Tax Credit Cap Percentage maintaining at 3%, the Town anticipates an increase in real property tax revenues.
  - The majority of the anticipated real property tax increases is expected to come from the new construction of homes being built in the Gardens Development and some new commercial projects.
- The Town is seeing a reduction in Hotel Tax Revenues and Parking Revenues that have been affected by the COVID-19 Pandemic.
- The Unemployment rate as of July 2021 was 6 percent, down from 8.7 percent a year ago, still higher than the 3.5 percent if was in 2019.
- The Town is considering legislation in FY22 to increase water meter replacement fees to cover the rising cost of new water meters.
- The Town is in the process of refinancing debt to obtain a lower interest rate.
- In FY22, the Town has entered into a vehicle lease program.
- The Town continues working with MDE on Bond Financing and Grant Funds for upgrading the water lines on Franklin Street. MDE has issued intent for financing the project up to \$1,896,282, providing for a loan in the amount of \$948,141, plus a loan with principal forgiveness in the amount of \$948,141 for 20 years.

**Town of Denton, Maryland**  
**Management Discussion and Analysis**  
**Year Ended June 30, 2021**

**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. 2<sup>nd</sup> St. Denton, Maryland 21629.

**TOWN OF DENTON, MARYLAND**  
**STATEMENT OF NET POSITION**  
**June 30, 2021**

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 6,132,577	\$ 1,843,117	\$ 7,975,694
Tax receivables	20,246	-	20,246
Service charge receivable	-	451,414	451,414
Note receivable	657,552	-	657,552
Other receivable	33,915	-	33,915
Internal balances	18,543	(18,543)	-
Due from other governments	276,334	76,152	352,486
Land held for resale	316,520	455,171	771,691
Capital assets, not being depreciated	1,513,935	74,495	1,588,430
Capital assets, being depreciated	13,153,697	12,865,187	26,018,884
<b>Total assets</b>	<b>22,123,319</b>	<b>15,746,993</b>	<b>37,870,312</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension	349,505	132,843	482,348
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	93,769	76,894	170,663
Unearned revenues	111,056	-	111,056
Bonds and notes payable	210,227	598,302	808,529
Due in more than one year:			
Compensated absences	215,763	96,632	312,395
Net pension liability	2,235,896	849,839	3,085,735
Bonds and notes payable	2,541,019	2,508,085	5,049,104
<b>Total liabilities</b>	<b>5,407,730</b>	<b>4,129,752</b>	<b>9,537,482</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension	148,748	56,538	205,286
<b>NET POSITION</b>			
Net investment in capital assets	11,916,386	10,202,145	22,118,531
Restricted	684,059	86,321	770,380
Unrestricted	4,315,901	1,405,080	5,720,981
<b>Total net position</b>	<b>\$ 16,916,346</b>	<b>\$ 11,693,546</b>	<b>\$ 28,609,892</b>

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

**TOWN OF DENTON, MARYLAND**  
**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2021**

		Net (Expense) Revenue and Changes in Net Position						
Function/Program	Expenses	Program Revenue				Primary Government		
		Charges for Services	Operating Contributions, and Interest	Grants, Contributions, and Interest	Capital Grants, Contributions, and Interest	Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES								
General government	\$ 645,031	\$ 81,554	\$ 38,548	\$ -	\$ (524,929)	\$ -	\$ (524,929)	
Public safety	2,303,677	35,934	87,394	-	(2,180,349)	-	(2,180,349)	
Public works	696,823	40,020	-	-	(656,803)	-	(656,803)	
Recreation and culture	169,113	22,107	-	-	(147,006)	-	(147,006)	
Urban development and housing	423,040	14,553	3,627	47,220	(357,640)	-	(357,640)	
Interest on long-term debt	71,393	-	-	-	(71,393)	-	(71,393)	
Total governmental activities	4,309,077	194,168	129,569	47,220	(3,938,120)	-	(3,938,120)	
BUSINESS-TYPE ACTIVITIES								
Water	743,493	702,071	-	-	-	(41,422)	(41,422)	
Sewer	1,436,286	1,258,296	-	-	-	(177,990)	(177,990)	
Industrial park	-	-	-	-	-	-	-	
Total business-type activities	2,179,779	1,960,367	-	-	-	(219,412)	(219,412)	
Total Primary Government	\$ 6,488,856	\$ 2,154,535	\$ 129,569	\$ 47,220	\$ (3,938,120)	\$ (219,412)	\$ (4,157,532)	

**General Revenues**

Taxes:			
Property	2,904,281	-	2,904,281
Income	462,404	-	462,404
Other	451,192	-	451,192
Interest	23,341	1,505	24,846
Gain on sale/disposal of assets	1,397	-	1,397
Other	301,591	-	301,591
Total General Revenues	4,144,206	1,505	4,145,711
Transfers in (out)	33,700	(33,700)	-
Change in Net Position	239,786	(251,607)	(11,821)
Net Position Beginning of Year	16,676,560	11,945,153	28,621,713
Net Position End of Year	\$ 16,916,346	\$ 11,693,546	\$ 28,609,892

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

**TOWN OF DENTON, MARYLAND**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2021**

	General Fund	Business Loan Fund	<u>Nonmajor</u> Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 5,213,084	\$ 517,036	\$ 402,457	\$ 6,132,577
Receivables:				
Taxes	20,246	-	-	20,246
Notes	-	657,552	-	657,552
Other receivables	27,952	5,963	-	33,915
Due from other funds	47,392	-	-	47,392
Due from other governments	118,906	-	157,428	276,334
<b>Total assets</b>	<b>\$ 5,427,580</b>	<b>\$ 1,180,551</b>	<b>\$ 559,885</b>	<b>\$ 7,168,016</b>
<b>Liabilities, deferred inflows and fund balances</b>				
<b>Liabilities:</b>				
Accounts payable and accrued expenses	\$ 90,457	\$ 59	\$ 3,253	\$ 93,769
Due to other funds	-	-	28,849	28,849
Unearned revenues	58,240	-	52,816	111,056
<b>Total liabilities</b>	<b>148,697</b>	<b>59</b>	<b>84,918</b>	<b>233,674</b>
<b>Deferred inflows of resources:</b>				
Business loans	-	657,552	-	657,552
Unavailable revenue-property taxes	3,947	-	-	3,947
<b>Total deferred inflows of resources</b>	<b>3,947</b>	<b>657,552</b>	<b>-</b>	<b>661,499</b>
<b>Fund balances:</b>				
Restricted	-	522,940	161,119	684,059
Assigned	-	-	313,848	313,848
Unassigned	5,274,936	-	-	5,274,936
<b>Total fund balances</b>	<b>5,274,936</b>	<b>522,940</b>	<b>474,967</b>	<b>6,272,843</b>
<b>Total liabilities, deferred inflows and fund balances</b>	<b>\$ 5,427,580</b>	<b>\$ 1,180,551</b>	<b>\$ 559,885</b>	<b>\$ 7,168,016</b>

*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, 2021**

Total fund balances, governmental funds	\$ 6,272,843
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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.	14,667,632
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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.	316,520
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Deferred outflows of resources - pension	349,505
--	---------

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	3,947
Business loans	657,552

Deferred inflows of resources - pension	(148,748)
---	-----------

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	(215,763)
Net pension liability	(2,235,896)
Bonds and notes payable	<u>(2,751,246)</u>

Net position of governmental activities in the Statement of Net Position	<u>\$16,916,346</u>
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**TOWN OF DENTON, MARYLAND**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**Year Ended June 30, 2021**

	General Fund	Business Loan Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Taxes	\$ 3,569,233	\$ -	\$ 262,280	\$ 3,831,513
Licenses and permits	62,877	-	121,272	184,149
Revenue from other agencies	125,551	-	51,725	177,276
Service charges	9,532	-	-	9,532
Interest income	-	23,278	63	23,341
Miscellaneous	173,669	67,197	60,725	301,591
<b>Total revenues</b>	<b>3,940,862</b>	<b>90,475</b>	<b>496,065</b>	<b>4,527,402</b>
<b>Expenditures</b>				
Current:				
General government	512,744	-	-	512,744
Public safety:				
Police	1,455,458	-	-	1,455,458
Fire	101,201	-	-	101,201
Zoning	404,138	-	-	404,138
Public works	397,712	-	110,957	508,669
Recreation and culture	72,028	-	-	72,028
Urban development and housing	61,373	1,942	53,070	116,385
Capital outlay and projects	152,409	-	348,182	500,591
Debt service - principal	174,843	27,831	33,465	236,139
Debt service - interest	25,327	4,006	42,060	71,393
<b>Total expenditures</b>	<b>3,357,233</b>	<b>33,779</b>	<b>587,734</b>	<b>3,978,746</b>
Excess (deficiency) of revenues over (under) expenditures	583,629	56,696	(91,669)	548,656
<b>Other financing sources (uses)</b>				
Transfers in	72,382	-	191,470	263,852
Transfers out	(31,095)	(20,000)	(179,057)	(230,152)
Proceeds from sale of assets	21,397	-	-	21,397
Note issued	115,413	-	-	115,413
<b>Total other financing sources (uses)</b>	<b>178,097</b>	<b>(20,000)</b>	<b>12,413</b>	<b>170,510</b>
<b>Net change in fund balances</b>	<b>761,726</b>	<b>36,696</b>	<b>(79,256)</b>	<b>719,166</b>
<b>Fund balance - beginning</b>	<b>4,513,210</b>	<b>486,244</b>	<b>554,223</b>	<b>5,553,677</b>
<b>Fund balance - ending</b>	<b>\$ 5,274,936</b>	<b>\$ 522,940</b>	<b>\$ 474,967</b>	<b>\$ 6,272,843</b>

*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, 2021

Net change in fund balances, governmental funds	\$ 719,166
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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	500,591
Depreciation expense	(694,116)

Governmental funds only report the disposal of land held for resale to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.

Carrying cost of land held for sale	(20,000)
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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:

(115,413)
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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.

236,139
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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	(13,636)
Business loans	(67,197)

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	5,284
Increase (decrease) in deferred outflows of resources - pensions	33,549
(Increase) decrease in deferred inflows of resources - pensions	62,753
(Increase) decrease in net pension liability	(407,334)

Change in net position of governmental activities	\$ 239,786
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**TOWN OF DENTON, MARYLAND**  
**STATEMENT OF FUND NET POSITION**  
**BUSINESS-TYPE ACTIVITIES**  
**June 30, 2021**

	Water Fund	Sewer Fund	Nonmajor Industrial Park Fund	Total
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 1,177,625	\$ 628,832	\$ 36,660	\$ 1,843,117
Receivables:				
Service charges	151,522	299,892	-	451,414
Due from other governments	75,077	1,075	-	76,152
Total current assets	1,404,224	929,799	36,660	2,370,683
Noncurrent assets:				
Land held for resale	-	-	455,171	455,171
Capital assets, net	2,473,346	10,466,336	-	12,939,682
Total noncurrent assets	2,473,346	10,466,336	455,171	13,394,853
Total assets	3,877,570	11,396,135	491,831	15,765,536
<b>Deferred Outflows of Resources</b>				
Deferred outflows related to pensions	49,961	82,882	-	132,843
<b>Liabilities</b>				
Current liabilities:				
Accounts payable and accrued expense:	14,911	61,983	-	76,894
Due to other funds	-	-	18,543	18,543
Bonds and notes payable	38,903	190,549	368,850	598,302
Total current liabilities	53,814	252,532	387,393	693,739
Noncurrent liabilities:				
Compensated absences	37,914	58,718	-	96,632
Net pension liability	319,620	530,219	-	849,839
Bonds and notes payable	970,764	1,537,321	-	2,508,085
Total noncurrent liabilities	1,328,298	2,126,258	-	3,454,556
Total liabilities	1,382,112	2,378,790	387,393	4,148,295
<b>Deferred Inflows of Resources</b>				
Deferred inflows related to pensions	21,263	35,275	-	56,538
<b>Net position</b>				
Net investment in capital assets	1,463,679	8,738,466	-	10,202,145
Restricted	-	-	86,321	86,321
Unrestricted	1,060,477	326,486	18,117	1,405,080
Total net position	\$ 2,524,156	\$ 9,064,952	\$ 104,438	\$ 11,693,546

*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, 2021**

	Water Fund	Sewer Fund	<u>Nonmajor</u> Industrial Park Fund	Total
<b>Operating revenues</b>				
Charges for services, net	\$ 689,335	\$ 1,093,959	\$ -	\$ 1,783,294
Vacant lots	-	12,697	-	12,697
Other revenues	12,736	151,640	-	164,376
<b>Total operating revenues</b>	<b>702,071</b>	<b>1,258,296</b>	<b>-</b>	<b>1,960,367</b>
<b>Operating expenses</b>				
Salaries and wages	210,264	342,215	-	552,479
Fringe benefits	123,823	154,131	-	277,954
Materials and supplies	1,360	1,796	-	3,156
Electric and telephone	45,462	100,153	-	145,615
Automotive expenses	9,145	9,108	-	18,253
Professional services	18,872	14,986	-	33,858
Repairs and maintenance	51,901	84,066	-	135,967
Depreciation	130,474	487,945	-	618,419
Other operating expenses	116,430	213,874	-	330,304
<b>Total operating expenses</b>	<b>707,731</b>	<b>1,408,274</b>	<b>-</b>	<b>2,116,005</b>
<b>Operating income (loss)</b>	<b>(5,660)</b>	<b>(149,978)</b>	<b>-</b>	<b>(155,638)</b>
<b>Nonoperating revenues (expenses)</b>				
Interest income	946	520	39	1,505
Interest expense	(35,762)	(28,012)	-	(63,774)
<b>Net nonoperating revenues (expenses)</b>	<b>(34,816)</b>	<b>(27,492)</b>	<b>39</b>	<b>(62,269)</b>
<b>Income (loss) before transfers</b>	<b>(40,476)</b>	<b>(177,470)</b>	<b>39</b>	<b>(217,907)</b>
Transfers in	26,000	-	-	26,000
Transfers out	(16,782)	(42,918)	-	(59,700)
<b>Change in net position</b>	<b>(31,258)</b>	<b>(220,388)</b>	<b>39</b>	<b>(251,607)</b>
<b>Total net position - beginning</b>	<b>2,555,414</b>	<b>9,285,340</b>	<b>104,399</b>	<b>11,945,153</b>
<b>Total net position - ending</b>	<b>\$ 2,524,156</b>	<b>\$ 9,064,952</b>	<b>\$ 104,438</b>	<b>\$ 11,693,546</b>

*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, 2021**

	Water Fund	Sewer Fund	Industrial Park Fund	Total
<b>OPERATING ACTIVITIES:</b>				
Receipts from customers	\$ 704,064	\$ 1,372,483	\$ -	\$ 2,076,547
Payments to vendors	(240,135)	(409,220)	-	(649,355)
Payments to employees	(310,023)	(505,598)	-	(815,621)
Net cash provided by operating activities	153,906	457,665	-	611,571
<b>NONCAPITAL FINANCING ACTIVITIES:</b>				
Transfers in (out)	9,218	(42,918)	-	(33,700)
Net cash provided (used) by noncapital financing activities	9,218	(42,918)	-	(33,700)
<b>CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Acquisition of capital assets	(21,629)	(72,614)	-	(94,243)
Issuance of long-term debt	928	-	-	928
Principal paid on long-term debt	(40,563)	(191,712)	-	(232,275)
Interest paid on long-term debt	(35,762)	(28,012)	-	(63,774)
Net cash used by capital and related financing activities	(97,026)	(292,338)	-	(389,364)
<b>INVESTING ACTIVITIES:</b>				
Interest income	946	520	39	1,505
Net cash provided by investing activities	946	520	39	1,505
Net change in cash and cash equivalents	67,044	122,929	39	190,012
Cash and cash equivalents, beginning of year	1,110,581	505,903	36,621	1,653,105
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,177,625</b>	<b>\$ 628,832</b>	<b>\$ 36,660</b>	<b>\$ 1,843,117</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>				
Operating loss	\$ (5,660)	\$ (149,978)	\$ -	\$ (155,638)
Adjustments to reconcile operating loss to net cash provided by operating activities:				
Depreciation expense	130,474	487,945	-	618,419
Pension obligation	22,624	(10,425)	-	12,199
Changes in assets and liabilities:				
Receivables	1,993	114,187	-	116,180
Accounts and other payables	3,035	14,763	-	17,798
Compensated absences	1,440	1,173	-	2,613
Net cash provided by operating activities	\$ 153,906	\$ 457,665	\$ -	\$ 611,571

*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 consist of the Water (*major*), Sewer (*major*), and Industrial Park (*non-major*) (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, 2021.

#### 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 items, which arises only on a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the items, *unavailable revenue and business loans*, are reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes and businesses loans. 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 \$7,975,694 and the bank balance was \$8,470,241, all of which was covered by Federal Depository Insurance or 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, 2021, the Town's deposit and investment balances are as follows:

	<u>Fair Value</u>
MLGIP	\$ 7,343,514
Deposits	631,680
Cash on hand	500
	<hr/>
Total cash and cash equivalents	\$ 7,975,694

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 has \$657,552 in outstanding loan payments as of June 30, 2021. 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

Interfund receivables and payables are usually used by the Town to cover temporary cash deficits in individual funds until grant or similar resources are received. Occasionally, these receivables and payables are used in lieu of short-term external borrowing.

As of June 30, 2021, due to/from other funds are as follows:

	<b>Interfund Receivable</b>	<b>Interfund Payables</b>	<b>Net</b>
General Fund	\$ 47,392	\$ -	\$ 47,392
Special Projects Fund	-	-	-
Business Loan Fund	-	-	-
Capital Improvement Fund	-	-	-
Highway Fund	-	(28,849)	(28,849)
Water Fund	-	-	-
Sewer Fund	-	-	-
Industrial Park Fund	-	(18,543)	(18,543)
<b>Total</b>	<b>\$ 47,392</b>	<b>\$ (47,392)</b>	<b>\$ -</b>

Interfund transfers represent a transfer of resources from one fund to another without expectation of repayment. Usually, these transfers are undertaken to enable the receiving entity to provide services that the government has determined to be in the best interest of the Town.

As of June 30, 2021, transfers to other funds are as follows:

	<b>Transfers In</b>	<b>Transfers Out</b>	<b>Net</b>
General Fund	\$ 72,382	\$ (31,095)	\$ 41,287
Special Projects Fund	48,095	(17,000)	31,095
Business Loan Fund	-	(20,000)	(20,000)
Capital Improvement Fund	-	(162,057)	(162,057)
Highway Fund	143,375	-	143,375
Water Fund	26,000	(16,782)	9,218
Sewer Fund	-	(42,918)	(42,918)
Industrial Park Fund	-	-	-
<b>Total</b>	<b>\$ 289,852</b>	<b>\$ (289,852)</b>	<b>\$ -</b>

## NOTES TO FINANCIAL STATEMENTS

### Note 6. Capital Assets

The following is a summary of changes in capital assets for the year ended June 30, 2021:

	June 30, 2020	Additions	Transfers / Deductions	June 30, 2021
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital assets, not being depreciated:				
Land	\$ 1,513,935	\$ -	\$ -	\$ 1,513,935
Total capital assets, not being depreciated	1,513,935	-	-	1,513,935
Capital assets, being depreciated:				
Land improvements	1,599,655	78,886	-	1,678,541
Buildings	4,794,510	20,831	-	4,815,341
Infrastructure	13,879,058	260,875	-	14,139,933
Furniture and equipment	639,041	19,786	-	658,827
Vehicles	1,287,632	120,213	-	1,407,845
Total capital assets, being depreciated	22,199,896	500,591	-	22,700,487
Less accumulated depreciation:				
Land improvements	1,293,003	73,719	-	1,366,722
Buildings	1,659,692	121,594	-	1,781,286
Infrastructure	4,346,350	351,941	-	4,698,291
Furniture and equipment	382,097	89,735	-	471,832
Vehicles	1,171,532	57,127	-	1,228,659
Total accumulated depreciation	8,852,674	694,116	-	9,546,790
Total capital assets, being depreciated, net	13,347,222	(193,525)	-	13,153,697
Governmental activities capital assets, net	\$ 14,861,157	\$ (193,525)	\$ -	\$ 14,667,632

Depreciation expense was charged to governmental functions as follows:

General government	\$ 80,083
Public safety	122,175
Public works	164,206
Recreation and culture	88,670
Urban development and housing	238,982
	<u>\$ 694,116</u>

# NOTES TO FINANCIAL STATEMENTS

## Note 6. Capital Assets (continued)

	June 30, 2020	Additions	Transfers / Deductions	June 30, 2021
<b>BUSINESS-TYPE ACTIVITIES</b>				
Capital assets, not being depreciated:				
Construction in process	\$ 72,640	\$ 1,855	\$ -	\$ 74,495
Total capital assets, not being depreciated	72,640	1,855	-	74,495
Capital assets, being depreciated:				
Municipal water system	4,376,050	-	-	4,376,050
Municipal sewer system	19,505,711	36,911	-	19,542,622
Machinery and equipment	621,741	55,477	-	677,218
Total capital assets, being depreciated	24,503,502	92,388	-	24,595,890
Less accumulated depreciation:				
Municipal water system	1,958,528	103,121	-	2,061,649
Municipal sewer system	8,749,817	456,587	-	9,206,404
Machinery and equipment	403,939	58,711	-	462,650
Total accumulated depreciation	11,112,284	618,419	-	11,730,703
Total capital assets, being depreciated, net	13,391,218	(526,031)	-	12,865,187
Business-type activities capital assets, net	\$ 13,463,858	\$ (524,176)	\$ -	\$ 12,939,682

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

Water	\$ 130,474
Sewer	487,945
	\$ 618,419



## 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, 2020	Additions	Retirements and Repayments	Balances June 30, 2021	Amount Due In One Year
<b>Governmental activities:</b>					
Compensated absences	\$ 221,047	\$ -	\$ 5,284	\$ 215,763	\$ -
Net pension liability	1,828,562	407,334	-	2,235,896	-
Bonds and notes payable	2,871,972	115,413	236,139	2,751,246	210,227
Total governmental activities					
long-term obligations	\$ 4,921,581	\$ 522,747	\$ 241,423	\$ 5,202,905	\$ 210,227
<b>Business-type activities</b>					
Compensated absences	\$ 94,019	\$ 2,613	\$ -	\$ 96,632	\$ -
Net pension liability	807,460	42,379	-	849,839	-
Bonds and notes payable	3,337,734	928	232,275	3,106,387	598,302
Total business-type activities					
long-term obligations	\$ 4,239,213	\$ 45,920	\$ 232,275	\$ 4,052,858	\$ 598,302

Interest expense in the governmental activities and business-type activities for the year ended June 30, 2021 is \$71,393 and \$63,774, 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
2022	\$ 210,227	\$ 75,475	\$ 598,302	\$ 81,408
2023	201,404	69,893	227,708	47,419
2024	183,613	64,640	195,184	44,904
2025	177,431	59,985	73,857	42,940
2026	160,150	55,222	75,375	41,422
2027 - 2031	780,355	200,270	367,717	185,429
2032 - 2036	268,636	142,844	381,255	149,767
2037 - 2041	223,658	107,681	421,819	109,202
2042 - 2046	263,591	67,748	469,121	61,900
2047 - 2051	260,441	23,660	247,751	14,577
2052 - 2053	21,740	1,895	48,298	129
Total	\$ 2,751,246	\$ 869,313	\$ 3,106,387	\$ 779,097

## 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, 2021:

\$1,210,440 Highway fund share of 5 <sup>th</sup> Ave project loan issued by USDA, due in quarterly installments of \$4,333 until 2052, interest at 3.01 %.	\$ 1,036,205
\$266,950 Series 2008 Maryland Public Improvement Bonds issued by USDA, due in quarterly installments through June 30, 2047, interest at 4.38 %.	221,795
\$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.	58,052
\$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.	361,577
\$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.	543,213
\$53,867 installment note payable, financing of two police cars, due in monthly payments of \$944 through 2022, interest at 1.98 %.	3,729
\$67,706 installment note payable, financing of two police cars, due in monthly payments of \$1,205 through 2023, interest at 2.58 %.	22,329
\$37,500 installment note payable, financing of one police car, due in monthly payments of \$840 through 2023, interest at 3.55 %.	17,844
\$38,193 installment note payable, financing of one police car, due in monthly payments of \$869 through 2025, interest at 2.99 %.	33,425
\$77,220 installment note payable, financing of two police cars, due in monthly payments of \$1,761 through 2025, interest at 2.70 %.	70,847
\$20,000 Highway fund share of installment note payable, financing of one excavator, split due in monthly payments of \$361 through 2024, interest at 3.23 %.	9,429
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 %.	372,801
<b>Total Governmental Activities bonds and notes payable</b>	<b>\$ 2,751,246</b>

## 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, 2021:

\$500,000 Series 2008 Maryland Public Improvement Bonds issued by USDA, due in quarterly installments through June 30, 2047, interest at 4.38%.	\$ 415,539
\$2,332,577 MDE note issued September 23, 2004, due in annual installments of \$121,589 including interest at 0.4% through February 2024.	361,871
\$140,000, Rural Development Loan due in quarterly installments of \$1,892 including interest at 4.5%, through September 2027.	39,201
\$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%.	533,655
\$53,500 MDE note issued January 28, 2011, due in annual installments including interest at 1.2% through February 2031.	28,344
\$1,401,007 Water Quality State Revolving Fund loan, semi-annual interest payments and annual principal payments, interest at 0.9% through February 2048.	1,244,126
\$57,343 Water and Sewer fund share of installment note payable, financing of one excavator, split due in monthly payments of \$1,038 through 2024, interest at 3.23%.	25,630
\$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 2022, no interest.	368,850
\$90,000 Water and Sewer fund share of installment note payable, financing of one backhoe, split due in monthly payments of \$1,618 through 2025, interest at 2.99%	51,924
\$948,141 Drinking Water State Revolving Fund, 20 year amortization with interest at 1.7%.	37,247
<b>Total Business-type Activities bonds and notes payable</b>	<b>\$ 3,106,387</b>

## NOTES TO FINANCIAL STATEMENTS

### Note 7. Long-term Obligations (continued)

#### Operating Lease

The Town leases certain equipment under operating lease arrangements. Current year expense was approximately \$14,300. Future minimum lease payments are as follows:

2022	\$	12,000
2023		6,200
2024		4,700
2025		1,200
<hr/>		
Total	\$	24,100

### 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](http://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.

## NOTES TO FINANCIAL STATEMENTS

### **Note 8. Pension Plan (continued)**

#### **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.

#### **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 2020 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.

## NOTES TO FINANCIAL STATEMENTS

### Note 8. Pension Plan (continued)

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.

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%.

## NOTES TO FINANCIAL STATEMENTS

### Note 8. Pension Plan (continued)

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.

#### 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.

## NOTES TO FINANCIAL STATEMENTS

### Note 8. Pension Plan (continued)

#### Actuarial Assumptions

The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	In the 2020 actuarial valuation, 2.60% general, 3.10% wage. In the 2019 actuarial valuation, 2.65% general, 3.15% wage.
Salary Increases	In the 2020 actuarial valuation, 3.10% to 11.60%. In the 2019 actuarial valuation, 3.10% to 11.60%.
Investment Rate of Return	In the 2020 actuarial valuation, 7.40%. In the 2019 actuarial valuation, 7.40%.
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2018 valuation pursuant to an experience study of the period July 1, 2014 to July 30, 2018.
Mortality	Public Sector 2010 Mortality Tables calibrated to MSRPS experience with generational projections using MP-2018 (2-dimensional) mortality improvement scale.

#### 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, 2020, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	37%	5.2%
Private Equity	13%	6.5%
Rate Sensitive	19%	-0.3%
Credit Opportunity	9%	2.8%
Real Assets	14%	4.3%
Absolute Return	8%	1.8%
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, 2020.

For the year ended June 30, 2020, the annual money-weighted rate of return on pension plan investments, net of the pension plan investment expense, was 3.50%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.



## NOTES TO FINANCIAL STATEMENTS

### Note 8. Pension Plan (continued)

#### Discount rate

A single discount rate of 7.40% 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 7.40%. 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.

#### 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 7.40%, 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 6.40 %	Discount Rate 7.40 %	1 % Increase to 8.40 %
Employees	\$ 4,393,040	\$ 3,085,735	\$ 1,996,869

#### 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, 2020, 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, 2020, under GASB No. 67 requirements.

## NOTES TO FINANCIAL STATEMENTS

### Note 8. Pension Plan (continued)

At June 30, 2021, the Town reported the following related to pensions:

Employer's proportionate (percentage) of the collective net pension liability	0.0136529%
Employer's proportionate share of the collective net pension liability	\$ 3,085,735
Pension expense recognized by the employer for the year ended June 30, 2021	\$ 524,361
Deferred outflows of resources June 30, 2020	\$ 455,476
Year end June 30, 2020 contributions	(292,726)
Net difference between projected and actual investment earnings	227,259
Difference between expected and actual experience	-
Change in assumptions	-
Amortization of items allowed by GASB 68	(108,791)
Year end June 30, 2021 contributions	201,130
Deferred outflows of resources June 30, 2021	<u>\$ 482,348</u>
Deferred inflows of resources June 30, 2020	\$ 304,896
Net difference between projected and actual investment earnings	-
Difference between expected and actual experience	4,984
Change in assumptions	-
Amortization of items allowed by GASB 68	(104,594)
Deferred inflows of resources June 30, 2021	<u>\$ 205,286</u>
NPL June 30, 2020	\$ 2,636,022
Change in NPL factored for contributions	449,713
NPL June 30, 2021	<u>\$ 3,085,735</u>

The \$201,130 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, 2022. Other amounts reported as deferred outflows of resources will be amortized over a five year period.

Net deferred outflows / (inflows) will be amortized as follows:

Year Ended June 30:		
2022	\$	(19,357)
2023		14,124
2024		40,322
2025		41,401
2026		(558)
Total	\$	<u>75,932</u>

## NOTES TO FINANCIAL STATEMENTS

### **Note 8. Pension Plan (continued)**

For the year ended June 30, 2021 the Town's total payroll for all employees was \$1,995,580. Total covered payroll was \$1,964,162. Covered payroll refers to all compensation paid by the Town to active employees covered by Employees' Systems.

### **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, 2021 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.

In March 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak a public health emergency. There were mandates from federal, state, and local authorities requiring forced closures of schools, businesses, and other facilities. The restrictions brought on by the pandemic may have had an adverse impact on the Town's business and its suppliers and donors. Uncertainty remains regarding the ongoing impact of the COVID-19 outbreak on the Town's financial condition if there is a resurgence.

In December 2021, the Town issued a bond in the amount of \$593,732 through the Maryland Department of Housing and Community Development. The purpose of this bond was to refund two of the Town's outstanding USDA Public Improvement Bonds.

### Note 13. Individual Fund Disclosures

The following funds had an excess of expenditures over appropriations for the year ended June 30, 2021:

<u>Fund</u>	<u>Budgeted Expenditures</u>	<u>Actual Expenditures</u>	<u>Excess of Actual Over Budgeted Expenditures</u>
General fund	\$ 3,333,755	\$ 3,357,233	\$ (23,478)
Highway Fund	326,962	455,778	(128,816)
Sewer Fund	1,083,235	1,408,274	(325,039)

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.

**REQUIRED SUPPLEMENTARY INFORMATION**

**TOWN OF DENTON, MARYLAND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**Year Ended June 30, 2021**

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>Revenues</b>				
Taxes	\$ 3,286,469	\$ 3,566,710	\$ 3,569,233	\$ 2,523
Licenses and permits	28,400	62,877	62,877	-
Revenue from other agencies	82,872	125,551	125,551	-
Service charges	18,025	9,533	9,532	(1)
Miscellaneous	165,393	173,669	173,669	-
<b>Total revenues</b>	<b>3,581,159</b>	<b>3,938,340</b>	<b>3,940,862</b>	<b>2,522</b>
<b>Expenditures</b>				
Current:				
General government	567,087	550,748	551,440	(692)
Public safety:				
Police	1,850,843	1,556,233	1,569,171	(12,938)
Fire	84,700	101,201	101,201	-
Zoning	493,752	402,563	404,138	(1,575)
Public works	395,809	397,071	397,712	(641)
Recreation and culture	75,118	71,625	72,028	(403)
Urban development and housing	95,808	61,345	61,373	(28)
Debt service - principal	144,106	168,377	174,843	(6,466)
Debt service - interest	57,870	24,592	25,327	(735)
<b>Total expenditures</b>	<b>3,765,093</b>	<b>3,333,755</b>	<b>3,357,233</b>	<b>(23,478)</b>
Excess (deficiency) of revenues over (under) expenditures	(183,934)	604,585	583,629	(20,956)
<b>Other financing sources (uses)</b>				
Transfers in	57,900	65,182	72,382	7,200
Transfers out	-	(31,095)	(31,095)	-
Proceeds from sale of assets	-	21,397	21,397	-
Reserve	46,034	(775,482)	-	775,482
Note issued	80,000	115,413	115,413	-
<b>Total other financing sources (uses)</b>	<b>183,934</b>	<b>(604,585)</b>	<b>178,097</b>	<b>782,682</b>
<b>Net change in fund balances</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 761,726</b>	<b>\$ 761,726</b>

**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, 2021**

<b>Measurement Date</b>	<b>Employer's Proportion (Percentage) of the Collective NPL A</b>	<b>Employer's Proportion Share of the Collective NPL B</b>	<b>Employer's Covered Employee Payroll C</b>	<b>Proportionate Share as a Percentage of Covered Payroll (B / C)</b>	<b>Plan's Total Fiduciary Net Position D</b>	<b>Plan's Total Pension Liability E</b>	<b>Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (D / E)</b>
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	0.010893%	2,355,405	1,468,367	160%	48,987,184,000	70,610,885,000	69%
June 30, 2018	0.012193%	2,558,278	1,592,428	161%	51,827,233,000	72,808,833,000	71%
June 30, 2019	0.012780%	2,636,022	1,669,757	158%	53,943,420,000	74,569,030,000	72%
June 30, 2020	0.013653%	3,085,735	1,865,162	165%	54,586,037,000	77,187,397,000	71%

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, 2021**

<b>Fiscal Year</b>	<b>Contractually Required Contribution A</b>	<b>Actual Contribution B</b>	<b>Contribution Deficiency (Excess) (A - B)</b>	<b>Employer's Covered Employee Payroll C</b>	<b>Actual Contribution as a Percentage of Covered Payroll (B / C)</b>
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%
2019	262,444	262,444	-	1,669,757	16%
2020	292,726	292,726	-	1,865,162	16%
2021	201,130	201,130	-	1,964,162	10%

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, 2021**

**Changes in Benefit Terms**

There were no benefit changes during the year.

**Changes in Assumptions**

Discount rate remained at 7.40%.

**Method and Assumptions used in Calculations of Actuarially Determined Contributions**

Actuarial	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 year closed amortization period ending June 30, 2039; 18 years remaining.
Asset Valuation Model	Five-year smoothed market (max. 120% and min. 80% of market value).
Inflation	In the 2020 actuarial valuation, 2.60% general, 3.10% wage. In the 2019 actuarial valuation, 2.65% general, 3.15% wage.
Salary Increases	In the 2020 actuarial valuation, 3.10% to 11.6%. In the 2019 actuarial valuation, 3.10% to 11.6%.
Investment Rate of Return	In the 2020 actuarial valuation, 7.40%. In the 2019 actuarial valuation, 7.40%.
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2018 valuation pursuant to an experience study of the period July 1, 2014 to July 30, 2018.
Mortality	Public Sector 2010 Mortality Tables calibrated to MSRPS experience with generational projections using MP-2018 (2-dimensional) mortality improvement scale.

## **OTHER SUPPLEMENTARY INFORMATION**

**TOWN OF DENTON, MARYLAND**  
**OTHER SUPPLEMENTARY INFORMATION**  
**COMBINING BALANCE SHEETS**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**June 30, 2021**

	Capital Improvement	Highway Fund	Special Projects Fund	Total Nonmajor Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 313,848	\$ -	\$ 88,609	\$ 402,457
Due from other governments	-	117,089	40,339	157,428
<b>Total assets</b>	<b>\$ 313,848</b>	<b>\$ 117,089</b>	<b>\$ 128,948</b>	<b>\$ 559,885</b>
<b>Liabilities</b>				
Accounts payable and accrued expenses	\$ -	\$ 3,037	\$ 216	\$ 3,253
Due to other funds	-	28,849	-	28,849
Unearned revenues	-	-	52,816	52,816
<b>Total liabilities</b>	<b>-</b>	<b>31,886</b>	<b>53,032</b>	<b>84,918</b>
<b>Fund balances</b>				
Restricted	-	85,203	75,916	161,119
Assigned	313,848	-	-	313,848
Unassigned	-	-	-	-
<b>Total fund balances</b>	<b>313,848</b>	<b>85,203</b>	<b>75,916</b>	<b>474,967</b>
<b>Total liabilities and fund balances</b>	<b>\$ 313,848</b>	<b>\$ 117,089</b>	<b>\$ 128,948</b>	<b>\$ 559,885</b>

**TOWN OF DENTON, MARYLAND**  
**OTHER SUPPLEMENTARY INFORMATION**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**  
**Year Ended June 30, 2021**

	Capital Improvement	Highway Fund	Special Projects Fund	Total Nonmajor Governmental Funds
<b>Revenues</b>				
Taxes	\$ -	\$ 262,280	\$ -	\$ 262,280
Licenses and permits	121,272	-	-	121,272
Revenue from other agencies	-	-	51,725	51,725
Interest income	-	-	63	63
Miscellaneous	357	138	60,230	60,725
<b>Total revenues</b>	<b>121,629</b>	<b>262,418</b>	<b>112,018</b>	<b>496,065</b>
<b>Expenditures</b>				
Current:				
Public works	-	110,957	-	110,957
Urban development and housing	-	-	53,070	53,070
Capital outlay and projects	-	269,296	78,886	348,182
Debt service - principal	-	33,465	-	33,465
Debt service - interest	-	42,060	-	42,060
<b>Total expenditures</b>	<b>-</b>	<b>455,778</b>	<b>131,956</b>	<b>587,734</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>121,629</b>	<b>(193,360)</b>	<b>(19,938)</b>	<b>(91,669)</b>
<b>Other financing sources (uses)</b>				
Transfers in	-	143,375	48,095	191,470
Transfers out	(162,057)	-	(17,000)	(179,057)
<b>Total other financing sources (uses), net</b>	<b>(162,057)</b>	<b>143,375</b>	<b>31,095</b>	<b>12,413</b>
<b>Net change in fund balances</b>	<b>(40,428)</b>	<b>(49,985)</b>	<b>11,157</b>	<b>(79,256)</b>
<b>Fund balance - beginning</b>	<b>354,276</b>	<b>135,188</b>	<b>64,759</b>	<b>554,223</b>
<b>Fund balance - ending</b>	<b>\$ 313,848</b>	<b>\$ 85,203</b>	<b>\$ 75,916</b>	<b>\$ 474,967</b>

**TOWN OF DENTON, MARYLAND**  
**OTHER SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - HIGHWAY FUND**  
**Year Ended June 30, 2021**

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>Revenues</b>				
Taxes	\$ 236,916	\$ 236,916	\$ 262,280	\$ 25,364
Miscellaneous	-	-	138	138
<b>Total revenues</b>	<b>236,916</b>	<b>236,916</b>	<b>262,418</b>	<b>25,502</b>
<b>Expenditures</b>				
Current:				
Public works	251,389	251,389	380,253	(128,864)
Debt service - principal	32,490	32,490	33,465	(975)
Debt service - interest	43,083	43,083	42,060	1,023
<b>Total expenditures</b>	<b>326,962</b>	<b>326,962</b>	<b>455,778</b>	<b>(128,816)</b>
Excess (deficiency) of revenues over (under) expenditures	(90,046)	(90,046)	(193,360)	(103,314)
<b>Other financing sources (uses)</b>				
Transfers in	7,000	7,000	143,375	136,375
Reserve	83,046	83,046	-	(83,046)
<b>Total other financing sources (uses)</b>	<b>90,046</b>	<b>90,046</b>	<b>143,375</b>	<b>53,329</b>
<b>Net change in fund balances</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (49,985)</b>	<b>\$ (49,985)</b>

**TOWN OF DENTON, MARYLAND**  
**OTHER SUPPLEMENTARY INFORMATION**  
**INCOME AND EXPENSE DETAIL**  
**BUDGET AND ACTUAL**  
**WATER FUND**  
**Year Ended June 30, 2021**

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>Operating revenues</b>				
Charges for services, net	\$ 650,171	\$ 650,171	\$ 689,335	\$ 39,164
Other revenues	1,830,043	1,830,043	12,736	(1,817,307)
<b>Total operating revenues</b>	<b>2,480,214</b>	<b>2,480,214</b>	<b>702,071</b>	<b>(1,778,143)</b>
<b>Operating expenses</b>				
Salaries and wages	216,459	216,459	210,264	6,195
Fringe benefits	107,586	107,586	123,823	(16,237)
Materials and supplies	3,700	3,700	1,360	2,340
Electric and telephone	53,975	53,975	45,462	8,513
Automotive expenses	24,200	24,200	9,145	15,055
Professional services	1,844,068	1,844,068	18,872	1,825,196
Repairs and maintenance	58,533	58,533	51,901	6,632
Depreciation	-	-	130,474	(130,474)
Other operating expenses	118,613	118,613	116,430	2,183
<b>Total operating expenses</b>	<b>2,427,134</b>	<b>2,427,134</b>	<b>707,731</b>	<b>1,719,403</b>
<b>Operating income (loss)</b>	<b>53,080</b>	<b>53,080</b>	<b>(5,660)</b>	<b>(58,740)</b>
<b>Nonoperating revenues (expenses)</b>				
Interest income	10,000	10,000	946	(9,054)
Debt service - principal payments	(42,565)	(42,565)	-	42,565
Debt service - interest expense	(37,322)	(37,322)	(35,762)	1,560
Reserve	4,057	4,057	-	(4,057)
<b>Net nonoperating revenues (expenses)</b>	<b>(65,830)</b>	<b>(65,830)</b>	<b>(34,816)</b>	<b>31,014</b>
<b>Income (loss) before transfers</b>	<b>(12,750)</b>	<b>(12,750)</b>	<b>(40,476)</b>	<b>(27,726)</b>
Transfers in	26,000	26,000	26,000	-
Transfers out	(13,250)	(13,250)	(16,782)	(3,532)
<b>Change in net position</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (31,258)</b>	<b>\$ (31,258)</b>

**TOWN OF DENTON, MARYLAND**  
**OTHER SUPPLEMENTARY INFORMATION**  
**INCOME AND EXPENSE DETAIL**  
**BUDGET AND ACTUAL**  
**SEWER FUND**  
**Year Ended June 30, 2021**

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
<b>Operating revenues</b>				
Charges for services, net	\$ 1,061,870	\$ 1,061,870	\$ 1,093,959	\$ 32,089
Vacant lots	11,475	11,475	12,697	1,222
Other revenues	139,775	139,775	151,640	11,865
<b>Total operating revenues</b>	<b>1,213,120</b>	<b>1,213,120</b>	<b>1,258,296</b>	<b>45,176</b>
<b>Operating expenses</b>				
Salaries and wages	356,739	356,739	342,215	14,524
Fringe benefits	177,124	177,124	154,131	22,993
Materials and supplies	7,000	7,000	1,796	5,204
Electric and telephone	107,428	107,428	100,153	7,275
Automotive expenses	37,725	37,725	9,108	28,617
Professional services	24,175	24,175	14,986	9,189
Repairs and maintenance	115,681	115,681	84,066	31,615
Depreciation	-	-	487,945	(487,945)
Other operating expenses	257,363	257,363	213,874	43,489
<b>Total operating expenses</b>	<b>1,083,235</b>	<b>1,083,235</b>	<b>1,408,274</b>	<b>(325,039)</b>
<b>Operating income (loss)</b>	<b>129,885</b>	<b>129,885</b>	<b>(149,978)</b>	<b>(279,863)</b>
<b>Nonoperating revenues (expenses)</b>				
Interest income	1,150	1,150	520	(630)
Gain (loss) on sale of assets	-	-	-	-
Debt service - principal payments	(194,034)	(194,034)	-	194,034
Debt service - interest expense	(29,040)	(29,040)	(28,012)	1,028
Reserve	131,289	131,289	-	(131,289)
<b>Net nonoperating revenues (expenses)</b>	<b>(90,635)</b>	<b>(90,635)</b>	<b>(27,492)</b>	<b>63,143</b>
<b>Income (loss) before transfers</b>	<b>39,250</b>	<b>39,250</b>	<b>(177,470)</b>	<b>(216,720)</b>
Transfers out	(39,250)	(39,250)	(42,918)	(3,668)
<b>Change in net position</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (220,388)</b>	<b>\$ (220,388)</b>

**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, 2021, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated December 3, 2021.

**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) as a basis for designing 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.

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 *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. 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.



Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **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 financial statements. 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 that reads "JHM Group LLC". The signature is written in a cursive, stylized font.

Salisbury, Maryland  
December 3, 2021