

TOWN OF DENTON, MARYLAND

FINANCIAL REPORT

JUNE 30, 2022

TOWN OF DENTON, MARYLAND

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INDEPENDENT AUDITORS' REPORT

Town of Denton, Maryland
Denton, Maryland

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Denton, Maryland (the "Town") as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Emphasis of Matter

As discussed in Note 14 to the financial statements, during the year ended June 30, 2022, the Town adopted new accounting guidance from the Government Accounting Standards Board (GASB) Statement No. 87, "Leases". Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information (RSI), 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 RSI 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.

Supplementary information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The 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, as listed in the table of contents is the responsibility of management and has been derived from and relate 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 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, as listed in the table of contents is fairly stated in all material respects, in relation to the financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2023 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 grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 dark blue ink that reads "UHY LLP". The letters are stylized and cursive.

Salisbury, Maryland
January 10, 2023

Town of Denton, Maryland
Management Discussion and Analysis
Year Ended June 30, 2022

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, 2022. 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 \$29,842,073, with \$21,936,475 of that amount invested in capital assets, net of related debt.
- The governmental activities total net position increased by \$1,327,936.
- The business-type activities total net position decreased by \$99,868.
- The Town's governmental funds reported a combined fund balance of \$7,541,065, of which \$6,213,498 is unassigned.
- The Town's governmental funds fund balance increased by \$1,268,222 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, 2022

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
- Special Projects

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, 2022

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	
	2022	2021	2022	2021	2022	2021
Current and other assets	\$ 10,433,891	\$ 7,455,687	\$ 2,979,442	\$ 2,895,641	\$ 13,413,333	\$ 10,351,328
Capital and intangible assets	14,537,711	14,691,053	12,567,921	12,939,682	27,105,632	27,630,735
Total assets	\$ 24,971,602	\$ 22,146,740	\$ 15,547,363	\$ 15,835,323	\$ 40,518,965	\$ 37,982,063
Deferred outflows	\$ 404,302	\$ 349,505	\$ 182,207	\$ 132,843	\$ 586,509	\$ 482,348
Current and other liabilities	\$ 2,375,472	\$ 426,566	\$ 682,794	\$ 675,196	\$ 3,058,266	\$ 1,101,762
Long-term debt outstanding	3,564,055	5,005,309	2,853,024	3,454,556	6,417,079	8,459,865
Total liabilities	\$ 5,939,527	\$ 5,431,875	\$ 3,535,818	\$ 4,129,752	\$ 9,475,345	\$ 9,561,627
Deferred inflows	\$ 1,192,819	\$ 148,748	\$ 595,237	\$ 140,031	\$ 1,788,056	\$ 288,779
Net investment in capital assets	\$ 11,923,993	\$ 11,915,662	\$ 10,012,482	\$ 10,202,145	\$ 21,936,475	\$ 22,117,807
Restricted	905,917	684,059	86,321	86,321	992,238	770,380
Unrestricted	5,413,648	4,315,901	1,499,712	1,409,917	6,913,360	5,725,818
Total net position	\$ 18,243,558	\$ 16,915,622	\$ 11,598,515	\$ 11,698,383	\$ 29,842,073	\$ 28,614,005

Town of Denton, Maryland
Management Discussion and Analysis
Year Ended June 30, 2022

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	
	2022	2021	2022	2021	2022	2021
Revenues						
Program revenues						
Charge for services	\$ 215,525	\$ 194,168	\$ 2,200,476	\$ 1,960,367	\$ 2,416,001	\$ 2,154,535
Operating grants and contributions	253,148	129,569	-	-	253,148	129,569
Capital grants and contributions	238,837	47,220	-	-	238,837	47,220
General revenues						
Property taxes	2,982,659	2,904,281	-	-	2,982,659	2,904,281
Income taxes	554,853	462,404	-	-	554,853	462,404
Other taxes	557,798	451,192	-	-	557,798	451,192
Interest	21,101	23,341	8,003	1,505	29,104	24,846
Gain on sale/disposal of asset	26,573	1,397	-	-	26,573	1,397
Other	510,336	301,591	-	4,837	510,336	306,428
Total Revenue	\$ 5,360,830	\$ 4,515,163	\$ 2,208,479	\$ 1,966,709	\$ 7,569,309	\$ 6,481,872
Expenses						
General government	520,519	645,755	-	-	520,519	645,755
Public safety	1,874,269	2,303,677	-	-	1,874,269	2,303,677
Public works	880,734	696,823	-	-	880,734	696,823
Recreation and culture	151,406	169,113	-	-	151,406	169,113
Urban development and housing	569,563	423,040	-	-	569,563	423,040
Interest on long-term debt	70,103	71,393	-	-	70,103	71,393
Water	-	-	765,135	743,493	765,135	743,493
Sewer	-	-	1,508,879	1,436,286	1,508,879	1,436,286
Industrial park	-	-	633	-	633	-
Total Expenses	4,066,594	4,309,801	2,274,647	2,179,779	6,341,241	6,489,580
Transfers in (out)	33,700	33,700	(33,700)	(33,700)	-	-
Change in net position	1,327,936	239,062	(99,868)	(246,770)	1,228,068	(7,708)
Net position, beginning of year	16,915,622	16,676,560	11,698,383	11,945,153	28,614,005	28,621,713
Net position end of year	\$ 18,243,558	\$ 16,915,622	\$ 11,598,515	\$ 11,698,383	\$ 29,842,073	\$ 28,614,005

Town of Denton, Maryland
Management Discussion and Analysis
Year Ended June 30, 2022

Governmental activities' revenues totaled \$5,360,830 compared to \$4,515,163 in the prior year. Expenses totaled \$4,066,594 compared to \$4,309,801 in the prior year. The resulting increase in governmental activities' net position for fiscal year 2022 and 2021 were \$1,327,936 and \$239,062, respectively. The increase in the change in net position from 2021 to 2022 of \$1,088,874 mostly relates to an increase in operating and capital grants and contributions, as well as an increase in property and income taxes.

Business type activities' revenues totaled \$2,208,479 compared to \$1,966,709 in the prior year. Expenses totaled \$2,274,647 compared to \$2,179,779 in the prior year. This resulted in a decrease in business-type activities' net position \$99,868 for 2022 and a decrease \$246,770 for 2021. The increase in the change in net position from 2021 to 2022 of \$146,902 mostly relates to an increase in operating and capital grants and contributions.

GENERAL FUND BUDGETARY ANALYSIS

- Total revenues were under budget by \$35,199, which mostly relates to taxes being under budget by \$27,352 due to uncollected real estate taxes.
- Total expenditures were over budget by \$88,519, which mostly relates to public safety being over budget by \$79,654 due to changes from GASB 87, *Leases*. Additional unbudgeted capital outlay of \$79,653 was incurred related to leases for two new police vehicles.
- Actual results exceeded budget by \$938,562 mostly due to a budgeted reserve amount of \$930,900 in which there are no actual expenses.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Town's capital assets as of June 30, 2022, are as follows:

	Capital Asset Summary					
	Governmental Activities		Business Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Land	\$ 1,513,935	\$ 1,513,935	\$ -	\$ -	\$ 1,513,935	\$ 1,513,935
Construction in process	-	-	194,596	74,495	194,596	74,495
Land improvements	1,728,541	1,678,541	-	-	1,728,541	1,678,541
Buildings	4,972,304	4,815,341	-	-	4,972,304	4,815,341
Infrastructure	14,276,543	14,139,933	-	-	14,276,543	14,139,933
Furniture and equipment	702,937	658,827	746,510	677,218	1,449,447	1,336,045
Vehicles	1,462,682	1,407,845	-	-	1,462,682	1,407,845
Right-to-use asset	56,231	56,231	-	-	-	-
Municipal water system	-	-	4,410,448	4,376,050	4,410,448	4,376,050
Municipal sewer system	-	-	19,569,398	19,542,622	19,569,398	19,542,622
Total capital assets	24,713,173	24,270,653	24,920,952	24,670,385	49,634,125	48,941,038
Less accumulated depreciation	10,175,462	9,579,600	12,353,031	11,730,703	22,528,493	21,310,303
Capital and intangible assets, net	\$ 14,537,711	\$ 14,691,053	\$ 12,567,921	\$ 12,939,682	\$ 27,105,632	\$ 27,630,735

Town of Denton, Maryland
Management Discussion and Analysis
Year Ended June 30, 2022

Notable additions included the following:

Description	Governmental Activities	Business-type Activities
Window and Security Upgrades – Town Hall and Visitor's Center	\$42,871	
Street Paving	\$136,610	
Park Improvements	\$176,031	
Vehicles and equipment	\$208,491	\$250,670
Franklin St. Water Main CIP		\$10,742

The Town's long-term liabilities as of June 30, 2022, are as follows:

	Long-Term Liabilities					
	Governmental Activities		Business Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Compensated absences	\$ 231,549	\$ 215,763	\$ 99,122	\$ 96,632	\$ 330,671	\$ 312,395
Net pension liability	943,948	2,235,896	425,410	849,839	1,369,358	3,085,735
Bonds payable	202,700	-	1,921,668	1,671,588	2,124,368	1,671,588
Notes payable	2,287,080	2,751,246	962,553	1,434,799	3,249,633	4,186,045
Bond premium	21,574	-	40,068	-	61,642	-
Finance leases	89,733	-	-	-	89,733	-
Right-to-use leases	12,631	24,145	-	-	12,631	24,145
Total long-term debt	\$ 3,789,215	\$ 5,227,050	\$ 3,448,821	\$ 4,052,858	\$ 7,238,036	\$ 9,279,908

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 FY2024, the Real Property Tax values for the Town of Denton will be reassessed in January 2023. While the Town anticipates an increase in real property tax values due to new residential and commercial construction, it is unknown how the aftermath of the Pandemic, current rise in mortgage rates, and the recent decline in property sales will affect the property tax values when the reassessment occurs. New construction will come from the new homes being built in the Gardens Development and some commercial projects in the Denton Plaza.
- The prior reduction in Hotel Tax Revenues is starting to stabilize and return to pre-Pandemic figures, the Town may see a slight increase in revenues.
- The Unemployment rate as of November 2022 is down to 4.3%, lower than it was in previous years. The Town of Denton has several employment vacancies. Due to inflation, the Town is finding it necessary to increase wages to retain employees and having to offer higher starting salaries to get qualified applicants, all of which will need to be accounted for in upcoming budgets.
- Inflation has caused the cost of goods and services to increase tremendously; rising fuel cost, cost of operations, and reducing supply and demand will all have an unfavorable effect on future budgets.
- With inflation up to the highest level since 1982, the Town is concerned of the hardship this will cause for families and local businesses that may find it difficult to be able to pay property taxes and utilities in a timely manner.

**Town of Denton, Maryland
Management Discussion and Analysis
Year Ended June 30, 2022**

- The Town is working with the State Department of Commerce on a loan maturity extension on the One Maryland Program for the Industrial Park Properties. The Town has retained a realtor to help in selling the vacant lots.
- In FY2022, the Town started acquiring vehicles through the Enterprise Fleet Management Lease Program and plans to lease some additional vehicles in FY24. It is becoming difficult to find suitable vehicles because of the heavy demand and the cost has risen significantly due to inflation.
- The Town has worked with the Maryland Department of the Environment (MDE) to secure Bond Financing and Grant Funds for upgrading the water lines on Franklin Street. With the rise in material cost and services, the Town anticipates an increase that may affect the cost of the project.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

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

TOWN OF DENTON, MARYLAND
STATEMENT OF NET POSITION
June 30, 2022

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 9,130,000	\$ 1,997,167	\$ 11,127,167
Tax receivables	35,366	-	35,366
Service charge receivable	-	469,391	469,391
Lease receivable	-	63,092	63,092
Note receivable	398,641	-	398,641
Other receivable	19,669	-	19,669
Internal balances	18,543	(18,543)	-
Due from other governments	515,152	13,164	528,316
Land held for resale	316,520	455,171	771,691
Capital assets, not being depreciated	1,513,935	194,596	1,708,531
Capital and intangible assets, net	13,023,776	12,373,325	25,397,101
Total assets	24,971,602	15,547,363	40,518,965
DEFERRED OUTFLOWS OF RESOURCES			
Pension	404,302	182,207	586,509
LIABILITIES			
Accounts payable and accrued expenses	81,629	86,997	168,626
Unearned revenues	2,068,683	-	2,068,683
Bonds and notes payable	200,674	595,797	796,471
Finance lease	17,964	-	17,964
Right-to-use lease	6,522	-	6,522
Due in more than one year:			
Compensated absences	231,549	99,122	330,671
Net pension liability	943,948	425,410	1,369,358
Bonds and notes payable	2,310,680	2,328,492	4,639,172
Finance lease	71,769	-	71,769
Right-to-use lease	6,109	-	6,109
Total liabilities	5,939,527	3,535,818	9,475,345
DEFERRED INFLOWS OF RESOURCES			
Pension	1,192,819	537,570	1,730,389
Lease receivable	-	57,667	57,667
Total deferred inflows of resources	1,192,819	595,237	1,788,056
NET POSITION			
Net investment in capital assets	11,923,993	10,012,482	21,936,475
Restricted	905,917	86,321	992,238
Unrestricted	5,413,648	1,499,712	6,913,360
Total net position	\$ 18,243,558	\$ 11,598,515	\$ 29,842,073

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

TOWN OF DENTON, MARYLAND
STATEMENT OF ACTIVITIES
Year Ended June 30, 2022

		Program Revenue			Net (Expense) Revenue and Changes in Net Position		
					Primary Government		
Function/Program	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants, Contributions, and Interest	Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES							
General government	\$ 520,519	\$ 86,633	\$ 154,996	\$ -	\$ (278,890)	\$ -	\$ (278,890)
Public safety	1,874,269	41,423	82,312	8,755	(1,741,779)	-	(1,741,779)
Public works	880,734	45,691	-	240	(834,803)	-	(834,803)
Recreation and culture	151,406	25,163	-	229,442	103,199	-	103,199
Urban development and housing	569,563	16,615	15,840	400	(536,708)	-	(536,708)
Interest on long-term debt	70,103	-	-	-	(70,103)	-	(70,103)
Total governmental activities	4,066,594	215,525	253,148	238,837	(3,359,084)	-	(3,359,084)
BUSINESS-TYPE ACTIVITIES							
Water	765,135	765,449	-	-	-	314	314
Sewer	1,508,879	1,435,027	-	-	-	(73,852)	(73,852)
Industrial park	633	-	-	-	-	(633)	(633)
Total business-type activities	2,274,647	2,200,476	-	-	-	(74,171)	(74,171)
Total Primary Government	\$ 6,341,241	\$ 2,416,001	\$ 253,148	\$ 238,837	\$ (3,359,084)	\$ (74,171)	\$ (3,433,255)

General Revenues

Taxes:			
Property	2,982,659	-	2,982,659
Income	554,853	-	554,853
Other	557,798	-	557,798
Interest	21,101	8,003	29,104
Gain on sale/disposal of assets	26,573	-	26,573
Other	510,336	-	510,336
Total General Revenues	4,653,320	8,003	4,661,323
Transfers in (out)	33,700	(33,700)	-
Change in Net Position	1,327,936	(99,868)	1,228,068
Net Position Beginning of Year, as restated	16,915,622	11,698,383	28,614,005
Net Position End of Year	\$ 18,243,558	\$ 11,598,515	\$ 29,842,073

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

TOWN OF DENTON, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2022

	General Fund	Business Loan Fund	Special Projects	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 6,010,511	\$ 738,752	\$ 1,959,087	\$ 421,650	\$ 9,130,000
Receivables:					
Taxes	35,366	-	-	-	35,366
Notes	-	398,641	-	-	398,641
Other receivables	14,897	4,772	-	-	19,669
Due from other funds	116,917	-	-	-	116,917
Due from other governments	180,584	-	215,883	118,685	515,152
Total assets	\$ 6,358,275	\$ 1,142,165	\$ 2,174,970	\$ 540,335	\$ 10,215,745
Liabilities, deferred inflows and fund balances					
Liabilities:					
Accounts payable and accrued expenses	\$ 39,645	\$ -	\$ 40,586	\$ 1,398	\$ 81,629
Due to other funds	-	-	-	98,374	98,374
Unearned revenues	77,779	-	1,990,904	-	2,068,683
Total liabilities	117,424	-	2,031,490	99,772	2,248,686
Deferred inflows of resources:					
Business loans	-	398,641	-	-	398,641
Unavailable revenue-property taxes	27,353	-	-	-	27,353
Total deferred inflows of resources	27,353	398,641	-	-	425,994
Fund balances:					
Restricted	-	743,524	143,480	18,913	905,917
Assigned	-	-	-	421,650	421,650
Unassigned	6,213,498	-	-	-	6,213,498
Total fund balances	6,213,498	743,524	143,480	440,563	7,541,065
Total liabilities, deferred inflows and fund balances	\$ 6,358,275	\$ 1,142,165	\$ 2,174,970	\$ 540,335	\$ 10,215,745

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, 2022

Total fund balances, governmental funds	\$ 7,541,065
Amounts reported for governmental activities in the statement of net position are different because:	
Capital and intangible 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.	
Capital assets	14,525,536
Intangible assets	12,175
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
Deferred outflows of resources - pension	404,302
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	27,353
Business loans	398,641
Deferred inflows of resources - pension	(1,192,819)
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	(231,549)
Net pension liability	(943,948)
Bonds payable	(202,700)
Notes payable	(2,287,080)
Bond premium	(21,574)
Finance leases	(89,733)
Right-to-use lease	(12,631)
Net position of governmental activities in the Statement of Net Position	<u>\$ 18,243,558</u>

TOWN OF DENTON, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2022

	General Fund	Business Loan Fund	Special Projects	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 3,785,289	\$ -	\$ -	\$ 286,615	\$ 4,071,904
Licenses and permits	65,377	-	-	138,458	203,835
Revenue from other agencies	92,554	-	399,918	-	492,472
Service charges	11,203	-	-	-	11,203
Interest income	-	15,633	5,468	-	21,101
Miscellaneous	217,423	258,986	24,178	9,749	510,336
Total revenues	4,171,846	274,619	429,564	434,822	5,310,851
Expenditures					
Current:					
General government	491,541	-	-	-	491,541
Public safety:					
Police	1,363,538	-	-	-	1,363,538
Fire	112,988	-	-	-	112,988
Zoning	469,391	-	-	-	469,391
Public works	434,193	-	154,996	151,392	740,581
Recreation and culture	69,849	-	-	-	69,849
Urban development and housing	67,578	2,198	973	-	70,749
Capital outlay and projects	182,317	-	206,031	175,655	564,003
Debt service - principal	193,606	28,109	-	33,894	255,609
Debt service - interest	26,163	3,728	-	40,212	70,103
Total expenditures	3,411,164	34,035	362,000	401,153	4,208,352
Excess (deficiency) of revenues over (under) expenditures	760,682	240,584	67,564	33,669	1,102,499
Other financing sources (uses)					
Transfers in	53,700	-	-	31,425	85,125
Transfers out	-	(20,000)	-	(31,425)	(51,425)
Proceeds from sale of assets	26,573	-	-	-	26,573
Bond premium	-	-	-	22,404	22,404
Bonds issued to refund other debt	-	-	-	207,507	207,507
Payment for debt refunding	-	-	-	(222,068)	(222,068)
Note issued	97,607	-	-	-	97,607
Total other financing sources (uses)	177,880	(20,000)	-	7,843	165,723
Net change in fund balances	938,562	220,584	67,564	41,512	1,268,222
Fund balance - beginning	5,274,936	522,940	75,916	399,051	6,272,843
Fund balance - ending	\$ 6,213,498	\$ 743,524	\$ 143,480	\$ 440,563	\$ 7,541,065

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, 2022

Net change in fund balances, governmental funds	\$ 1,268,222
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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	564,003
Depreciation expense	(706,099)
Amortization expense	(11,246)

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:

Bonds payable	(229,911)
Finance leases	(97,607)

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.

Bonds payable	5,637
Notes payable	464,166
Finance leases	7,874
Intangible right-to-use leases	11,514

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	23,406
Business loans	(258,911)

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	(15,786)
Increase (decrease) in deferred outflows of resources - pensions	54,797
(Increase) decrease in deferred inflows of resources - pensions	(1,044,071)
(Increase) decrease in net pension liability	1,291,948

Change in net position of governmental activities	<u>\$ 1,327,936</u>
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TOWN OF DENTON, MARYLAND
STATEMENT OF FUND NET POSITION
BUSINESS-TYPE ACTIVITIES
June 30, 2022

	Water Fund	Sewer Fund	Nonmajor Industrial Park Fund	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,327,328	\$ 633,437	\$ 36,402	\$ 1,997,167
Receivables:				
Service charges	164,557	304,834	-	469,391
Leases receivable	63,092	-	-	63,092
Due from other governments	11,427	1,737	-	13,164
Total current assets	1,566,404	940,008	36,402	2,542,814
Noncurrent assets:				
Land held for resale	-	-	455,171	455,171
Capital assets, net	2,421,313	10,146,608	-	12,567,921
Total noncurrent assets	2,421,313	10,146,608	455,171	13,023,092
Total assets	3,987,717	11,086,616	491,573	15,565,906
Deferred Outflows of Resources				
Deferred outflows related to pensions	68,677	113,530	-	182,207
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	34,370	52,335	292	86,997
Due to other funds	-	-	18,543	18,543
Bonds and notes payable	37,033	189,914	368,850	595,797
Total current liabilities	71,403	242,249	387,685	701,337
Noncurrent liabilities:				
Compensated absences	38,253	60,869	-	99,122
Net pension liability	160,345	265,065	-	425,410
Bonds and notes payable	981,157	1,347,335	-	2,328,492
Total noncurrent liabilities	1,179,755	1,673,269	-	2,853,024
Total liabilities	1,251,158	1,915,518	387,685	3,554,361
Deferred Inflows of Resources				
Deferred inflows related to pensions	202,620	334,950	-	537,570
Deferred inflows related to leases	57,667	-	-	57,667
Total deferred inflows of resources	260,287	334,950	-	595,237
Net position				
Net investment in capital assets	1,403,123	8,609,359	-	10,012,482
Restricted	-	-	86,321	86,321
Unrestricted	1,141,826	340,319	17,567	1,499,712
Total net position	\$ 2,544,949	\$ 8,949,678	\$ 103,888	\$ 11,598,515

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, 2022

	Water Fund	Sewer Fund	Nonmajor Industrial Park Fund	Total
Operating revenues				
Charges for services, net	\$ 743,051	\$ 1,146,598	\$ -	\$ 1,889,649
Vacant lots	-	12,277	-	12,277
Other revenues	22,398	276,152	-	298,550
Total operating revenues	765,449	1,435,027	-	2,200,476
Operating expenses				
Salaries and wages	200,490	321,616	-	522,106
Fringe benefits	101,982	155,695	-	257,677
Materials and supplies	3,441	7,399	-	10,840
Electric and telephone	49,586	98,634	-	148,220
Automotive expenses	14,383	15,112	-	29,495
Professional services	14,090	16,329	633	31,052
Repairs and maintenance	59,253	107,588	-	166,841
Depreciation and amortization	135,701	495,932	-	631,633
Other operating expenses	155,015	265,496	-	420,511
Total operating expenses	733,941	1,483,801	633	2,218,375
Operating income (loss)	31,508	(48,774)	(633)	(17,899)
Nonoperating revenues (expenses)				
Interest income	6,424	1,496	83	8,003
Interest expense	(31,194)	(25,078)	-	(56,272)
Net nonoperating revenues (expenses)	(24,770)	(23,582)	83	(48,269)
Income (loss) before transfers	6,738	(72,356)	(550)	(66,168)
Transfers in	26,000	-	-	26,000
Transfers out	(16,782)	(42,918)	-	(59,700)
Change in net position	15,956	(115,274)	(550)	(99,868)
Total net position - beginning, as restated	2,528,993	9,064,952	104,438	11,698,383
Total net position - ending	\$ 2,544,949	\$ 8,949,678	\$ 103,888	\$ 11,598,515

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, 2022

	Water Fund	Sewer Fund	Nonmajor Industrial Park Fund	Total
OPERATING ACTIVITIES:				
Receipts from customers	\$ 815,476	\$ 1,429,423	\$ -	\$ 2,244,899
Payments to vendors	(274,769)	(520,206)	(341)	(795,316)
Payments to employees	(298,767)	(471,287)	-	(770,054)
Net cash provided (used) by operating activities	241,940	437,930	(341)	679,529
NONCAPITAL FINANCING ACTIVITIES:				
Transfers in (out)	9,218	(42,918)	-	(33,700)
Net cash provided (used) by noncapital financing activities	9,218	(42,918)	-	(33,700)
CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of capital assets	(85,208)	(176,204)	-	(261,412)
Issuance of long-term debt	465,068	-	-	465,068
Principal paid on long-term debt	(456,545)	(190,621)	-	(647,166)
Interest paid on long-term debt	(31,194)	(25,078)	-	(56,272)
Net cash used by capital and related financing activities	(107,879)	(391,903)	-	(499,782)
INVESTING ACTIVITIES:				
Interest income	6,424	1,496	83	8,003
Net cash provided by investing activities	6,424	1,496	83	8,003
Net change in cash and cash equivalents	149,703	4,605	(258)	154,050
Cash and cash equivalents, beginning of year	1,177,625	628,832	36,660	1,843,117
Cash and cash equivalents, end of year	\$ 1,327,328	\$ 633,437	\$ 36,402	\$ 1,997,167
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 31,508	\$ (48,774)	\$ (633)	\$ (17,899)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization expense	137,241	495,932	-	633,173
Pension obligation	3,366	3,873	-	7,239
Lease - right-to-use asset	(588)	-	-	(588)
Changes in assets and liabilities:				
Receivables	50,615	(5,604)	-	45,011
Accounts and other payables	19,459	(9,648)	292	10,103
Compensated absences	339	2,151	-	2,490
Net cash provided by operating activities	\$ 241,940	\$ 437,930	\$ (341)	\$ 679,529

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

TOWN OF DENTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

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.

TOWN OF DENTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 2. Summary of Significant Accounting Policies (continued)

A. Basis of Presentation (continued)

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.

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.

TOWN OF DENTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 2. Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

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 *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.

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.

TOWN OF DENTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 2. Summary of Significant Accounting Policies (continued)

C. Measurement Focus (continued)

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.

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.

TOWN OF DENTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 2. Summary of Significant Accounting Policies (continued)

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.

TOWN OF DENTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

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, 2022.

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

TOWN OF DENTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

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.

TOWN OF DENTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

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.

TOWN OF DENTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 3. Cash and Cash Equivalents

Deposits: At year end, the carrying value of the Town's deposits with banks and financial institutions was \$11,127,167 and the bank balance was \$11,626,295, 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, 2022, the Town's deposit and investment balances are as follows:

	<u>Fair Value</u>
MLGIP	\$ 7,157,785
Deposits	3,968,882
Cash on hand	500
	<hr/>
Total cash and cash equivalents	\$ 11,127,167

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 \$398,641 in outstanding loan payments as of June 30, 2022. Business loans are granted by the Town to local businesses with Council approval. Payment terms on these loans vary.

TOWN OF DENTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

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, 2022, due to/from other funds are as follows:

	Interfund Receivable	Interfund Payables	Net
General Fund	\$ 116,917	\$ -	\$ 116,917
Special Projects Fund	-	-	-
Business Loan Fund	-	-	-
Capital Improvement Fund	-	-	-
Highway Fund	-	(98,374)	(98,374)
Water Fund	-	-	-
Sewer Fund	-	-	-
Industrial Park Fund	-	(18,543)	(18,543)
Total	\$ 116,917	\$ (116,917)	\$ -

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, 2022, transfers to other funds are as follows:

	Transfers In	Transfers Out	Net
General Fund	\$ 53,700	\$ -	\$ 53,700
Special Projects Fund	-	-	-
Business Loan Fund	-	(20,000)	(20,000)
Capital Improvement Fund	-	(31,425)	(31,425)
Highway Fund	31,425	-	31,425
Water Fund	26,000	(16,782)	9,218
Sewer Fund	-	(42,918)	(42,918)
Industrial Park Fund	-	-	-
Total	\$ 111,125	\$ (111,125)	\$ -

TOWN OF DENTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 6. Capital and Intangible Assets

The following is a summary of changes in capital assets for the year ended June 30, 2022:

	June 30, 2021	Additions	Transfers / Deductions	June 30, 2022
GOVERNMENTAL ACTIVITIES				
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	1,678,541	50,000	-	1,728,541
Buildings	4,815,341	156,963	-	4,972,304
Infrastructure	14,139,933	136,610	-	14,276,543
Furniture and equipment	658,827	44,110	-	702,937
Vehicles	1,407,845	176,320	(121,483)	1,462,682
Total capital assets, being depreciated	22,700,487	564,003	(121,483)	23,143,007
Less accumulated depreciation:				
Land improvements	1,366,722	76,787	-	1,443,509
Buildings	1,781,286	124,417	-	1,905,703
Infrastructure	4,698,291	356,306	-	5,054,597
Furniture and equipment	471,832	77,561	-	549,393
Vehicles	1,228,659	71,028	(121,483)	1,178,204
Total accumulated depreciation	9,546,790	706,099	(121,483)	10,131,406
Total capital assets, being depreciated, net	13,153,697	(142,096)	-	13,011,601
Governmental activities capital assets, net	\$ 14,667,632	\$ (142,096)	\$ -	\$ 14,525,536

Depreciation expense was charged to governmental functions as follows:

General government	\$ 82,425
Public safety	124,905
Public works	167,330
Recreation and culture	90,974
Urban development and housing	240,465
	<u>\$ 706,099</u>

TOWN OF DENTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 6. Capital and Intangible Assets (continued)

Intangible right-to-use asset activity for the year ended June 30, 2022 is as follows:

	June 30, 2021	Additions	Transfers / Deductions	June 30, 2022
Intangible right-to-use assets				
Leased equipment	\$ 56,231	\$ -	\$ -	\$ 56,231
Less accumulated depreciation	32,810	11,246	-	44,056
Intangible right-to-use assets, net	\$ 23,421	\$ (11,246)	\$ -	\$ 12,175

Amortization expense for the period ended June 30, 2022 totaled \$11,246.

	June 30, 2021	Additions	Transfers / Deductions	June 30, 2022
BUSINESS-TYPE ACTIVITIES				
Capital assets, not being depreciated:				
Construction in process	\$ 74,495	\$ 120,101	\$ -	\$ 194,596
Total capital assets, not being depreciated	74,495	120,101	-	194,596
Capital assets, being depreciated:				
Municipal water system	4,376,050	34,398	-	4,410,448
Municipal sewer system	19,542,622	26,776	-	19,569,398
Machinery and equipment	677,218	80,137	(10,845)	746,510
Total capital assets, being depreciated	24,595,890	141,311	(10,845)	24,726,356
Less accumulated depreciation:				
Municipal water system	2,061,649	103,307	-	2,164,956
Municipal sewer system	9,206,404	455,865	-	9,662,269
Machinery and equipment	462,650	74,001	(10,845)	525,806
Total accumulated depreciation	11,730,703	633,173	(10,845)	12,353,031
Total capital assets, being depreciated, net	12,865,187	(491,862)	-	12,373,325
Business-type activities capital assets, net	\$ 12,939,682	\$ (371,761)	\$ -	\$ 12,567,921

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

Water	\$ 137,241
Sewer	495,932
	\$ 633,173

TOWN OF DENTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 7. Long-term Obligations

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

	Balances June 30, 2021	Additions	Retirements and Repayments	Balances June 30, 2022	Amount Due In One Year
Governmental activities:					
Compensated absences	\$ 215,763	\$ 15,786	\$ -	\$ 231,549	\$ -
Net pension liability	2,235,896	-	1,291,948	943,948	-
Bonds payable	-	207,507	4,807	202,700	3,500
Notes payable	2,751,246	-	464,166	2,287,080	196,344
Bond premium	-	22,404	830	21,574	830
Finance leases	-	97,607	7,874	89,733	17,964
Intangible right-to-use lease	24,145	-	11,514	12,631	6,522
Total governmental activities long-term obligations	\$ 5,227,050	\$ 343,304	\$ 1,781,139	\$ 3,789,215	\$ 225,160
Business-type activities					
Compensated absences	\$ 96,632	\$ 2,490	\$ -	\$ 99,122	\$ -
Net pension liability	849,839	-	424,429	425,410	-
Bonds payable	1,671,588	423,460	173,380	1,921,668	171,840
Notes payable	1,434,799	-	472,246	962,553	422,417
Bond premium	-	41,608	1,540	40,068	1,540
Total business-type activities long-term obligations	\$ 4,052,858	\$ 467,558	\$ 1,071,595	\$ 3,448,821	\$ 595,797

Interest expense in the governmental activities and business-type activities for the year ended June 30, 2022 is \$70,103 and \$56,272, respectively.

TOWN OF DENTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 7. Long-term Obligations (continued)

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

Year Ending June 30,	Bonds		Notes from Direct Borrowings	
	Principal	Interest	Principal	Interest
2023	\$ 4,330	\$ 7,480	\$ 196,344	\$ 55,963
2024	6,080	7,302	179,188	51,045
2025	6,080	7,035	171,557	46,611
2026	6,080	6,768	154,792	42,629
2027	6,080	6,500	150,387	38,529
2028 - 2032	35,650	28,137	623,025	138,483
2033 - 2037	44,400	20,668	204,183	104,609
2038 - 2042	47,900	13,897	181,748	78,741
2043 - 2047	58,400	6,489	211,042	49,446
2048 - 2052	9,274	271	214,814	15,567
Total	\$ 224,274	\$ 104,547	\$ 2,287,080	\$ 621,623

Annual requirements to amortize business-type activities bonds and notes payable and related interest is as follows:

Year Ending June 30,	Bonds		Notes from Direct Borrowings	
	Principal	Interest	Principal	Interest
2023	\$ 173,380	\$ 26,084	\$ 422,417	\$ 17,584
2024	179,741	25,226	19,609	16,355
2025	59,067	23,951	18,708	15,698
2026	59,503	23,018	19,380	15,027
2027	59,943	22,082	19,508	14,330
2028 - 2032	313,184	95,559	69,439	64,753
2033 - 2037	328,407	70,615	80,631	53,560
2038 - 2042	346,114	46,834	93,628	40,564
2043 - 2047	377,331	21,358	108,719	25,472
2048 - 2052	62,274	1,220	110,514	8,020
2053	2,792	22	-	-
Total	\$ 1,961,736	\$ 355,969	\$ 962,553	\$ 271,363

TOWN OF DENTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 7. Long-term Obligations (continued)

The following is a summary of governmental activities bonds and notes payable as of June 30, 2022:

\$207,507 Highway fund share of CDA bond, due in semi-annual interest payments and annual principal payments through 2048, interest at 2.591%.	\$ 202,700
Bond premium	21,574
Total bonds payable	224,274
\$1,210,440 Highway fund share of 5 th Ave project loan issued by USDA, due in quarterly installments of \$4,333 until 2052, interest at 3.01%.	1,014,999
\$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.	45,636
\$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.	316,071
\$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.	466,204
\$67,706 installment note payable, financing of two police cars, due in monthly payments of \$1,205 through 2023, interest at 2.58%.	8,281
\$37,500 installment note payable, financing of one police car, due in monthly payments of \$840 through 2023, interest at 3.55%.	8,247
\$38,193 installment note payable, financing of one police car, due in monthly payments of \$869 through 2025, interest at 2.99%.	26,092
\$77,220 installment note payable, financing of two police cars, due in monthly payments of \$1,761 through 2025, interest at 2.70%.	51,401
\$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%.	5,457
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%.	344,692
Total notes payable	2,287,080
Total Governmental Activities bonds and notes payable	\$ 2,511,354

TOWN OF DENTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 7. Long-term Obligations (continued)

The following is a summary of business-type activities bonds and notes payable as of June 30, 2022:

\$2,332,577 MDE bond issued September 23, 2004, due in annual installments of \$121,589 including interest at 0.4% through February 2024.	\$ 241,728
\$53,500 MDE bond issued January 28, 2011, due in annual installments including interest at 1.2% through February 2031.	25,659
\$1,401,007 Water Quality State Revolving Fund bond, semi-annual interest payments and annual principal payments, interest at 0.9% through February 2048.	1,202,499
\$633,388 MDE bond issued June 23, 2022, due in annual installments of \$23,832 including interest at 0.8% through February 2053.	74,782
\$385,925 Water fund share of CDA bond, due in semi-annual interest payments and annual principal payments through 2048, interest at 2.591%.	377,000
Bond premium	40,068
Total bonds payable	1,961,736
\$140,000, Rural Development Loan due in quarterly installments of \$1,892 including interest at 4.5%, through September 2027.	33,292
\$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%.	522,731
\$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%.	13,714
\$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 2023, 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%	23,966
Total notes payable	962,553
Total Business-type Activities bonds and notes payable	\$ 2,924,289

TOWN OF DENTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 8. Pension and Retirement Plans

Organization

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

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

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

Basis of Accounting

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

TOWN OF DENTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

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.

TOWN OF DENTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 8. Pension Plan (continued)

A brief summary of the retirement eligibility requirements of and the benefits available under the various systems in effect during fiscal year 2021 are as follows:

Service Retirement Allowances

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

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

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

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.

TOWN OF DENTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 8. Pension Plan (continued)

Vested Allowances

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

Early Service Retirement

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

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

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

Disability and Death Benefits

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

TOWN OF DENTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 8. Pension Plan (continued)

Adjusted Retirement Allowances

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

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

Actuarial Assumptions

The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	In the 2021 actuarial valuation, 2.25% general, 2.75% wage. In the 2020 actuarial valuation, 2.60% general, 3.10% wage.
Salary Increases	In the 2021 actuarial valuation, 2.75% to 9.25%. In the 2020 actuarial valuation, 3.10% to 11.60%.
Investment Rate of Return	In the 2021 actuarial valuation, 6.80%. In the 2020 actuarial valuation, 7.40%.
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2019 valuation pursuant to the 2018 experience study for the period July 1, 2014 to July 30, 2018.
Mortality	Various versions of the Pub- 2010 Mortality Tables for males and females with projected generational mortality improvements based on the MP-2018 fully generational mortality improvements scale for males and females.

TOWN OF DENTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 8. Pension Plan (continued)

Investments

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the Board of Trustees after considering input from the System's investment consultant(s) and actuary(s). For each major asset class that is included in the System's target asset allocation as of June 30, 2021, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real
Public Equity	37%	4.7%
Private Equity	13%	6.5%
Rate Sensitive	19%	-0.4%
Credit Opportunity	9%	2.6%
Real Assets	14%	4.2%
Absolute Return	8%	2.0%
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, 2021.

For the year ended June 30, 2021, the annual money-weighted rate of return on pension plan investments, net of the pension plan investment expense, was 26.69%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

TOWN OF DENTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 8. Pension Plan (continued)

Discount rate

A single discount rate of 6.80% 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 6.80%. 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 5.80%	Discount Rate 6.80%	1% Increase to 7.8%
Employees	\$ 2,058,379	\$ 1,369,358	\$ 570,680

TOWN OF DENTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 8. Pension Plan (continued)

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, 2021, 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, 2021, under GASB No. 67 requirements.

At June 30, 2022, the Town reported the following related to pensions:

Employer's proportionate (percentage) of the collective net pension liability	0.0091277%
Employer's proportionate share of the collective net pension liability	\$ 1,369,358
Pension expense recognized by the employer for the year ended June 30, 2022	\$ (107,280)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 265,051	\$ (29,350)
Net difference between projected and actual investment earnings on pension plan investments	133,303	(758,663)
Differences between expected and actual experience	-	(104,954)
Change in proportion	-	(837,422)
Contributions subsequent to measurement date	188,155	-
	<u>\$ 586,509</u>	<u>\$ (1,730,389)</u>

TOWN OF DENTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 8. Pension Plan (continued)

The \$188,155 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, 2023. 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:		
2023	\$	(306,421)
2024		(285,317)
2025		(284,276)
2026		(311,674)
2027		(144,347)
Total	\$	(1,332,035)

For the year ended June 30, 2022 the Town's total payroll for all employees was \$2,010,241. Total covered payroll was \$1,780,085. Covered payroll refers to all compensation paid by the Town to active employees covered by Employees' Systems.

Note 9. Leases

The Town implemented guidance of GASB 87, *Leases*, at July 1, 2021 for accounting and reporting of leases.

The following is a summary of governmental activities finance leases as of June 30, 2022:

Police car lease; 2021 Dodge Charger unit # 252T5K, principal and interest payable in monthly installments of \$628, interest at 4.4%, maturing 2027.	\$	29,700
Police car lease; 2021 Dodge Charger unit # 252T82, principal and interest payable in monthly installments of \$702, interest at 4.3%, maturing 2027.		34,443
Public works truck lease; 2022 Ford Maverick unit # 25MVHD, principal and interest payable in monthly installments of \$511, interest at 6.8%, maturing 2027.		25,590
	\$	89,733

TOWN OF DENTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 9. Leases (continued)

Future minimum lease payments under these finance leases are as follows:

<u>Fiscal Year Ending June 30,</u>	
2023	\$ 22,087
2024	22,087
2025	22,087
2026	22,087
2027	12,461
	<hr/> 100,809
Less amounts representing interest	11,076
	<hr/>
Present value of net minimum lease payments	\$ 89,733

Interest on the above capital leases was \$1,870 for the year ended June 30, 2022.

The cost of equipment acquired under the above capital lease arrangements, as included in capital assets totaled \$120,849 (including upfitting) and the related accumulated depreciation was \$9,521 at June 30, 2022.

Town as Lessee

As of July 1, 2021, the Town had a lease agreement for a copier. Payments under this lease total approximately \$6,300 per year. The lease agreement in place for this copier began during fiscal year 2017 and will expire during fiscal year 2022. For purposes of discounting future payments on this lease, the Town used its incremental borrowing rate in place at the time of lease inception of 2.60%. The leased equipment and accumulated amortization of the right-to-use assets are outlined in Note 6.

As of July 1, 2021, the Town had a lease agreement for a copier. Payments under this lease total approximately \$3,000 per year. The lease agreement in place for this copier began during fiscal year 2019 and will expire during fiscal year 2024. For purposes of discounting future payments on this lease, the Town used its incremental borrowing rate in place at the time of lease inception of 2.46%. The leased equipment and accumulated amortization of the right-to-use assets are outlined in Note 6.

As of July 1, 2021, the Town had a lease agreement for a copier. Payments under this lease total approximately \$700 per year. The lease agreement in place for this copier began during fiscal year 2020 and will expire during fiscal year 2025. For purposes of discounting future payments on this lease, the Town used its incremental borrowing rate in place at the time of lease inception of 2.46%. The leased equipment and accumulated amortization of the right-to-use assets are outlined in Note 6.

As of July 1, 2021, the Town had a lease agreement for a copier. Payments under this lease total approximately \$2,000 per year. The lease agreement in place for this copier began during fiscal year 2020 and will expire during fiscal year 2025. For purposes of discounting future payments on this lease, the Town used its incremental borrowing rate in place at the time of lease inception of 2.46%. The leased equipment and accumulated amortization of the right-to-use assets are outlined in Note 6.

TOWN OF DENTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 9. Leases (continued)

The following is a summary of the changes in right-to-use lease obligations:

	Balances June 30, 2021	Additions	Retirements and Repayments	Balances June 30, 2022	Amount Due In One Year
Governmental activities:					
Intangible right-to-use lease	\$ 24,145	\$ -	\$ 11,514	\$ 12,631	\$ 6,522

The future minimum lease payments are approximately as follows:

	Equipment		
	Principal	Interest	Total
2023	\$ 6,522	\$ 227	\$ 6,749
2024	4,872	89	4,961
2025	1,237	8	1,245
Total	\$ 12,631	\$ 324	\$ 12,955

Interest expense on the above intangible right-to-use assets was approximately \$500 for the year ended June 30, 2022.

Town as Lessor

The Town entered into a lease in July 2018 to rent space on the Town's water tower, monthly installments of \$578 through June 2022, at which time there is an option to renew for an additional five year period at a 5% increase.

The Town entered into a lease in August 2019 to rent space on the Town's water tower, annual installments of \$12,063 through July 2024, at which time there is an option to renew for an additional five year period at a 10% increase.

The Town entered into a lease in November 2019 to rent space on the Town's water tower, initial monthly installments of \$1,391 increasing 3% annually through October 2024, at which time there is an option to renew for an additional five year period.

Total rental income for the year ended June 30, 2022 related to the above leases was approximately \$32,000.

TOWN OF DENTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

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, 2022 there are no outstanding loans to Town Council members.

TOWN OF DENTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

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.

Note 13. Individual Fund Disclosures

The following funds had an excess of expenditures over appropriations for the year ended June 30, 2022:

<u>Fund</u>	<u>Budgeted Expenditures</u>	<u>Actual Expenditures</u>	<u>Excess of Actual Over Budgeted Expenditures</u>
General fund	\$ 3,322,645	\$ 3,411,164	\$ (88,519)
Highway Fund	339,243	401,153	(61,910)

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.

TOWN OF DENTON, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 14. Prior Period Restatement

The Town has determined to restate its Statement of Net Position and its Statement of Activities at June 30, 2021. The determination was made to restate these financial statements in connection with the fiscal year 2022 implementation of the Government Accounting Standards Board's Statement No. 87, *Leases*. This statement's objective is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases. The statement increases the usefulness of the financial statements by requiring the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases.

The following table is a summary of the effects of this change on the statement of net position and the statement of activities at June 30, 2021.

	Governmental Activities	Business-type Activities
Net Position, June 30, 2021	\$ 16,916,346	\$ 11,693,546
GASB 87 Adjustments:		
Lease receivable	-	88,330
Deferred inflows - lease receivable	-	(83,493)
Intangible right-to-use asset	56,231	-
Less accumulated amortization	(32,810)	-
Right-to-use lease liability	(24,145)	-
Net Position, June 30, 2021, as restated	\$ 16,915,622	\$ 11,698,383

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF DENTON, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
Year Ended June 30, 2022

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Taxes	\$ 3,396,714	\$ 3,812,641	\$ 3,785,289	\$ (27,352)
Licenses and permits	28,400	65,377	65,377	-
Revenue from other agencies	88,163	92,455	92,554	99
Service charges	18,025	11,203	11,203	-
Miscellaneous	124,225	225,369	217,423	(7,946)
Total revenues	3,655,527	4,207,045	4,171,846	(35,199)
Expenditures				
Current:				
General government	561,382	504,726	504,725	1
Public safety:				
Police	1,730,203	1,374,779	1,454,433	(79,654)
Fire	112,988	112,988	112,988	-
Zoning	574,511	469,391	469,391	-
Public works	421,175	452,791	482,745	(29,954)
Recreation and culture	122,402	98,141	69,849	28,292
Urban development and housing	131,917	97,261	97,264	(3)
Debt service - principal	164,278	189,500	193,606	(4,106)
Debt service - interest	56,924	23,068	26,163	(3,095)
Total expenditures	3,875,780	3,322,645	3,411,164	(88,519)
Excess (deficiency) of revenues over (under) expenditures	(220,253)	884,400	760,682	(123,718)
Other financing sources (uses)				
Transfers in	60,500	46,500	53,700	7,200
Proceeds from sale of assets	-	-	26,573	26,573
Reserve	159,753	(930,900)	-	930,900
Note issued	-	-	97,607	97,607
Total other financing sources (uses)	220,253	(884,400)	177,880	1,062,280
Net change in fund balances	\$ -	\$ -	\$ 938,562	\$ 938,562

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, 2022

Measurement Date	Employer's Proportion (Percentage) of the Collective NPL A	Employer's Proportion Share of the Collective NPL B	Employer's Covered Employee Payroll C	Proportionate Share as a Percentage of Covered Payroll (B / C)	Plan's Total Fiduciary Net Position D	Plan's Total Pension Liability E	Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (D / E)
June 30, 2014	0.0097460%	\$ 1,729,543	\$ 1,392,250	124%	\$ 45,339,988,000	\$ 63,086,719,000	72%
June 30, 2015	0.0110670%	2,299,809	1,448,844	159%	45,789,840,000	66,571,552,000	69%
June 30, 2016	0.0113618%	2,680,707	1,458,891	184%	45,365,927,000	68,959,954,000	66%
June 30, 2017	0.0108927%	2,355,405	1,468,367	160%	48,987,184,000	70,610,885,000	69%
June 30, 2018	0.0121930%	2,558,278	1,592,428	161%	51,827,233,000	72,808,833,000	71%
June 30, 2019	0.0127803%	2,636,022	1,669,757	158%	53,943,420,000	74,569,030,000	72%
June 30, 2020	0.0136530%	3,085,735	1,865,162	165%	54,586,037,000	77,187,397,000	71%
June 30, 2021	0.0091277%	1,369,358	1,964,162	70%	67,604,500,000	82,606,805,000	82%

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, 2022

Fiscal Year	Contractually Required Contribution A	Actual Contribution B	Contribution Deficiency (Excess) (A - B)	Employer's Covered Employee Payroll C	Actual Contribution as a Percentage of Covered Payroll (B / C)
2015	\$ 233,251	\$ 233,251	\$ -	\$ 1,448,844	16%
2016	221,337	221,337	-	1,458,891	15%
2017	221,703	221,703	-	1,468,367	15%
2018	243,137	243,137	-	1,592,428	15%
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%
2022	188,155	188,155	-	1,780,085	11%

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, 2022

Changes in Benefit Terms

There were no benefit changes during the year

Changes in Assumptions

Discount rate decreased from 7.40% to 6.8% in the 2021 actuarial valuation

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; 17 years remaining.
Asset Valuation Model	Five-year smoothed market (max. 120% and min. 80% of market value).
Inflation	In the 2021 actuarial valuation, 2.25% general, 2.75% wage. In the 2020 actuarial valuation, 2.60% general, 3.10% wage.
Salary Increases	In the 2021 actuarial valuation, 2.75% to 9.25%. In the 2020 actuarial valuation, 3.10% to 11.60%.
Investment Rate of Return	In the 2021 actuarial valuation, 6.80%. In the 2020 actuarial valuation, 7.40%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2019 valuation pursuant to the 2018 experience study of the period July 1, 2014 to June 30, 2018
Mortality	Various versions of the Pub-10 Mortality Tables for males and females with projected generational mortality improvements based on the MP-2018 fully generational mortality improvements scale for males and females.

OTHER SUPPLEMENTARY INFORMATION

TOWN OF DENTON, MARYLAND
OTHER SUPPLEMENTARY INFORMATION
COMBINING BALANCE SHEETS
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2022

	Capital Improvement	Highway Fund	Total Nonmajor Governmental Funds
Assets			
Cash and cash equivalents	\$ 421,650	\$ -	\$ 421,650
Due from other governments	-	118,685	118,685
Total assets	\$ 421,650	\$ 118,685	\$ 540,335
Liabilities			
Accounts payable and accrued expenses	\$ -	\$ 1,398	\$ 1,398
Due to other funds	-	98,374	98,374
Total liabilities	-	99,772	99,772
Fund balances			
Restricted	-	18,913	18,913
Assigned	421,650	-	421,650
Total fund balances	421,650	18,913	440,563
Total liabilities and fund balances	\$ 421,650	\$ 118,685	\$ 540,335

TOWN OF DENTON, MARYLAND
OTHER SUPPLEMENTARY INFORMATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2022

	Capital Improvement	Highway Fund	Total Nonmajor Governmental Funds
Revenues			
Taxes	\$ -	\$ 286,615	\$ 286,615
Licenses and permits	138,458	-	138,458
Miscellaneous	769	8,980	9,749
Total revenues	139,227	295,595	434,822
Expenditures			
Current:			
Public works	-	151,392	151,392
Capital outlay and projects	-	175,655	175,655
Debt service - principal	-	33,894	33,894
Debt service - interest	-	40,212	40,212
Total expenditures	-	401,153	401,153
Excess (deficiency) of revenues over (under) expenditures	139,227	(105,558)	33,669
Other financing sources (uses)			
Transfers in	-	31,425	31,425
Transfers out	(31,425)	-	(31,425)
Bond premium	-	22,404	22,404
Bonds issued to refund other debt	-	207,507	207,507
Payment for debt refunding	-	(222,068)	(222,068)
Total other financing sources (uses)	(31,425)	39,268	7,843
Net change in fund balances	107,802	(66,290)	41,512
Fund balance - beginning	313,848	85,203	399,051
Fund balance - ending	\$ 421,650	\$ 18,913	\$ 440,563

TOWN OF DENTON, MARYLAND
OTHER SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - HIGHWAY FUND
Year Ended June 30, 2022

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Taxes	\$ 256,197	\$ 256,197	\$ 286,615	\$ 30,418
Miscellaneous	-	-	8,980	8,980
Total revenues	256,197	256,197	295,595	39,398
Expenditures				
Current:				
Public works	265,108	265,108	327,047	(61,939)
Debt service - principal	31,816	31,816	33,894	(2,078)
Debt service - interest	42,319	42,319	40,212	2,107
Total expenditures	339,243	339,243	401,153	(61,910)
Excess (deficiency) of revenues over (under) expenditures	(83,046)	(83,046)	(105,558)	(22,512)
Other financing sources (uses)				
Transfers in	-	-	31,425	31,425
Reserve	83,046	83,046	-	(83,046)
Bond premium	-	-	22,404	22,404
Bonds issued to refund other debt	-	-	207,507	207,507
Payment for debt refunding	-	-	(222,068)	(222,068)
Total other financing sources (uses)	83,046	83,046	39,268	(43,778)
Net change in fund balances	\$ -	\$ -	\$ (66,290)	\$ (66,290)

TOWN OF DENTON, MARYLAND
OTHER SUPPLEMENTARY INFORMATION
INCOME AND EXPENSE DETAIL
BUDGET AND ACTUAL
WATER FUND
Year Ended June 30, 2022

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
Operating revenues				
Charges for services, net	\$ 655,408	\$ 655,408	\$ 743,051	\$ 87,643
Other revenues	1,233,222	1,233,222	22,398	(1,210,824)
Total operating revenues	1,888,630	1,888,630	765,449	(1,123,181)
Operating expenses				
Salaries and wages	232,363	232,363	200,490	31,873
Fringe benefits	123,204	123,204	101,982	21,222
Materials and supplies	3,700	3,700	3,441	259
Electric and telephone	60,975	60,975	49,586	11,389
Automotive expenses	40,850	40,850	14,383	26,467
Professional services	1,203,702	1,203,702	14,090	1,189,612
Repairs and maintenance	59,300	59,300	59,253	47
Depreciation and amortization	-	-	135,701	(135,701)
Other operating expenses	146,530	146,530	155,015	(8,485)
Total operating expenses	1,870,624	1,870,624	733,941	1,136,683
Operating income (loss)	18,006	18,006	31,508	13,502
Nonoperating revenues (expenses)				
Interest income	1,000	1,000	6,424	5,424
Debt service - principal payments	(40,993)	(40,993)	-	40,993
Debt service - interest expense	(36,076)	(36,076)	(31,194)	4,882
Reserve	45,313	45,313	-	(45,313)
Net nonoperating revenues (expenses)	(30,756)	(30,756)	(24,770)	5,986
Income (loss) before transfers	(12,750)	(12,750)	6,738	19,488
Transfers in	26,000	26,000	26,000	-
Transfers out	(13,250)	(13,250)	(16,782)	(3,532)
Change in net position	\$ -	\$ -	\$ 15,956	\$ 15,956

TOWN OF DENTON, MARYLAND
OTHER SUPPLEMENTARY INFORMATION
INCOME AND EXPENSE DETAIL
BUDGET AND ACTUAL
SEWER FUND
Year Ended June 30, 2022

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
Operating revenues				
Charges for services, net	\$ 1,051,195	\$ 1,051,195	\$ 1,146,598	\$ 95,403
Vacant lots	12,895	12,895	12,277	(618)
Other revenues	146,500	146,500	276,152	129,652
Total operating revenues	1,210,590	1,210,590	1,435,027	224,437
Operating expenses				
Salaries and wages	379,721	379,721	321,616	58,105
Fringe benefits	200,647	200,647	155,695	44,952
Materials and supplies	4,000	4,000	7,399	(3,399)
Electric and telephone	110,928	110,928	98,634	12,294
Automotive expenses	45,575	45,575	15,112	30,463
Professional services	27,740	27,740	16,329	11,411
Repairs and maintenance	122,781	122,781	107,588	15,193
Depreciation	-	-	495,932	(495,932)
Other operating expenses	373,007	373,007	265,496	107,511
Total operating expenses	1,264,399	1,264,399	1,483,801	(219,402)
Operating income (loss)	(53,809)	(53,809)	(48,774)	5,035
Nonoperating revenues (expenses)				
Interest income	650	650	1,496	846
Debt service - principal payments	(192,779)	(192,779)	-	192,779
Debt service - interest expense	(27,338)	(27,338)	(25,078)	2,260
Reserve	312,526	312,526	-	(312,526)
Net nonoperating revenues (expenses)	93,059	93,059	(23,582)	(116,641)
Income (loss) before transfers	39,250	39,250	(72,356)	(111,606)
Transfers out	(39,250)	(39,250)	(42,918)	(3,668)
Change in net position	\$ -	\$ -	\$ (115,274)	\$ (115,274)

**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, 2022, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated January 10, 2023.

Report on 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.

Report on 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 dark ink that reads "UHY LLP". The letters are stylized and cursive.

Salisbury, Maryland
January 10, 2023