

TOWN OF DENTON, MARYLAND

FINANCIAL REPORT

JUNE 30, 2019

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INDEPENDENT AUDITORS' REPORT

Town of Denton, Maryland
Denton, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Denton, Maryland (the "Town") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

The OSI is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the OSI is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2019, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

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

Salisbury, Maryland
October 22, 2019

Town of Denton, Maryland
Management Discussion and Analysis
Year Ended June 30, 2019

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, 2019. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town’s financial statements which will follow this narrative.

FINANCIAL HIGHLIGHTS

- The Town’s combined net position was \$27,535,644, with \$21,771,609 of that amount invested in capital assets, net of related debt.
- The governmental activities total net position increased by \$134,642.
- The business-type activities total net position increased by \$252,470.
- The Towns governmental funds reported a combined fund balance of \$5,027,584, of which \$3,998,272 is unassigned.
- The Town’s governmental funds fund balance increased by \$711,032 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, 2019

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

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

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

- General
- Business Loan

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

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

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

Town of Denton, Maryland
Management Discussion and Analysis
Year Ended June 30, 2019

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	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 6,463,972	\$ 6,040,499	\$ 2,750,921	\$ 2,473,470	\$ 9,214,893	\$ 8,513,969
Capital assets	14,317,060	14,751,020	13,239,195	12,291,567	27,556,255	27,042,587
Total assets	\$ 20,781,032	\$ 20,791,519	\$ 15,990,116	\$ 14,765,037	\$ 36,771,148	\$ 35,556,556
 Deferred outflows	 \$ 356,508	 \$ 431,994	 \$ 160,378	 \$ 192,654	 \$ 516,886	 \$ 624,648
Current and other liabilities	\$ 514,875	\$ 739,122	\$ 330,422	\$ 220,259	\$ 845,297	\$ 959,381
Long-term debt outstanding	4,861,606	4,878,494	3,755,213	2,934,975	8,616,819	7,813,469
Total liabilities	\$ 5,376,481	\$ 5,617,616	\$ 4,085,635	\$ 3,155,234	\$ 9,462,116	\$ 8,772,850
 Deferred inflows	 \$ 200,208	 \$ 179,688	 \$ 90,066	 \$ 80,134	 \$ 290,274	 \$ 259,822
Net investment in capital assets	\$ 11,216,561	\$ 11,478,832	\$ 10,555,048	\$ 10,376,268	\$ 21,771,609	\$ 21,855,100
Restricted	664,733	657,818	86,321	86,321	751,054	744,139
Unrestricted	3,679,557	3,289,559	1,333,424	1,259,734	5,012,981	4,549,293
Total net position	\$ 15,560,851	\$ 15,426,209	\$ 11,974,793	\$ 11,722,323	\$ 27,535,644	\$ 27,148,532

Town of Denton, Maryland
Management Discussion and Analysis
Year Ended June 30, 2019

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	
	2019	2018	2019	2018	2019	2018
Revenues						
Program revenues						
Charge for services	\$ 182,978	\$ 225,335	\$ 2,476,366	\$ 2,133,286	\$ 2,659,344	\$ 2,358,621
Operating grants and contributions	107,194	124,207	-	-	107,194	124,207
Capital grants and contributions	344,762	574,718	-	-	344,762	574,718
General revenues						
Property taxes	2,739,460	2,591,540	-	-	2,739,460	2,591,540
Income taxes	394,689	306,278	-	-	394,689	306,278
Other taxes	262,119	277,562	-	-	262,119	277,562
Gain on sale/disposal of asset	43,100	-	-	-	43,100	-
Other	396,940	373,576	35,524	18,049	432,464	391,625
Total Revenue	\$ 4,471,242	\$ 4,473,216	\$ 2,511,890	\$ 2,151,335	\$ 6,983,132	\$ 6,624,551
Expenses						
General government	601,603	496,068	-	-	601,603	496,068
Public safety	2,227,268	2,068,174	-	-	2,227,268	2,068,174
Public works	727,386	725,442	-	-	727,386	725,442
Recreation and culture	150,699	132,785	-	-	150,699	132,785
Urban development and housing	573,415	560,046	-	-	573,415	560,046
Interest on long-term debt	89,929	92,551	-	-	89,929	92,551
Water	-	-	730,011	645,714	730,011	645,714
Sewer	-	-	1,495,709	1,276,490	1,495,709	1,276,490
Industrial park	-	-	-	1,658	-	1,658
Total Expenses	4,370,300	4,075,066	2,225,720	1,923,862	6,596,020	5,998,928
Transfers in (out)	33,700	33,700	(33,700)	(33,700)	-	-
Change in net position	134,642	431,850	252,470	193,773	387,112	625,623
Net position, beginning of year	15,426,209	14,994,359	11,722,323	11,528,550	27,148,532	26,522,909
Net position end of year	\$ 15,560,851	\$ 15,426,209	\$ 11,974,793	\$ 11,722,323	\$ 27,535,644	\$ 27,148,532

Town of Denton, Maryland
Management Discussion and Analysis
Year Ended June 30, 2019

Governmental activities' revenues totaled \$4,471,242 compared to \$4,473,216 in the prior year. Expenses totaled \$4,370,300 compared to \$4,075,066 in the prior year. The resulting increase in governmental activities' net position for fiscal year 2019 and 2018 were \$134,642 and \$431,850, respectively. The decrease in the change in net position from 2018 to 2019 of \$297,208 mostly relates to an increase in spending by the general government and public safety departments, as revenues between the two years were relatively flat.

Business type activities' revenues totaled \$2,511,890 compared to \$2,151,335 in the prior year. Expenses totaled \$2,225,720 compared to \$1,923,862 in the prior year. The resulting increase in business-type activities' net position for fiscal year 2019 and 2018 were \$252,470 and \$193,773, respectively.

GENERAL FUND BUDGETARY ANALYSIS

- Total revenues were over budget by \$107,136, which mostly relates to taxes being over budget by \$105,783.
- Total expenditures were under budget by \$58,439, which mostly relates to the public safety department being under budget by \$65,117.
- Actual results beat budget by \$588,155 mostly due to a budgeted reserve amount of \$415,380 in which there are no actual expenses and taxes being over budget by \$105,783.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Town's capital assets as of June 30, 2019, are as follows:

	Capital Asset Summary					
	Governmental		Business Type		Total	
	Activities		Activities			
	2019	2018	2019	2018	2019	2018
Land	\$ 888,472	\$ 895,372	\$ -	\$ -	\$ 888,472	\$ 895,372
Construction in process	20,000	-	1,508,250	123,130	1,528,250	123,130
Land improvements	1,424,740	1,407,950	-	-	1,424,740	1,407,950
Buildings	4,619,422	4,619,422	-	-	4,619,422	4,619,422
Infrastructure	13,761,472	13,642,054	-	-	13,761,472	13,642,054
Furniture and equipment	508,355	779,595	525,062	500,123	1,033,417	1,279,718
Vehicles	1,287,632	1,255,917	-	-	1,287,632	1,255,917
Municipal water system	-	-	4,376,050	4,376,050	4,376,050	4,376,050
Municipal sewer system	-	-	17,363,128	17,363,128	17,363,128	17,363,128
Total capital assets	22,510,093	22,600,310	23,772,490	22,362,431	46,282,583	44,962,741
Less Accumulated Depreciation	8,193,033	7,849,290	10,533,295	10,070,864	18,726,328	17,920,154
Capital assets, net	\$ 14,317,060	\$ 14,751,020	\$ 13,239,195	\$ 12,291,567	\$ 27,556,255	\$ 27,042,587

Town of Denton, Maryland
Management Discussion and Analysis
Year Ended June 30, 2019

Notable additions included the following:

Description	Governmental Activities	Business-type Activities
Downtown security cameras - CIP	\$20,000	
Boat ramp	\$38,360	
Fountain avenue	\$81,058	
Tennis court	\$16,790	
Vehicles and equipment	\$67,049	\$120,301
WWTP UV CIP		\$1,385,120

The Town's long-term liabilities as of June 30, 2019, are as follows:

	Long-Term Liabilities					
	Governmental		Business Type		Total	
	Activities		Activities			
	2019	2018	2019	2018	2019	2018
Compensated absences	\$ 201,327	\$ 184,592	\$ 89,796	\$ 79,349	\$ 291,123	\$ 263,941
Net pension liability	1,764,501	1,628,949	793,777	726,456	2,558,278	2,355,405
Bonds and notes payable	3,100,499	3,272,188	3,052,997	2,284,149	6,153,496	5,556,337
Total long-term debt	\$ 5,066,327	\$ 5,085,729	\$ 3,936,570	\$ 3,089,954	\$ 9,002,897	\$ 8,175,683

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The Town anticipates an increase in the real property assessable tax base due to new construction of homes being built with the Gardens Development Project; a full year assessment for the new Shore Health Medical Pavilion and the new Choptank Community Health Facility.
- The Town plans to implement a residential recycling program in FY20. The adopted budget includes the expense for implementing the program which is to be offset by assessing the users a \$9 quarterly fee.
- A large percentage of the Highway User Funds received from the State of Maryland have been restored, which will help to reduce or possibly eliminate the amount of tax revenues being diverted from the General Fund to the Highway Fund designated to help with road improvements.
- The preliminary engineering has been awarded by the Town and is pending the State's final approved to begin the design phase for upgrading the water lines for the Franklin St. vicinity. This project will be partially funded through grant funds and the rest the Town will incur debt.
- The WWTP Ultra-Violet Upgrade and Liner Replacement project should wrap up in FY20.
- The Town anticipates incurring approximately \$135,000 in new debt for the purchase of a new backhoe.

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, 2019

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 5,030,519	\$ 1,640,149	\$ 6,670,668
Tax receivables	24,548	-	24,548
Service charge receivable	-	437,815	437,815
Note receivable	804,560	-	804,560
Other receivable	59,274	-	59,274
Internal balances	18,543	(18,543)	-
Due from other governments	210,008	236,329	446,337
Land held for resale	316,520	455,171	771,691
Capital assets, not being depreciated	908,472	1,508,250	2,416,722
Capital assets, being depreciated	13,408,588	11,730,945	25,139,533
Total assets	20,781,032	15,990,116	36,771,148
DEFERRED OUTFLOWS OF RESOURCES			
Pension	356,508	160,378	516,886
LIABILITIES			
Accounts payable and accrued expenses	82,219	149,065	231,284
Unearned revenues	227,935	-	227,935
Bonds and notes payable	204,721	181,357	386,078
Due in more than one year:			
Compensated absences	201,327	89,796	291,123
Net pension liability	1,764,501	793,777	2,558,278
Bonds and notes payable	2,895,778	2,871,640	5,767,418
Total liabilities	5,376,481	4,085,635	9,462,116
DEFERRED INFLOWS OF RESOURCES			
Pension	200,208	90,066	290,274
NET POSITION			
Net investment in capital assets	11,216,561	10,555,048	21,771,609
Restricted	664,733	86,321	751,054
Unrestricted	3,679,557	1,333,424	5,012,981
Total net position	\$ 15,560,851	\$ 11,974,793	\$ 27,535,644

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

TOWN OF DENTON, MARYLAND
STATEMENT OF ACTIVITIES
Year Ended June 30, 2019

		Net (Expense) Revenue and Changes in Net Position						
		Program Revenue			Primary Government			
Function/Program	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants, Contributions, and Interest	Governmental Activities	Business-Type Activities	Total	
GOVERNMENTAL ACTIVITIES								
General government	\$ 601,603	\$ 72,383	\$ 3,000	\$ -	\$ (526,220)	\$ -	\$ (526,220)	
Public safety	2,227,268	48,079	100,644	3,221	(2,075,324)	-	(2,075,324)	
Public works	727,386	32,730	-	341,346	(353,310)	-	(353,310)	
Recreation and culture	150,699	17,884	-	195	(132,620)	-	(132,620)	
Urban development and housing	573,415	11,902	3,550	-	(557,963)	-	(557,963)	
Interest on long-term debt	89,929	-	-	-	(89,929)	-	(89,929)	
Total governmental activities	4,370,300	182,978	107,194	344,762	(3,735,366)	-	(3,735,366)	
BUSINESS-TYPE ACTIVITIES								
Water	730,011	725,673	-	-	-	(4,338)	(4,338)	
Sewer	1,495,709	1,750,693	-	-	-	254,984	254,984	
Industrial park	-	-	-	-	-	-	-	
Total business-type activities	2,225,720	2,476,366	-	-	-	250,646	250,646	
Total Primary Government	\$ 6,596,020	\$ 2,659,344	\$ 107,194	\$ 344,762	\$ (3,735,366)	\$ 250,646	\$ (3,484,720)	

General Revenues

Taxes:			
Property	2,739,460	-	2,739,460
Income	394,689	-	394,689
Other	262,119	-	262,119
Interest	33,778	35,524	69,302
Gain on sale/disposal of assets	43,100	-	43,100
Other	363,162	-	363,162
Total General Revenues	3,836,308	35,524	3,871,832
Transfers in (out)	33,700	(33,700)	-
Change in Net Position	134,642	252,470	387,112
Net Position Beginning of Year	15,426,209	11,722,323	27,148,532
Net Position End of Year	\$ 15,560,851	\$ 11,974,793	\$ 27,535,644

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

TOWN OF DENTON, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2019

	General Fund	Business Loan Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 4,014,820	\$ 440,861	\$ 574,838	\$ 5,030,519
Receivables:				
Taxes	24,548	-	-	24,548
Notes	-	804,560	-	804,560
Other receivables	53,079	6,195	-	59,274
Due from other funds	18,543	-	-	18,543
Due from other governments	160,841	-	49,167	210,008
Total assets	\$ 4,271,831	\$ 1,251,616	\$ 624,005	\$ 6,147,452
Liabilities, deferred inflows and fund balances				
Liabilities:				
Accounts payable and accrued expenses	\$ 69,669	\$ 879	\$ 11,671	\$ 82,219
Unearned revenues	198,736	-	29,199	227,935
Total liabilities	268,405	879	40,870	310,154
Deferred inflows of resources:				
Business loans	-	804,560	-	804,560
Unavailable revenue-property taxes	5,154	-	-	5,154
Total deferred inflows of resources	5,154	804,560	-	809,714
Fund balances:				
Restricted	-	446,177	218,556	664,733
Assigned	-	-	364,579	364,579
Unassigned	3,998,272	-	-	3,998,272
Total fund balances	3,998,272	446,177	583,135	5,027,584
Total liabilities, deferred inflows and fund balances	\$ 4,271,831	\$ 1,251,616	\$ 624,005	\$ 6,147,452

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, 2019

Total fund balances, governmental funds	\$ 5,027,584
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.	14,317,060
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Land held for resale used in governmental activities are not financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.	316,520
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Deferred outflows of resources - pension	356,508
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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	5,154
Business loans	804,560

Deferred inflows of resources - pension	(200,208)
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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	(201,327)
Net pension liability	(1,764,501)
Bonds and notes payable	<u>(3,100,499)</u>

Net position of governmental activities in the Statement of Net Position	<u>\$15,560,851</u>
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TOWN OF DENTON, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2019

	General Fund	Business Loan Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 3,342,179	\$ -	\$ 51,903	\$ 3,394,082
Licenses and permits	57,017	-	99,183	156,200
Revenue from other agencies	109,101	-	343,342	452,443
Service charges	26,291	-	-	26,291
Interest income	-	32,009	1,769	33,778
Miscellaneous	269,122	62,130	31,910	363,162
Total revenues	3,803,710	94,139	528,107	4,425,956
Expenditures				
Current:				
General government	467,564	-	-	467,564
Public safety:				
Police	1,492,953	-	-	1,492,953
Fire	96,719	-	-	96,719
Zoning	365,223	-	-	365,223
Public works	378,919	-	117,368	496,287
Recreation and culture	69,015	-	-	69,015
Urban development and housing	70,276	44,246	261,466	375,988
Capital outlay and projects	74,290	-	148,967	223,257
Debt service - principal	169,831	27,283	32,075	229,189
Debt service - interest	41,158	4,555	44,216	89,929
Total expenditures	3,225,948	76,084	604,092	3,906,124
Excess (deficiency) of revenues over (under) expenditures	577,762	18,055	(75,985)	519,832
Other financing sources (uses)				
Transfers in	86,915	-	123,081	209,996
Transfers out	(114,022)	(20,000)	(42,274)	(176,296)
Proceeds from sale of land	-	-	100,000	100,000
Note issued	37,500	-	20,000	57,500
Total other financing sources (uses)	10,393	(20,000)	200,807	191,200
Net change in fund balances	588,155	(1,945)	124,822	711,032
Fund balance - beginning	3,410,117	448,122	458,313	4,316,552
Fund balance - ending	\$ 3,998,272	\$ 446,177	\$ 583,135	\$ 5,027,584

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, 2019

Net change in fund balances, governmental funds	\$ 711,032
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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	223,257
Depreciation expense	(650,317)

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

Proceeds from sale	(100,000)
Carrying cost of land held for sale	50,000

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

(6,900)

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:

(57,500)

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.

229,189

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

The net difference consist of:

Property tax	2,186
Business loans	(18,012)

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	(16,735)
Increase (decrease) in deferred outflows of resources - pensions	(75,486)
(Increase) decrease in deferred inflows of resources - pensions	(20,520)
(Increase) decrease in net pension liability	(135,552)

Change in net position of governmental activities	\$ 134,642
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TOWN OF DENTON, MARYLAND
STATEMENT OF FUND NET POSITION
BUSINESS-TYPE ACTIVITIES
June 30, 2019

	Water Fund	Sewer Fund	Industrial Park Fund	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,118,344	\$ 485,811	\$ 35,994	\$ 1,640,149
Receivables:				
Service charges	148,421	289,394	-	437,815
Notes receivable	-	-	-	-
Due from other governments	-	236,329	-	236,329
Total current assets	1,266,765	1,011,534	35,994	2,314,293
Noncurrent assets:				
Land held for resale	-	-	455,171	455,171
Capital assets, net	2,597,810	10,641,385	-	13,239,195
Total noncurrent assets	2,597,810	10,641,385	455,171	13,694,366
Total assets	3,864,575	11,652,919	491,165	16,008,659
Deferred Outflows of Resources				
Deferred outflows related to pensions	56,278	104,100	-	160,378
Liabilities				
Current liabilities:				
Accounts payable and accrued expense	10,673	138,392	-	149,065
Due to other funds	-	-	18,543	18,543
Bonds and notes payable	28,878	152,479	-	181,357
Total current liabilities	39,551	290,871	18,543	348,965
Noncurrent liabilities:				
Compensated absences	35,182	54,614	-	89,796
Net pension liability	278,541	515,236	-	793,777
Bonds and notes payable	973,420	1,529,370	368,850	2,871,640
Total noncurrent liabilities	1,287,143	2,099,220	368,850	3,755,213
Total liabilities	1,326,694	2,390,091	387,393	4,104,178
Deferred Inflows of Resources				
Deferred inflows related to pensions	31,605	58,461	-	90,066
Net position				
Net investment in capital assets	1,595,512	8,959,536	-	10,555,048
Restricted	-	-	86,321	86,321
Unrestricted	967,042	348,931	17,451	1,333,424
Total net position	\$ 2,562,554	\$ 9,308,467	\$ 103,772	\$ 11,974,793

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, 2019

	Water Fund	Sewer Fund	Industrial Park Fund	Total
Operating revenues				
Charges for services, net	\$ 716,743	\$ 1,085,677	\$ -	\$ 1,802,420
Vacant lots	-	11,175	-	11,175
Other revenues	8,930	653,841	-	662,771
Total operating revenues	725,673	1,750,693	-	2,476,366
Operating expenses				
Salaries and wages	204,582	336,895	-	541,477
Fringe benefits	143,251	244,696	-	387,947
Materials and supplies	3,561	21,231	-	24,792
Electric and telephone	43,186	108,905	-	152,091
Automotive expenses	13,154	15,074	-	28,228
Professional services	11,522	12,000	-	23,522
Repairs and maintenance	45,435	76,780	-	122,215
Depreciation	125,881	431,912	-	557,793
Other operating expenses	103,040	234,552	-	337,592
Total operating expenses	693,612	1,482,045	-	2,175,657
Operating income (loss)	32,061	268,648	-	300,709
Nonoperating revenues (expenses)				
Interest income	22,789	11,889	846	35,524
Interest expense	(36,399)	(13,664)	-	(50,063)
Net nonoperating revenues (expenses)	(13,610)	(1,775)	846	(14,539)
Income (loss) before transfers	18,451	266,873	846	286,170
Transfers in	26,000	-	-	26,000
Transfers out	(16,782)	(42,918)	-	(59,700)
Change in net position	27,669	223,955	846	252,470
Total net position - beginning	2,534,885	9,084,512	102,926	11,722,323
Total net position - ending	\$ 2,562,554	\$ 9,308,467	\$ 103,772	\$ 11,974,793

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, 2019

	Water Fund	Sewer Fund	Industrial Park Fund	Total
OPERATING ACTIVITIES:				
Receipts from customers	\$ 715,434	\$ 1,529,006	\$ 6,873	\$ 2,251,313
Payments to vendors	(218,709)	(385,946)	-	(604,655)
Payments to employees	(303,644)	(505,804)	-	(809,448)
Net cash provided by operating activities	193,081	637,256	6,873	837,210
NONCAPITAL FINANCING ACTIVITIES:				
Transfers in (out)	9,218	(42,918)	-	(33,700)
Net cash (used) provided by noncapital financing activities	9,218	(42,918)	-	(33,700)
CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of capital assets	(60,151)	(1,445,270)	-	(1,505,421)
Issuance of long-term debt	28,671	904,123	-	932,794
Principal paid on long-term debt	(27,148)	(136,798)	-	(163,946)
Interest paid on long-term debt	(36,399)	(13,664)	-	(50,063)
Net cash used by capital and related financing activities	(95,027)	(691,609)	-	(786,636)
INVESTING ACTIVITIES:				
Interest income	22,789	11,889	846	35,524
Net cash provided by investing activities	22,789	11,889	846	35,524
Net change in cash and cash equivalents	130,061	(85,382)	7,719	52,398
Cash, Beginning of year	988,283	571,193	28,275	1,587,751
Cash, End of year	\$ 1,118,344	\$ 485,811	\$ 35,994	\$ 1,640,149
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income	\$ 32,061	\$ 268,648	\$ -	\$ 300,709
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	125,881	431,912	-	557,793
Pension obligation	39,893	69,636	-	109,529
Changes in assets and liabilities:				
Receivables	(10,239)	(221,687)	6,873	(225,053)
Accounts and other payables	1,189	82,596	-	83,785
Compensated absences	4,296	6,151	-	10,447
Net cash provided by operating activities	\$ 193,081	\$ 637,256	\$ 6,873	\$ 837,210

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Description of Town of Denton, Maryland

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

A. Financial Reporting Entity

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

Note 2. Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

FUND FINANCIAL STATEMENTS

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

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

PROPRIETARY FUNDS

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

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

FIDUCIARY FUNDS

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

C. Measurement Focus

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

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

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

D. Basis of Accounting

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

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

E. Budgetary Process

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

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

F. Property Tax

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

G. Cash and cash equivalents

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

H. Allowance for uncollectible accounts

The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. There was no allowance recorded at June 30, 2019.

I. Land held for resale

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

J. Capital Assets

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

K. Deferred Outflows and Inflows of Resources

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

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

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

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

L. Vacation and sick pay liability

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

M. Net Position

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

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

N. Governmental Fund Balances

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

Nonspendable – amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

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

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

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

Unassigned – amounts not included in other spendable classifications.

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

O. Due to/from other funds and Transfers

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

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

P. Estimates

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

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Cash Equivalents

Deposits: At year end, the carrying value of the Town's deposits with banks and financial institutions was \$6,670,668 and the bank balance was \$7,195,675, 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, 2019, the Town's deposit and investment balances are as follows:

	<u>Fair Value</u>
MLGIP	\$ 5,909,455
Deposits	760,713
Cash on hand	<u>500</u>
 Total cash and cash equivalents	 <u>\$ 6,670,668</u>

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 \$804,560 in outstanding loan payments as of June 30, 2019. Business loans are granted by the Town to local businesses with Council approval. Payment terms on these loans vary.

NOTES TO FINANCIAL STATEMENTS

Note 5. Due to/from other funds and Transfers

Due to/from other funds are as follows:

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

Transfers to other funds are as follows:

	Transfers In	Transfers Out	Net
General Fund	\$ 86,915	\$ (114,022)	\$ (27,107)
Special Projects Fund	30,033	(9,059)	20,974
Business Loan Fund	-	(20,000)	(20,000)
Capital Improvement Fund	-	(33,215)	(33,215)
Highway Fund	93,048	-	93,048
Water Fund	26,000	(16,782)	9,218
Sewer Fund	-	(42,918)	(42,918)
Industrial Park Fund	-	-	-
Total	\$ 235,996	\$ (235,996)	\$ -

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets

The following is a summary of changes in capital assets for the year ended June 30, 2019:

	June 30, 2018	Additions	Transfers / Deductions	June 30, 2019
GOVERNMENTAL ACTIVITIES				
Capital assets, not being depreciated:				
Land	\$ 895,372	\$ -	\$ (6,900)	\$ 888,472
Construction in process	-	20,000	-	20,000
Total capital assets, not being depreciated	895,372	20,000	(6,900)	908,472
Capital assets, being depreciated:				
Land improvements	1,407,950	16,790	-	1,424,740
Buildings	4,619,422	-	-	4,619,422
Infrastructure	13,642,054	119,418	-	13,761,472
Furniture and equipment	779,595	-	(271,240)	508,355
Vehicles	1,255,917	67,049	(35,334)	1,287,632
Total capital assets, being depreciated	21,704,938	203,257	(306,574)	21,601,621
Less accumulated depreciation:				
Land improvements	1,170,877	59,680	-	1,230,557
Buildings	1,422,840	116,437	-	1,539,277
Infrastructure	3,650,344	346,511	-	3,996,855
Furniture and equipment	523,043	66,497	(271,240)	318,300
Vehicles	1,082,186	61,192	(35,334)	1,108,044
Total accumulated depreciation	7,849,290	650,317	(306,574)	8,193,033
Total capital assets, being depreciated, net	13,855,648	(447,060)	-	13,408,588
Governmental activities capital assets, net	\$ 14,751,020	\$ (427,060)	\$ (6,900)	\$ 14,317,060

Depreciation expense was charged to governmental functions as follows:

General government	\$ 77,395
Public safety	109,756
Public works	206,765
Recreation and culture	77,202
Urban development and housing	179,199
	<u>\$ 650,317</u>

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets (continued)

	June 30, 2018	Additions	Transfers / Deductions	June 30, 2019
BUSINESS-TYPE ACTIVITIES				
Capital assets, not being depreciated:				
Construction in process	\$ 123,130	\$ 1,385,120	\$ -	\$ 1,508,250
Total capital assets, not being depreciated	123,130	1,385,120	-	1,508,250
Capital assets, being depreciated:				
Municipal water system	4,376,050	-	-	4,376,050
Municipal sewer system	17,363,128	-	-	17,363,128
Machinery and equipment	500,123	120,301	(95,362)	525,062
Total capital assets, being depreciated	22,239,301	120,301	(95,362)	22,264,240
Less accumulated depreciation:				
Municipal water system	1,752,286	103,121	-	1,855,407
Municipal sewer system	7,934,241	403,494	-	8,337,735
Machinery and equipment	384,337	51,178	(95,362)	340,153
Total accumulated depreciation	10,070,864	557,793	(95,362)	10,533,295
Total capital assets, being depreciated, net	12,168,437	(437,492)	-	11,730,945
Business-type activities capital assets, net	\$ 12,291,567	\$ 947,628	\$ -	\$ 13,239,195

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

Water	\$ 125,881
Sewer	431,912
	<u>\$ 557,793</u>

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-term Obligations

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

	Balances June 30, 2018	Additions	Retirements and Repayments	Balances June 30, 2019	Amount Due In One Year
Governmental activities:					
Compensated absences	\$ 184,592	\$ 16,735	\$ -	\$ 201,327	\$ -
Net pension liability	1,628,949	135,552	-	1,764,501	-
Bonds and notes payable	3,272,188	57,500	229,189	3,100,499	204,721
Total governmental activities					
long-term obligations	\$ 5,085,729	\$ 209,787	\$ 229,189	\$ 5,066,327	\$ 204,721
Business-type activities					
Compensated absences	\$ 79,349	\$ 10,447	\$ -	\$ 89,796	\$ -
Net pension liability	726,456	67,321	-	793,777	-
Bonds and notes payable	2,284,149	932,794	163,946	3,052,997	181,357
Total business-type activities					
long-term obligations	\$ 3,089,954	\$ 1,010,562	\$ 163,946	\$ 3,936,570	\$ 181,357

Interest expense in the governmental activities and business-type activities for the year ended June 30, 2019 is \$89,929 and \$50,063, respectively.

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

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2020	\$ 204,721	\$ 84,797	\$ 181,357	\$ 46,234
2021	191,050	79,636	290,653	48,371
2022	184,194	74,566	187,913	77,140
2023	174,658	69,702	459,537	44,114
2024	155,835	65,224	181,626	42,051
2025 - 2029	1,023,049	254,018	297,587	187,322
2030 - 2034	317,831	157,323	298,375	155,324
2035 - 2039	209,479	121,860	327,246	120,403
2040 - 2044	246,803	84,536	368,163	79,486
2045 - 2049	271,717	40,750	380,281	31,996
2050 - 2053	121,162	5,024	80,259	2,669
Total	\$ 3,100,499	\$ 1,037,436	\$ 3,052,997	\$ 835,110

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-term Obligations (continued)

The following is a summary of governmental activities bonds and notes payable as of June 30, 2019:

\$1,240,000 Highway fund share of 5 th Ave project loan issued by USDA, due in quarterly installments of \$4,333 until 2052, interest at 3.01%.	\$ 1,076,761
\$266,950 Series 2008 Maryland Public Improvement Bonds issued by USDA, due in quarterly installments through June 30, 2047, interest at 4.38%.	230,251
\$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.	81,724
\$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.	447,692
\$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.	689,232
\$30,616 installment note payable, financing of one police car, due in monthly payments of \$546 through 2019, interest at 2.71%.	1,080
\$32,118 installment note payable, financing of one police car, due in monthly payments of \$556 through 2020, interest at 1.52%.	5,523
\$71,833 installment note payable, financing of two police trucks, due in monthly payments of \$1,543 through 2019, interest at 1.52%.	7,700
\$13,807 Highway fund share of installment note payable, financing of one trackloader, split due in semi-annually payments of \$1,438 through 2020, interest at 1.49%.	4,187
\$53,867 installment note payable, financing of two police cars, due in monthly payments of \$944 through 2022, interest at 1.98%.	25,783
\$67,706 installment note payable, financing of two police cars, due in monthly payments of \$1,205 through 2021, interest at 2.58%.	49,344
\$37,500 installment note payable, financing of one police car, due in monthly payments of \$840 through 2023, interest at 3.55%.	36,042
\$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%.	16,992
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%.	428,188
Total Governmental Activities bonds and notes payable	\$ 3,100,499

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-term Obligations (continued)

The following is a summary of business-type activities bonds and notes payable as of June 30, 2019:

\$500,000 Series 2008 Maryland Public Improvement Bonds issued by USDA, due in quarterly installments through June 30, 2047, interest at 4.38%.	\$ 431,382
\$2,332,577 MDE note issued September 23, 2004, due in annual installments of \$121,589 including interest at 0.4% through February 2024.	600,720
\$140,000, Rural Development Loan due in quarterly installments of \$1,892 including interest at 4.5%, through September 2027.	50,256
\$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%.	554,547
\$53,500 MDE note issued January 28, 2011, due in annual installments including interest at 1.2% through February 2031.	33,618
\$55,230 Water and Sewer fund share of installment note payable, financing of one trackloader, split due in semi-annually payments of \$5,752 through 2020, interest at 1.49%.	16,750
\$1,401,007 Water Quality State Revolving Fund loan, 30 year amortization with interest at 0.9%.	948,556
\$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%.	48,318
\$370,000 State note to be repaid from net proceeds of the sale of lots in the new industrial park after the first \$125,000 is retained by the Town. All proceeds in excess of that are to go towards the repayment, which is due August 2020, no interest.	368,850
Total Business-type Activities bonds and notes payable	\$ 3,052,997

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-term Obligations (continued)

Operating Lease

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

2020	\$	14,800
2021		10,500
2022		9,400
2023		3,500
2024		1,900
<hr/>		
Total	\$	40,100

Note 8. Pension and Retirement Plans

Organization

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

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

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

Basis of Accounting

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

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (continued)

Covered Members

Employees' Retirement and Pension Systems

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

Summary of Significant Plan Provisions

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

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

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

A brief summary of the retirement eligibility requirements of and the benefits available under the various systems in effect during fiscal year 2018 are as follows:

Service Retirement Allowances

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

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (continued)

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

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

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

Vested Allowances

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

Early Service Retirement

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

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (continued)

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

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

Disability and Death Benefits

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

Adjusted Retirement Allowances

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

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

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (continued)

Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	In the 2018 actuarial valuation, 2.60% general, 3.10% wage. In the 2017 actuarial valuation, 2.65% general, 3.15% wage.
Salary Increases	In the 2018 actuarial valuation, 3.10% to 9.10%. In the 2017 actuarial valuation, 3.15% to 9.15%.
Investment Rate of Return	In the 2018 actuarial valuation, 7.45%. In the 2017 actuarial valuation, 7.50%.
Discount Rate	7.45% in 2018; 7.5% in 2017.
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014.
Mortality	RP-2014 Mortality Tables with generational mortality projections using scale MP-2014 (2-dimensional) mortality improvement scale.

Investments

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the Board of Trustees after considering input from the System's investment consultant(s) and actuary(s). For each major asset class that is included in the System's target asset allocation as of June 30, 2018, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	37%	5.8%
Private Equity	13%	6.7%
Rate Sensitive	19%	1.1%
Credit Opportunity	9%	3.6%
Real Assets	14%	4.8%
Absolute Return	8%	3.2%
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, 2018.

For the year ended June 30, 2018, the annual money-weighted rate of return on pension plan investments, net of the pension plan investment expense, was 8.08%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (continued)

Discount rate

A single discount rate of 7.45% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 7.45%. 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 7.45%, as well as what the plan's net pension liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher:

System	1 % Decrease to 6.45 %	Discount Rate 7.45 %	1 % Increase to 8.45 %
Employees	\$ 3,684,800	\$ 2,558,278	\$ 1,623,348

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, 2018, 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, 2018, under GASB No. 67 requirements.

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (continued)

At June 30, 2019, the Town reported the following related to pensions:

Employer's proportionate (percentage) of the collective net pension liability	0.0121930%
Employer's proportionate share of the collective net pension liability	\$ 2,558,278
Pension expense recognized by the employer for the year ended June 30, 2019	\$ 341,087
Deferred outflows of resources June 30, 2018	\$ 624,648
Year end June 30, 2018 contributions	(243,137)
Difference between expected and actual experience	-
Change in assumptions	15,529
Amortization of items allowed by GASB 68	(142,598)
Year end June 30, 2019 contributions	262,444
Deferred outflows of resources June 30, 2019	<u>\$ 516,886</u>
Deferred inflows of resources June 30, 2018	\$ 259,822
Net difference between projected and actual investment earnings	25,787
Difference between expected and actual experience	67,530
Amortization of items allowed by GASB 68	(62,865)
Deferred inflows of resources June 30, 2019	<u>\$ 290,274</u>
NPL June 30, 2018	\$ 2,355,405
Change in NPL factored for contributions	202,873
NPL June 30, 2019	<u>\$ 2,558,278</u>

The \$262,444 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, 2020. Other amounts reported as deferred outflows of resources will be amortized over a five year period, as follows:

June 30,	Deferred Outflows	Deferred Inflows
2020	\$ 145,885	\$ (83,613)
2021	95,243	(83,612)
2022	5,743	(73,374)
2023	5,199	(39,350)
2024	2,372	(10,325)
Total	<u>\$ 254,442</u>	<u>\$ (290,274)</u>

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (continued)

For the year ended June 30, 2019 the Town's total payroll for all employees was \$1,955,628. Total covered payroll was \$1,669,757. Covered payroll refers to all compensation paid by the Town to active employees covered by Employees' Systems.

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

Note 9. Defined Contribution Plan

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

Note 10. Risk Management

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

For general, property, excess, and environmental liability coverage, the Town is a member of the Maryland Local Government Insurance Trust (LGIT). This trust is a public entity risk pool, which is owned and directed by the local governments that subscribe to its coverages and operates under the terms of a Trust Agreement.

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

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

Note 11. Related Party Transaction

The Town expects to have in the ordinary course of business lending, transactions with Town Council members. The Town believes these transactions are made on substantially the same terms as those prevailing at the time for comparable transactions with other persons and do not involve more than a normal risk of collectability or present any unfavorable terms. As of June 30, 2019 there are no outstanding loans to Town Council members.

NOTES TO FINANCIAL STATEMENTS

Note 12. Commitments, Contingencies and Subsequent Events

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

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

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

Note 13. Individual Fund Disclosures

The following funds had an excess of expenditures over appropriations for the year ended June 30, 2019:

Fund	Budgeted Expenditures	Actual Expenditures	Excess of Actual Over
			Budgeted Expenditures
Water Fund	\$ 596,172	\$ 693,612	\$ (97,440)

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

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

NOTES TO FINANCIAL STATEMENTS

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REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF DENTON, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Taxes	\$ 3,115,553	\$ 3,236,396	\$ 3,342,179	\$ 105,783
Licenses and permits	24,650	56,890	57,017	127
Revenue from other agencies	87,305	105,142	109,101	3,959
Service charges	18,100	26,291	26,291	-
Miscellaneous	142,325	271,855	269,122	(2,733)
Total revenues	3,387,933	3,696,574	3,803,710	107,136
Expenditures				
Current:				
General government	490,616	468,002	467,564	438
Public safety:				
Police	1,676,638	1,600,751	1,550,453	50,298
Fire	84,700	96,719	96,719	-
Zoning	422,537	380,042	365,223	14,819
Public works	391,517	377,641	378,919	(1,278)
Recreation and culture	68,906	87,166	85,805	1,361
Urban development and housing	94,878	70,276	70,276	-
Debt service - principal	151,995	164,025	169,831	(5,806)
Debt service - interest	56,865	39,765	41,158	(1,393)
Total expenditures	3,438,652	3,284,387	3,225,948	58,439
Excess (deficiency) of revenues over (under) expenditures	(50,719)	412,187	577,762	165,575
Other financing sources (uses)				
Transfers in	46,500	79,715	86,915	7,200
Transfers out	(93,048)	(114,022)	(114,022)	-
Reserve	59,767	(415,380)	-	415,380
Note issued	37,500	37,500	37,500	-
Total other financing sources (uses)	50,719	(412,187)	10,393	422,580
Net change in fund balances	\$ -	\$ -	\$ 588,155	\$ 588,155

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, 2019

Measurement Date	Employer's Proportion (Percentage) of the Collective NPL	Employer's Proportion Share of the Collective NPL	Employer's Covered Employee Payroll	Proportionate Share as a Percentage of Covered Payroll (B / C)	Plan's Total Fiduciary Net Position	Plan's Total Pension Liability	Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (D / E)
A	B	C			D	E	
June 30, 2014	0.009746%	\$ 1,729,543	\$ 1,392,250	124%	\$ 45,339,988,000	\$ 63,086,719,000	72%
June 30, 2015	0.011067%	2,299,809	1,448,844	159%	45,789,840,000	66,571,552,000	69%
June 30, 2016	0.011362%	2,680,707	1,458,891	184%	45,365,927,000	68,959,954,000	66%
June 30, 2017	0.010893%	2,355,405	1,468,367	160%	48,987,184,000	70,610,885,000	69%
June 30, 2018	0.012193%	2,558,278	1,592,428	161%	51,827,233,000	72,808,833,000	71%

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, 2019

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	-	1,592,429	16%

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, 2019

Changes in Benefit Terms

There were no benefit changes during the year.

Changes in Assumptions

Adjustments to the roll-forward liabilities were made to reflect the following assumptions change in the 2018 valuation:

Inflation assumptions changed from 2.65% to 2.60%

Method and Assumptions used in Calculations of Actuarially Determined Contributions

Actuarial	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	22 years for the State Systems, 23 years for LEOPS Muni, and 30 years for CORS Muni. For ECS Numi: 100 years phasing down to 20 years over 6 years, 100 years remaining.
Asset Valuation Model	Five-year smoothed market; 20% collar.
Inflation	In the 2018 actuarial valuation, 2.60% general, 3.10% wage. In the 2017 actuarial valuation, 2.65% general, 3.15% wage.
Salary Increases	In the 2018 actuarial valuation, 3.10% to 9.10% including inflation. In the 2017 actuarial valuation, 3.15% to 9.15% including inflation.
Investment Rate of Return	In the 2018 actuarial valuation, 7.45%. In the 2017 actuarial valuation, 7.50%.
Retirement Age	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014.
Mortality	RP-2014 Mortality Tables calibrated to MSRPS experience with generational mortality projections using MP-2014 (2-dimensional) mortality improvement scale.

OTHER SUPPLEMENTARY INFORMATION

TOWN OF DENTON, MARYLAND
OTHER SUPPLEMENTARY INFORMATION
COMBINING BALANCE SHEETS
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2019

	Capital Improvement	Highway Fund	Special Projects Fund	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents	\$ 364,579	\$ 166,722	\$ 43,537	\$ 574,838
Due from other governments	-	21,346	27,821	49,167
Total assets	\$ 364,579	\$ 188,068	\$ 71,358	\$ 624,005
Liabilities				
Accounts payable and accrued expenses	\$ -	\$ 2,667	\$ 9,004	\$ 11,671
Unearned revenues	-	-	29,199	29,199
Total liabilities	-	2,667	38,203	40,870
Fund balances				
Restricted	-	185,401	33,155	218,556
Assigned	364,579	-	-	364,579
Unassigned	-	-	-	-
Total fund balances	364,579	185,401	33,155	583,135
Total liabilities and fund balances	\$ 364,579	\$ 188,068	\$ 71,358	\$ 624,005

TOWN OF DENTON, MARYLAND
OTHER SUPPLEMENTARY INFORMATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2019

	Capital Improvement	Highway Fund	Special Projects Fund	Total Nonmajor Governmental Funds
Revenues				
Taxes	\$ -	\$ 51,903	\$ -	\$ 51,903
Licenses and permits	99,183	-	-	99,183
Revenue from other agencies	-	149,859	193,483	343,342
Interest income	-	-	1,769	1,769
Miscellaneous	7,595	3,521	20,794	31,910
Total revenues	106,778	205,283	216,046	528,107
Expenditures				
Current:				
Public works	-	117,368	-	117,368
Urban development and housing	-	-	261,466	261,466
Capital outlay and projects	-	148,967	-	148,967
Debt service - principal	-	32,075	-	32,075
Debt service - interest	-	44,216	-	44,216
Total expenditures	-	342,626	261,466	604,092
Excess (deficiency) of revenues over (under) expenditures	106,778	(137,343)	(45,420)	(75,985)
Other financing sources (uses)				
Transfers in	-	93,048	30,033	123,081
Transfers out	(33,215)	-	(9,059)	(42,274)
Proceeds from sale of land	-	-	100,000	100,000
Note issued	-	20,000	-	20,000
Total other financing sources (uses), net	(33,215)	113,048	120,974	200,807
Net change in fund balances	73,563	(24,295)	75,554	124,822
Fund balance - beginning	291,016	209,696	(42,399)	458,313
Fund balance - ending	\$ 364,579	\$ 185,401	\$ 33,155	\$ 583,135

TOWN OF DENTON, MARYLAND
OTHER SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - HIGHWAY FUND
Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Taxes	\$ 63,460	\$ 63,460	\$ 51,903	\$ (11,557)
Revenue from other agencies	135,876	135,876	149,859	13,983
Miscellaneous	-	-	3,521	3,521
Total revenues	199,336	199,336	205,283	5,947
Expenditures				
Current:				
Public works	272,497	272,497	266,335	6,162
Debt service - principal	49,961	49,961	32,075	17,886
Debt service - interest	44,926	44,926	44,216	710
Total expenditures	367,384	367,384	342,626	24,758
Excess (deficiency) of revenues over (under) expenditures	(168,048)	(168,048)	(137,343)	30,705
Other financing sources (uses)				
Transfers in	93,048	93,048	93,048	-
Note issued	20,000	20,000	20,000	-
Reserve	55,000	55,000	-	(55,000)
Total other financing sources (uses)	168,048	168,048	113,048	(55,000)
Net change in fund balances	\$ -	\$ -	\$ (24,295)	\$ (24,295)

TOWN OF DENTON, MARYLAND
OTHER SUPPLEMENTARY INFORMATION
INCOME AND EXPENSE DETAIL
BUDGET AND ACTUAL
WATER FUND
Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Operating revenues				
Charges for services, net	\$ 671,369	\$ 671,369	\$ 716,743	\$ 45,374
Other revenues	35,500	35,500	8,930	(26,570)
Total operating revenues	706,869	706,869	725,673	18,804
Operating expenses				
Salaries and wages	201,263	201,263	204,582	(3,319)
Fringe benefits	110,681	110,681	143,251	(32,570)
Materials and supplies	3,700	3,700	3,561	139
Electric and telephone	46,885	46,885	43,186	3,699
Automotive expenses	24,605	24,605	13,154	11,451
Professional services	14,500	14,500	11,522	2,978
Repairs and maintenance	52,138	52,138	45,435	6,703
Depreciation	-	-	125,881	(125,881)
Other operating expenses	142,400	142,400	103,040	39,360
Total operating expenses	596,172	596,172	693,612	(97,440)
Operating income (loss)	110,697	110,697	32,061	(78,636)
Nonoperating revenues (expenses)				
Interest income	2,500	2,500	22,789	20,289
Debt service - principal payments	(90,188)	(90,188)	-	90,188
Debt service - interest expense	(38,452)	(38,452)	(36,399)	2,053
Reserve	2,693	2,693	-	(2,693)
Net nonoperating revenues (expenses)	(123,447)	(123,447)	(13,610)	109,837
Income (loss) before transfers	(12,750)	(12,750)	18,451	31,201
Transfers in	26,000	26,000	26,000	-
Transfers out	(13,250)	(13,250)	(16,782)	(3,532)
Change in net position	\$ -	\$ -	\$ 27,669	\$ 27,669

TOWN OF DENTON, MARYLAND
OTHER SUPPLEMENTARY INFORMATION
INCOME AND EXPENSE DETAIL
BUDGET AND ACTUAL
SEWER FUND
Year Ended June 30, 2019

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
Operating revenues				
Charges for services, net	\$ 1,076,888	\$ 1,076,888	\$ 1,085,677	\$ 8,789
Vacant lots	10,928	10,928	11,175	247
Other revenues	2,054,717	2,054,717	653,841	(1,400,876)
Total operating revenues	3,142,533	3,142,533	1,750,693	(1,391,840)
Operating expenses				
Salaries and wages	334,761	334,761	336,895	(2,134)
Fringe benefits	190,046	190,046	244,696	(54,650)
Materials and supplies	7,000	7,000	21,231	(14,231)
Electric and telephone	109,125	109,125	108,905	220
Automotive expenses	28,035	28,035	15,074	12,961
Professional services	34,100	34,100	12,000	22,100
Repairs and maintenance	73,400	73,400	76,780	(3,380)
Depreciation	-	-	431,912	(431,912)
Other operating expenses	2,099,073	2,099,073	234,552	1,864,521
Total operating expenses	2,875,540	2,875,540	1,482,045	1,393,495
Operating income (loss)	266,993	266,993	268,648	1,655
Nonoperating revenues (expenses)				
Interest income	2,600	2,600	11,889	9,289
Debt service - principal payments	(140,260)	(140,260)	-	140,260
Debt service - interest expense	(15,675)	(15,675)	(13,664)	2,011
Reserve	(134,662)	(134,662)	-	134,662
Net nonoperating revenues (expenses)	(287,997)	(287,997)	(1,775)	286,222
Income (loss) before transfers	(21,004)	(21,004)	266,873	287,877
Transfers in	60,254	60,254	-	(60,254)
Transfers out	(39,250)	(39,250)	(42,918)	(3,668)
Change in net position	\$ -	\$ -	\$ 223,955	\$ 223,955

Herbert J. Geary III
Corey N. Duncan
Roy J. Geiser
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Craig A. Walter
Mark A. Welsh



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

Town of Denton, Maryland
Denton, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Denton, Maryland (the "Town") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated October 22, 2019.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Salisbury, Maryland
October 22, 2019