
**TOWN OF KENSINGTON,
MARYLAND**

**Financial Statements, Supplementary
Information and Independent
Auditor's Report**

**For the Years Ended
June 30, 2022 and 2021**

LSWG

**CERTIFIED PUBLIC ACCOUNTANTS
& BUSINESS ADVISORS**

TOWN OF KENSINGTON, MARYLAND
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June 30, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

To the Mayor and Council of the
Town of Kensington, Maryland

Opinions

We have audited the accompanying financial statements of the governmental activities and the general fund of the Town of Kensington, Maryland (the Town), as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Town of Kensington, Maryland, as of June 30, 2022 and 2021, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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.

LSWG, P.A.

Rockville, Maryland
October 26, 2022

MANAGEMENT DISCUSSION AND ANALYSIS

Set forth below is an overview of the Town of Kensington's financial statements and analysis of the financial activities for the fiscal year ended June 30, 2022. We encourage readers to consider the following information.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the Town of Kensington exceeded its liabilities and deferred inflows at the close of the fiscal year by \$6,898,912 (net position). Of this amount, \$4,571,253 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town of Kensington's total net position increased by \$415,293 for the fiscal year compared with an increase of \$793,676 in the prior year.
- Revenues in the Statement of Program Activities increased by \$86,869 (3%) when compared to the prior year. Expenses in the Statement of Program Activities increased by \$465,252 (24%) when compared to the prior year. This increase is mostly attributable to use of the non-lapsing Capital Improvement Plan (CIP) from the Pavement Management and Town Hall Improvement programs.
- At the close of the fiscal year, the Town of Kensington's Governmental Funds reported an ending fund balance of \$4,633,420, an increase of \$296,049 in comparison with the prior year. Out of this fund balance, approximately 21%, \$972,962, is classified as unassigned and available for spending at the government's discretion. Of the remaining \$3,660,458 balance, \$31,852 is designated as prepaid expenses; \$98,276 is committed and under contract for the Pavement Management program and Town Hall improvements within the CIP; \$2,671,899 is assigned for other CIP projects; and \$858,431 is assigned for next year's operations including capital outlay.
- The Governmental Funds total revenues were \$417,617 over budget and expenditures after capital improvement projects were \$939,337 under budget.
- The Town received the first payment, \$1,147,335, from the American Rescue Plan Act (ARPA), which is in deferred inflows until the related eligible expenditures are incurred. The Town plans on using the total ARPA funds of \$2,295,528 to improve and upgrade the Town's storm drain network.
- In this fiscal year, the Town:
 - (1) Expanded the brick staircase at Clum-Kennedy Park and made additional park and vegetation improvements.
 - (2) Replaced in-kind the Veranda and Parapet at Town Hall.
 - (3) Milled and paved the 10400 block of Armory Avenue (between Knowles Avenue and Warner Street); Fawcett Street, and Lexington Street between Perry Avenue and University Boulevard; the Town also made ADA and

sidewalk improvements along Armory Avenue, Fawcett Street, and Mitchell Street.

- (4) Planted 50 new and replacement trees within the Town's public right-of-way and Parks.
- (5) Provided matching community art grants to businesses in Town to add murals.

OVERVIEW OF THE FINANCIAL STATEMENT

The discussion and analysis is intended to serve as an introduction to the Town of Kensington's basic financial statements. The Town of Kensington's basic financial statements comprise of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the Town of Kensington's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the Town of Kensington's (i) assets and deferred outflows and (ii) liabilities and deferred inflows, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town of Kensington is improving or deteriorating.

The Statement of Program Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements of the Town of Kensington are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the Town of Kensington include General Government, Building, Public Works, Public Safety, and Parks and Recreation. The government-wide financial statements report only on the Town of Kensington.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Kensington, like other local and state governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Town of Kensington currently has only governmental funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town of Kensington maintains one individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance, which is considered to be a major fund.

The Town of Kensington adopts an annual appropriated budget ordinance for its governmental fund. A budgetary comparison statement has been provided for the governmental fund to demonstrate compliance with this budget.

NOTES TO THE BASIC FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the Town of Kensington, assets and deferred outflows exceeded liabilities and deferred inflows by \$6,898,912 at the close of the most recent fiscal year as compared with \$6,483,619 at the end of the prior year. Approximately 34% of the Town of Kensington’s net position reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment). The Town of Kensington uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Town of Kensington’s Net Position

	<u>Governmental Activities</u>
Current and other assets	\$ 6,147,089
Capital assets	<u>2,327,659</u>
Total assets	<u>8,474,748</u>
Other liabilities	<u>1,575,836</u>
Total liabilities	<u>1,575,836</u>

Invested in capital assets, net of related debt	\$ 2,327,659
Unrestricted	<u>4,571,253</u>
Total Net Position	<u>\$ 6,898,912</u>

The unrestricted net position of \$4,571,253 is used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities increased the Town of Kensington's net position by \$415,293.

Town of Kensington Changes in Net Position

	<u>Governmental Activities</u>
Revenues:	
Program revenues:	
Charges for services	\$ 84,090
Operating grants and contributions	114,099
General revenues:	
Taxes	2,265,479
Other	<u>324,259</u>
Total Revenues	<u>\$ 2,787,927</u>
Expenses:	
General government	\$ 750,483
Building and zoning	120,411
Public safety	220,944
Parks and recreation	150,751
Public works	<u>1,130,045</u>
Total Expenses	<u>\$ 2,372,634</u>
Increase in net position	\$ 415,293
Net position on July 1, 2021	<u>6,483,619</u>
Net position on June 30, 2022	<u>\$ 6,898,912</u>

- Taxes of \$2,265,479 comprised 81% of the total revenues received, which was \$2,787,927. Most of this balance is the product of property and income taxes. Taxes in the prior year were \$2,268,913 representing 84% of total revenues in that year of \$2,701,058.

FUND FINANCIAL ANALYSIS

The Town of Kensington uses fund accounting to ensure and demonstrate compliance with finance related requirements.

Governmental Funds. The focus of the Town of Kensington’s governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town of Kensington’s financing requirements. In particular, the unassigned fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town of Kensington’s governmental funds reported combined ending fund balances of \$4,633,420, an increase of \$296,049 in comparison with the prior year.

Approximately 21% of this amount, \$972,962, constitutes the unassigned fund balance, which is available for future spending at the government’s discretion. The remainder of the fund, \$3,660,458, has been reserved for prepaid expenses, capital improvement projects in the CIP Budget, and for projected use to fund next year’s budget due to additional funds added to the capital improvement budget.

Assigned funds from the fund balance include \$2,671,899 for CIP and \$858,431 to fund next year’s budget resulting in a total assigned fund balance at the end of this fiscal year of \$3,530,330. Committed funds from the fund balance include \$15,900 for an existing Town Hall Improvement contract and \$82,376 for an existing Pavement Management contract resulting in a total committed fund balance at the end of this fiscal year of \$98,276.

Total Fund Balance at June 30, 2022	\$4,633,420
Nonspendable for Prepaid Expenses	(31,852)
Committed for Capital Improvement Projects for Pavement Management Program (Under contract)	(82,376)
Committed for Capital Improvement Projects for Town Hall Improvements (Under contract)	(15,900)
Assigned for Capital Improvement Projects (Not under contract)	(2,671,899)
Assigned for FY 2022-23 Budget (includes operating and CIP)	<u>(858,431)</u>
Unassigned Fund Balance	<u>\$ 972,962</u>

Governmental Fund Budgetary Highlights. Generally, budget amendments fall into one of three categories: (1) amendments made to adjust the estimates that are used to prepare the original budget once exact information is available; (2) amendments made to recognize new funding amounts from external sources, such as County and State grants; and (3) increases in appropriations that become necessary to maintain services.

The Town of Kensington did not make any budget amendments to the adopted budget during the fiscal year.

Revenues and other financing sources exceeded expenditures by \$296,049 within the Government Fund at the end of the fiscal year.

Revenues exceeded our budget forecast by \$417,617 for the fiscal year due to more than expected income tax revenue, and the receipt of additional funds from the county tax duplication payment, which has now been codified through County legislation to allow for additional funding for certain services provided by the Town.

Expenditures were less than the budget forecast by \$939,337 for the fiscal year, which is mostly attributable to cautious spending due to the continued global pandemic from COVID-19, holding off from filling a full-time Public Works position, part-time general government position, and adding a fourth Officer to the Town’s secondary employment agreement with Montgomery County Police. In addition, the Town has had to delay certain proposed CIP projects, as we have had difficulty securing contractors due to contractor staffing shortages, rising material costs, and global supply-chain concerns.

For reference, the Town Charter was amended during the 2009-10 Fiscal Year to allow for non-lapsing capital project expenditures. Subsequently, \$2,671,899 has been assigned from the fund balance for ongoing and future capital projects, which includes Facilities Capital Reserve; Property Acquisition; Town Hall Improvements; Town Parks and Playground Improvements; Street Light Replacement Program; Bridge Reconstruction and Renovation Program; Equipment and Vehicle Replacement Program; Pavement Management Program; Public Works Facility Improvements; and Storm Drain Reconstruction & Renovation Program; and \$98,276 has been committed for existing contracts within the Pavement Management Program and Town Hall Improvements.

The Fiscal Year ending June 30, 2021, the non-lapsing CIP budget assigned and committed funds were \$2,389,343. In this fiscal year, an additional \$958,492 was added for capital improvement projects, while \$577,660 was spent for capital improvement projects. This resulted in an assigned and committed fund balance for the CIP budget of \$2,770,175 at the end of this fiscal year.

Governmental Fund Budget Highlights

	<u>Adopted Budget</u>	<u>Actual</u>
Revenues		
Taxes – Local	\$1,358,324	\$1,468,281
Taxes – Shared Revenues	680,250	813,881
Licenses & Permits	48,143	64,545
Intergovernmental Revenue	256,648	412,654
Fines and Forfeitures	2,000	3,242
Other	<u>45,500</u>	<u>45,879</u>
Total Revenue	<u>2,390,865</u>	<u>2,808,482</u>
Expenditures		
General Government	1,166,708	855,559

Public Works	916,113	752,457
Public Safety	294,857	221,548
Parks	<u>115,600</u>	<u>105,209</u>
Total Operating	2,493,278	1,934,773
Capital Improvements**	<u>958,492</u>	<u>577,660</u>
Total Expenditures	<u>3,451,770</u>	<u>2,512,433</u>
Change in fund balance	<u>\$(1,060,905)</u>	<u>\$ 296,049</u>

**Non-lapsing Capital Improvement Budget at July 1, 2021 was \$2,389,343.

CAPITAL ASSETS

The Town's capitalization policy is to capitalize fixed assets at a threshold of \$5,000.

At the end of the fiscal year, the Town governmental activities have invested \$2,327,659 in a variety of capital assets and infrastructure, as reflected in the following schedule. These assets include land, land improvements, buildings and improvements, machinery, equipment, vehicles, and park and playground equipment. Total depreciation was \$106,213.

Governmental Activities - Capital Assets

	<u>Governmental Activities</u>
Non-Depreciable Assets	
Land	\$ 264,353
Land Improvement	1,068,259
Other Capital Assets	
Buildings & Improvements	2,174,602
Equipment	629,293
Infrastructure	<u>537,535</u>
Total Capital Assets	4,674,042
Accumulated Depreciation on Other Capital Assets	<u>(2,346,383)</u>
Net Capital Assets	<u>\$ 2,327,659</u>

LONG-TERM DEBT

The long-term portion of accrued compensated absences of \$64,465 represent the outstanding debt obligations of the Town.

NEXT YEAR'S BUDGET HIGHLIGHTS

The Town adopted the Fiscal Year 2022-2023 Budget on May 9, 2022.

For Fiscal Year 2022-2023 the Real Property tax rate remained unchanged from the prior year at a rate of \$0.1312 per one hundred dollars of assessed value; the Corporate and Personal Property tax rate remained unchanged from the prior year at a rate of \$0.80 per one hundred dollars of assessed value; and the Public Utility tax rate remained unchanged from the prior year at a rate of \$5.00 per one hundred dollars of assessed value.

The Mayor and Town Council appropriated \$858,431 from the prior year's unassigned fund balance for spending within the Fiscal Year 2022-2023 budget. This appropriation, which includes the first ARPA payment, adds \$1,862,122 to the non-lapsing Capital Improvement Program. The Town plans to address a number of infrastructure needs within the upcoming fiscal year, to include: making the recommended repairs to the Town's three bridges; hiring an engineering firm to perform a storm drain analysis; making the recommended repairs to the storm drain network per the engineering report; adding a sidewalk to connect Kensington Parkway to St. Paul Park; reconfiguring the intersection of St. Paul Street and McComas Avenue to improve site line concerns; and continuing to upgrade and improve the Town's infrastructure through ADA and sidewalk improvements.

American Rescue Plan Act (ARPA)

The Town was awarded \$2,295,528 in Coronavirus State and Local Fiscal Recovery Funds (SLFRF) through the American Rescue Plan Act (ARPA), which was signed into Federal law in March, 2021; \$1,147,335 of the award was received August 27, 2021 and remaining \$1,148,193 was received August 4, 2022. The Town anticipates using the majority of these funds to address storm water management issues in Town.

ECONOMIC FACTORS

The major economic factor that may affect the Town of Kensington now that the global pandemic from COVID-19 is over, is the continued rapid rate of inflation. More specifically, we are not certain how the increased costs for energy and food may impact our revenues over the next year. In addition, concerns over two consecutive quarters of negative GDP, which is the formal definition of a recession, along with rising interest rates, may cool the existing housing market and planned redevelopment projects within the Town.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Kensington's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Manager or Clerk/Treasurer of the Town of Kensington, 3710 Mitchell Street, Kensington, Maryland, 20895.

Town of Kensington, Maryland
Statements of Net Position
June 30, 2022 and 2021

	Governmental Activities <u>2022</u>	Governmental Activities <u>2021</u>
Assets		
Cash and cash equivalents	\$ 284,921	\$ 226,422
Investments	5,734,638	4,118,591
Receivables, net	15,660	25,554
Due from other governments	80,018	62,938
Prepaid expenses	31,852	28,693
Capital assets, net	<u>2,327,659</u>	<u>2,233,100</u>
Total Assets	<u>8,474,748</u>	<u>6,695,298</u>
Deferred Outflows		
	<u>-</u>	<u>-</u>
Liabilities		
Accounts payable	331,913	99,219
Builder deposits	10,500	14,500
Accrued salaries	13,647	23,956
Accrued compensated absences	<u>67,180</u>	<u>67,325</u>
Total Liabilities	<u>423,240</u>	<u>205,000</u>
Deferred Inflows		
	<u>1,152,596</u>	<u>6,679</u>
Net Position		
Invested in capital assets, net	2,327,659	2,233,100
Unrestricted	<u>4,571,253</u>	<u>4,250,519</u>
Total Net Position	<u>\$ 6,898,912</u>	<u>\$ 6,483,619</u>

The accompanying notes are an integral part of these statements.

**Town of Kensington, Maryland
Statement of Program Activities
For the Year Ended June 30, 2022**

	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expenses)</u>	<u>Total</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Revenue and Changes in Net Position</u> <u>Governmental Activities</u>	
Functions/Programs					
Governmental Activities					
General government	\$ 750,483	\$ -	\$ -	\$ (750,483)	\$ (750,483)
Building and zoning	120,411	64,545	-	(55,866)	(55,866)
Public works	1,130,045	-	114,099	(1,015,946)	(1,015,946)
Public safety	220,944	3,242	-	(217,702)	(217,702)
Parks and recreation	150,751	16,303	-	(134,448)	(134,448)
Total Governmental Activities	<u>\$ 2,372,634</u>	<u>\$ 84,090</u>	<u>\$ 114,099</u>	(2,174,445)	(2,174,445)
General Revenues					
Property taxes				1,451,599	1,451,599
State shared taxes				813,880	813,880
Intergovernmental				299,255	299,255
Investment income				13,572	13,572
Miscellaneous				11,432	11,432
Total General Revenues				<u>2,589,738</u>	<u>2,589,738</u>
Changes in Net Position				415,293	415,293
Net Position, Beginning of Year				<u>6,483,619</u>	<u>6,483,619</u>
Net Position, End of Year				<u>\$ 6,898,912</u>	<u>\$ 6,898,912</u>

The accompanying notes are an integral part of this statement.

Town of Kensington, Maryland
Statement of Program Activities
For the Year Ended June 30, 2021

	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expenses)</u>	<u>Total</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Revenue and Changes in Net Position</u>	
Functions/Programs				<u>Governmental Activities</u>	
Governmental Activities					
General government	\$ 755,094	\$ -	\$ 7,716	\$ (747,378)	\$ (747,378)
Building and zoning	39,344	81,749	-	42,405	42,405
Public works	739,158	-	106,382	(632,776)	(632,776)
Public safety	226,161	3,206	-	(222,955)	(222,955)
Parks and recreation	147,625	10,352	45,520	(91,753)	(91,753)
Total Governmental Activities	<u>\$ 1,907,382</u>	<u>\$ 95,307</u>	<u>\$ 159,618</u>	(1,652,457)	(1,652,457)
General Revenues					
Property taxes				1,424,847	1,424,847
State shared taxes				844,066	844,066
Intergovernmental				161,035	161,035
Investment income				11,140	11,140
Miscellaneous				5,045	5,045
Total General Revenues				<u>2,446,133</u>	<u>2,446,133</u>
Changes in Net Position				793,676	793,676
Net Position, Beginning of Year				<u>5,689,943</u>	<u>5,689,943</u>
Net Position, End of Year				<u>\$ 6,483,619</u>	<u>\$ 6,483,619</u>

The accompanying notes are an integral part of this statement.

Town of Kensington, Maryland
Balance Sheets
Governmental Funds
June 30, 2022 and 2021

	General Fund <u>2022</u>	General Fund <u>2021</u>
Assets		
Cash and cash equivalents	\$ 284,921	\$ 226,422
Investments	5,734,638	4,118,591
Receivables, net	15,660	25,554
Due from other governments	80,018	62,938
Prepaid expenses	<u>31,852</u>	<u>28,693</u>
Total Assets	<u>6,147,089</u>	<u>4,462,198</u>
Deferred Outflows	<u>-</u>	<u>-</u>
Liabilities		
Accounts payable	331,913	51,719
Builder deposits	10,500	14,500
Accrued salaries	13,647	23,956
Accrued compensated absences - current	<u>2,715</u>	<u>8,993</u>
Total Liabilities	<u>358,775</u>	<u>99,168</u>
Deferred Inflows	<u>1,154,894</u>	<u>25,659</u>
Fund Balance		
Nonspendable	31,852	28,693
Committed	98,276	120,175
Assigned	3,530,330	3,330,072
Unassigned	<u>972,962</u>	<u>858,431</u>
Total Fund Balance	<u>\$ 4,633,420</u>	<u>\$ 4,337,371</u>
Reconciliation of Total Governmental Fund Balance To Net Position of the Governmental Activities		
Total Governmental Fund Balance	\$ 4,633,420	\$ 4,337,371
Amounts reported for governmental activities in the statement of net position are different because:		
Property tax revenues in the Statement of Program Activities that do not provide current financial resources are not reported as revenues in the funds.	2,298	25,659
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements.	2,327,659	2,233,100
Expenses in the Statement of Program Activities that do not provide current financial resources and are not reported as expenses in the funds.	-	(47,500)
Compensated absences not requiring current financial resources and therefore not reported as expenditures in the fund financial statements.	<u>(64,465)</u>	<u>(58,332)</u>
Net Position of Governmental Activities	<u>\$ 6,898,912</u>	<u>\$ 6,490,298</u>

The accompanying notes are an integral part of these statements.

Town of Kensington, Maryland
Statements of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2022 and 2021

	2022	2021
	General	General
	Fund	Fund
	<u> </u>	<u> </u>
Revenues		
General property taxes	\$ 1,468,281	\$ 1,414,520
State shared taxes	813,881	844,066
Licenses and permits	64,545	81,749
Fines and forfeitures	3,242	3,206
Municipal events	8,468	7,722
Intergovernmental revenues	412,654	267,417
Miscellaneous	23,839	9,696
Grants	-	401,216
Net investment income	13,572	11,140
	<u>2,808,482</u>	<u>3,040,732</u>
Expenditures		
General government	1,016,606	760,651
Public works	1,136,373	779,975
Public safety	221,548	211,529
Parks and recreation	137,906	191,413
Debt service	-	78,677
	<u>2,512,433</u>	<u>2,022,245</u>
Excess of Revenues Over Expenditures	296,049	1,018,487
Fund Balance at Beginning of Year	<u>4,337,371</u>	<u>3,318,884</u>
Fund Balance at End of Year	<u>\$ 4,633,420</u>	<u>\$ 4,337,371</u>

The accompanying notes are an integral part of these statements.

Town of Kensington, Maryland
Reconciliation of the Statements of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statements of Program Activities
For the years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Net Change in Fund Balances - Total Governmental Funds	\$ 296,049	\$1,018,487
Amounts reported for governmental activities in the Statements of Program Activities are different because:		
Property tax revenues in the Statement of Program Activities that (do) do not provide current financial resources (are) are not reported as revenues in the funds.	(16,682)	10,327
Governmental funds report capital outlays as expenditures in the Statements of Program Activities for the cost of those assets in the period acquired, but expensed over the estimated useful lives as depreciation expense in the government-wide financial statements. Amount by which depreciation expense did (did not) exceed capital outlay expenditures.	94,559	91,669
Compensated absences in the Statement of Program Activities not requiring the use of current financial resources and therefore are (are not) reported as expenditures in the governmental funds.	(6,133)	(7,984)
Net pension liability expensed in the government-wide financial statements not requiring the use of current financial resources and therefore are (are not) reported as expenditures in the governmental funds.	47,500	(47,500)
State income tax refund expense in the government-wide financial statements not requiring the use of current financial resources and therefore are (are not) reported as expenditures in the governmental funds.	-	78,677
Grant revenues in the Statement of Program Activities that (do) do not provide current financial resources (are) are not reported as revenues in the funds.	<u>-</u>	<u>(350,000)</u>
Net Changes in Net Position	<u>\$ 415,293</u>	<u>\$ 793,676</u>

The accompanying notes are an integral part of these statements.

TOWN OF KENSINGTON, MARYLAND
Notes to Financial Statements
June 30, 2022 and 2021

Note 1 - Summary of Significant Accounting Policies

A. Financial Reporting Entity

The Town of Kensington (Town) was incorporated April 6, 1894 under the laws of the State of Maryland. The Town operates under a Mayor and Council-Manager form of government consisting of a Mayor, Town Council and a Town Manager. The Town provides the following services as authorized by its charter: streets, sanitation, building inspection and general administration services. The basic financial statements of the Town have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for established governmental and financial reporting principles. The Town implemented accounting and financial reporting requirements of GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for States and Local Governments. GASB Statement No. 34 added the following components to the financial statements:

Management's Discussion and Analysis – A narrative introduction and analytical overview of the government's financial activities. This analysis is similar to analysis the private sector provides in their annual reports.

Government-Wide Financial Statements – The government-wide financial statements include the Statement of Net Position and the Statement of Program Activities. These statements report financial information for the Town as a whole.

Statement of Net Position – The Statement of Net Position displays the financial position of the Town. All assets, deferred outflows, liabilities and deferred inflows of resources associated with the operation of the Town are included on the Statement of Net Position. The net position of a government is broken into three categories –1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Program Activities – The Statement of Program Activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants.)

Budgetary Comparison Schedules – Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. The Town and many other governments revise their original budgets over the course of the year for a variety of reasons.

TOWN OF KENSINGTON, MARYLAND
Notes to Financial Statements
June 30, 2022 and 2021

Note 1 - Summary of Significant Accounting Policies (Continued)

A. Financial Reporting Entity (Continued)

The financial statements were prepared in accordance with GASB Statement No.14, The Financial Reporting Entity, which establishes standards for defining and reporting on the financial reporting entity. The definition of the financial reporting entity is based upon the concept that elected officials are accountable to their constituents for their actions. One of the objectives of financial reporting is to provide users of financial statements with the basis for assessing the accountability of the elected officials. The financial reporting entity consists of the Town of Kensington. There are no organizations for which the Town is financially accountable and there are no component units of the Town.

B. Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the Town as a whole) and fund financial statements. The reporting model focus is on both the Town as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the fiduciary fund. The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Program Activities) report information on all of the non-fiduciary activities of the Town. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which primarily rely on fees and charges for support. The Town does not have any business-type activities or fiduciary activities at this time.

The Statement of Program Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide statements are reported using the economic resources measurement focus, and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

TOWN OF KENSINGTON, MARYLAND
Notes to Financial Statements
June 30, 2022 and 2021

Note 1 - Summary of Significant Accounting Policies (Continued)

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)**

Governmental fund financial statements are reported using the current resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, franchise fees, utility taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Town reports unearned revenues on its governmental funds balance sheet. Unearned revenues arise from taxes levied in the current year which are for subsequent years' operations. For governmental fund financial statements unearned revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when resources are received before the Town has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Town has a legal claim to the resources, the deferred inflow for unearned revenue is removed from the balance sheet and revenue is recognized.

The Town reports the following major governmental fund:

The General Fund – This is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position

1. Deposits and Investments

Cash and cash equivalents, which are cash and short-term investments with maturities of three months or less, include cash on hand and demand deposit accounts.

TOWN OF KENSINGTON, MARYLAND
Notes to Financial Statements
June 30, 2022 and 2021

Note 1 - Summary of Significant Accounting Policies (Continued)

**D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position
(Continued)**

2. Capital Assets

Capital assets, which include land, buildings and equipment, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. General infrastructure assets acquired prior to July 1, 2004 are not reported in the basic financial statements. Total infrastructure for June 30, 2022 and 2021 was \$537,535 and \$486,905, respectively. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the Town are depreciated using the straight-line method over the following estimated useful lives:

Infrastructure - 40 years
Buildings - 20 years
Improvements - 20 years
Office and other equipment - 5 to 15 years

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Compensated Absences

Town employees are granted vacation in varying amounts based on length of service. Carryover is limited to two hundred and forty (240) hours per calendar year. Unused vacation pay, if any, is paid with the employee's termination or retirement. Those amounts estimated to be liquidated with expendable available financial resources from the general fund are reported as an expenditure and a fund liability of the general fund.

TOWN OF KENSINGTON, MARYLAND
Notes to Financial Statements
June 30, 2022 and 2021

Note 1 - Summary of Significant Accounting Policies (Continued)

**D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position
(Continued)**

5. Property Taxes

Property taxes for the current year were assessed by the State Department of Assessments and Taxation and collected by Montgomery County and subsequently remitted to the Town. Property taxes are assessed on July 1st and are due and payable according to applicable laws. All unpaid taxes levied July 1st become delinquent on October 1st and January 1st. The real property tax rate for the Town for fiscal years ended June 30, 2022 and 2021 were .1312 per \$100 of assessed taxable value. The corporate and personal property tax rates for the Town for the fiscal years ended June 30, 2022 and 2021 were .80 per \$100 of assessed taxable value. The public utility tax rates for the Town for the fiscal years ended June 30, 2022 and 2021 were 5.00 per \$100 of assessed taxable value, respectively. Procedures for the collection of delinquent taxes by Montgomery County are provided for in the laws of Maryland. An allowance account of \$4,312 and \$7,745 has been established for delinquent property taxes at June 30, 2022 and 2021, respectively.

6. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates that affect the amounts reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates.

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position includes 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 of resources (expense/expenditure) until then. The Town has no deferred outflows of resources for the years ended June 30, 2022 and 2021.

TOWN OF KENSINGTON, MARYLAND
Notes to Financial Statements
June 30, 2022 and 2021

Note 1 - Summary of Significant Accounting Policies (Continued)

**D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position
(Continued)**

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net 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 currently recognizes unearned revenues (“unavailable” tax revenue received more than 60 days after year-end) as a deferred inflow. The Town’s deferred inflows of resources consist of grant funds received but not spent, property taxes and unearned income collected for the farmer’s market.

8. Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the government-wide financial statements. Net position is classified in the following categories:

Net investment in capital assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted net position – This amount is restricted by creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted net position – This amount is the net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

Note 2 – Reconciliation of Government-Wide and Fund Financial Statements

A. Explanation of certain differences between the governmental fund balance and the government-wide statement of net position:

The governmental fund balance sheet includes reconciliation between fund balance – total government funds and net position – governmental activities as reported in the government-wide statement of net position.

TOWN OF KENSINGTON, MARYLAND
Notes to Financial Statements
June 30, 2022 and 2021

Note 3 – Detailed Notes on All Funds

A. Deposits and Investments

Deposits

State statutes require all deposits be insured by the Federal Depository Insurance Corporation (FDIC) or fully collateralized.

Town administration is authorized to invest in those instruments authorized by Maryland Statutes.

At June 30, 2022 and 2021, the carrying amount of the Town's deposits totaled \$284,921 and \$226,422 and the bank balances totaled \$309,829 and \$318,911, respectively. Of the bank balances at June 30, 2022 and 2021, \$250,000 was covered by FDIC, respectively, and the remaining balance is collateralized at a local bank.

Investments – Maryland Local Government Investment Pool

The Town is a participant of the Maryland Local Government Investment Pool (MLGIP), which provides all local government units of the State a safe investment vehicle for the short-term investment of funds. The State Legislature created MLGIP with the passage of Article 95 22G, of the Annotated Code of Maryland. The MLGIP, under the administrative control of the State Treasurer, has been managed by a single Baltimore-based financial institution, PNC Bank. An MLGIP advisory committee of current participants was formed to review, on a quarterly basis, the activities of the Fund and to provide suggestions to enhance the pool. The MLGIP has an AAAM rating. The fair value of the pool is the same as the value of the pooled shares. At June 30, 2022 and 2021, the Town had \$5,041,606 and \$3,385,973, respectively invested in the Pool.

Investments – Montgomery County Maryland Investment Pool

The Town is a participant of the Montgomery County Maryland Investment Pool. These funds are part of collateralized investment pools. The Fund is managed by Montgomery County, Maryland, with oversight by the investment committee and in compliance with the Annotated Code of Maryland. The investment pool is comprised of commercial paper, the Maryland Local Government Investment Pool (MLGIP), and U.S. Government securities. The fair value of the pool is the same as the value of the pooled shares. Investment income during the year is allocated to pool participants based upon their average equity in the pool. At June 30, 2022 and 2021, the Town had \$474,867 and \$273,503, respectively invested in the Pool.

TOWN OF KENSINGTON, MARYLAND
Notes to Financial Statements
June 30, 2022 and 2021

Note 3 – Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Investment Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, The Town will not be able to recover all or a portion of the value of its investments or collateral securities that are in the possession of an outside party. There are three categories of custodial credit risk. Category 1 includes investments that are insured or registered or where securities are held by the Town or its agents, in the Town's name. Category 2 includes uninsured and unregistered investments for which the counterparty's trust department or agent in the Town's name holds the securities. Category 3 includes uninsured and unregistered where the securities are held by the financial institution's trust department or agent, but not in the Town's name. At June 30, 2022 and 2021, all of the Town investments are insured or registered, or for which the securities are held by the Town or its agent in the Town's name or are invested in the MLGIP and Montgomery County Maryland Investment Pool.

The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Town has the following recurring fair value measurements as of June 30, 2022 and 2021:

- Maryland Local Government Investment Pool mutual funds of \$5,041,606 and \$3,385,973, respectively and are valued using quoted market prices (Level 1 inputs).
- Montgomery County Investment Pool mutual funds of \$474,867 and \$273,503, respectively and are valued using quoted market prices (Level 1 inputs).
- Certificates of Deposit of \$218,985 and \$333,734, respectively and are valued used in prices quotes in active markets for these securities.

TOWN OF KENSINGTON, MARYLAND
Notes to Financial Statements
June 30, 2022 and 2021

Note 3 – Detailed Notes on All Funds (Continued)

B. Receivables

Receivables as of June 30, 2022 and 2021 for the Town’s individual major and non-major governmental funds, in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>2022</u>	<u>2021</u>
Receivables		
Property taxes	\$ 11,807	\$ 26,725
Other	<u>8,165</u>	<u>6,574</u>
Gross receivables	19,972	33,299
Less: allowance for uncollectibles	<u>(4,312)</u>	<u>(7,745)</u>
Total Receivables - Net	<u>\$ 15,660</u>	<u>\$ 25,554</u>

Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

C. Due From Other Governments

Due from other governments represents accrued revenue at June 30, 2022 and 2021 consisting of the following:

Governmental Activities:

	<u>2022</u>	<u>2021</u>
Primary Government		
State - General fund	\$ 52,379	\$ 48,616
County - General fund	<u>27,639</u>	<u>14,322</u>
Total Primary Government	<u>\$ 80,018</u>	<u>\$ 62,938</u>

Governmental Funds:

	<u>2022</u>	<u>2021</u>
Primary Government		
State - General fund	\$ 52,379	\$ 48,616
County - General fund	<u>27,639</u>	<u>14,322</u>
Total Primary Government	<u>\$ 80,018</u>	<u>\$ 62,938</u>

TOWN OF KENSINGTON, MARYLAND
Notes to Financial Statements
June 30, 2022 and 2021

Note 3 – Detailed Notes on All Funds (Continued)

D. Fund Balance

The Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below:

Nonspendable – such as fund balance associated with inventories, prepaid expenses, long-term loans and notes receivable and property held for resale.

Restricted fund balance – includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers or by law through enabling legislation.

Committed fund balance – includes amounts that can be used only for the specific purposes determined by a formal action of the Mayor and Council of the Town of Kensington.

Assigned fund balance – includes amounts to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed.

Unassigned fund balance – is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

Assigned Fund Balance

The Town's assigned fund balance includes the projected use of fund balance for operating and capital improvement projects deficit as approved in the subsequent years' budget, and includes the intended use for special projects encumbered by the Mayor and Town Council under the direction of the Town Manager.

TOWN OF KENSINGTON, MARYLAND
Notes to Financial Statements
June 30, 2022 and 2021

Note 3 – Detailed Notes on All Funds (Continued)

D. Fund Balance (Continued)

The following schedule lists these assigned fund balances as of June 30:

	<u>2022</u>	<u>2021</u>
Equipment and vehicle replacement program	\$ 299,786	\$ 244,743
Street light replacement program	47,705	84,705
Town parks and playground improvements	121,028	53,724
Town hall improvements	156,108	233,055
Bridge reconstruction and renovation program	239,000	189,000
Storm drain reconstruction and renovation program	137,620	160,144
Property acquisition	753,796	703,796
Public works facility improvement	150,000	150,000
Facilities capital reserve	200,000	150,000
Pavement management program	<u>566,856</u>	<u>300,000</u>
	2,671,899	2,269,167
To fund subsequent year budget	<u>858,431</u>	<u>1,060,905</u>
Total Assigned Fund Balance	<u><u>\$ 3,530,330</u></u>	<u><u>\$ 3,330,072</u></u>

Committed Fund Balance

The Town’s committed fund balance includes the projected use of fund balance for town hall improvements and street reconstruction and renovation programs for which a contract has been signed. For the years ended June 30, 2022 and 2021 the committed fund balance was \$98,276 and \$120,175, respectively.

Order of Fund Balance Spending Policy

The Town’s policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year.

First non-spendable fund balance is determined. Then restricted fund balances for specific purposes are determined, followed by committed fund balance and assigned fund balance. Unassigned fund balance cannot fall to a negative balance.

TOWN OF KENSINGTON, MARYLAND
Notes to Financial Statements
June 30, 2022 and 2021

Note 3 – Detailed Notes on All Funds (Continued)

E. Capital Assets

Capital asset activity for the year ended June 30, 2022 was as follows:

	<u>June 30,</u> <u>2021</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30,</u> <u>2022</u>
Governmental Activities:				
Capital assets, not being depreciated				
Land	\$ 264,353	\$ -	\$ -	\$ 264,353
Land improvements	<u>1,054,794</u>	<u>13,465</u>	<u>-</u>	<u>1,068,259</u>
Total capital assets, not being depreciated	<u>1,319,147</u>	<u>13,465</u>	<u>-</u>	<u>1,332,612</u>
Capital assets, being depreciated				
Infrastructure	486,905	50,630	-	537,535
Buildings and improvements	2,049,537	140,550	(15,485)	2,174,602
Equipment	<u>629,293</u>	<u>-</u>	<u>-</u>	<u>629,293</u>
Total capital assets, being depreciated	3,165,735	191,180	(15,485)	3,341,430
Less accumulated depreciation for:				
Infrastructure	(153,786)	(15,631)	-	(169,417)
Buildings and improvements	(1,699,814)	(40,083)	11,612	(1,728,285)
Equipment	<u>(398,182)</u>	<u>(50,499)</u>	<u>-</u>	<u>(448,681)</u>
Total accumulated depreciation	(2,251,782)	(106,213)	11,612	(2,346,383)
Total capital assets, being depreciated, net	<u>913,953</u>	<u>84,967</u>	<u>(3,873)</u>	<u>995,047</u>
Governmental activities capital assets, net	<u>\$ 2,233,100</u>	<u>\$ 98,432</u>	<u>\$ (3,873)</u>	<u>\$ 2,327,659</u>

Depreciation expense was charged to function/programs of the primary government as follows:

	<u>2022</u>	<u>2021</u>
Government activities:		
General government	\$ 1,276	\$ 319
Building	40,083	50,899
Public works	38,544	39,619
Parks and recreation	<u>26,310</u>	<u>26,310</u>
Total depreciation expense, government activities	<u>\$ 106,213</u>	<u>\$ 117,147</u>

TOWN OF KENSINGTON, MARYLAND
Notes to Financial Statements
June 30, 2022 and 2021

Note 3 – Detailed Notes on All Funds (Continued)

F. Long-Term Debt

Changes in accrued compensated absences:

	<u>2022</u>	<u>2021</u>
Long-term balance beginning of year	\$ 58,332	\$ 50,348
Additions	8,848	16,977
Less: current portion	<u>(2,715)</u>	<u>(8,993)</u>
Long-term balance end of year	<u>\$ 64,465</u>	<u>\$ 58,332</u>

Note 4 – Commitment and Contingencies

Risk Management

The Town is exposed to various risks of loss related to torts, theft of or damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters for which the Town carries insurance through Local Government Insurance Trust. For the years ended June 30, 2022 and 2021 the Town paid annual premiums of approximately \$15,505 and \$14,679, respectively, to the pool for its general, auto, umbrella and property insurance coverage. Claims over the past three years have been significantly less than that amount. The agreement with the pool provides that the pool will be self-sustaining through member premiums, and will reinsure through commercial companies for claims in excess of \$1,000,000. The Town continues to carry commercial insurance for health, dental, life, short-term disability and workers compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage, and no significant reductions in insurance coverage have occurred, in any of the past three fiscal years.

TOWN OF KENSINGTON, MARYLAND
Notes to Financial Statements
June 30, 2022 and 2021

Note 4 – Commitment and Contingencies (Continued)

License Agreement

In February 2010, the Town entered into a license agreement with Montgomery County Maryland to design and construct a surface parking lot on property owned by Konterra Limited Partnership. Konterra Limited Partnership has granted a permanent and perpetual easement to the County for the land containing the parking lot. In prior years the Town has received \$446,600 to assist in funding construction, and the Town has funded the additional construction costs. The County has granted the Town the right to the exclusive use of the lot under the license agreement for ten years beginning February 11, 2010, with three additional ten-year option periods. If the Town is not notified of the County's intent to terminate the agreement, the agreement will automatically renew. The Town is currently in year three of option period one. In consideration of services provided by the Town, the Town shall pay a quarterly fee to the County consisting of a percentage of the gross revenues from parking lot operations after deducting maintenance expenses and the additional construction costs incurred by the Town. Approximately \$31,850 of parking lot revenue has been collected by the Town to date.

Montgomery Municipal Cable

Effective November 20, 2003, the Town entered into an agreement with Montgomery Municipal Cable, Inc. (MMC) for the use of certain facilities at the Town's Town Hall. In exchange MMC agreed that all cable franchise fees received by the Town from the County, (that otherwise would have been required to be remitted to MMC) could be retained by the Town. The agreement, originally expected to end on November 20, 2020, is now renewed and will continue until November 19, 2030. The franchise fees collected pursuant to this agreement are \$26,568 and \$26,207 for the fiscal years ended June 30, 2022 and 2021, respectively.

Easement Agreement

Effective August 9, 2019, The Town was granted an easement on property owned by Konterra Limited Partnership on Metropolitan Avenue in the Town. This easement was created in order to permit the Town to construct, install, operate, control and maintain within the easement area a dog park. The agreement shall remain in full force and effect for a minimum of three years from August 9, 2019. Thereafter either party may terminate the agreement by issuance of a ninety (90) day prior written notice to the other Party. The Town plans on continuing the agreement and no notice has been received from Konterra as of completion of this audit.

TOWN OF KENSINGTON, MARYLAND
Notes to Financial Statements
June 30, 2022 and 2021

Note 4 – Commitment and Contingencies (Continued)

Road Transfer Agreement

Effective August 19, 2019, the Town entered an agreement with Montgomery County, Maryland to transfer certain roads within the newly annexed area of the Town to the Town for \$1. The Town accepts control and jurisdiction over and maintenance responsibility for these roads and accompanying drainage facilities.

Copier Lease

On August 11, 2021, the Town entered into a copier lease. The lease payments are \$314 per month and the lease expires August 31, 2026. Minimum lease payments for the next five years are as follows: Fiscal years 2022 - \$3,140, 2023 – \$3,768, 2024 - \$3,768, 2025 - \$3,768, 2026 - \$3,768.

Note 5 - Retirement Plans

Effective August 1, 2010, the Town has established a 401A money purchase retirement plan known as the Town of Kensington Retirement Plan to benefit employees by providing funds for retirement. All full time employees hired after January 1, 2009 are eligible to participate in the 401A money purchase plan as well as the eligible employees who were in the terminated defined benefit plan.

Effective August 1, 2010, the Town has established a 457 deferred compensation plan known as the Town of Kensington Deferred Compensation plan for its employees. This plan allows pretax deferrals from employees up to the maximum set by IRS regulations. Employees are fully vested in the pretax deferrals made to this plan.

The employer shall contribute 10% of employee compensation as long as the employee contributes 5% into the 457 deferred compensation plan. Employees are fully vested in employer contributions after five years of service. The contributions made for the fiscal years ending June 30, 2022 and 2021 were \$70,026 and \$61,090, respectively.

Note 6 – Grants

The Town receives financial assistance from federal, state and local governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any unallowed disbursements resulting from such audits could become a liability of the Town. In the opinion of Town management, no material refunds will be required as a result of unallowed disbursements (if any), by the grantor agencies.

TOWN OF KENSINGTON, MARYLAND
Notes to Financial Statements
June 30, 2022 and 2021

Note 7 - Deferred Inflows

The American Rescue Plan Act (ARPA) was signed into Federal law in March of 2021, and established the Coronavirus State and Local Fiscal Recovery Funds (SLFRF) program. This program provides financial support to State and Local governments in responding to the economic and public health impacts of COVID-19 and in their efforts to contain impacts on their communities, residents, and businesses. These funds may be used to cover eligible program costs incurred during the period beginning on March 3, 2021 and ending on December 31, 2024, as long as the award funds incurred by December 31, 2024 are expended by December 31, 2026. Any funds not obligated or expended for eligible uses during this period must be returned to the U.S. Treasury.

The Town applied for and was awarded SLFRF funding passed through the State of Maryland in the amount of \$2,295,548 of which \$1,147,355 was received in August of 2021. No eligible expenditures were incurred during the fiscal year therefore all \$1,147,355 has been included in deferred inflows at June 30, 2022. On August 4, 2022, the Town received its second payment in the amount of \$1,148,193. Revenue recognition of these funds will be deferred until the related eligible expenditures are incurred.

Deferred inflows consist of the following on the Statements of Net Position as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Grant funds received but not spent	\$1,147,355	\$ -
Unearned income from farmer's market	<u>5,261</u>	<u>6,679</u>
Total Deferred inflows	<u>\$1,152,596</u>	<u>\$ 6,679</u>

Deferred inflows consist of the following on the Balance Sheets – Governmental Funds as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Grant funds received but not spent	\$1,147,355	\$ -
Unearned income from farmer's market	5,261	6,679
Property taxes	<u>2,298</u>	<u>18,980</u>
Total Deferred inflows	<u>\$1,154,894</u>	<u>\$25,659</u>

TOWN OF KENSINGTON, MARYLAND
Notes to Financial Statements
June 30, 2022 and 2021

Note 8 - Wynne Case

Maryland's individual income tax is composed of a state and a local rate. Maryland residents were allowed a credit for taxes paid to other states, but the credit was allowed against only the state portion of the tax and not against the local tax portion. The U.S. Supreme Court ruled this practice to be unconstitutional because it results in double taxation of income earned outside of Maryland. As a result, the State of Maryland required Maryland local governments to refund the estimated portion of income tax paid to the local governments in years 2008-2014, consisting of the local portion of the tax, that the state may have to re-pay taxpayers that file amended returns claiming a refund for the credit applicable to the local tax rate. This amount was paid off by the Town in May 2021.

Note 9 – Subsequent Events

Management has evaluated subsequent events through October 26, 2022, the date that the financial statements were available to be issued. There were no significant events to report.

REQUIRED SUPPLEMENTARY INFORMATION

Town of Kensington, Maryland
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2022

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes				
Local				
Real property tax	\$ 808,372	\$ 808,372	\$ 842,245	\$ 33,873
Personal and ordinary business	123,818	123,818	136,396	12,578
Public utilities tax	426,134	426,134	499,238	73,104
Total Taxes - Local	1,358,324	1,358,324	1,477,879	119,555
Additions and abatements - prior years	-	-	(9,598)	(9,598)
Total Taxes - Local - Net	1,358,324	1,358,324	1,468,281	109,957
State Shared				
Income taxes	680,000	680,000	811,603	131,603
Admissions and amusements tax	250	250	2,278	2,028
Total Taxes - State Shared	680,250	680,250	813,881	133,631
Total Taxes	2,038,574	2,038,574	2,282,162	243,588
Licenses and Permits				
Town building and sign permits	12,000	12,000	30,418	18,418
Parking permits	4,950	4,950	4,941	(9)
Traders' licenses	5,600	5,600	2,618	(2,982)
Cable franchise fees	25,593	25,593	26,568	975
Total Licenses and Permits	48,143	48,143	64,545	16,402
Intergovernmental Revenues				
County tax duplication payment	156,809	156,809	295,029	138,220
State highway user funds	95,613	95,613	113,399	17,786
Financial corporation -bank shares	4,226	4,226	4,226	-
Total Intergovernmental Revenues	\$ 256,648	\$ 256,648	\$ 412,654	\$ 156,006

Continued

**Town of Kensington, Maryland
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2022**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Fines and Forfeitures				
Parking and municipal infractions	\$ 1,000	\$ 1,000	\$ 2,595	\$ 1,595
Safe Speed camera program	1,000	1,000	647	(353)
Total Fines and Forfeitures	<u>2,000</u>	<u>2,000</u>	<u>3,242</u>	<u>1,242</u>
Miscellaneous				
Town hall rentals	15,000	15,000	5,805	(9,195)
Park Rentals	2,500	2,500	2,030	(470)
Miscellaneous revenues	4,500	4,500	16,004	11,504
Municipal events	13,500	13,500	8,468	(5,032)
Investment income - net	<u>10,000</u>	<u>10,000</u>	<u>13,572</u>	<u>3,572</u>
Total Miscellaneous	<u>45,500</u>	<u>45,500</u>	<u>45,879</u>	<u>379</u>
Total Revenues	<u>\$ 2,390,865</u>	<u>\$ 2,390,865</u>	<u>\$ 2,808,482</u>	<u>\$ 417,617</u>

Continued

Town of Kensington, Maryland
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2022

Expenditures	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		Amounts
General Government				
Legislative and Executive				
Mayor and council compensation	\$ 24,000	\$ 24,000	\$ 21,000	\$ 3,000
Mayor and council - other	15,200	15,200	8,105	7,095
Total Legislative and Executive	39,200	39,200	29,105	10,095
Financial Administration				
Salaries and wages	501,993	501,993	430,621	71,372
Health/life/employee benefits	63,059	63,059	47,833	15,226
Payroll taxes	38,533	38,533	33,231	5,302
Employee retirement	40,902	40,902	38,442	2,460
Professional services	84,750	84,750	52,449	32,301
Audit	13,000	13,000	13,000	-
Town attorney	50,000	50,000	13,789	36,211
Municipal dues, memberships and fees	10,285	10,285	9,395	890
Office expense	34,850	34,850	23,805	11,045
Insurance	21,000	21,000	15,505	5,495
Workers compensation insurance	4,936	4,936	3,171	1,765
Conferences, training and travel	6,500	6,500	438	6,062
Total Financial Administration	869,808	869,808	681,679	188,129
Municipal Building				
Town Hall maintenance	47,200	47,200	49,880	(2,680)
Town Hall utilities	41,000	41,000	31,136	9,864
Town Hall equipment	6,000	6,000	1,501	4,499
Total Municipal Building	94,200	94,200	82,517	11,683
Other General Government				
Office equipment/furniture	2,000	2,000	646	1,354
Economic development and commerical revitalization	148,500	148,500	61,032	87,468
Miscellaneous	3,000	3,000	580	2,420
Contingency	10,000	10,000	-	10,000
Total Other General Government	163,500	163,500	62,258	101,242
Total General Government				
Expenditures	\$ 1,166,708	\$ 1,166,708	\$ 855,559	\$ 311,149

Continued

Town of Kensington, Maryland
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2022

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Public Safety				
Salaries and wages	\$ 180,715	\$ 180,715	\$ 126,962	\$ 53,753
Health/life/employee benefits	10,273	10,273	9,900	373
Payroll taxes	13,764	13,764	10,062	3,702
Miscellaneous	3,500	3,500	1,270	2,230
Employee retirement	5,298	5,298	5,157	141
Workers compensation insurance	11,307	11,307	6,282	5,025
Traffic control and engineering	12,000	12,000	14,227	(2,227)
Parking lot lighting	2,000	2,000	707	1,293
Public street lighting	<u>56,000</u>	<u>56,000</u>	<u>46,981</u>	<u>9,019</u>
Total Public Safety	<u>294,857</u>	<u>294,857</u>	<u>221,548</u>	<u>73,309</u>
Parks and Recreation				
Municipal events	50,500	50,500	41,189	9,311
Park supplies and professional services	22,000	22,000	18,094	3,906
Park utilities	3,100	3,100	3,048	52
Park landscaping	<u>40,000</u>	<u>40,000</u>	<u>42,878</u>	<u>(2,878)</u>
Total Parks and Recreation	<u>\$ 115,600</u>	<u>\$ 115,600</u>	<u>\$ 105,209</u>	<u>\$ 10,391</u>

Continued

**Town of Kensington, Maryland
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2022**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Public Works				
Salaries and wages	\$ 346,470	\$ 346,470	\$ 271,384	\$ 75,086
Health/life/employee benefits	94,961	94,961	71,222	23,739
Payroll taxes	26,201	26,201	21,242	4,959
Workers compensation insurance	17,042	17,042	11,642	5,400
Employee retirement	32,454	32,454	26,427	6,027
Drug testing	1,000	1,000	-	1,000
Street maintenance	20,000	20,000	19,893	107
Landscaping vegetation management	25,000	25,000	24,055	945
Landscaping street trees maintenance	75,000	75,000	74,200	800
Storm drain maintenance	6,000	6,000	1,970	4,030
Sidewalk repair	12,000	12,000	9,802	2,198
Street sweeping	8,000	8,000	4,876	3,124
Snow removal	8,500	8,500	4,212	4,288
Small equipment purchases	12,000	12,000	3,740	8,260
Vehicle fuel expenses	8,000	8,000	7,954	46
Shop supplies and tools	3,000	3,000	1,587	1,413
Uniforms, gloves, vests, boots and shirts	1,500	1,500	1,543	(43)
Uniforms	1,500	1,500	-	1,500
Miscellaneous	1,000	1,000	384	616
Conference, training and travel	500	500	25	475
Small equipment maintenance and repairs	3,500	3,500	1,108	2,392
Garage maintenance, miscellaneous and utilities	8,700	8,700	5,335	3,365
Vehicle repairs	20,000	20,000	8,695	11,305
Trash, brush and recycling collection	165,785	165,785	165,541	244
Leaf collection and other disposal fees	18,000	18,000	15,620	2,380
Total Public Works	<u>916,113</u>	<u>916,113</u>	<u>752,457</u>	<u>163,656</u>
 Total Expenditures before Capital Improvement Projects	 <u>\$ 2,493,278</u>	 <u>\$ 2,493,278</u>	 <u>\$ 1,934,773</u>	 <u>\$ 558,505</u>

Continued

**Town of Kensington, Maryland
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2022**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
Capital Improvement Projects				
General Government				
Town Hall improvements	\$ 100,000	\$ 100,000	\$ 161,047	\$ (61,047)
Property acquisition	50,000	50,000	-	50,000
Facilities capital reserve	50,000	50,000	-	50,000
Total	<u>200,000</u>	<u>200,000</u>	<u>161,047</u>	<u>38,953</u>
Public works				
Pavement management program	350,000	350,000	320,943	29,057
Bridge reconstruction and renovation	50,000	50,000	-	50,000
Equipment and vehicle replacement program	58,492	58,492	3,449	55,043
Street light replacement program	-	-	37,000	(37,000)
Storm drainage reconstruction and renovation program	<u>200,000</u>	<u>200,000</u>	<u>22,524</u>	<u>177,476</u>
Total	<u>658,492</u>	<u>658,492</u>	<u>383,916</u>	<u>274,576</u>
Parks				
Town park and play area improvements	<u>100,000</u>	<u>100,000</u>	<u>32,697</u>	<u>67,303</u>
Total	<u>100,000</u>	<u>100,000</u>	<u>32,697</u>	<u>67,303</u>
Total Capital Improvement Projects	<u>958,492</u>	<u>958,492</u>	<u>577,660</u>	<u>380,832</u>
 Total Expenditures after Capital Improvement Projects	 <u>\$ 3,451,770</u>	 <u>\$ 3,451,770</u>	 <u>\$ 2,512,433</u>	 <u>\$ 939,337</u>

The accompanying notes are an integral part of this schedule.

TOWN OF KENSINGTON, MARYLAND
Notes to Required Supplementary Information
June 30, 2022 and 2021

Note 1 – Summary of Significant Budget Policies

The Town Council annually adopts a budget for the General Fund of the primary government. All appropriations are legally controlled at the departmental level for the General Fund. On May 10, 2021, the Town Council approved the original adopted budget.

The budgets are integrated into the accounting system, and the budgetary data, as presented in the financial statements for all funds with annual budgets, compare the expenditures with the amended budgets. All budgets are presented on the modified accrual basis of accounting. Accordingly, the accompanying Budgetary Comparison Schedule for the General Fund presents actual expenditures in accordance with the accounting principles generally accepted in the United States on a basis consistent with the legally adopted budgets as amended. Unexpended appropriations on annual budgets lapse at the end of each fiscal year.

Appropriations lapse at year end with the exception of capital improvement projects. The Town carried over \$3,628,606 in committed and assigned fund balances for the year ended June 30, 2022.

Note 2 – Material Violations

There were no material violations of the annual appropriated budgets for the General Fund for the fiscal year ended June 30, 2022. In addition, there were no excesses of budgetary expenditures for that period.

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