

TOWN OF DENTON, MARYLAND

FINANCIAL REPORT

As of and for the Year Ended June 30, 2013

And Report of Independent Auditor

TOWN OF DENTON, MARYLAND

Town Council

Dean W. Danielson, Mayor

Abigail McNinch

Conway Gregory

Robert L. Clendaniel

Dennis D. Porter

OTHER ADMINISTRATORS

Donald H. Mulrine, Town Administrator

Karen L. Monteith, Clerk-Treasurer

Vacant – Director of Planning & Codes

Rodney R. Cox – Chief of Police

Scott Getchell – Director of Public Works

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Report of Independent Auditor

To the Council of the Town of Denton
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, 2013, 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 Town'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 Town'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, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the basic financial statements, the Town adopted the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective July 1, 2012.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 Combining Statements and Other Supplementary Information sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining Statements and Other Supplementary Information sections are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 Combining Statements and Other Supplementary Information are 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 November 1, 2013, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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 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 Town's internal control over financial reporting and compliance.



Richmond, Virginia
November 1, 2013

**Town of Denton, Maryland
Management's Discussion and Analysis
Year Ended June 30, 2013**

As management of the Town of Denton, Maryland (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2013. 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 follow this narrative.

Financial Highlights

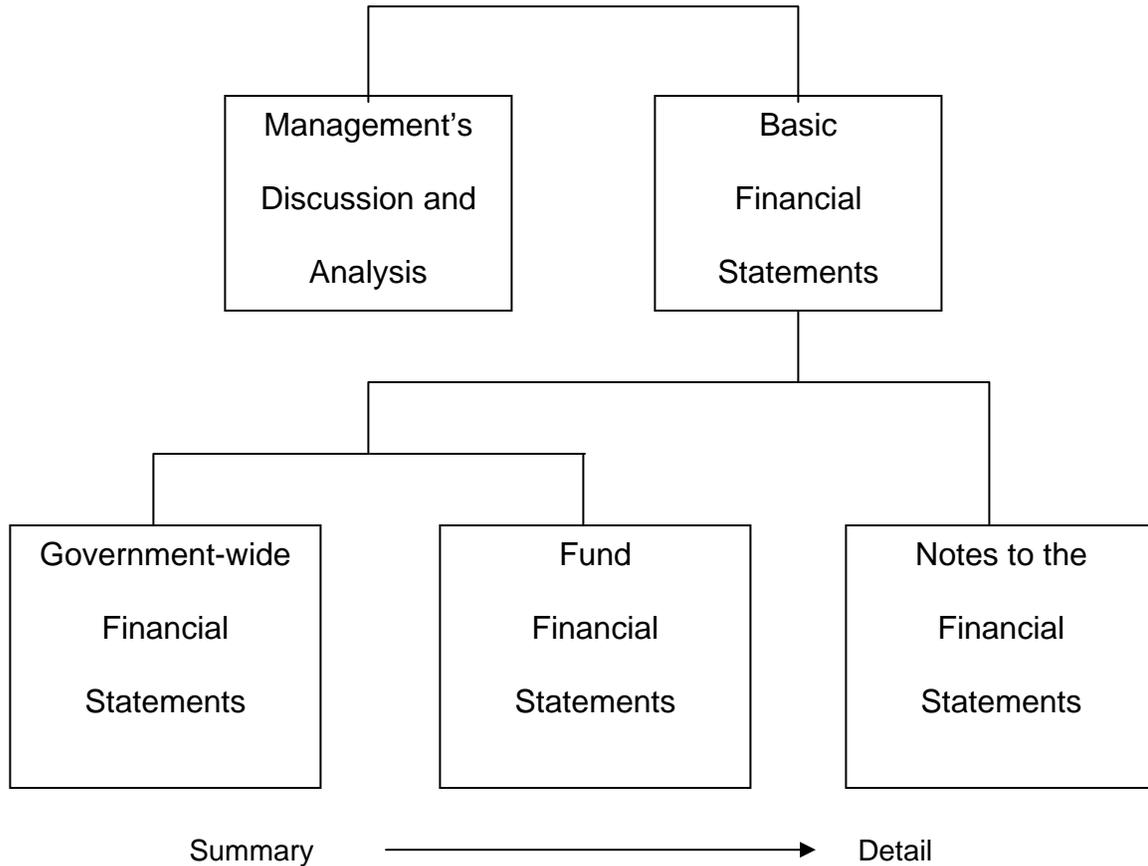
- The assets of the Town exceeded its liabilities at the close of the fiscal year by \$24,878,683.
- The government's total net position increased by \$907,751, primarily due to an increase in both governmental and business type activities net position.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$2,363,116, an increase of \$556,893 during the year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,407,195, or 35 percent of total General Fund expenditures for the fiscal year.
- The Town's total debt increased by \$312,385, or 5% during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements.

**Town of Denton, Maryland
Management's Discussion and Analysis
Year Ended June 30, 2013**

**Required Components of Annual Financial Report
Figure 1**



Basic Financial Statements

The Town's financial statements present a focus on the Town as a whole (government-wide) as well as the major individual funds. The government-wide financial statements provide both long-term and short-term information about the Town's overall financial status. The fund financial statements focus on the individual parts of the Town government, reporting the operations of the Town in more detail than the government-wide statements. Both perspectives, government-wide and individual fund, allow the user to address relevant questions, broaden the basis for comparisons, year to year or government to government, and enhance the Town's accountability.

The next section of the basic financial statements is the notes. The notes to the financial statements explain in detail some of the data contained in those statements.

**Town of Denton, Maryland
Management's Discussion and Analysis
Year Ended June 30, 2013**

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Town's financial status as a whole.

The two government-wide statements report the Town's net position and how it has changed. Net position is the difference between the Town's total assets and total liabilities. Measuring net position is one way to measure the Town's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the Town's basic services such as public safety, cultural and recreational, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide such as the water and sewer services offered by the Town.

Fund Financial Statements

Fund financial statements provide more detailed information of the Town's most significant activities. 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, like all other governmental entities in Maryland, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the general statutes or the Town's budget ordinance. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using *modified accrual accounting*, which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps them determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is part of the fund financial statements.

The Town legally adopts an annual budget for its General Fund that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Council about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement is presented using the same format, language, and classifications as the Statement of Revenues, Expenditures and Changes in Fund Balances. The statement shows four columns: 1) the original budget as adopted by the Town Council; 2) the final budget as amended by the Town Council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the variance between the final budget and the actual resources and charges.

**Town of Denton, Maryland
Management's Discussion and Analysis
Year Ended June 30, 2013**

Proprietary Funds – The Town uses enterprise funds to account for its water, sewer and industrial park activities. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

Notes to the 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

The Town presents its financial statements in accordance with accounting principles generally accepted in the United States of America. Prior year information is shown in a comparative analysis of government-wide information.

The Town's Net Position (in thousands):

Figure 2

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Assets						
Current and other assets	\$ 3,714	\$ 3,294	\$ 1,575	\$ 1,649	\$ 5,289	\$ 4,943
Capital assets	12,265	11,807	14,165	14,018	26,430	25,825
Total assets	15,979	15,101	15,740	15,667	31,719	30,768
Liabilities						
Accounts payable and other current liabilities	90	306	48	373	138	679
Long term liabilities	3,814	3,236	2,888	2,883	6,702	6,119
Total liabilities	3,904	3,542	2,936	3,256	6,840	6,798
Net Position						
Net invested in capital assets	8,593	8,582	11,699	11,418	20,292	20,000
Restricted	897	1,301	87	86	984	1,387
Unrestricted	2,585	1,676	1,018	907	3,603	2,583
Total net position	\$ 12,075	\$ 11,559	\$ 12,804	\$ 12,411	\$ 24,879	\$ 23,970

Net position can serve over time as a useful indicator of a government's financial condition. The assets of the Town exceeded liabilities by \$24,878,683 as of June 30, 2013. The Town's net position increased by \$907,751 for the fiscal year ended June 30, 2013. The majority of the increase in the Town's total unrestricted governmental net position is due to the continued investment in capital assets from grant funds.

**Town of Denton, Maryland
Management's Discussion and Analysis
Year Ended June 30, 2013**

The Town's Changes in Net Position (in thousands):

Figure 3

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 195	\$ 373	\$ 1,524	\$ 1,637	\$ 1,719	\$ 2,010
Operating grants and contributions	340	222	2	15	342	237
Capital grants and contributions	115	713	-	977	115	1,690
General revenues:						
Property taxes	2,377	2,313	-	-	2,377	2,313
Other taxes	285	311	-	-	285	311
Other	438	200	1	-	439	200
Total revenues	<u>3,750</u>	<u>4,132</u>	<u>1,527</u>	<u>2,629</u>	<u>5,277</u>	<u>6,761</u>
Expenses:						
General government	318	379	-	-	318	379
Public safety	1,571	1,695	-	-	1,571	1,695
Public works	656	572	-	-	656	572
Recreation and culture	138	168	-	-	138	168
Urban development and housing	382	281	-	-	382	281
Economic development	52	52	-	-	52	52
Interest on long-term debt	100	107	-	-	100	107
Retirement payment	17	16	-	-	17	16
Water	-	-	553	499	553	499
Sewer	-	-	1,242	1,039	1,242	1,039
Industrial park	-	-	-	1	-	1
Total expenses	<u>3,234</u>	<u>3,270</u>	<u>1,795</u>	<u>1,539</u>	<u>5,029</u>	<u>4,809</u>
Increase in net position before transfers and contributions	516	862	(268)	1,090	248	1,952
Transfers	-	(109)	-	109	-	-
Capital contributions	-	-	661	-	661	-
Increase in net position	516	753	393	1,199	909	1,952
Net position July 1	11,559	10,806	12,411	11,212	23,970	22,018
Net position June 30	<u>\$ 12,075</u>	<u>\$ 11,559</u>	<u>\$ 12,804</u>	<u>\$ 12,411</u>	<u>\$ 24,879</u>	<u>\$ 23,970</u>

**Town of Denton, Maryland
Management's Discussion and Analysis
Year Ended June 30, 2013**

Governmental activities. Governmental activities increased the Town's net position by \$516,122. The key element to the increase is the acquisition of property for a new town hall, refinancing of existing debt and commercial development revenues.

Business-type activities: Business-type activities increased the Town's net position by \$391,629. A key element for this increase was the receipt of a one-time capital grant for the construction of Well #6 of \$661,000 in the current year.

Key changes made to the rate structure include:

- The Denton Public Works Department continued work to replace water meters which were not working.
- The total number of users increased from 1,651 to 1,655, adding 4 new properties from the prior year for a .002% increase.
- Rates were increased in FY2013 beginning with the quarter September 1, 2012. Water and sewer quarterly base fees were increased from \$23.00 to \$25.00. The water usage rate increased from \$3.25 per 1,000 gallons to \$3.41, and the sewer rates increased from \$6.04 per 1,000 gallons to \$6.41.

Financial Analysis of the Town's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds: The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, the total fund balance of the General Fund was mainly comprised of the unassigned fund balance in the amount of \$1,407,195. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents approximately 35 percent of total General Fund expenditures. In the prior year, the total fund balance of the General Fund was entirely comprised of the unassigned fund balance in the amount of \$940,741. A contributing factor in this increase is an increase in tax revenues, the new speed camera enforcement revenues, new commercial development fees, and loan revenues received for the property acquisition.

At June 30, 2013, the governmental funds of the Town reported a combined fund balance of \$2,363,116, an increase of \$556,893 from the prior year. Included in this change in fund balance is an increase in commercial economic development and property acquisition, and refinancing of existing debt.

General Fund Budgetary Highlights: During the fiscal year, the Town revised the originally adopted budget. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and state grants; and 3) increases in appropriations that become necessary to maintain services.

**Town of Denton, Maryland
Management's Discussion and Analysis
Year Ended June 30, 2013**

Increases in revenues more than offset the increase in expenditures, which contributed to the increase in fund balance.

During the FY2013 tax year, revenues increased over FY2012 based on the tax assessments of property values primarily for the new construction for Wal-Mart. However, the properties located within the Town were reassessed in December 2010, at which time the values dropped significantly due to the stressful economy which continues to have an effect on the real estate tax revenues actually received in FY2013 compared to prior years. The property values will not be reassessed again until December 2013.

The Town continues to work towards maintaining a 15% fund balance, reducing expenditures significantly in FY 2013 and raising real estate tax rates from \$.66/\$100 of assessed value in FY2012 to \$.68/\$100 in FY2013. This along with the continued State of Maryland cut to the highway fund revenues by 90% and the State Police Aid by 35%, continue to affect the Town's General Fund reserve to cover this loss of revenues. The State has advised the Town that the cuts from FY 2010 will continue into FY2013; however, they are awarding a one-time grant in FY2014.

Proprietary Funds. The Town's proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the Water, Sewer, and Industrial Park funds at the end of the fiscal year amounted to \$95,174, \$910,050, and \$12,916, respectively. The changes in net position for the funds were \$722,572, \$(330,224), and (\$719), respectively. Other factors concerning the finances of these funds have already been addressed in the discussion of the Town's business-type activities.

The Denton Utility Commission water and sewer rate study was finished in FY2010, and the Town continues to use this study to assist in establishing a rate structure for future years. The water and sewer rates were increased in September of 2012.

Capital Asset and Debt Administration

Capital assets. The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2013, totals \$26,430,189 (net of accumulated depreciation). This amount represents a net increase of \$604,414, or 2% over prior year. These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, vehicles, and construction in progress.

Major capital asset transactions during the year include the following additions:

- Completion of Well #6.
- Construction on the Caroline Culinary School is ongoing and is scheduled for completion in FY14.

**Town of Denton, Maryland
Management's Discussion and Analysis
Year Ended June 30, 2013**

The following is a summary of capital assets at June 30, 2013 and 2012:

**The Town's Capital Assets (in thousands):
(net of accumulated depreciation)**

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 895	\$ 573	\$ -	\$ -	\$ 895	\$ 573
Land improvements	555	631	-	-	555	631
Buildings	1,684	1,751	-	-	1,684	1,751
Infrastructure	7,533	5,662	-	-	7,533	5,662
Equipment and vehicles	400	459	48	46	448	505
Water system	-	-	3,073	1,683	3,073	1,683
Sewer system	-	-	6,330	6,694	6,330	6,694
Construction in progress	1,198	2,732	4,714	5,595	5,912	8,327
Total	\$ 12,265	\$ 11,808	\$ 14,165	\$ 14,018	\$ 26,430	\$ 25,826

Additional information on the Town's capital assets can be found in Note 6 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2013, the Town had total debt outstanding of \$6,506,150. All bonded debt and notes are backed by the full faith and credit of the Town. The total bonded debt increased by \$312,385. Details by type of debt are presented in the following table:

**The Town's Outstanding Debt (in thousands):
General Obligation Bonds and Notes**

Figure 5

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Bonds and notes	\$ 3,669	\$ 3,200	\$ 2,835	\$ 2,969	\$ 6,504	\$ 6,169
Capital leases	2	24	-	-	2	24
Total	\$ 3,671	\$ 3,224	\$ 2,835	\$ 2,969	\$ 6,506	\$ 6,193

**Town of Denton, Maryland
Management's Discussion and Analysis
Year Ended June 30, 2013**

New debt for the fiscal year ending June 30, 2013 resulted from new installment notes issued to refinance existing notes.

Additional information regarding the Town's long-term debt can be found in Note 7 of this report.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the opportunities and challenges of the Town.

- Unemployment. The Caroline County unemployment rate increased from 8.1% in FY2012 to 8.8% in FY2013. This is above the State average of 7.5% and comparable to the US average of 7.8% (as of July, 2013)
- State revenue cutbacks. The State of Maryland initiated drastic cutbacks for FY 2010 for the gasoline tax and police aid revenues that are shared with localities. These cuts continued into FY2013 along with additional cutbacks in the gasoline tax and police aid revenues. The reduction in State shared revenues will continue into FY2014, however the Town anticipates being awarded a one-time grant in FY2014.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, Town, 13 N. 3rd St., Denton, MD 21629.

Town of Denton, Maryland
Statement of Net Position
June 30, 2013

	Governmental Activities	Business- type Activities	Total Reporting Unit
Assets			
Cash and cash equivalents	\$ 2,180,277	\$ 752,864	\$ 2,933,141
Receivables (net of allowance for uncollectibles)	58,481	385,047	443,528
Due from other governments	193,986	-	193,986
Loans receivable	896,784	-	896,784
Internal balances	18,543	(18,543)	-
Land held for resale	366,520	455,171	821,691
Land	895,372	-	895,372
Construction in progress	1,197,972	4,714,483	5,912,455
Other capital assets, net of accumulated depreciation	10,171,824	9,450,538	19,622,362
Total assets	15,979,759	15,739,560	31,719,319
Liabilities			
Accounts payable and other current liabilities	90,387	47,801	138,188
Long-term liabilities:			
Due within one year	112,542	135,182	247,724
Due in more than one year	3,701,472	2,753,252	6,454,724
Total liabilities	3,904,401	2,936,235	6,840,636
Net position			
Net investment in capital assets	8,594,025	11,698,864	20,292,889
Restricted	896,784	86,321	983,105
Unrestricted	2,584,549	1,018,140	3,602,689
Total net position	\$ 12,075,358	\$ 12,803,325	\$ 24,878,683

**Town of Denton, Maryland
Statement of Activities
Year Ended June 30, 2013**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 321,937	\$ 43,024	\$ 487	\$ -	\$ (278,426)	\$ -	\$ (278,426)
Public safety	1,566,824	41,133	71,394	-	(1,454,297)	-	(1,454,297)
Public works	656,297	27,092	24,062	7,095	(598,048)	-	(598,048)
Recreation and culture	138,273	8,709	-	-	(129,564)	-	(129,564)
Urban development and housing	382,379	75,313	243,899	108,254	45,087	-	45,087
Economic development	52,042	-	-	-	(52,042)	-	(52,042)
Interest on long-term debt	99,770	-	-	-	(99,770)	-	(99,770)
Retirement payment	16,740	-	-	-	(16,740)	-	(16,740)
Total governmental activities	<u>3,234,262</u>	<u>195,271</u>	<u>339,842</u>	<u>115,349</u>	<u>(2,583,800)</u>	<u>-</u>	<u>(2,583,800)</u>
Business-type activities:							
Water	552,936	603,989	-	661,222	-	712,275	712,275
Sewer	1,242,542	919,507	2,260	-	-	(320,775)	(320,775)
Industrial park	748	-	-	-	-	(748)	(748)
Total business-type activities	<u>1,796,226</u>	<u>1,523,496</u>	<u>2,260</u>	<u>661,222</u>	<u>-</u>	<u>390,752</u>	<u>390,752</u>
Total primary government	<u>\$ 5,030,488</u>	<u>\$ 1,718,767</u>	<u>\$ 342,102</u>	<u>\$ 776,571</u>	<u>(2,583,800)</u>	<u>390,752</u>	<u>(2,193,048)</u>
General revenues:							
Property taxes					2,377,934	-	2,377,934
Other taxes					284,672	-	284,672
Interest income					2,688	877	3,565
Miscellaneous income					434,628	-	434,628
Total general revenues					<u>3,099,922</u>	<u>877</u>	<u>3,100,799</u>
Change in net position					516,122	391,629	907,751
Net position - beginning					<u>11,559,236</u>	<u>12,411,696</u>	<u>23,970,932</u>
Net position - ending					<u>\$ 12,075,358</u>	<u>\$ 12,803,325</u>	<u>\$ 24,878,683</u>

Town of Denton, Maryland
Balance Sheet - Governmental Funds
June 30, 2013

	General	Capital Improvement Special Projects	Business Loan	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 1,321,371	\$ 123,344	\$ 515,362	\$ 220,200	\$ 2,180,277
Receivables:					
Taxes	50,052	-	-	-	50,052
Loans	-	-	896,784	-	896,784
Other receivables	7,133	-	1,296	-	8,429
Due from other funds	18,543	-	-	-	18,543
Due from other governments	99,348	75,058	-	19,580	193,986
Total assets	<u>\$ 1,496,447</u>	<u>\$ 198,402</u>	<u>\$ 1,413,442</u>	<u>\$ 239,780</u>	<u>\$ 3,348,071</u>
Liabilities and fund balances					
Liabilities:					
Accounts payable and accrued expenses	\$ 45,467	\$ 449	\$ -	\$ 961	\$ 46,877
Unearned revenues	43,510	-	894,568	-	938,078
Total liabilities	<u>88,977</u>	<u>449</u>	<u>894,568</u>	<u>961</u>	<u>984,955</u>
Fund balances:					
Restricted	-	-	518,874	56,092	574,966
Assigned	275	197,953	-	182,727	380,955
Unassigned	1,407,195	-	-	-	1,407,195
Total fund balances	<u>1,407,470</u>	<u>197,953</u>	<u>518,874</u>	<u>238,819</u>	<u>2,363,116</u>
Total liabilities and fund balances	<u>\$ 1,496,447</u>	<u>\$ 198,402</u>	<u>\$ 1,413,442</u>	<u>\$ 239,780</u>	<u>\$ 3,348,071</u>

Town of Denton, Maryland
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2013

Amounts reported for governmental activities in the Statement of Net Position are different because:

Ending fund balance - governmental funds	\$	2,363,116
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Land and construction in progress	\$	2,093,344
Depreciable assets, net	<u>10,171,824</u>	12,265,168
Other long-term revenues are not available to pay for current-period expenditures and, therefore, are unearned in the funds.		
Unearned revenues		894,568
Land held for resale		366,520
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		<u>(3,814,014)</u>
Net position of governmental activities	\$	<u><u>12,075,358</u></u>

Town of Denton, Maryland
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2013

	General	Capital Improvement Special Projects	Business Loan	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 2,652,688	\$ -	\$ -	\$ 40,134	\$ 2,692,822
Licenses and permits	23,331	-	-	34,896	58,227
Revenue from other agencies	109,301	345,890	-	10,726	465,917
Service charges	23,332	-	-	-	23,332
Miscellaneous	314,763	119,816	113,457	615	548,651
Total revenues	<u>3,123,415</u>	<u>465,706</u>	<u>113,457</u>	<u>86,371</u>	<u>3,788,949</u>
Expenditures					
Current:					
General government	310,767	-	-	-	310,767
Public safety	1,542,049	-	-	-	1,542,049
Public works	319,233	-	-	115,702	434,935
Recreation and culture	56,602	-	-	-	56,602
Urban development and housing	67,279	133,963	61,972	-	263,214
Pension retirement payment	16,740	-	-	-	16,740
Capital outlay and projects	671,854	240,390	-	42,141	954,385
Debt service - principal	131,142	-	25,746	57,371	214,259
Debt service - interest	39,178	-	6,091	54,501	99,770
Total expenditures	<u>3,154,844</u>	<u>374,353</u>	<u>93,809</u>	<u>269,715</u>	<u>3,892,721</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(31,429)</u>	<u>91,353</u>	<u>19,648</u>	<u>(183,344)</u>	<u>(103,772)</u>
Other financing sources (uses)					
Transfers in	27,000	-	-	189,507	216,507
Transfers out	(189,507)	(17,000)	(10,000)	-	(216,507)
Note proceeds	1,490,665	-	-	-	1,490,665
Payments to refunding agent	(830,000)	-	-	-	(830,000)
Total other financing sources (uses), net	<u>498,158</u>	<u>(17,000)</u>	<u>(10,000)</u>	<u>189,507</u>	<u>660,665</u>
Net change in fund balances	466,729	74,353	9,648	6,163	556,893
Fund balance - beginning	<u>940,741</u>	<u>123,600</u>	<u>509,226</u>	<u>232,656</u>	<u>1,806,223</u>
Fund balance - ending	<u>\$ 1,407,470</u>	<u>\$ 197,953</u>	<u>\$ 518,874</u>	<u>\$ 238,819</u>	<u>\$ 2,363,116</u>

Town of Denton, Maryland
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
Year Ended June 30, 2013

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances - total governmental funds	\$	556,893
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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. This is the detail of the two components:

Capital outlay		1,021,569
Depreciation expense		(563,977)

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related accounts.

Issuance of long-term debt		(1,490,665)
Repayment of principal on long-term debt and changes in compensated absences		1,030,867
		(38,565)

Change in net position of governmental activities	\$	516,122
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Town of Denton, Maryland
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES				
Taxes	\$ 2,525,943	\$ 2,564,512	\$ 2,652,688	\$ 88,176
Licenses and permits	19,300	19,992	23,331	3,339
Revenue from other agencies	175,259	1,009,139	109,301	(899,838)
Service charges	20,775	22,935	23,332	397
Miscellaneous	87,026	47,490	314,763	267,273
Total revenues	<u>2,828,303</u>	<u>3,664,068</u>	<u>3,123,415</u>	<u>(540,653)</u>
EXPENDITURES				
Current:				
General government	343,245	884,357	872,673	11,684
Public safety	1,676,031	1,789,050	1,603,578	185,472
Public works	340,750	347,584	361,307	(13,723)
Recreation and culture	66,525	60,391	62,947	(2,556)
Urban development and housing	84,950	84,950	67,279	17,671
Pension retirement payment	16,740	16,740	16,740	-
Debt service	82,284	179,356	170,320	9,036
Total expenditures	<u>2,610,525</u>	<u>3,362,428</u>	<u>3,154,844</u>	<u>207,584</u>
Excess (deficiency) of revenues over (under) expenditures	<u>217,778</u>	<u>301,640</u>	<u>(31,429)</u>	<u>(333,069)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	27,000	27,000	27,000	-
Transfers out	(189,507)	(189,507)	(189,507)	-
Note proceeds	-	-	1,490,665	1,490,665
Payments to refunding agent	-	-	(830,000)	(830,000)
Total other financing sources (uses), net	<u>(162,507)</u>	<u>(162,507)</u>	<u>498,158</u>	<u>660,665</u>
Net change in fund balances	<u>\$ 55,271</u>	<u>\$ 139,133</u>	466,729	<u>\$ 327,596</u>
Fund balance - beginning			<u>940,741</u>	
Fund balance - ending			<u>\$ 1,407,470</u>	

Town of Denton, Maryland
Statement of Net Position - Proprietary Funds
June 30, 2013

	Enterprise Funds			Total
	Water Fund	Sewer Fund	Industrial Park Fund	
Assets				
Current assets				
Cash and cash equivalents	\$ 335,282	\$ 403,455	\$ 14,127	\$ 752,864
Receivables:				
Service charges	139,264	228,061	-	367,325
Notes receivable	-	-	17,722	17,722
Due from other funds	-	352,657	-	352,657
Total current assets	<u>474,546</u>	<u>984,173</u>	<u>31,849</u>	<u>1,490,568</u>
Noncurrent assets				
Land held for resale	-	-	455,171	455,171
Construction in progress	-	4,714,483	-	4,714,483
Capital assets, net	<u>3,077,094</u>	<u>6,373,444</u>	<u>-</u>	<u>9,450,538</u>
Total noncurrent assets	<u>3,077,094</u>	<u>11,087,927</u>	<u>455,171</u>	<u>14,620,192</u>
Total assets	<u>3,551,640</u>	<u>12,072,100</u>	<u>487,020</u>	<u>16,110,760</u>
Liabilities				
Current liabilities				
Accounts payable and accrued expenses	7,610	39,801	390	47,801
Due to other funds	352,657	-	18,543	371,200
Bonds and notes payable	14,409	120,773	-	135,182
Total current liabilities	<u>374,676</u>	<u>160,574</u>	<u>18,933</u>	<u>554,183</u>
Noncurrent liabilities				
Accrued vacation and sick leave	19,105	34,322	-	53,427
Bonds and notes payable	<u>1,049,544</u>	<u>1,281,431</u>	<u>368,850</u>	<u>2,699,825</u>
Total noncurrent liabilities	<u>1,068,649</u>	<u>1,315,753</u>	<u>368,850</u>	<u>2,753,252</u>
Total liabilities	<u>1,443,325</u>	<u>1,476,327</u>	<u>387,783</u>	<u>3,307,435</u>
Net osition				
Net investment in capital assets	2,013,141	9,685,723	-	11,698,864
Restricted	-	-	86,321	86,321
Unrestricted	95,174	910,050	12,916	1,018,140
Total net position	<u>\$ 2,108,315</u>	<u>\$ 10,595,773</u>	<u>\$ 99,237</u>	<u>\$ 12,803,325</u>

Town of Denton, Maryland
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds
Year Ended June 30, 2013

	Enterprise Funds			Total
	Water Fund	Sewer Fund	Industrial Park Fund	
Operating revenues				
Charges for services, net	\$ 589,132	\$ 602,816	\$ -	\$ 1,191,948
Vacant lots/MD313 special assessments	-	195,077	-	195,077
Other revenues	14,857	121,614	-	136,471
Total operating revenues	<u>603,989</u>	<u>919,507</u>	<u>-</u>	<u>1,523,496</u>
Operating expenses				
Salaries and wages	157,908	269,544	-	427,452
Fringe Benefits	87,237	146,550	-	233,787
Materials and supplies	3,746	9,178	-	12,924
Electric and telephone	39,398	82,548	-	121,946
Automotive expenses	7,382	15,495	-	22,877
Professional services	11,712	10,848	748	23,308
Repairs and maintenance	50,441	98,551	-	148,992
Depreciation	97,226	399,665	-	496,891
Other operating expenses	57,523	190,310	-	247,833
Total operating expenses	<u>512,573</u>	<u>1,222,689</u>	<u>748</u>	<u>1,497,295</u>
Operating income (loss)	<u>91,416</u>	<u>(303,182)</u>	<u>(748)</u>	<u>(212,514)</u>
Nonoperating revenues (expenses)				
Interest income	195	653	29	877
Grant revenue	-	2,260	-	2,260
Interest expense	(40,363)	(19,853)	-	(60,216)
Total nonoperating revenues (expenses), net	<u>(40,168)</u>	<u>(16,940)</u>	<u>29</u>	<u>186,251</u>
Income (loss) before transfers and capital contributions	51,248	(320,122)	(719)	(269,593)
Capital contributions	661,222	-	-	661,222
Transfers in	26,000	15,898	-	41,898
Transfers out	(15,898)	(26,000)	-	(41,898)
Change in net position	722,572	(330,224)	(719)	391,629
Total net position - beginning	<u>1,385,743</u>	<u>10,925,997</u>	<u>99,956</u>	<u>12,411,696</u>
Total net position - ending	<u>\$ 2,108,315</u>	<u>\$ 10,595,773</u>	<u>\$ 99,237</u>	<u>\$ 12,803,325</u>

Town of Denton, Maryland
Statement of Cash Flows- Proprietary Funds
Year Ended June 30, 2013

	Enterprise Funds			Total
	Water Fund	Sewer Fund	Industrial Park Fund	
Operating activities				
Cash received from customers	\$ 602,006	\$ 1,123,566	\$ 2,170	\$ 1,727,742
Cash paid to vendors	(172,791)	(412,535)	(358)	(585,684)
Cash paid to employees	(242,972)	(595,815)	-	(838,787)
Net cash provided by operating activities	186,243	115,216	1,812	303,271
Noncapital financing activities				
Operating transfers in (out)	(4,127)	4,127	-	-
Operating grants	-	2,260	-	2,260
Net cash provided by (used in) noncapital financing activities	(4,127)	6,387	-	2,260
Capital and related financing activities				
Interest paid	(40,363)	(19,853)	-	(60,216)
Capital contribution received	661,222	-	-	661,222
Payment on notes payable	(14,091)	(120,119)	-	(134,210)
Acquisition of capital assets	(601,297)	(42,416)	-	(643,713)
Net cash provided by (used in) capital and related financing activities	5,471	(182,388)	-	(176,917)
Investing activities				
Interest received	195	653	29	877
Net cash provided by investing activities	195	653	29	877
Net increase (decrease) in cash and cash equivalents	187,782	(60,132)	1,841	129,491
Cash and cash equivalents				
Beginning of year	147,500	463,587	12,286	623,373
End of year	\$ 335,282	\$ 403,455	\$ 14,127	\$ 752,864
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ 91,416	\$ (303,182)	\$ (748)	\$ (212,514)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	97,226	399,665	-	496,891
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	(1,983)	204,059	2,170	204,246
Increase (decrease) in accounts payable and accrued expenses	(2,589)	(188,885)	390	(191,084)
Increase in accrued sick leave	2,173	3,559	-	5,732
Net cash provided by operating activities	\$ 186,243	\$ 115,216	\$ 1,812	\$ 303,271

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2013

Note 1 – Summary of significant accounting policies

The Town of Denton, Maryland (the “Town”) began as a tiny settlement on the Choptank River about 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.

The financial statements of the Town conform to accounting principles generally accepted in the United States of America (GAAP) applicable to government units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies:

A. The financial reporting entity

The Town’s financial reporting entity is defined in accordance with GAAP, which defines the distinction between the town as a Primary Government and any related entities. As the Town has no entities for which it is financially accountable and meet the definition of a Component Unit under GAAP, these financial statements only present the Town as the Reporting Entity.

B. Financial statement presentation

The accounting and reporting policies of the Town included in the accompanying basic financial statements conform to GAAP, which requires the following reporting presentation:

Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the Town as a whole) and the fund financial statements, including the major individual funds of the governmental funds (e.g., General, Special Projects) and proprietary funds (e.g., Water, Sewer). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type.

Government-wide statements

In the government-wide Statement of Net Position, both the governmental and business-type activities columns (a) are presented on an aggregated basis by column and (b) are reflected on a full accrual, economic resource basis, which incorporates long-term assets as well as long-term debt and obligations. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information. The government-wide Statement of Activities reflects both the gross and net cost per functional category (e.g., Public Safety, Public Works) that are otherwise being supported by general government revenues (e.g., property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by directly related program revenues, operating and capital grants, and contributions. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and other items not specifically restricted to the various programs are reported as general revenues. Operating grants presented include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2013

Note 1 – Summary of significant accounting policies (continued)

Fund financial statements

In the fund financial statements, financial transactions and accounts of the Town are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. GAAP sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and proprietary combined) for the determination of major funds. The non-major fund is shown in a single column in the fund financial statements. The governmental fund financial statements are presented on current financial resources and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide financial statements' governmental activities column, a reconciliation is presented to briefly explain the adjustments necessary to reconcile the fund financial statements to the government-wide financial statements. The various fund categories and fund types presented in the financial statements are as follows:

1. Governmental funds account for the expendable financial resources, other than those accounted for in proprietary funds. The governmental fund measurement focus is based upon determination of financial position and changes in financial position, rather than upon net income determination as would apply to a commercial enterprise. The individual governmental funds are:

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 major Special Projects (various economic, urban, and housing development projects) and the non-major Capital Improvement Fund (other projects) to account for the projects.

2. 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 Enterprise (accounts for parcels of land purchased by the Town for future development and sale to private businesses) Funds.

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2013

Note 1 – Summary of significant accounting policies (continued)

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 essentially equal to the business-type activity column in the government wide statements.

Reconciliation of Government-wide and Fund Financial Statements

A summary reconciliation of the difference between total fund balances as reflected on the Governmental Funds' Balance Sheet and total net position for governmental activities as shown on the government-wide Statement of Net Position is presented in a schedule accompanying the Governmental Funds' Balance Sheet. The asset and liability elements, which comprise the reconciliation differences, stem from Governmental Funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. A summary reconciliation of the differences between net change in total fund balances as reflected on the Governmental Funds' Statement of Revenues, Expenditures, and Changes in Fund Balances and the change in net position for governmental activities as shown on the government-wide Statement of Activities is presented within the basic financial statements. The revenue and expense elements, which comprise the reconciliation differences, stem from the governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

C. Basis of accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. 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. When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

Governmental fund financial statements are reported using the current financial 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 Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Real and personal property taxes are recorded as revenues and receivables when available, net of allowances for uncollectible amounts. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Proprietary fund financial statements are reported using the accrual basis of accounting wherein revenues are recognized in the accounting period in which they are earned, while expenses are recognized in the accounting period in which the related liability is incurred.

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2013

Note 1 – Summary of significant accounting policies (continued)

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Budgets, budgetary accounting

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.

E. 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 amount at June 30, 2013.

F. Cash and cash equivalents

The Town considers cash and cash equivalents as presented on the balance sheet to be all highly liquid investments with a maturity of three months or less.

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2013

Note 1 – Summary of significant accounting policies (continued)

G. 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.

H. Capital assets

Governmental funds: Capital outlays are recorded as expenditures on the governmental fund financial statements and as assets on the government-wide financial statements to the extent the Town's capitalization threshold of \$5,000 is met. In accordance with GAAP, infrastructure has been capitalized retroactively to 1980. Depreciation on capital assets has been recorded over the estimated useful lives using the straight-line method. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Depreciation has been provided over the estimated useful lives using the straight-line method. The useful lives for depreciation purposes are as follows:

Vehicles, furniture and equipment	5-15 years
Infrastructure, land improvements and buildings	15-40 years

Proprietary funds: Capital outlays of the proprietary funds are recorded as capital assets on both the fund basis and the government-wide basis. Capital assets are stated at cost or estimated original cost, net of accumulated depreciation. Donated capital assets are recorded at their fair value at the date of receipt. Repairs and maintenance are charged to expense when incurred. When capital assets are sold or retired, the cost of the assets and the related accumulated depreciation are eliminated and a gain or loss is recognized. Depreciation has been provided over the estimated useful lives using the straight-line method. The useful lives for depreciation purposes are as follows:

Machinery and equipment	5-15 years
Water and sewer plant systems	10-75 years

I. 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 fund financial statements until they have matured as a result of employee resignations and retirements. In proprietary funds, both the expenses and the liabilities are recorded as benefits are earned. All vacation pay is accrued when incurred in the government-wide financial statements.

J. Estimates

Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and reported revenues, expenditures and expenses.

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2013

Note 1 – Summary of significant accounting policies (continued)

K. Net Position / Fund Balance

Net Position in government-wide and proprietary financial statements is classified as net investment in n capital assets, net of related debt; restricted; and unrestricted. Restricted Net Position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent. The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The Town does not have any nonspendable fund balances at June 30, 2013.

Restricted Fund Balance – This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

Committed Fund Balance – Amounts constrained to specific purposes by formal action (adoption of an ordinance) by the government’s highest level of decision-making authority (Town Council). Committed amounts do not lapse nor can they be used for any other purpose unless the government takes the same level of action (adoption of another ordinance) to remove or change the constraint.

Assigned fund balance – portion of fund balance that the Town intends to use for specific purposes. Fund balances in the general fund are assigned by resolution of the Town Council. Fund balances in the special revenue or capital projects funds are assigned if they are not committed, restricted or nonspendable. Assigned funds lapse at the end of the fiscal year in which they were assigned. With the exception of the General Fund, this is the residual fund balance of the classification of all governmental funds with positive balances.

Unassigned fund balance – the portion of the general fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

The Town has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Town will use resources in the following hierarchy: bond proceeds, federal funds, state funds, local non-town funds, town funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The finance director has the authority to deviate from this policy if it is in the best interest of the Town.

**Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2013**

Note 1 – Summary of significant accounting policies (continued)

L. Internal and Intra-entity Activity

In the process of aggregating data for the Statement of Net Position and the Statement of Activities, some amounts reported as interfund activity and balances in the funds have been eliminated or reclassified. Eliminations are made in the Statement of Net Position to minimize the “grossing-up” effect on assets and liabilities within the governmental and business-type activities columns of the Primary Government. Amounts reported in the funds as interfund receivables and payables are eliminated in the governmental and business-type activities columns of the government-wide financial statements, except for net residual amounts due between governmental and business type activities, which are presented as internal balances. Payments from a fund receiving revenue to a fund through which the revenue is to be expended are reported as operating transfers.

M. Change in Accounting Principles

Effective July 1, 2012, the Town adopted the provisions of GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (Statement No. 63). This implementation required the Town to present a Statement of Net Position, replacing previously presented Statement of Net Assets, in the Town’s basic financial statements. The Town’s implementation also required the Statement of Net Position to present deferred outflows and inflows, if applicable, of resources in separate sections following total assets and total liabilities sections, respectively. In practice, Statement No. 63 only impacts activities related to derivative instruments or service concession arrangements. In the case of the Town, the implementation of this standard was isolated to the presentation of the Statement of Net Position.

Note 2 – Deposits and investments

Deposits

At year end the carrying value of the Town's deposits with banks and financial institutions approximated \$317,800 and the bank balance approximated \$567,600. Of this bank balance, all was covered by Federal depository insurance and the remaining balance was collateralized in accordance with Article 95, Section 22 of the Annotated Code of Maryland.

Investments

In accordance with the Annotated Code of Maryland and other applicable law, including 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.

At June 30, 2013 the Town’s deposit and investment balances were as follows:

	Fair value
Maryland local government investment pool	\$ 2,412,432
Deposits	520,209
Cash on hand	500
Total cash and investments	\$ 2,933,141

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2013

Note 2 – Deposits and investments (continued)

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 Local Government Investment Pool is not subject to maturity limits.

Credit risk: The Town's investments in the Local Government Investment Pool are rated AAAM by Standard and Poor's.

Note 3 – Property taxes

By June 10 of each year the Town Council adopt 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.

Note 4 – Accounts Receivable and Due from other governments

Accounts receivable at June 30, 2013 consist of the following:

	General	Business Loan	Water	Sewer	Industrial Park
Accounts receivable:					
Taxes	\$ 50,052	\$ -	\$ -	\$ -	\$ -
Service charges	-	-	139,264	228,061	-
Loans and notes	-	896,784	-	-	17,722
Other	7,133	1,296	-	-	-
Total accounts receivable	<u>\$ 57,185</u>	<u>\$ 898,080</u>	<u>\$ 139,264</u>	<u>\$ 228,061</u>	<u>\$ 17,722</u>

Note 5 – Interfund receivables, payables, and transfers

During the course of normal business operations, the Town has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, or satisfy certain obligations. These transactions are generally reflected as transfers. Interfund receivables and payables represent the lending/borrowing arrangements resulting from the timing of these expenditures versus the receipt of these revenues.

Interfund balances at June 30, 2013, were as follows:

	Interfund Receivables	Interfund Payables
General Fund	\$ 18,543	\$ -
Water Fund	-	352,657
Sewer Fund	352,657	-
Industrial Park Fund	-	18,543
Total	<u>\$ 371,200</u>	<u>\$ 371,200</u>

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2013

Note 5 – Interfund receivables, payables, and transfers (continued)

Interfund transfers at June 30, 2013, were as follows:

	Transfers In	Transfers Out
General Fund	\$ 27,000	\$ 189,507
Special Projects Fund	-	17,000
Business Loan Fund	-	10,000
Highway Fund	189,507	-
Water Fund	26,000	15,898
Sewer Fund	15,898	26,000
Total	\$ 258,405	\$ 258,405

Transfers were recorded to reallocate funding for capital projects and cover certain operating expenses during the year.

Note 6 – Capital assets

	Balances June 30, 2012	Additions / Transfers In	Deletions / Transfers Out	Balances June 30, 2013
Governmental activities:				
Nondepreciable capital assets:				
Land	\$ 572,510	\$ 322,862	\$ -	\$ 895,372
Construction in progress	2,732,456	912,631	(2,447,115)	1,197,972
Total nondepreciable capital assets	3,304,966	1,235,493	(2,447,115)	2,093,344
Depreciable capital assets:				
Land improvements	1,407,950	-	-	1,407,950
Buildings	2,736,266	-	-	2,736,266
Infrastructure	7,486,995	2,124,253	-	9,611,248
Furniture and equipment	423,962	63,152	(12,800)	474,314
Vehicles	979,903	45,786	(20,117)	1,005,572
Total depreciable capital assets	13,035,076	2,233,191	(32,917)	15,235,350
Less-accumulated depreciation				
Land improvements	(777,369)	(75,609)	-	(852,978)
Buildings	(985,368)	(66,540)	-	(1,051,908)
Infrastructure	(1,825,403)	(252,781)	-	(2,078,184)
Furniture and Equipment	(349,370)	(37,124)	12,800	(373,694)
Vehicles	(594,956)	(131,923)	20,117	(706,762)
Total accumulated depreciation	(4,532,466)	(563,977)	32,917	(5,063,526)
Total depreciable capital assets, net	8,502,610	1,669,214	-	10,171,824
Governmental activities capital assets, net	\$ 11,807,576	\$ 2,904,707	\$ (2,447,115)	\$ 12,265,168

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2013

Note 6 – Capital assets (continued)

	Balances June 30, 2012	Additions / Transfers In	Deletions / Transfers Out	Balances June 30, 2013
Business-type activities:				
Nondepreciable capital assets:				
Construction in progress	\$ 5,594,890	\$ 601,297	\$ (1,481,704)	\$ 4,714,483
Total nondepreciable capital assets	<u>5,594,890</u>	<u>601,297</u>	<u>(1,481,704)</u>	<u>4,714,483</u>
Depreciable capital assets:				
Municipal water system	2,848,152	1,481,704	-	4,329,856
Municipal sewer system	12,221,009	-	-	12,221,009
Machinery and equipment	307,382	42,416	-	349,798
Total depreciable capital assets	<u>15,376,543</u>	<u>1,524,120</u>	<u>-</u>	<u>16,900,663</u>
Less accumulated depreciation for:				
Municipal water system	(1,164,515)	(92,682)	-	(1,257,197)
Municipal sewer system	(5,526,823)	(363,857)	-	(5,890,680)
Machinery and equipment	(261,896)	(40,352)	-	(302,248)
Total accumulated depreciation	<u>(6,953,234)</u>	<u>(496,891)</u>	<u>-</u>	<u>(7,450,125)</u>
Total depreciable capital assets, net	<u>8,423,309</u>	<u>1,027,229</u>	<u>-</u>	<u>9,450,538</u>
Business-type activities capital assets, net	<u>\$ 14,018,199</u>	<u>\$ 1,628,526</u>	<u>\$ (1,481,704)</u>	<u>\$ 14,165,021</u>

Depreciation expense was charged to the programs of the Town as follows:

Governmental activities:	
General government	\$ 7,315
Public safety	82,651
Public works	221,172
Recreation and culture	81,632
Urban development and housing	119,165
Economic development	52,042
	<u>\$ 563,977</u>
Business-type activities:	
Water	\$ 97,226
Sewer	399,665
	<u>\$ 496,891</u>

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2013

Note 7 – Long-term obligations

The Town issues general obligation bonds and notes to provide for the acquisition and construction of major capital projects. Repayment of state notes and bonds under governmental activities are funded by the Highway Projects Fund. All other liabilities associated with the governmental activities are liquidated by the General Fund.

Details of the general obligation bonds, capital leases, and notes at June 30, 2013 are as follows:

<u>Description</u>	<u>Amount</u>
Governmental activities:	
State and Federal notes and bonds:	
\$265,000 issued, Town contractual share of Caroline County CDA Bonds, due in annual installments through May 2017, interest at 5.52%	\$ 77,518
\$1,240,000 Highway fund share of 5 th Ave project loan issued by USDA, due in monthly installments of \$4,333 until 2052, interest at 3.01%	1,184,468
\$266,950 issued, Series 2008 Maryland Public Improvement Bonds, due in annual installments through June 30, 2047, interest at 4.38%	<u>251,886</u>
Total State notes and bonds	<u>\$ 1,513,872</u>
Installment notes	
\$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	\$ 143,389
\$685,000 installment note payable, due in annual principal payments of \$2,283, variable interest at 65% of Prime Rate floating with a floor 2.11% and a ceiling of 2.99% for 15 years with a 20 year amortization	680,434
\$660,665 installment note payable, due in annual payments of \$4,583 variable interest at 65% of Prime Rate floating with a floor 2.11% and a ceiling of 2.99% for 15 years with a 20 year amortization	660,665
\$60,764 installment note payable, financing of two police cars, due in monthly payments of \$1,109 through 2017, interest at 3.56%	<u>46,547</u>
Total installment notes	<u>\$ 1,531,035</u>

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2013

Note 7 – Long-term obligations (continued)

Federal notes and loans	
750,000 intermediary relending program note, issued by the USDA, of which \$205,000 was drawn down, interest at 1%	\$ 174,228
Intermediary relending program note, issued by the USDA, of which \$130,000 was drawn down, interest at 5%	112,793
Intermediary relending program note, issued by the USDA, of which \$150,000 was drawn down, interest at 5%	134,523
Intermediary relending program note, issued by the USDA, of which \$170,000 was drawn down, interest at 3%	119,407
Intermediary relending program note, issued by the USDA, of which \$90,000 was drawn down, interest at 5%	<u>83,498</u>
Total federal notes and loans	<u>\$ 624,449</u>
Capital leases	
\$16,343 lease for police vehicle, due in monthly installments of \$301 through December 2016, interest at 3.98%	<u>1,787</u>
Total governmental activities	<u>\$ 3,671,143</u>
Business-type activities	
General obligation notes	
\$500,000 issued, Series 2008 Maryland Public Improvement Bonds, due in annual installments through June 30, 2047, interest at 4.38%	\$ 471,908
\$2,332,577 MDE note issued September 23, 2004, due in semi-annual installments of \$121,589 including interest at 0.4% through February 2024.	1,305,932
\$140,000, Rural Development Loan due in quarterly installments of \$1,892 including interest at 4.5%, through September 2027.	78,136
\$ 623,560 Water and sewer fund share of 5 th Ave project loan issued by USDA, due in monthly installments of \$2,233 until 2052, interest at 3.01%	610,181
State industrial park note:	
\$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 is to go towards the repayment which is due August 2020, no interest.	<u>368,850</u>
Total business-type activities	<u>\$ 2,835,007</u>

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2013

Note 7 – Long-term obligations (continued)

Annual requirements to amortize long-term debt and related interest are as follows:

Year Ending June 30	Governmental Activities					
	State Notes & Bonds		Installment Notes		Federal Notes and Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 38,024	\$ 50,828	\$ 50,369	\$ 56,534	\$ 22,362	\$ 22,026
2015	39,812	49,152	105,370	53,743	23,084	21,305
2016	41,622	47,393	105,370	51,089	23,835	20,554
2017	41,414	45,521	98,708	48,166	24,616	19,772
2018	22,580	43,559	92,068	45,370	25,430	18,957
2019-2023	124,578	206,117	460,339	185,079	140,601	81,340
2024-2028	146,604	184,092	618,811	147,693	166,728	55,213
2029-2033	172,647	158,050	-	-	148,065	25,933
2034-2038	203,464	127,231	-	-	49,728	2,946
2039-2043	239,973	90,728	-	-	-	-
2044-2048	270,631	47,965	-	-	-	-
2049-2052	172,523	9,462	-	-	-	-
Total	\$ 1,513,872	\$ 1,060,098	\$ 1,531,035	\$ 587,674	\$ 624,449	\$ 268,046

Year Ending June 30	Business-type Activities			
	General Obligation Notes		Other Notes	
	Principal	Interest	Principal	Interest
2014	\$ 135,182	\$ 47,254	\$ -	\$ -
2015	136,370	46,065	-	-
2016	137,591	44,845	-	-
2017	138,843	43,592	368,850	-
2018	140,128	42,304	-	-
2019-2023	721,177	197,971	-	-
2024-2028	261,069	162,563	-	-
2029-2033	135,664	135,590	-	-
2034-2038	162,942	109,327	-	-
2039-2043	195,934	77,570	-	-
2044-2048	212,381	39,129	-	-
2049-2052	88,876	7,940	-	-
Total	\$ 2,466,157	\$ 954,150	\$ 368,850	\$ -

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2013

Note 7 – Long-term obligations (continued)

Capital leases

The Town leases certain equipment under capital lease arrangements, which will expire in 2014 with payments totaling \$1,787, of which \$148 is interest.

The following is a summary of changes in long-term liabilities of the Town for the year ended June 30, 2013:

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Due Within One Year
Governmental activities:					
State notes and bonds	\$ 1,550,698	\$ -	\$ 36,826	\$ 1,513,872	\$ 38,024
Installment note	313,303	1,490,665	272,933	1,531,035	50,369
Federal loans and notes	1,336,944	-	712,495	624,449	22,362
Capital lease	23,792	-	22,005	1,787	1,787
Compensated absences	129,479	86,009	72,617	142,871	-
Total	\$ 3,354,216	\$ 1,576,674	\$ 1,116,876	\$ 3,814,014	\$ 112,542
Business-type activities:					
Notes and bonds	\$ 2,969,028	\$ -	\$ 134,021	\$ 2,835,007	\$ 135,182
Compensated absences	47,695	31,811	26,079	53,427	-
Total	\$ 3,016,723	\$ 31,811	\$ 160,100	\$ 2,888,434	\$ 135,182

Operating leases

The Town leases certain equipment under operating lease arrangements. Future minimum lease payments are:

2014	\$ 11,540
2015	11,540
2016	3,483
2017	3,483
2018	290
Total	\$ 30,336

Note 8 – Retirement plan and Other Post-Employment Benefits

Effective July 1, 2001, the Town elected to participate in the statewide contributory system of the State of Maryland. The State Retirement Agency (the Agency) is the administrator of the System, a cost sharing multiple-employer public employee retirement system. The System was established by the State Personnel and Pension Articles of the Annotated Code of Maryland Rules and Regulations and provides retirement allowances to System members and beneficiaries.

**Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2013**

Note 8 – Retirement plan and other post-employment benefits (continued)

Members may retire with full benefits after completing 30 years of eligible services regardless of age or at age sixty-two or older with specified years of service. On retirement from service, a member shall receive an annual service retirement allowance based on the member's average final compensation and years of creditable service. A member may retire with reduced benefits after attaining age fifty-five and completing fifteen years of eligible service.

The System issues a publicly available financial report that includes disclosures regarding: actuarial value of assets; total actuarial accrued liability; unfunded actuarial accrued liability, if any; and funded liability ratio. This report may be obtained from the Maryland State Retirement and Pension System, 301 West Preston Street, Baltimore, Maryland 21201.

Funding Policy. Town employees contribute 7% of their gross employee compensation. Required contributions not funded by employee contributions are funded entirely by the Town. Employer contributions are based upon salaries for the preceding fiscal year. The Town's contribution for fiscal year 2013 was based on the salaries for the year ended June 30, 2011. The Town also 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 paid \$203,212 in fiscal year 2013. Annual payments in future years will increase by 5% per year through December 2020.

Contributions for the fiscal year ended June 30, 2013 and two preceding years were equal to the actuarially determined amounts as follows:

	June 30, 2013	June 30, 2012	June 30, 2011
Total covered payroll	\$ 1,329,392	\$ 1,415,744	\$ 1,510,980
Employer normal contributions	119,512	154,883	163,639
Employer special accrued liability	83,700	79,714	75,918
Employer contribution percentage	100%	100%	100%

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

The Town does not have a plan in place for other post-employment benefits; therefore, no related liability has been recorded.

Note 9 – 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. Property and liability coverages are provided through third party insurance. The Town carries a broad range of insurance coverages, which management considers prudent for the protection of the Town's assets and operations. Coverages currently include \$2,000,000 commercial general liability, \$1,000,000 automobile liability, and \$1,000,000 public officials' liability. The property policy provides insurance coverage for all of the Town's real and personal property up to the replacement cost value of the asset.

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2013

Note 10 – Contingent liabilities – Community Legacy Program

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 under this program are \$385,500.

Note 11 – Subsequent events

The Town has evaluated subsequent events through November 1, 2013 in connection with the preparation of these financial statements, which is the date the financial statements were to be issued and no additional information is required to be disclosed.

Town of Denton, Maryland
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2013

	<u>Capital Improvement</u>	<u>Highway Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 182,727	\$ 37,473	\$ 220,200
Due from other governments	-	19,580	19,580
Total assets	<u>\$ 182,727</u>	<u>\$ 57,053</u>	<u>\$ 239,780</u>
Liabilities and fund balances			
Liabilities:			
Accounts payable and accrued expenses	\$ -	\$ 961	\$ 961
Total liabilities	<u>-</u>	<u>961</u>	<u>961</u>
Fund balances:			
Restricted	-	56,092	56,092
Assigned	182,727	-	182,727
Total fund balances	<u>182,727</u>	<u>56,092</u>	<u>238,819</u>
Total liabilities and fund balances	<u>\$ 182,727</u>	<u>\$ 57,053</u>	<u>\$ 239,780</u>

Town of Denton, Maryland
Combining Statement of Revenues, Expenditures and Changes
in Fund Balances - Nonmajor Governmental Funds
June 30, 2013

	Capital Projects		Total Nonmajor Governmental Funds
	Capital Improvement	Highway Fund	
Revenues			
Taxes	\$ -	\$ 40,134	\$ 40,134
Licenses and permits	34,896	-	34,896
Revenue from other agencies	-	10,726	10,726
Miscellaneous	184	431	615
Total revenues	<u>35,080</u>	<u>51,291</u>	<u>86,371</u>
Expenditures			
Current:			
Public works	-	115,702	115,702
Capital outlay and projects	-	42,141	42,141
Debt service - principal	-	57,371	57,371
Debt service - interest	-	54,501	54,501
Total expenditures	<u>-</u>	<u>269,715</u>	<u>269,715</u>
Excess of revenues over (under) expenditures	<u>35,080</u>	<u>(218,424)</u>	<u>(183,344)</u>
Other financing sources			
Transfers in	-	189,507	189,507
Total other financing sources	<u>-</u>	<u>189,507</u>	<u>189,507</u>
Net change in fund balances	35,080	(28,917)	6,163
Fund balance - beginning	<u>147,647</u>	<u>85,009</u>	<u>232,656</u>
Fund balance - ending	<u>\$ 182,727</u>	<u>\$ 56,092</u>	<u>\$ 238,819</u>

Town of Denton, Maryland
Schedule of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual Detail – General Fund
June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
Taxes:				
Real estate tax	\$ 2,266,854	\$ 2,350,640	\$ 2,350,985	\$ 345
Railroad and public utilities	58,410	43,036	43,036	-
Corporation	96,000	90,000	97,132	7,132
Tax interest and penalties	8,000	8,550	19,585	11,035
Abatements (tax)	(72,121)	(99,814)	(104,867)	(5,053)
Income tax	165,000	165,000	238,072	73,072
Admission and Amusement tax	1,000	3,500	4,491	991
Hotel tax	2,800	3,600	4,254	654
Total taxes	<u>2,525,943</u>	<u>2,564,512</u>	<u>2,652,688</u>	<u>88,176</u>
Licenses and permits:				
Traders license	9,000	9,000	11,123	2,123
Building and sign permits	10,000	8,420	9,319	899
Other licenses and permits	300	2,572	2,889	317
Total licenses and permits	<u>19,300</u>	<u>19,992</u>	<u>23,331</u>	<u>3,339</u>
Revenue from Other Agencies:				
State police aid	65,985	43,298	44,486	1,188
County Police Safety Grant	6,000	9,555	9,554	(1)
Critical areas	1,750	1,750	1,750	-
Police facility grant	-	-	11,608	11,608
Byrne grant	20,000	25,000	24,062	(938)
Other county revenue	74,987	856,455	9,317	(847,138)
Other state revenue	6,537	73,081	8,524	(64,557)
Total revenue from other agencies	<u>175,259</u>	<u>1,009,139</u>	<u>109,301</u>	<u>(899,838)</u>
Service charges:				
Parking fines/meter income	20,775	22,935	23,332	397
Miscellaneous Income:				
Cable TV franchise fees	20,000	21,326	21,326	-
Water tower/land rental	17,000	17,000	15,650	(1,350)
Interest income	800	1,410	2,382	972
Miscellaneous income	49,226	7,754	275,395	267,641
Post card income	-	-	10	10
Total miscellaneous income	<u>87,026</u>	<u>47,490</u>	<u>314,763</u>	<u>267,273</u>
Total revenues	<u>2,828,303</u>	<u>3,664,068</u>	<u>3,123,415</u>	<u>(540,653)</u>

Town of Denton, Maryland
Schedule of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual Detail – General Fund
June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures				
General Government:				
General administration:				
Salaries	\$ 54,822	\$ 41,000	\$ 48,927	\$ (7,927)
Other operating expenses	44,322	40,060	38,165	1,895
	<u>99,144</u>	<u>81,060</u>	<u>87,092</u>	<u>(6,032)</u>
Legislative:				
Salaries	15,600	15,600	15,350	250
Other operating expenses	53,025	53,025	41,801	11,224
	<u>68,625</u>	<u>68,625</u>	<u>57,151</u>	<u>11,474</u>
Elections:				
Salaries	150	150	150	-
Other operating expenses	2,250	1,247	1,247	-
	<u>2,400</u>	<u>1,397</u>	<u>1,397</u>	<u>-</u>
Financial Administration:				
Salaries	100,139	79,214	101,100	(21,886)
Other operating expenses	62,182	83,106	56,576	26,530
Capital outlay	3,000	3,000	-	3,000
	<u>165,321</u>	<u>165,320</u>	<u>157,676</u>	<u>7,644</u>
Municipal Building:				
Other operating expenses	7,755	7,955	7,451	504
Capital outlay	-	560,000	561,906	(1,906)
	<u>7,755</u>	<u>567,955</u>	<u>569,357</u>	<u>(1,402)</u>
Total general government	<u>343,245</u>	<u>884,357</u>	<u>872,673</u>	<u>11,684</u>
Public Safety:				
Police Department:				
Salaries	679,773	605,941	628,476	(22,535)
Other operating expenses	534,115	622,462	506,124	116,338
Capital outlay	70,306	61,013	61,529	(516)
	<u>1,284,194</u>	<u>1,289,416</u>	<u>1,196,129</u>	<u>93,287</u>
Volunteer Fire Company:				
Other operating expenses	76,700	76,700	76,532	168
Zoning, Codes & Inspection:				
Salaries	126,925	110,498	109,316	1,182
Other operating expenses	188,212	312,436	221,601	90,835
	<u>315,137</u>	<u>422,934</u>	<u>330,917</u>	<u>92,017</u>
Total public safety	<u>1,676,031</u>	<u>1,789,050</u>	<u>1,603,578</u>	<u>185,472</u>

Town of Denton, Maryland
Schedule of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual Detail – General Fund
June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Public Works:				
Street Sanitation:				
Salaries	\$ 42,269	\$ 30,504	\$ 42,385	\$ (11,881)
Other operating expenses	42,958	52,557	39,450	13,107
Capital outlay	5,000	24,000	42,074	(18,074)
	<u>90,227</u>	<u>107,061</u>	<u>123,909</u>	<u>(16,848)</u>
Street lighting	77,800	78,300	86,545	(8,245)
Trash collection	171,698	161,198	149,828	11,370
Mosquito spraying	1,025	1,025	1,025	-
	<u>340,750</u>	<u>347,584</u>	<u>361,307</u>	<u>(13,723)</u>
Recreation and Culture:				
Parks and recreation:				
Salaries	26,803	19,444	26,817	(7,373)
Other operating expenses	35,522	36,955	25,639	11,316
Capital outlay	-	-	6,345	(6,345)
	<u>62,325</u>	<u>56,399</u>	<u>58,801</u>	<u>(2,402)</u>
Tennis courts:				
Other operating expenses	700	417	417	-
Summerfest:				
Other expense	3,500	3,575	3,712	(137)
Wheeler Park:				
Project Costs	-	-	17	(17)
	<u>66,525</u>	<u>60,391</u>	<u>62,947</u>	<u>(2,556)</u>
Total recreation and culture				
Urban Development and Housing:				
Community development:				
Other operating expenses	84,950	84,950	67,279	17,671
	<u>84,950</u>	<u>84,950</u>	<u>67,279</u>	<u>17,671</u>
Total urban development and housing				
Retirement payment	16,740	16,740	16,740	-
Debt service	82,284	179,356	170,320	9,036
	<u>2,610,525</u>	<u>3,362,428</u>	<u>3,154,844</u>	<u>207,584</u>
Total expenditures				
Excess (deficiency) of revenues over (under) expenditures	<u>217,778</u>	<u>301,640</u>	<u>(31,429)</u>	<u>(333,069)</u>

Town of Denton, Maryland
Schedule of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual Detail – General Fund
June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Other Financing Sources (Uses)				
Transfers in	\$ 27,000	\$ 27,000	\$ 27,000	\$ -
Transfers (out)	(189,507)	(189,507)	(189,507)	-
Debt proceeds	-	-	1,490,665	1,490,665
Payments to refunding agent	-	-	(830,000)	(830,000)
Total other financing sources (uses), net	<u>(162,507)</u>	<u>(162,507)</u>	<u>498,158</u>	<u>660,665</u>
Net change in fund balances	<u>\$ 55,271</u>	<u>\$ 139,133</u>	466,729	<u>\$ 327,596</u>
Fund balance - beginning			<u>940,741</u>	
Fund balance - ending			<u>\$ 1,407,470</u>	

**Report of Independent Auditor 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***

To the Council of the Town of Denton
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, 2013, and the related notes to the financial statements, which collectively comprise of the Town's basic financial statements, and have issued our report thereon dated November 1, 2013.

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 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 Town'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 Town'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 Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Cheryl Behrnt CP". The signature is written in a cursive style.

Richmond, Virginia
November 1, 2013