

TOWN OF DENTON, MARYLAND

Financial Report

Year Ended June 30, 2010

TOWN OF DENTON, MARYLAND

Town Council

Conway Gregory, Mayor

Agnes G. Case

Robert L. Clendaniel

Dennis D. Porter

Dean W. Danielson

OTHER ADMINISTRATORS

Donald H. Mulrine, Town Administrator

Karen L. Monteith, Clerk-Treasurer

William D. Kastning – Director of Planning & Codes

Rodney R. Cox – Chief of Police

Scott Getchell – Director of Public Works

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Independent Auditors' Report

To the Council of the Town of Denton
Denton, Maryland.

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, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the general fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 21, 2010 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The accompanying combining statements for nonmajor funds and the schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The combining statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Cherry, Bekaert & Holland, L.L.P.

Richmond, Virginia
October 21, 2010

Management's Discussion and Analysis (Dollar Amounts in Thousands)

As management of the Town of Denton, we offer readers of the Town of Denton's financial statements this narrative overview and analysis of the financial activities of the Town of Denton for the fiscal year ended June 30, 2010. 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. Unless otherwise indicated, all financial information presented in the MD&A are in thousands (000's).

Financial Highlights

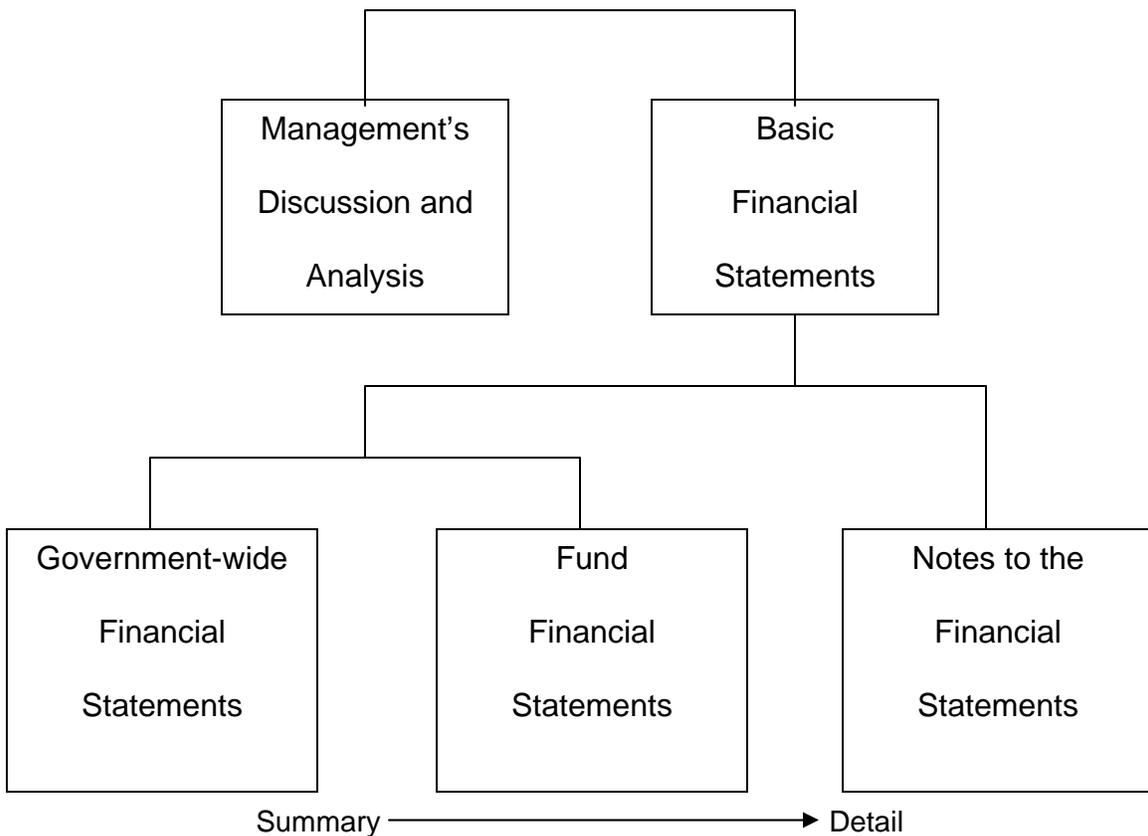
- The assets of the Town of Denton exceeded its liabilities at the close of the fiscal year by \$10,546.
- The government's total net assets increased by \$47, primarily due to an increase in the governmental activities net assets.
- As of the close of the current fiscal year, the Town of Denton's governmental funds reported combined ending fund balances of \$956, an increase of \$127 during the year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$363, or 12.7 percent of total general fund expenditures for the fiscal year.
- The Town of Denton's total debt decreased by \$10 (0.2%) during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Town of Denton'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.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the Town's financial status.

The next statements are the **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are four parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; 3) the proprietary fund statements; and 4) the fiduciary fund statements. The Town does not have any fiduciary funds.

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.

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 assets and how they have changed. Net assets are the difference between the Town's total assets and total liabilities. Measuring net assets 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. These include 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 of Denton, 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 Town of Denton 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 an accounting method called *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 him or her 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 Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Denton adopts an annual budget for its General Fund. The budget is a legally adopted document 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 uses the

budgetary basis of accounting and 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 board; 2) the final budget as amended by the board; 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.

Proprietary Funds – Town of Denton has only one type of proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Town of Denton uses enterprise funds to account for its water and sewer activity and industrial park. These funds are the same as those functions shown in the business-type activities in the Statement of Net Assets 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. The notes to the financial statements are on pages 25-40 of this report.

Government-Wide Financial Analysis

This is the seventh year that the Town has presented its financial statements under the new reporting model required by GASB Statement No. 34. This reporting model changes significantly both the recording and presentation of the financial data. Prior year information is shown in a comparative analysis of government-wide information.

The Town of Denton's Net Assets (in thousands):
Figure 2

The Town of Denton's Net Assets (in thousands):
Figure 2

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 2,051	\$ 2,198	\$ 422	\$ 1,105	\$ 2,473	\$ 3,303
Capital assets	10,886	10,425	9,304	8,994	20,190	19,419
Total assets	12,937	12,623	9,726	10,099	22,663	22,722
Long-term liabilities outstanding	2,250	2,141	2,662	2,793	4,912	4,934
Other liabilities	141	240	57	42	198	282
Total liabilities	2,391	2,381	2,719	2,835	5,110	5,216
Net assets:						
Invested in capital assets, net of related debt	8,392	8,420	6,608	6,621	15,000	15,041
Unrestricted	2,154	1,822	399	643	2,553	2,465
Total net assets	\$ 10,546	\$ 10,242	\$ 7,007	\$ 7,264	\$ 17,553	\$ 17,506

Net assets may serve over time as a useful indicator of a government's financial condition. The assets of the Town of Denton exceeded liabilities by \$17,553 as of June 30, 2010. The Town's net assets increased by \$47 for the fiscal year ended June 30, 2010. A significant portion reflects the Town's increase in unrestricted net assets, which may be used to meet the government's ongoing obligations to citizens and creditors. The majority of the increase in the Town's total unrestricted governmental net assets is due to the continued investment in capital assets from grant funds.

Figure 3
The Town of Denton's Changes in Net Assets (in thousands):

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 158	\$ 148	\$ 1,226	\$ 1,229	\$ 1,384	\$ 1,377
Operating grants and contributions	95	284	-	-	95	284
Capital grants and contributions	421	488	150	261	571	749
General revenues:						
Property taxes	2,447	2,264	-	-	2,447	2,264
Other taxes	211	493	-	-	211	493
Other	99	86	4	12	103	98
Total revenues	<u>3,431</u>	<u>3,763</u>	<u>1,380</u>	<u>1,502</u>	<u>4,811</u>	<u>5,265</u>
Expenses:						
General government	505	399	-	-	505	399
Public safety	1,820	1,834	-	-	1,820	1,834
Public works	468	578	-	-	468	578
Recreation and culture	150	156	-	-	150	156
Urban development and housing	188	299	-	-	188	299
Economic development	53	114	-	-	53	114
Interest on long-term debt	82	88	-	-	82	88
Retirement payment	15	14	-	-	15	14
Water	-	-	533	457	533	457
Sewer	-	-	1,013	1,001	1,013	1,001
Industrial park	-	-	1	4	1	4
Total expenses	<u>3,281</u>	<u>3,482</u>	<u>1,547</u>	<u>1,462</u>	<u>4,828</u>	<u>4,944</u>
Increase (decrease) in net assets before transfers	150	281	(167)	40	(17)	321
Transfers	<u>91</u>	<u>135</u>	<u>(91)</u>	<u>(135)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	241	416	(258)	(95)	(17)	321
Net assets, July 1	10,242	<u>9,826</u>	<u>7,264</u>	<u>7,359</u>	17,506	<u>17,185</u>
Prior period adjustment	<u>64</u>	-	-	-	<u>64</u>	-
Net assets, June 30	<u>\$ 10,547</u>	<u>\$ 10,242</u>	<u>\$ 7,006</u>	<u>\$ 7,264</u>	<u>\$ 17,553</u>	<u>\$ 17,506</u>

Governmental activities. Governmental activities increased the Town's net assets by \$241, showing a decrease of \$175 over the prior year's change in net assets. Key elements of the increase in net assets are as follows:

- Grant revenues decreased \$189

Business-type activities: Business-type activities decreased the Town of Denton's net assets by \$258, showing an decrease of \$163 compared to prior year's change in net assets. Key elements of this increase are as follows:

- Grant revenues decreased \$111
- Water expenses increased \$76

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 decreased by 3 from the prior year for a 0.09% decrease.
- Usage rates increased from 2.25 to 2.50 (11%) for water and 5.50 to 5.66 (3%) for sewer.

Financial Analysis of the Town's Funds

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

Governmental Funds: The focus of the Town of Denton'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 of Denton'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 of Denton. At the end of the current fiscal year, the total fund balance of the General Fund was entirely comprised of the undesignated fund balance in the amount of \$363. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 12.7 percent of total General Fund expenditures. In the prior year, the total fund balance of the General fund was entirely comprised of the unreserved fund balance in the amount of \$318. A contributing factor in this increase was that the increase in expenditures was more than offset by the increase in tax revenues.

At June 30, 2010, the governmental funds of the Town of Denton reported a combined fund balance of \$956, an increase of \$127 from the prior year. Included in this change in fund balance is decreased urban development and housing spending and increased general government and economic development spending.

General Fund Budgetary Highlights: During the fiscal year, the Town did not revise 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.

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

Proprietary Funds. The Town of Denton's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Water, Sewer, and Industrial Park funds at the end of the fiscal year amounted to (\$457), \$754, and \$101, respectively. The changes in net assets for the funds were (\$37), (\$220), and (\$1), respectively. Other factors concerning the finances of these funds have already been addressed in the discussion of the Town of Denton's business-type activities.

Capital Asset and Debt Administration

Capital assets. The Town of Denton's investment in capital assets for its governmental and business-type activities as of June 30, 2010, totals \$19,367 (net of accumulated depreciation). This amount represents a net decrease of \$51, or .26% 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:

- Construction in progress of North Denton Phase I
- Construction in progress of the Waste Water Treatment Plant

The following is a summary of capital assets at June 30, 2010 and 2009:

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

Figure 4

	Governmental		Business-type		Total	
	Activities		Activities			
	2010	2009	2010	2009	2010	2009
Land	\$ 573	\$ 573	\$ -	\$ -	\$ 573	\$ 573
Land improvements	782	818	-	-	782	818
Buildings	1,886	1,792	-	-	1,886	1,792
Infrastructure	5,772	5,963	-	-	5,772	5,963
Equipment and vehicles	170	246	38	23	208	269
Water system	-	-	1,265	1,303	1,265	1,303
Sewer system	-	-	6,897	7,177	6,897	7,177
Construction in progress	1,335	1,032	650	491	1,985	1,523
Total	\$ 10,518	\$ 10,424	\$ 8,850	\$ 8,994	\$ 19,368	\$ 19,418

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, 2010, the Town of Denton had total bonded debt outstanding of \$4,736. All bonded debt and notes are backed by the full faith and credit of the Town. The total bonded debt decreased by \$10. Details by type of debt are presented in the following table:

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

Figure 5

	Governmental		Business-type		Total	
	Activities		Activities			
	2010	2009	2010	2009	2010	2009
Bonds and notes	\$ 2,058	\$ 1,915	\$ 2,610	\$ 2,742	\$ 4,668	\$ 4,657
Capital leases	68	89	-	-	68	89
Total	\$ 2,126	\$ 2,004	\$ 2,610	\$ 2,742	\$ 4,736	\$ 4,746

New debt for the fiscal year ending June 30, 2010 resulted from entry into an installment note for \$155 and a Federal loan for \$90.

Additional information regarding the Town of Denton'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 of 9.3% is above the State average of 7.6% and comparable to the US average of 9.6% (as of August, 2010)
- State revenue cutbacks. The State of Maryland initiated drastic cutbacks for FY 2010 for the gasoline tax and police aid revenues that shared with localities. The State has announced that the FY 2010 cuts will remain and additional cutbacks in the gasoline tax and police aid revenues will continue into FY 2011.

Budget Highlights for the Fiscal Year Ending June 30, 2011

Governmental Activities: Property taxes are expected to increase slightly based on the constant yield. Properties in the Town will be reassessed in December 2010, which may have an effect on the real estate tax revenues that will be billed in FY 2012.

The Town continues to work towards maintaining at 15% fund balance. However for FY 2010 the State of Maryland cut the highway fund revenues by 80% and the State Police Aid by 35%, which affected the Town's General Fund reserve to cover this mid-year loss of revenues. The State has advised the Town that the cuts in FY 2010 will continue in FY 2011.

Business-type Activities: The Town Council passed legislation increasing the water and sewer rates in FY2010. The water admin fee increased from \$7.50 to 10.35 per quarter and the sewer admin fee increased from \$7.50 to \$9.00 a quarter. The usage rates increased as well, with water usage rates increased from \$2.25 to \$2.50 per thousand gallons and sewer usage rates increased from \$5.50 to \$5.66 per thousand gallons.

The Utility Commission water and sewer rate study is finished and is used to assist in establishing a rate structure for future years. The Town Council recently passed legislation to increase the rates again for FY 2011 based on the out come of the rate study.

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 of Denton, 13 N. 3rd St., Denton, MD 21629.

Town of Denton, Maryland

Statement of Net Assets

June 30, 2010

	Governmental Activities	Business Type Activities	Total Reporting Unit
Assets			
Cash and cash equivalents	\$ 728,991	\$ 135,391	\$ 864,382
Receivables (net of allowance for uncollectibles)	364,208	304,625	668,833
Loans receivable	940,959	-	940,959
Internal balances	18,543	(18,543)	-
Land held for resale	366,520	455,171	821,691
Land	572,510	-	572,510
Construction in progress	1,335,553	650,122	1,985,675
Other capital assets, net of accumulated depreciation	8,610,032	8,198,944	16,808,976
Total assets	12,937,316	9,725,710	22,663,026
Liabilities			
Accounts payable and other current liabilities	140,795	56,973	197,768
Long-term liabilities:			
Due within one year	121,018	134,078	255,096
Due in more than one year	2,128,748	2,527,863	4,656,611
Total liabilities	2,390,561	2,718,914	5,109,475
Net assets			
Invested in capital assets, net of related debt	8,391,856	6,608,383	15,000,239
Unrestricted	2,154,899	398,413	2,553,312
Total net assets	\$ 10,546,755	\$ 7,006,796	\$ 17,553,551

The notes to the financial statements are an integral part of this statement.

Town of Denton, Maryland

Statement of Activities
Year Ended June 30, 2010

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating	Capital	Primary Government		
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 504,533	\$ 34,358	\$ 487	\$ 3,462	\$ (466,226)	\$ -	\$ (466,226)
Public safety	1,820,452	91,212	60,594	-	(1,668,646)	-	(1,668,646)
Public works	468,144	19,950	-	8,093	(440,101)	-	(440,101)
Recreation and culture	150,061	7,550	19,882	-	(122,629)	-	(122,629)
Urban development and housing	188,451	648	14,347	408,919	235,463	-	235,463
Economic development	52,815	3,896	-	-	(48,919)	-	(48,919)
Interest on long-term debt	81,758	-	-	-	(81,758)	-	(81,758)
Retirement payment	14,461	-	-	-	(14,461)	-	(14,461)
Total governmental activities	<u>3,280,675</u>	<u>157,614</u>	<u>95,310</u>	<u>420,474</u>	<u>(2,607,277)</u>	<u>-</u>	<u>(2,607,277)</u>
Business-type activities:							
Water	533,355	455,059	-	-	-	(78,296)	(78,296)
Sewer	1,013,645	771,029	-	150,418	-	(92,198)	(92,198)
Industrial park	618	-	-	-	-	(618)	(618)
Total business-type activities	<u>1,547,618</u>	<u>1,226,088</u>	<u>-</u>	<u>150,418</u>	<u>-</u>	<u>(171,112)</u>	<u>(171,112)</u>
Total primary government	<u>\$ 4,828,293</u>	<u>\$ 1,383,702</u>	<u>\$ 95,310</u>	<u>\$ 570,892</u>	<u>(2,607,277)</u>	<u>(171,112)</u>	<u>(2,778,389)</u>
General revenues:							
Property taxes					2,447,130	-	2,447,130
Other taxes					211,358	-	211,358
Interest income					47,778	4,086	51,864
Miscellaneous income					51,038	-	51,038
Transfers					90,554	(90,554)	-
Total general revenues and transfers					<u>2,847,858</u>	<u>(86,468)</u>	<u>2,761,390</u>
Change in net assets					240,581	(257,580)	(16,999)
Net assets - beginning					10,242,664	7,264,376	17,507,040
Prior period adjustment					63,510	-	63,510
Net assets - adjusted beginning					<u>10,306,174</u>	<u>7,264,376</u>	<u>17,570,550</u>
Net assets - ending					<u>\$ 10,546,755</u>	<u>\$ 7,006,796</u>	<u>\$ 17,553,551</u>

The notes to the financial statements are an integral part of this statement.

Town of Denton, Maryland

**Balance Sheet
Governmental Funds
June 30, 2010**

	General	Special Projects	Business Loan	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 162,740	\$ -	\$ 457,019	\$ 109,232	\$ 728,991
Receivables:					
Taxes	58,985	-	-	-	58,985
Loans	-	-	969,498	-	969,498
Other receivables	8,296	-	449	-	8,745
Due from other funds	215,175	-	-	-	215,175
Due from other governments	67,417	207,468	-	21,593	296,478
Total assets	<u>\$ 512,613</u>	<u>\$ 207,468</u>	<u>\$ 1,426,966</u>	<u>\$ 130,825</u>	<u>\$ 2,277,872</u>
Liabilities and fund balances					
Liabilities:					
Accounts payable and accrued expenses	\$ 122,734	\$ 10,841	\$ -	\$ 7,220	\$ 140,795
Deferred revenue	26,954	-	957,794	-	984,748
Due to other funds	-	96,831	-	99,801	196,632
Total liabilities	<u>149,688</u>	<u>107,672</u>	<u>957,794</u>	<u>107,021</u>	<u>1,322,175</u>
Fund balances:					
Unreserved:					
Designated	-	99,796	469,172	23,804	592,772
Undesignated	362,925	-	-	-	362,925
Total fund balances	<u>362,925</u>	<u>99,796</u>	<u>469,172</u>	<u>23,804</u>	<u>955,697</u>
Total liabilities and fund balances	<u>\$ 512,613</u>	<u>\$ 207,468</u>	<u>\$ 1,426,966</u>	<u>\$ 130,825</u>	<u>\$ 2,277,872</u>

The notes to the financial statements are an integral part of this statement.

Town of Denton, Maryland
Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Assets
June 30, 2010

Amounts reported for governmental activities in the statement of net assets are different because:

Ending fund balance - governmental funds	\$ 955,697
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	10,518,095
Other long-term revenues are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	1,259,219
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(2,249,766)
Prior period adjustment to beginning net assets	<u>63,510</u>
Net assets of governmental activities	<u>\$ 10,546,755</u>

The notes to the financial statements are an integral part of this statement.

Town of Denton, Maryland

Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 Year Ended June 30, 2010

	General	Special Projects	Business Loan	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 2,604,302	\$ -	\$ -	\$ 27,232	\$ 2,631,534
Licenses and permits	27,307	-	-	32,469	59,776
Revenue from other agencies	113,926	441,644	-	16,803	572,373
Service charges	15,417	-	-	-	15,417
Miscellaneous	57,764	18,001	245,431	11,773	332,969
Total revenues	<u>2,818,716</u>	<u>459,645</u>	<u>245,431</u>	<u>88,277</u>	<u>3,612,069</u>
Expenditures					
Current:					
General government	511,466	-	-	-	511,466
Public safety	1,744,147	-	-	-	1,744,147
Public works	322,236	-	-	217,188	539,424
Recreation and culture	67,026	-	-	-	67,026
Urban development and housing	101,447	512,563	118,171	-	732,181
Economic development	-	6,843	-	-	6,843
Debt service	95,164	-	31,837	77,784	204,785
Retirement payment	14,461	-	-	-	14,461
Total expenditures	<u>2,855,947</u>	<u>519,406</u>	<u>150,008</u>	<u>294,972</u>	<u>3,820,333</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(37,231)</u>	<u>(59,761)</u>	<u>95,423</u>	<u>(206,695)</u>	<u>(208,264)</u>
Other financing sources (uses)					
Loan proceeds	155,000	-	90,000	-	245,000
Operating transfers in (out)	(72,522)	128,691	(10,000)	44,385	90,554
Total other financing sources (uses)	<u>82,478</u>	<u>128,691</u>	<u>80,000</u>	<u>44,385</u>	<u>335,554</u>
Net change in fund balances	<u>45,247</u>	<u>68,930</u>	<u>175,423</u>	<u>(162,310)</u>	<u>127,290</u>
Fund balance - beginning	<u>317,678</u>	<u>30,866</u>	<u>293,749</u>	<u>186,114</u>	<u>828,407</u>
Fund balance - ending	<u>\$ 362,925</u>	<u>\$ 99,796</u>	<u>\$ 469,172</u>	<u>\$ 23,804</u>	<u>\$ 955,697</u>

The notes to the financial statements are an integral part of this statement.

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, 2010

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

Net change in fund balances - total governmental funds	\$	127,290
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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		520,784
Depreciation expense		(426,954)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		137,084
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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 and change in compensated absences		(240,650)
Repayment of principal on long-term debt		123,027

Change in net assets of governmental activities	\$	<u>240,581</u>
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The notes to the financial statements are an integral part of this statement.

Town of Denton, Maryland

**Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
Year Ended June 30, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
Taxes:				
Real estate tax	\$ 2,264,795	\$ 2,264,795	\$ 2,302,498	\$ 37,703
Railroad and public utilities Corporation	74,000	74,000	66,633	(7,367)
Tax interest and penalties	95,357	95,357	107,665	12,308
Abatements (tax)	15,730	15,730	24,747	9,017
Income tax	(63,548)	(63,548)	(81,367)	(17,819)
Admission and Amusement tax	195,880	195,880	181,569	(14,311)
Hotel tax	1,500	1,500	-	(1,500)
	2,500	2,500	2,557	57
Total taxes	<u>2,586,214</u>	<u>2,586,214</u>	<u>2,604,302</u>	<u>18,088</u>
Licenses and permits:				
Traders license	10,000	10,000	10,048	48
Building and sign permits	25,000	25,000	14,922	(10,078)
Other licenses and permits	10,000	10,000	2,337	(7,663)
Total licenses and permits	<u>45,000</u>	<u>45,000</u>	<u>27,307</u>	<u>(17,693)</u>
Revenue from Other Agencies:				
State police aid	64,197	64,197	51,617	(12,580)
County Police Safety Grant	4,000	4,000	-	(4,000)
Critical areas	1,000	1,000	1,504	504
Other county revenue	-	-	5,978	5,978
Other state revenue	2,490	2,490	54,827	52,337
Total revenue from other agencies	<u>71,687</u>	<u>71,687</u>	<u>113,926</u>	<u>42,239</u>
Service charges:				
Parking fines/meter income	11,075	11,075	15,417	4,342
Miscellaneous Income:				
Cable TV franchise fees	19,578	19,578	20,303	725
Water tower/land rental	-	-	10,425	10,425
Interest income	11,650	11,650	985	(10,665)
Insurance claims	-	-	8,052	8,052
Miscellaneous income	5,545	5,545	17,985	12,440
Post card income	-	-	14	14
Total miscellaneous income	<u>36,773</u>	<u>36,773</u>	<u>57,764</u>	<u>20,991</u>
Total revenues	<u>2,750,749</u>	<u>2,750,749</u>	<u>2,818,716</u>	<u>67,967</u>

The notes to the financial statements are an integral part of this statement.

Town of Denton, Maryland

**Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
Year Ended June 30, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures				
General Government:				
General administration:				
Salaries	\$ 32,298	\$ 32,298	\$ 39,530	\$ (7,232)
Other operating expenses	25,904	25,904	22,164	3,740
	<u>58,202</u>	<u>58,202</u>	<u>61,694</u>	<u>(3,492)</u>
Legislative:				
Salaries	15,600	15,600	15,350	250
Other operating expenses	60,236	60,236	78,896	(18,660)
	<u>75,836</u>	<u>75,836</u>	<u>94,246</u>	<u>(18,410)</u>
Elections:				
Salaries	45	45	45	-
Other operating expenses	1,950	1,950	1,244	706
	<u>1,995</u>	<u>1,995</u>	<u>1,289</u>	<u>706</u>
Financial Administration:				
Salaries	115,401	115,401	119,104	(3,703)
Other operating expenses	74,730	74,730	65,919	8,811
Capital outlay	4,500	4,500	-	4,500
	<u>194,631</u>	<u>194,631</u>	<u>185,023</u>	<u>9,608</u>
Municipal Building:				
Other operating expenses	11,350	11,350	7,536	3,814
Capital outlay	25,000	25,000	161,678	(136,678)
	<u>36,350</u>	<u>36,350</u>	<u>169,214</u>	<u>(132,864)</u>
Total general government	<u>367,014</u>	<u>367,014</u>	<u>511,466</u>	<u>(144,452)</u>
Public Safety:				
Police Department:				
Salaries	705,246	705,246	723,802	(18,556)
Other operating expenses	530,809	530,809	554,416	(23,607)
Capital outlay	45,000	45,000	-	45,000
	<u>1,281,055</u>	<u>1,281,055</u>	<u>1,278,218</u>	<u>2,837</u>
Volunteer Fire Company:				
Other operating expenses	95,500	95,500	95,000	500
Zoning, Codes & Inspection:				
Salaries	204,995	204,995	218,559	(13,564)
Other operating expenses	169,559	169,559	152,370	17,189
Capital outlay	1,500	1,500	-	1,500
	<u>376,054</u>	<u>376,054</u>	<u>370,929</u>	<u>5,125</u>
Total public safety	<u>1,752,609</u>	<u>1,752,609</u>	<u>1,744,147</u>	<u>8,462</u>

The notes to the financial statements are an integral part of this statement.

Town of Denton, Maryland

**Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
Year Ended June 30, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Public Works:				
Street Sanitation:				
Salaries	\$ 33,131	\$ 33,131	\$ 33,426	\$ (295)
Other operating expenses	43,234	43,234	50,009	(6,775)
Capital outlay	3,000	3,000	-	3,000
	<u>79,365</u>	<u>79,365</u>	<u>83,435</u>	<u>(4,070)</u>
Street lighting	69,072	69,072	75,049	(5,977)
Trash collection	160,205	160,205	163,356	(3,151)
Mosquito spraying	1,000	1,000	396	604
	<u>309,642</u>	<u>309,642</u>	<u>322,236</u>	<u>(12,594)</u>
Recreation and Culture:				
Parks and recreation:				
Salaries	19,730	19,730	25,193	(5,463)
Other operating expenses	41,869	41,869	37,145	4,724
	<u>61,599</u>	<u>61,599</u>	<u>62,338</u>	<u>(739)</u>
Tennis courts:				
Other operating expenses	1,400	1,400	413	987
Summerfest:				
Other expense	5,000	5,000	4,206	794
Wheeler Park:				
Project Costs	-	-	69	(69)
	<u>67,999</u>	<u>67,999</u>	<u>67,026</u>	<u>973</u>
Urban Development and Housing:				
Community development:				
Other operating expenses	100,000	100,000	101,447	(1,447)
	<u>100,000</u>	<u>100,000</u>	<u>101,447</u>	<u>(1,447)</u>
Debt service	98,479	98,479	95,164	3,315
Retirement payment	13,772	13,772	14,461	(689)
	<u>2,709,515</u>	<u>2,709,515</u>	<u>2,855,947</u>	<u>(146,432)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>41,234</u>	<u>41,234</u>	<u>(37,231)</u>	<u>(78,465)</u>

The notes to the financial statements are an integral part of this statement.

Town of Denton, Maryland

**Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
Year Ended June 30, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Other Financing Sources (Uses)				
Loan proceeds	\$ 30,000	\$ 30,000	\$ 155,000	\$ 125,000
Operating transfers in (out)	(64,520)	(64,520)	(72,522)	(8,002)
Total other financing sources (uses)	<u>(34,520)</u>	<u>(34,520)</u>	<u>82,478</u>	<u>116,998</u>
Net change in fund balances	6,714	6,714	45,247	38,533
Fund balance - beginning	<u>1,286</u>	<u>1,286</u>	<u>317,678</u>	<u>316,392</u>
Fund balance - ending	<u>\$ 8,000</u>	<u>\$ 8,000</u>	<u>\$ 362,925</u>	<u>\$ 354,925</u>

The notes to the financial statements are an integral part of this statement.

Town of Denton, Maryland

Statement of Net Assets
Proprietary Funds
June 30, 2010

	Enterprise Funds			
	Water Fund	Sewer Fund	Industrial Park Fund	Total
Assets				
Current assets				
Cash and cash equivalents	\$ -	\$ 126,167	\$ 9,224	\$ 135,391
Receivables:				
Service charges	92,895	164,901	-	257,796
Notes receivable	-	-	24,232	24,232
Other	8,166	14,431	-	22,597
Due from other funds	-	517,759	-	517,759
Total current assets	101,061	823,258	33,456	957,775
Noncurrent assets				
Land held for resale	-	-	455,171	455,171
Land	-	-	-	-
Construction in progress	95,178	554,944	-	650,122
Capital assets, net	1,278,230	6,920,714	-	8,198,944
Total noncurrent assets	1,373,408	7,475,658	455,171	9,304,237
Total assets	1,474,469	8,298,916	488,627	10,262,012
Liabilities				
Current liabilities				
Accounts payable and accrued expenses	22,371	34,602	-	56,973
Due to other funds	517,759	-	18,543	536,302
Notes payable	5,372	128,706	-	134,078
cash equivalents	-	-	-	-
Total current liabilities	545,502	163,308	18,543	727,353
Noncurrent liabilities				
Accrued vacation and sick leave	18,245	34,163	-	52,408
Bonds and notes payable	483,382	1,623,223	368,850	2,475,455
Total noncurrent liabilities	501,627	1,657,386	368,850	2,527,863
Total liabilities	1,047,129	1,820,694	387,393	3,255,216
Net assets				
Capital assets net of related debt	884,654	5,723,729	-	6,608,383
Unrestricted (deficit)	(457,314)	754,493	101,234	398,413
Total net assets	\$ 427,340	\$ 6,478,222	\$ 101,234	\$ 7,006,796

The notes to the financial statements are an integral part of this statement.

Town of Denton, Maryland
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2010

	Enterprise Funds			Total
	Water Fund	Sewer Fund	Industrial Park Fund	
Operating revenues				
Charges for services, net	\$ 372,629	\$ 617,580	\$ -	\$ 990,209
Vacant lots/MD313 special assessments	-	10,768	-	10,768
Other revenues	26,930	63,431	-	90,361
Total operating revenues	<u>399,559</u>	<u>691,779</u>	<u>-</u>	<u>1,091,338</u>
Operating expenses				
Salaries and wages	191,312	252,726	-	444,038
Fringe Benefits	93,072	153,416	-	246,488
Materials and supplies	51,416	8,372	-	59,788
Electric and telephone	18,031	2,328	-	20,359
Automotive expenses	9,594	15,845	-	25,439
Professional services	11,165	9,886	-	21,051
Repairs and maintenance	20,356	14,603	-	34,959
Depreciation	46,569	293,400	-	339,969
Miscellaneous	70,314	244,306	618	315,238
Total operating expenses	<u>511,829</u>	<u>994,882</u>	<u>618</u>	<u>1,507,329</u>
Operating loss	<u>(112,270)</u>	<u>(303,103)</u>	<u>(618)</u>	<u>(415,991)</u>
Nonoperating revenue (expense)				
Connection fees	55,500	79,250	-	134,750
Interest income	3,442	594	50	4,086
Interest expense	(21,526)	(18,763)	-	(40,289)
cash equivalents	-	-	-	-
Total nonoperating revenue (expense)	<u>37,416</u>	<u>61,081</u>	<u>50</u>	<u>98,547</u>
Income (loss) before transfers and capital contributions	<u>(74,854)</u>	<u>(242,022)</u>	<u>(568)</u>	<u>(317,444)</u>
Capital contributions	-	150,418	-	150,418
Transfers in	56,000	17,317	-	73,317
Transfers out	(17,817)	(146,054)	-	(163,871)
Change in net assets	<u>(36,671)</u>	<u>(220,341)</u>	<u>(568)</u>	<u>(257,580)</u>
Total net assets - beginning	<u>464,011</u>	<u>6,698,563</u>	<u>101,802</u>	<u>7,264,376</u>
Total net assets - ending	<u>\$ 427,340</u>	<u>\$ 6,478,222</u>	<u>\$ 101,234</u>	<u>\$ 7,006,796</u>

The notes to the financial statements are an integral part of this statement.

Town of Denton, Maryland

Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2010

	Enterprise Funds			Total
	Water Fund	Sewer Fund	Industrial Park Fund	
Operating activities				
Cash received from customers	\$ 371,165	\$ 683,761	\$ 2,170	\$ 1,057,096
Cash paid to vendors	(169,244)	(292,610)	(847)	(462,701)
Cash paid to employees	(285,254)	(403,119)	-	(688,373)
Net cash provided by (used in) operating activities	<u>(83,333)</u>	<u>(11,968)</u>	<u>1,323</u>	<u>(93,978)</u>
Noncapital financing activities				
Operating transfers in (out)	<u>63,939</u>	<u>(154,493)</u>	<u>-</u>	<u>(90,554)</u>
Capital and related financing activities				
Connection fees	55,500	79,250	-	134,750
Interest paid	(21,526)	(18,763)	-	(40,289)
Payment on notes payable	(5,022)	(127,537)	-	(132,559)
Acquisition of capital assets	(13,000)	(181,995)	-	(194,995)
Net cash provided by (used in) capital and related financing activities	<u>15,952</u>	<u>(98,627)</u>	<u>-</u>	<u>(82,675)</u>
Investing activities				
Interest received	<u>3,442</u>	<u>594</u>	<u>50</u>	<u>4,086</u>
Net increase (decrease) in cash and cash equivalents	<u>-</u>	<u>(264,494)</u>	<u>1,373</u>	<u>(263,121)</u>
Cash and cash equivalents				
Beginning of year	<u>-</u>	<u>390,661</u>	<u>7,851</u>	<u>398,512</u>
End of year	<u>\$ -</u>	<u>\$ 126,167</u>	<u>\$ 9,224</u>	<u>\$ 135,391</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating loss	\$ (112,270)	\$ (303,103)	\$ (618)	\$ (415,991)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation expense	46,569	293,400	-	339,969
Change in assets and liabilities				
(Increase) decrease in accounts receivable	(28,394)	(8,018)	-	(36,412)
(Increase) decrease in notes receivable	-	-	2,170	2,170
Increase (decrease) in accounts payable and accrued expenses	10,762	5,753	(229)	16,286
Total adjustments	<u>28,937</u>	<u>291,135</u>	<u>1,941</u>	<u>322,013</u>
Net cash provided by (used in) operating activities	<u>\$ (83,333)</u>	<u>\$ (11,968)</u>	<u>\$ 1,323</u>	<u>\$ (93,978)</u>

The notes to the financial statements are an integral part of this statement.

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2010

Note 1 - Summary of significant accounting policies

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

As required by accounting principles generally accepted in the United States of America, these financial statements present the Town (primary government). Component units are considered for inclusion in the Town's reporting entity because of the significance of their operational or financial relationships with the Town. Based upon these criteria, there were no organizations identified for inclusion as a component unit in the Town's financial statements.

B. Financial statement presentation

The accounting and reporting policies of the Town included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. All applicable GASB Statements have been implemented including GASB Statement No. 34 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, which the Town was required to implement effective fiscal year ended June 30, 2004.

Government-wide statements: The statement of net assets and the statement of activities report information on all of the non-fiduciary activities of the primary government. These statements include the financial activities of the overall government. For the most part, the effect of the inter-fund activity has been removed from these statements. These statements distinguish between the *governmental* and *business-type activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been eliminated for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund financial statements: The accounts of the Town are organized on the basis of funds, each of which is considered to be a separate accounting entity. Each fund is a separate set of self-balancing accounts that consists of assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The various fund categories and fund types presented in the financial statements are described in the following:

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2010

Note 1 - Summary of significant accounting policies (continued)

B. Financial statement presentation (concluded)

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 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 Highway Fund, Special Projects Fund and Business Loan Fund. The Highway Fund accounts for various highway improvement projects of the Town. The Special Projects Fund accounts for various economic, urban, and housing development projects of the Town. The Business Loan Fund accounts for loans made to various businesses for economic development of the Town.

Capital projects fund accounts for other general capital improvement projects of the Town. The Town has a Capital Improvement Fund to account for capital 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 consist of the Water, Sewer, and Industrial Park Enterprise Funds. The Water and Sewer Funds account for water and sewer services provided in the Town. The Industrial Park Fund accounts for parcels of land purchased by the Town for future development and sale to private businesses of the Town.

The total enterprise fund columns in the proprietary fund statement of net assets and activities are essentially equal to the business-type activity column in the government wide statements.

C. Basis of accounting

1. 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.

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2010

Note 1 - Summary of significant accounting policies (continued)

C. Basis of accounting (concluded)

2. 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 government 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 billed, 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.
3. Proprietary fund financial statements are reported using the accrual basis of accounting. Under the accrual method, 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. The Town has adopted GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting* which establishes uniform accounting and financial reporting guidelines for proprietary funds. The Town has elected to apply all GASB Statements, and all Financial Accounting Standards Board (FASB) statements issued on or before November 30, 1989, except those that conflict with the GASB.

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.

4. The Town reports the following major governmental funds: the *General Fund*, *Special Projects Fund*, and *Business Loan Fund*. The Town reports the following major proprietary funds: the *Water Fund*, *Sewer Fund*, and *Industrial Park Fund*.

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.

**Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2010**

Note 1 - Summary of significant accounting policies (continued)

D. Budgets, budgetary accounting (concluded)

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 accounting principles generally accepted in the United States of America (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. For fiscal year 2010, there were no amendments to the budget.
9. For the year ended June 30, 2010, General Fund expenditures exceeded the amended budget by \$146,088.

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, 2010.

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.

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.

**Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2010**

Note 1 - Summary of significant accounting policies (continued)

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 GASB Statement No. 34, 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.

K. Net assets / fund equity

Net Assets in government-wide and proprietary financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent 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.

**Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2010**

Note 1 - Summary of significant accounting policies (continued)

K. Net assets / fund equity (concluded)

In the fund financial statements, Town funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. As of June 30, 2010, the Highway Fund had a deficit fund balance of \$85,428.

Note 2 – Deposits and investments

Deposits

At year end the carrying value of the Town's deposits with banks and financial institutions was \$342,861 and the bank balance was \$375,550. Of this bank balance, \$327,526 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, 2010 the Town's deposit and investment balances were as follows:

	Fair Value
Maryland Local Government Investment Pool	\$ 521,021
Deposits	342,861
Cash on hand	500
Total deposits and investments	\$ 864,382

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.

**Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2010**

Note 4 – Accounts Receivable

Accounts receivable at June 30, 2010 consist of the following:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Local:		
Taxes	\$ 58,985	\$ -
Service charges	-	257,796
Notes	-	24,232
Other	8,745	22,597
State of Maryland:		
Income tax	52,301	-
Gasoline tax	13,199	-
Other	23,511	-
Various federal and state grants	207,468	-
Total	<u>\$ 364,208</u>	<u>\$ 304,625</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, 2010, were as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 215,175	\$ -
Highway Fund	-	99,801
Special Projects Fund	-	96,831
Water Fund	-	517,759
Sewer Fund	517,759	-
Industrial Park Fund	-	18,543
Total	<u>\$ 732,934</u>	<u>\$ 732,934</u>

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2010

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

Interfund transfers at June 30, 2010, were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 22,998	\$ 95,520
Special Projects Fund	147,689	18,998
Business Loan Fund	-	10,000
Highway Fund	102,520	58,135
Water Fund	56,000	17,817
Sewer Fund	17,317	146,054
Total	<u>\$ 346,524</u>	<u>\$ 346,524</u>

Note 6 – Capital assets

	<u>Balances</u> <u>June 30, 2009</u>	<u>Additions /</u> <u>Transfers In</u>	<u>Deletions /</u> <u>Transfers Out</u>	<u>Balances</u> <u>June 30, 2010</u>
Governmental activities:				
Nondepreciable capital assets:				
Land	\$ 572,510	-	-	\$ 572,510
Construction in progress	1,032,073	303,480	-	1,335,553
Total nondepreciable capital assets	<u>1,604,583</u>	<u>303,480</u>	<u>-</u>	<u>1,908,063</u>
Depreciable capital assets:				
Land improvements	1,363,135	44,815	-	1,407,950
Buildings	2,576,187	160,079	-	2,736,266
Infrastructure	7,197,838	-	-	7,197,838
Furniture and equipment	325,274	-	-	325,274
Vehicles	616,003	12,410	(13,006)	615,407
Total depreciable capital assets	<u>12,078,437</u>	<u>217,304</u>	<u>(13,006)</u>	<u>12,282,735</u>
Less-accumulated depreciation				
Land improvements	(545,987)	(80,162)		(626,149)
Buildings	(784,170)	(66,540)		(850,710)
Infrastructure	(1,233,607)	(192,446)		(1,426,053)
Furniture and Equipment	(277,118)	(16,816)		(293,934)
Vehicles	(417,873)	(70,990)	13,006	(475,857)
Total accumulated depreciation	<u>(3,258,755)</u>	<u>(426,954)</u>	<u>13,006</u>	<u>(3,672,703)</u>
Total depreciable capital assets, net	<u>8,819,682</u>	<u>(209,650)</u>	<u>-</u>	<u>8,610,032</u>
Governmental activities capital assets, net	<u>\$ 10,424,265</u>	<u>\$ 93,830</u>	<u>\$ -</u>	<u>\$ 10,518,095</u>

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2010

Note 6 – Capital assets (continued)

	<u>Balances</u> <u>June 30, 2009</u>	<u>Additions /</u> <u>Transfers In</u>	<u>Deletions /</u> <u>Transfers Out</u>	<u>Balances</u> <u>June 30, 2010</u>
Business-type activities:				
Nondepreciable capital assets:				
Construction in progress	\$ 491,305	\$ 158,817	\$ -	\$ 650,122
Total nondepreciable capital assets	<u>491,305</u>	<u>158,817</u>	<u>-</u>	<u>650,122</u>
Depreciable capital assets:				
Municipal water system	2,324,833	-	-	2,324,833
Municipal sewer system	11,846,563	-	-	11,846,563
Machinery and equipment	252,668	36,178	(33,854)	254,992
Total depreciable capital assets	<u>14,424,064</u>	<u>36,178</u>	<u>(33,854)</u>	<u>14,426,388</u>
Less accumulated depreciation for:				
Municipal water system	(1,021,979)	(38,515)		(1,060,494)
Municipal sewer system	(4,669,839)	(279,795)		(4,949,634)
Machinery and equipment	(229,511)	(21,659)	33,854	(217,316)
Total accumulated depreciation	<u>(5,921,329)</u>	<u>(339,969)</u>	<u>33,854</u>	<u>(6,227,444)</u>
Total depreciable capital assets, net	<u>\$ 8,502,735</u>	<u>\$ (303,791)</u>	<u>\$ -</u>	<u>\$ 8,198,944</u>
Business-type activities capital assets, net	<u>\$ 8,994,040</u>	<u>\$ (144,974)</u>	<u>\$ -</u>	<u>\$ 8,849,066</u>

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

Governmental activities:	
General government	\$ 4,070
Public safety	80,868
Public works	83,065
Recreation and culture	96,414
Urban development and housing	110,495
Economic development	52,042
	<u>\$ 426,954</u>
Business-type activities:	
Water	\$ 46,569
Sewer	293,400
	<u>\$ 339,969</u>

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2010

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 of the Town at June 30, 2010 are as follows:

Governmental activities:

State notes and bonds:	<u>Amount</u>
\$265,000 issued, Town contractual share of Caroline County CDA Bonds, due in annual installments through May 2017, interest at 5.52%	\$ 126,958
\$20,000 issued, Community Legacy Program Note, entire principal amount due December 2011, no interest	20,000
\$266,950 issued, Series 2008 Maryland Public Improvement Bonds, due in annual installments through June 30, 2047, interest at 4.38%	<u>260,880</u>
Total state notes and bonds	<u>407,838</u>

Installment notes:

\$81,000 installment note payable, due in monthly payments of \$454 until February 2013, interest at 4.615%	64,695
\$55,000 installment note payable, due in monthly payments of \$343 until January 2013, interest at 5.80%	44,090
\$72,249 installment note payable, due in annual payments of \$9,725 until January 2013, interest at 3.96%	26,795
\$50,167 installment note payable, due in monthly payments of \$924 until August 2010, interest at 3.95%	2,506
\$155,000 installment note payable, split with the business-type activities, due in annual payments of \$12,382 until July 2031 at 5.10%	155,000

**Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2010**

Note 7 - Long-term obligations (continued)

Governmental activities (continued):

Installment notes (continued):

\$29,945 installment note payable, due in monthly payments of \$562 until October 2011, interest at 4.74%

	Amount
	\$ 8,691

\$30,000 installment note payable, due in monthly payments of \$685 until August 2011, interest at 4.58%

	9,327
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Total installment notes

	311,104
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Federal notes and loans:

\$750,000 police facility loan, issued by the USDA, due in monthly payments of \$3,495 until September 2043, interest at 4.75%

	707,885
--	---------

\$750,000 intermediary relending program note, issued by the USDA, of which \$150,000 was drawn down, interest at 1%

	136,365
--	---------

Intermediary relending program note, issued by the USDA, of which \$130,000 was drawn down, interest at 5%

	123,186
--	---------

Intermediary relending program note, issued by the USDA, of which \$150,000 was drawn down, interest at 5%

	144,862
--	---------

Intermediary relending program note, issued by the USDA, of which \$170,000 was drawn down, interest at 3%

	137,387
--	---------

Intermediary relending program note, issued by the USDA, of which \$90,000 was drawn down, interest at 5%

	89,239
--	--------

Total federal notes and loans

	1,338,924
--	-----------

Capital Leases:

\$102,981 lease for highway maintenance equipment, due in monthly installments of \$1,721 through May 2013, interest at 4.20%

	56,593
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\$16,343 lease for police vehicle, due in monthly installments of \$301 through December 2016, interest at 3.98%

	11,780
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Total governmental activities

	\$ 2,126,239
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**Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2010**

Note 7 - Long-term obligations (continued)

Business-type activities:

General obligation notes:

State of Maryland:

\$500,000 issued, Series 2008 Maryland Public Improvement Bonds, due in annual installments through June 30, 2047, interest at 4.38%	\$	488,754
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\$62,000 issued September 23, 1980, due in annual installments of \$4,672 including interest at 6.1%, through October 2010.		4,379
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\$52,775 issued May, 15, 1981, due in annual installments of \$3,977 including interest at 6.1% through May 2011.		3,725
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\$28,000 issued June 30, 1981, due in annual installments of \$2,110 including interest at 6.1%, through June 2011.		1,988
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\$2,332,577 issued September 23, 2004, due in semi-annual installments of \$121,589 including interest at 0.4% through February 2024.		1,652,292
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\$140,000, Rural Development Loan due in quarterly installments of \$1,892 including interest at 4.5%, through September 2027.		89,545
--	--	--------

		<u>2,240,683</u>
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Other notes:

State of Maryland:

\$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>
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Total proprietary funds		<u>2,609,533</u>
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Total long-term debt	\$	<u><u>4,735,772</u></u>
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Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2010

Note 7 - Long-term obligations (continued)

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

Year Ended June 30	Governmental Activities					
	State Notes & Bonds		Installment Notes		Federal Notes and Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	38,211	18,541	34,164	14,990	26,818	57,017
2012	19,476	17,569	21,608	13,691	27,836	55,999
2013	20,747	16,529	18,595	12,838	28,899	54,936
2014	21,455	15,403	9,964	11,988	30,009	53,826
2015	22,737	14,233	10,480	11,472	31,167	52,668
2016-2020	59,517	54,879	61,425	48,639	175,085	244,089
2021-2025	24,266	46,459	78,698	31,068	212,802	206,372
2026-2030	30,187	40,538	70,646	10,678	240,834	159,676
2031-2035	37,552	33,172	5,523	91	232,255	107,385
2036-2040	46,716	24,007	-	-	151,921	64,693
2041-2045	58,119	12,839	-	-	181,297	26,693
2046-2050	28,855	1,250	-	-	-	-
Total	\$ 407,838	\$ 295,419	\$ 311,104	\$ 155,454	\$ 1,338,924	\$ 1,083,352

Year Ended June 30	Business-type Activities			
	General Obligation Notes		Other Notes	
	Principal	Interest	Principal	Interest
2011	134,078	-	-	-
2012	124,853	-	-	-
2013	125,738	-	-	-
2014	126,646	-	-	-
2015	127,574	-	-	-
2016-2020	652,639	-	368,850	-
2021-2025	558,128	-	-	-
2026-2030	70,118	-	-	-
2031-2035	70,335	-	-	-
2036-2040	87,499	-	-	-
2041-2045	108,852	-	-	-
2046-2050	54,223	-	-	-
Total	\$ 2,240,683	\$ -	\$ 368,850	\$ -

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2010

Note 7 - Long-term obligations (continued)

Capital leases

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

2011	\$ 24,261
2012	24,266
2013	22,547
2014	<u>1,806</u>
Total	72,880
Less interest	<u>4,507</u>
Net	<u>\$ 68,373</u>

The following is a summary of changes in long-term liabilities of the Town for the year ended June 30, 2010:

	Balance June 30, 2009	Addition	Reductions	Balance June 30, 2010	Due Within One Year
Governmental activities:					
State notes and bonds	\$ 444,248	\$ -	\$ (36,410)	\$ 407,838	38,211
Installment note	196,194	155,000	(40,090)	311,104	34,164
Federal loans and notes	1,273,762	90,000	(24,838)	1,338,924	26,818
Capital lease	89,308	-	(20,935)	68,373	21,825
Compensated absences	127,877	-	(4,350)	123,527	-
Total	<u>\$ 2,131,389</u>	<u>\$ 245,000</u>	<u>\$ (126,623)</u>	<u>\$ 2,249,766</u>	<u>\$ 121,018</u>
Business-type activities:					
Notes and bonds	\$ 2,742,214	\$ -	\$ (132,681)	\$ 2,609,533	\$ 134,078
Compensated absences	50,255	2,152	-	52,407	-
Total	<u>\$ 2,792,469</u>	<u>\$ 2,152</u>	<u>\$ (132,681)</u>	<u>\$ 2,661,940</u>	<u>\$ 134,078</u>

Operating leases

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

2011	\$ 12,134
2012	12,134
2013	12,134
2014	12,134
2015	<u>8,763</u>
Total	<u>\$ 57,299</u>

**Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2010**

Note 8 – Conduit debt

The Town has issued economic development revenue bonds pursuant to the Maryland Economic Development Revenue Bond Act. All responsibility for the payment of this debt rests with the Borrower. The Town, as issuer, has no responsibility for the payment of this debt. The amount outstanding at June 30, 2010 is as follows:

<u>Description</u>	<u>Original issue</u>	<u>Outstanding, June 30, 2010</u>
Caroline Nursing/the Gables, series 1999	\$ 2,750,000	\$ 1,952,871
Channel Markers Foundation, series 2001	628,200	7,772

Note 9 - 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.

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 5% 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 2010 was based on the salaries for the year ended June 30, 2009. 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 \$185,634 in fiscal year 2010. Annual payments in future years will increase by 5% per year through December 2020.

Contributions for the fiscal year ended June 30, 2010 and two preceding years were equal to the actuarially determined amounts as follows:

	June 30 <u>2010</u>	June 30 <u>2009</u>	June 30 <u>2008</u>
Total covered payroll	\$1,495,136	\$1,293,270	\$1,158,789
Employer normal contributions	113,331	95,314	93,795
Employer special accrued liability	72,303	68,860	65,581
Employer contribution percentage	100%	100%	100%

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2010

Note 9 - Retirement plan (continued)

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 10 - Risk management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. 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.

Note 11 – Subsequent Event

Subsequent to year end, the Town issued general obligation bonds in the amount of \$1,834,000 to fund the Fifth Avenue Infrastructure Improvement Project.

Town of Denton, Maryland
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2010

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Highway</u>	<u>Capital Improvement</u>	
Assets			
Cash and cash equivalents	\$ -	\$ 109,232	\$ 109,232
Due from other governments	21,593	-	21,593
Total assets	<u>\$ 21,593</u>	<u>\$ 109,232</u>	<u>\$ 130,825</u>
Liabilities and fund balances			
Liabilities:			
Accounts payable and accrued expenses	\$ 7,220	\$ -	\$ 7,220
Due to other funds	99,801	-	99,801
Total liabilities	<u>107,021</u>	<u>-</u>	<u>107,021</u>
Fund balances:			
Unreserved:			
Designated	<u>(85,428)</u>	<u>109,232</u>	<u>23,804</u>
Total fund balances (deficit)	<u>(85,428)</u>	<u>109,232</u>	<u>23,804</u>
Total liabilities and fund balances	<u>\$ 21,593</u>	<u>\$ 109,232</u>	<u>\$ 130,825</u>

Town of Denton, Maryland

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2010**

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Highway</u>	<u>Capital Improvement</u>	
Revenues			
Taxes	\$ 27,232	\$ -	\$ 27,232
Licenses and permits	-	32,469	32,469
Revenue from other agencies	16,803	-	16,803
Miscellaneous	11,589	184	11,773
Total revenues	<u>55,624</u>	<u>32,653</u>	<u>88,277</u>
Expenditures			
Current:			
Public works	217,188	-	217,188
Debt service	77,784	-	77,784
Total expenditures	<u>294,972</u>	<u>-</u>	<u>294,972</u>
Excess of revenues over expenditures	<u>(239,348)</u>	<u>32,653</u>	<u>(206,695)</u>
Other financing sources (uses)			
Operating transfers in (out)	44,385	-	44,385
Total other financing sources (uses)	<u>44,385</u>	<u>-</u>	<u>44,385</u>
Net change in fund balances	(194,963)	32,653	(162,310)
Fund balance - beginning	<u>109,535</u>	<u>76,579</u>	<u>186,114</u>
Fund balance - ending (deficit)	<u>\$ (85,428)</u>	<u>\$ 109,232</u>	<u>\$ 23,804</u>



**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

To the Council of the Town of Denton
Denton, Maryland

We have audited 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, 2010, which collectively comprise the Town's basic financial statements and have issued our report thereon dated October 21, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of 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*.

We noted certain other matters that we have reported to management of the Town in a separate letter dated October 21, 2010.

This report is intended solely for the information and use of management, the Town Council, others within the Town, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Bekaert & Holland, L.L.P.

Richmond, Virginia
October 21, 2010



**Report on Compliance With Requirements
Applicable to Each Major Program and on Internal Control
Over Compliance in Accordance With OMB Circular A-133**

To the Council of the Town of Denton
Denton, Maryland

Compliance

We have audited the compliance of the Town of Denton, Maryland (the "Town") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The Town's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the major federal program is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Town's compliance with those requirements.

In our opinion, the Town complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2010.

Internal Control Over Compliance

The management of the Town is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Town Council, others within the Town, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Bekaert & Holland, L.L.P.

Richmond, Virginia
October 21, 2010

TOWN OF DENTON, MARYLAND

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
Department of Agriculture		
Direct payment		
Rural Development		
Intermediary Relending Program	10.767	90,000
Rural Business Enterprise Grants	10.769	19,882
Department of Homeland Security		
Direct payment		
Federal Emergency Management Agency		
Disaster Grants	97.036	16,376
Department of Housing and Urban Development		
Pass-through payment		
Department of Housing and Community Development		
Community Development Block Grant		
Microenterprise Grant	14.218	150,000
North Denton Development	14.219	258,919
		\$ 535,177
Total federal awards		

Note to Schedule of Expenditures of Federal Awards - Basis of Accounting

The accompanying schedule of expenditures of federal awards is prepared on the modified accrual basis of accounting.

TOWN OF DENTON, MARYLAND

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

A. Summary of Auditors' Results

1. The type of report issued on the basic financial statements: **Unqualified opinions**
2. Significant deficiencies in internal control disclosed by the audit of the financial statements: **No**

Material weaknesses: **No**

3. Noncompliance, which is material to the financial statements: **No**
4. Significant Deficiencies in internal control over major programs: **No**

Material weaknesses: **No**

5. The type of report issued on compliance for major programs: **Unqualified opinion**
6. Any audit findings which are required to be reported under Section 510(1) of OMB Circular A-133: **No**
7. The program tested as a major program was:

<u>Name of Program</u>	<u>CFDA #</u>
Community Development Block Grants/Entitlements Grant	14.219

8. Dollar threshold to distinguish between Type A and Type B Programs: **\$300,000**
9. The Town of Denton was determined to be a low risk auditee.

B. Findings Relating to the Financial Statements Reported in Accordance with Government Auditing Standards

There are no financial statement findings to report.

C. Findings and Questioned Costs Relating to Federal Awards:

There are no federal award findings and questioned costs to report.

D. Resolution of Prior Year's Findings

There were no prior year findings noted.