

TOWN OF DENTON, MARYLAND

Financial Report

Year Ended June 30, 2011

TOWN OF DENTON, MARYLAND

Town Council

Robert L. Clendaniel, Mayor

Agnes G. Case

Conway Gregory

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, 2011, 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, 2011, 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 November 1, 2011 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 supplemental budget schedule 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 supplemental schedule 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, Bekeant & Holland, L.L.P.

Richmond, Virginia
November 1, 2011

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, 2011. 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

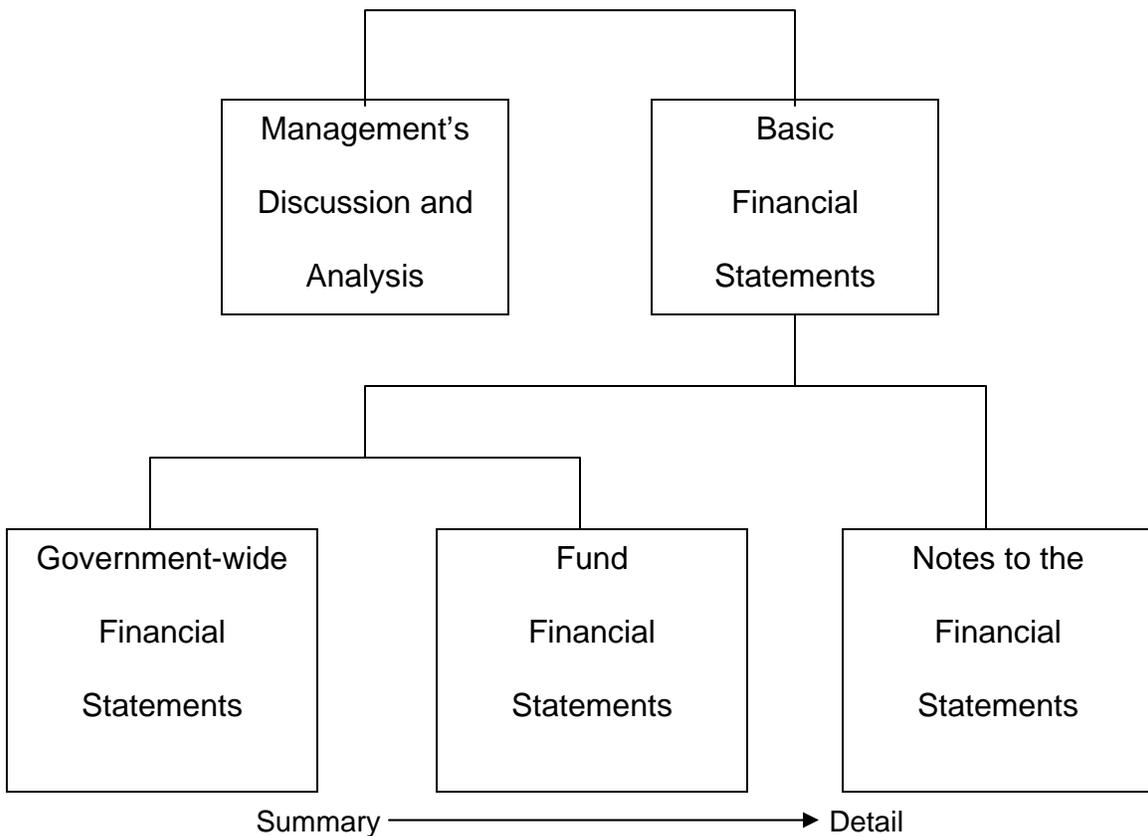
- The assets of the Town of Denton exceeded its liabilities at the close of the fiscal year by \$22,019.
- The government's total net assets increased by \$4,465, primarily due to an increase in the business type activities net assets.
- As of the close of the current fiscal year, the Town of Denton's governmental funds reported combined ending fund balances of \$1,510, an increase of \$555 during the year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$689, or 26 percent of total general fund expenditures for the fiscal year.
- The Town of Denton's total debt increased by \$1,013, or 22% 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 23-38 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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Assets						
Current and other assets	\$ 2,908	\$ 2,051	\$ 1,541	\$ 422	\$ 4,449	\$ 2,473
Capital assets	11,739	10,886	13,137	9,304	24,876	20,190
Total assets	14,647	12,937	14,678	9,726	29,325	22,663
Liabilities						
Accounts payable and other current liabilities	3,403	2,250	2,514	2,662	5,917	4,912
Long term liabilities	449	141	946	57	1,395	198
Total liabilities	3,852	2,391	3,460	2,719	7,312	5,110
Net Assets						
Invested in capital assets, net of debt	7,902	8,392	11,025	6,608	18,927	15,000
Restricted	1,310	1,307	-	-	1,310	1,307
Unrestricted	1,594	847	187	399	1,781	1,246
Total net assets	\$ 10,806	10,546	11,212	7,007	\$ 22,018	\$ 17,553

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 \$22,018 as of June 30, 2011. The Town's net assets increased by \$4,465 for the fiscal year ended June 30, 2011. 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.

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

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 145	\$ 158	\$ 1,472	\$ 1,226	\$ 1,617	\$ 1,384
Operating grants and contributions	326	95	-	-	326	95
Capital grants and contributions	606	421	3,663	150	4,269	571
General revenues:						
Property taxes	2,617	2,447	-	-	2,617	2,447
Other taxes	231	211	-	-	231	211
Other	158	99	1	4	159	103
Total revenues	<u>4,083</u>	<u>3,431</u>	<u>5,136</u>	<u>1,380</u>	<u>9,219</u>	<u>4,811</u>
Expenses:						
General government	386	505	-	-	386	505
Public safety	1,756	1,820	-	-	1,756	1,820
Public works	643	468	-	-	643	468
Recreation and culture	123	150	-	-	123	150
Urban development and housing	242	188	-	-	242	188
Economic development	-	53	-	-	-	53
Interest on long-term debt	81	82	-	-	81	82
Retirement payment	15	15	-	-	15	15
Water	-	-	489	533	489	533
Sewer	-	-	1,018	1,013	1,018	1,013
Industrial park	-	-	1	1	1	1
Total expenses	<u>3,246</u>	<u>3,281</u>	<u>1,508</u>	<u>1,547</u>	<u>4,754</u>	<u>4,828</u>
Increase (decrease) in net assets before transfers	837	150	3,628	(167)	4,465	(17)
Transfers	<u>(578)</u>	<u>91</u>	<u>578</u>	<u>(91)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	259	241	4,206	(258)	4,465	(17)
Net assets, July 1	10,547	10,242	7,006	7,264	17,553	17,506
Prior period adjustment	<u>-</u>	<u>64</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>64</u>
Net assets, June 30	<u>\$ 10,806</u>	<u>\$ 10,547</u>	<u>\$ 11,212</u>	<u>\$ 7,006</u>	<u>\$ 22,018</u>	<u>\$ 17,489</u>

Governmental activities. Governmental activities increased the Town's net assets by \$259, showing a increase of \$18 over the prior year's change in net assets. Key elements of the increase in net assets are as follows:

- Grant revenues increased \$231

Business-type activities: Business-type activities increased the Town of Denton's net assets by \$4,206, showing an increase of \$4,464 compared to prior year's change in net assets. Key elements of this increase are as follows:

- Grant revenues increased \$3,513
- Water and Sewer Charges for services increased \$246

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 by 9 from the prior year for a 0.06% increase.
- Usage rates per 1,000 gallons increased from 2.50 to 3.25 (30%) for water and 5.66 to 6.04 (6.8%) 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 unassigned fund balance in the amount of \$689. 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 26 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 \$363. A contributing factor in this increase was a decrease in expenditures and an increase in tax revenues.

At June 30, 2011, the governmental funds of the Town of Denton reported a combined fund balance of \$1,510, an increase of \$555 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 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.

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

During the FY2011 tax year the revenues increased slightly based on the tax assessments of property values. 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 will have an effect on the real estate tax revenues that will be received in FY 2012. The property values will not be reassessed again until December 2013.

The Town continues to work towards maintaining at 15% fund balance, and reduced expenditures significantly in FY 2011 to include a reduction in force. This along with the continued State of Maryland cut to the highway fund revenues by 90% and the State Police Aid by 35%, will affect 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 2011 will continue in FY 2012.

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 (\$286), \$373, and \$101, respectively. The changes in net assets for the funds were \$644, \$3,568, 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.

The Denton Utility Commission water and sewer rate study was finished in FY2010 and was used to assist in establishing a rate structure for future years. As a result the Town Council passed legislation increasing the water and sewer rates in FY2011. The water admin base fee increased from \$10.35 to \$23.00 per quarter and the sewer admin base fee increased from \$9.00 to \$23.00 a quarter. The usage rates increased as well, with water usage rates increased from \$2.50 to \$3.25 per thousand gallons and sewer usage rates increased from \$5.66 to \$6.04 per thousand gallons.

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, 2011, totals \$24,054 (net of accumulated depreciation). This amount represents a net increase of \$4,686, or 24% 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 the Waste Water Treatment Plant ENR Upgrade

- Construction in progress of the Fifth Ave Infrastructure Project replacing the existing water lines, sewer lines, sidewalks and new pavement on South Fifth Ave and surrounding side streets

The following is a summary of capital assets at June 30, 2011 and 2010:

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

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 573	\$ 573	\$ -	\$ -	\$ 573	\$ 573
Land improvements	706	782	-	-	706	782
Buildings	1,817	1,886	-	-	1,817	1,886
Infrastructure	5,861	5,772	-	-	5,861	5,772
Equipment and vehicles	157	170	47	38	204	208
Water system	-	-	1,736	1,265	1,736	1,265
Sewer system	-	-	6,982	6,897	6,982	6,897
Construction in progress	2,258	1,335	3,917	650	6,175	1,985
Total	\$ 11,372	\$ 10,518	\$ 12,682	\$ 8,850	\$ 24,054	\$ 19,368

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, 2011, the Town of Denton had total bonded debt outstanding of \$5,749. All bonded debt and notes are backed by the full faith and credit of the Town. The total bonded debt increased by \$1,013. 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 Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Bonds and notes	\$ 3,227	\$ 2,058	\$ 2,475	\$ 2,610	\$ 5,702	\$ 4,668
Capital leases	47	68	-	-	47	68
Total	\$ 3,274	\$ 2,126	\$ 2,475	\$ 2,610	\$ 5,749	\$ 4,736

New debt for the fiscal year ending June 30, 2011 resulted from a bond anticipation loan in the amount of 1,271.

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 9.0% is above the State average of 7.2% and comparable to the US average of 9.1% (as of July, 2011)
- 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 FY2011 along with additional cutbacks in the gasoline tax and police aid revenues. The reduction in State shared revenues will continue into FY2012.

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.

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Town of Denton, Maryland

Statement of Net Assets

June 30, 2011

	Governmental Activities	Business Type Activities	Total Reporting Unit
Assets			
Cash and cash equivalents	\$ 1,383,987	\$ 248,788	\$ 1,632,775
Receivables (net of allowance for uncollectibles)	562,003	1,311,086	1,873,089
Loans receivable	942,977	-	942,977
Internal balances	18,543	(18,543)	-
Land held for resale	366,520	455,171	821,691
Land	572,510	-	572,510
Construction in progress	2,258,218	3,916,590	6,174,808
Other capital assets, net of accumulated depreciation	8,542,792	8,765,484	17,308,276
Total assets	<u>14,647,550</u>	<u>14,678,576</u>	<u>29,326,126</u>
Liabilities			
Accounts payable and other current liabilities	449,310	946,509	1,395,819
Long-term liabilities:			
Due within one year	1,362,847	124,853	1,487,700
Due in more than one year	2,029,535	2,394,312	4,423,847
Total liabilities	<u>3,841,692</u>	<u>3,465,674</u>	<u>7,307,366</u>
Net assets			
Invested in capital assets, net of related debt	7,901,870	11,025,468	18,927,338
Restricted	1,309,497	-	1,309,497
Unrestricted	1,594,491	187,433	1,781,924
Total net assets	<u>\$ 10,805,858</u>	<u>\$ 11,212,901</u>	<u>\$ 22,018,759</u>

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

Town of Denton, Maryland

Statement of Activities
Year Ended June 30, 2011

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	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	\$ 386,140	\$ 33,963	\$ 487	\$ -	\$ (351,690)	\$ -	\$ (351,690)
Public safety	1,756,384	44,596	54,279	-	(1,657,509)	-	(1,657,509)
Public works	642,601	10,331	80,022	577,373	25,125	-	25,125
Recreation and culture	122,985	4,685	-	-	(118,300)	-	(118,300)
Urban development and housing	241,977	51,135	191,513	28,217	28,888	-	28,888
Interest on long-term debt	80,498	-	-	-	(80,498)	-	(80,498)
Retirement payment	15,184	-	-	-	(15,184)	-	(15,184)
Total governmental activities	<u>3,245,769</u>	<u>144,710</u>	<u>326,301</u>	<u>605,590</u>	<u>(2,169,168)</u>	<u>-</u>	<u>(2,169,168)</u>
Business-type activities:							
Water	488,404	597,923	-	-	-	109,519	109,519
Sewer	1,017,812	873,637	-	3,662,781	-	3,518,606	3,518,606
Industrial park	544	-	-	-	-	(544)	(544)
Total business-type activities	<u>1,506,760</u>	<u>1,471,560</u>	<u>-</u>	<u>3,662,781</u>	<u>-</u>	<u>3,627,581</u>	<u>3,627,581</u>
Total primary government	<u>\$ 4,752,529</u>	<u>\$ 1,616,270</u>	<u>\$ 326,301</u>	<u>\$ 4,268,371</u>	<u>(2,169,168)</u>	<u>3,627,581</u>	<u>1,458,413</u>
General revenues:							
Property taxes					2,616,949	-	2,616,949
Other taxes					231,657	-	231,657
Interest income					42,710	450	43,160
Miscellaneous income					115,029	-	115,029
Transfers					(578,074)	578,074	-
Total general revenues and transfers					<u>2,428,271</u>	<u>578,524</u>	<u>3,006,795</u>
Change in net assets					259,103	4,206,105	4,465,208
Net assets - beginning					10,546,755	7,006,796	17,553,551
Net assets - ending					<u>\$ 10,805,858</u>	<u>\$ 11,212,901</u>	<u>\$ 22,018,759</u>

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

Town of Denton, Maryland

**Balance Sheet
Governmental Funds
June 30, 2011**

	<u>General</u>	<u>Special Projects</u>	<u>Business Loan</u>	<u>Highway Fund</u>	<u>Nonmajor Fund: Capital Improvement</u>	<u>Total Governmental Funds</u>
Assets						
Cash and cash equivalents	\$ 633,936	\$ 154,208	\$ 410,487	\$ 69,159	\$ 116,197	\$ 1,383,987
Receivables:						
Taxes	35,961	-	-	-	-	35,961
Loans	-	-	942,977	-	-	942,977
Other receivables	5,493	-	853	-	-	6,346
Due from other funds	18,543	-	-	-	-	18,543
Due from other governments	104,070	1,221	-	414,405	-	519,696
Total assets	<u>\$ 798,003</u>	<u>\$ 155,429</u>	<u>\$ 1,354,317</u>	<u>\$ 483,564</u>	<u>\$ 116,197</u>	<u>\$ 2,907,510</u>
Liabilities and fund balances						
Liabilities:						
Accounts payable and accrued expenses	\$ 102,986	\$ 38,264	\$ -	\$ 308,060	\$ -	\$ 449,310
Deferred revenue	6,276	-	941,727	-	-	948,003
Total liabilities	<u>109,262</u>	<u>38,264</u>	<u>941,727</u>	<u>308,060</u>	<u>-</u>	<u>1,397,313</u>
Fund balances:						
Restricted	-	117,165	-	-	-	117,165
Committed	-	-	-	-	116,197	116,197
Assigned	-	-	412,590	175,504	-	588,094
Unassigned	688,741	-	-	-	-	688,741
Total fund balances	<u>688,741</u>	<u>117,165</u>	<u>412,590</u>	<u>175,504</u>	<u>116,197</u>	<u>1,510,197</u>
Total liabilities and fund balances	<u>\$ 798,003</u>	<u>\$ 155,429</u>	<u>\$ 1,354,317</u>	<u>\$ 483,564</u>	<u>\$ 116,197</u>	<u>\$ 2,907,510</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, 2011

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

Ending fund balance - governmental funds		\$ 1,510,197
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Land and construction in progress	2,830,728	
Depreciable assets, net	8,542,792	11,373,520
Other long-term revenues are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Land and buildings held for reale	366,520	
Deferred revenue	948,003	1,314,523
Proceeds from long term borrowing are not consider revenue for governmental activities		
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		(3,392,382)
Net assets of governmental activities		\$ 10,805,858

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
Year Ended June 30, 2011**

	<u>General</u>	<u>Special Projects</u>	<u>Business Loan</u>	<u>Highway Fund</u>	<u>Nonmajor Fund: Capital Improvement</u>	<u>Total Governmental Funds</u>
Revenues						
Taxes	\$ 2,828,923	\$ -	\$ -	\$ 19,683	\$ -	\$ 2,848,606
Licenses and permits	20,251	-	-	-	13,086	33,337
Revenue from other agencies	152,161	217,712	-	580,760	-	950,633
Service charges	17,807	-	-	-	-	17,807
Miscellaneous	48,314	17,392	91,005	371	177	157,259
Total revenues	<u>3,067,456</u>	<u>235,104</u>	<u>91,005</u>	<u>600,814</u>	<u>13,263</u>	<u>4,007,642</u>
Expenditures						
Current:						
General government	395,515	-	-	-	-	395,515
Public safety	1,673,885	-	-	-	-	1,673,885
Public works	314,943	-	-	93,793	-	408,736
Recreation and culture	50,507	-	-	-	-	50,507
Urban development and housing	95,765	8,459	105,750	-	-	209,974
Pension retirement payment	15,184	-	-	-	-	15,184
Capital outlay and projects	-	192,276	-	1,594,393	-	1,786,669
Debt service	84,713	-	31,837	67,293	-	183,843
Total expenditures	<u>2,630,512</u>	<u>200,735</u>	<u>137,587</u>	<u>1,755,479</u>	<u>-</u>	<u>4,724,313</u>
Excess (deficiency) of revenues over (under) expenditures	<u>436,944</u>	<u>34,369</u>	<u>(46,582)</u>	<u>(1,154,665)</u>	<u>13,263</u>	<u>(716,671)</u>
Other financing sources (uses)						
Transfers in	33,298	-	-	144,426	-	177,724
Note proceeds	-	-	-	1,271,171	-	1,271,171
Transfers out	(144,426)	(17,000)	(10,000)	-	(6,298)	(177,724)
Total other financing sources (uses)	<u>(111,128)</u>	<u>(17,000)</u>	<u>(10,000)</u>	<u>1,415,597</u>	<u>(6,298)</u>	<u>1,271,171</u>
Net change in fund balances	325,816	17,369	(56,582)	260,932	6,965	554,500
Fund balance - beginning	<u>362,925</u>	<u>99,796</u>	<u>469,172</u>	<u>(85,428)</u>	<u>109,232</u>	<u>955,697</u>
Fund balance - ending	<u>\$ 688,741</u>	<u>\$ 117,165</u>	<u>\$ 412,590</u>	<u>\$ 175,504</u>	<u>\$ 116,197</u>	<u>\$ 1,510,197</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, 2011**

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

Net change in fund balances - total governmental funds	\$ 554,500
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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	1,281,723
Depreciation expense	(426,298)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(8,206)
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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	(1,271,171)
Repayment of principal on long-term debt and changes in compensated absences	128,555

Change in net assets of governmental activities	<u>\$ 259,103</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, 2011**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Taxes	\$ 2,749,952	\$ 2,835,199	\$ 2,828,923	\$ (6,276)
Licenses and permits	45,000	19,300	20,251	951
Revenue from other agencies	85,174	175,442	152,161	(23,281)
Service charges	12,075	-	17,807	17,807
Miscellaneous	109,120	67,016	48,314	(18,702)
Total revenues	<u>3,001,321</u>	<u>3,096,957</u>	<u>3,067,456</u>	<u>(29,501)</u>
EXPENDITURES				
Current:				
General government	419,457	394,314	395,515	(1,201)
Public safety	1,746,405	1,665,855	1,673,885	(8,030)
Public works	343,007	314,667	314,943	(276)
Recreation and culture	87,015	50,341	50,507	(166)
Urban development and housing	94,938	94,920	95,765	(845)
Pension retirement payment	15,184	15,184	15,184	-
Debt service	88,112	84,713	84,713	-
Total expenditures	<u>2,794,118</u>	<u>2,619,994</u>	<u>2,630,512</u>	<u>(10,518)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>207,203</u>	<u>476,963</u>	<u>436,944</u>	<u>(40,019)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	39,000	-	33,298	33,298
Transfers out	(144,426)	(144,426)	(144,426)	-
Total other financing sources (uses)	<u>(105,426)</u>	<u>(144,426)</u>	<u>(111,128)</u>	<u>33,298</u>
Net change in fund balances	<u>\$ 101,777</u>	<u>\$ 332,537</u>	325,816	<u>\$ (6,721)</u>
FUND BALANCE - BEGINNING			<u>362,925</u>	
FUND BALANCE - ENDING			<u>\$ 688,741</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, 2011

	Enterprise Funds			Total
	Water Fund	Sewer Fund	Industrial Park Fund	
Assets				
Current assets				
Cash and cash equivalents	\$ -	\$ 237,357	\$ 11,431	\$ 248,788
Receivables:				
Service charges	140,240	205,199	-	345,439
Notes receivable	-	-	22,062	22,062
Other	-	943,585	-	943,585
Due from other funds	-	408,458	-	408,458
Total current assets	<u>140,240</u>	<u>1,794,599</u>	<u>33,493</u>	<u>1,968,332</u>
Noncurrent assets				
Land held for resale	-	-	455,171	455,171
Construction in progress	95,178	3,821,412	-	3,916,590
Capital assets, net	1,743,559	7,021,925	-	8,765,484
Total noncurrent assets	<u>1,838,737</u>	<u>10,843,337</u>	<u>455,171</u>	<u>13,137,245</u>
Total assets	<u>1,978,977</u>	<u>12,637,936</u>	<u>488,664</u>	<u>15,105,577</u>
Liabilities				
Current liabilities				
Accounts payable and accrued expenses	2,817	943,149	544	946,510
Due to other funds	408,458	-	18,543	427,001
Notes payable	5,612	119,241	-	124,853
Total current liabilities	<u>416,887</u>	<u>1,062,390</u>	<u>19,087</u>	<u>1,498,364</u>
Noncurrent liabilities				
Accrued vacation and sick leave	15,060	28,649	-	43,709
Bonds and notes payable	477,770	1,503,983	368,850	2,350,603
Total noncurrent liabilities	<u>492,830</u>	<u>1,532,632</u>	<u>368,850</u>	<u>2,394,312</u>
Total liabilities	<u>909,717</u>	<u>2,595,022</u>	<u>387,937</u>	<u>3,892,676</u>
Net assets				
Capital assets net of related debt	1,355,355	9,670,113	-	11,025,468
Unrestricted (deficit)	(286,095)	372,801	100,727	187,433
Total net assets	<u>\$ 1,069,260</u>	<u>\$ 10,042,914</u>	<u>\$ 100,727</u>	<u>\$ 11,212,901</u>

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, 2011

	Enterprise Funds			Total
	Water Fund	Sewer Fund	Industrial Park Fund	
Operating revenues				
Charges for services, net	\$ 553,549	\$ 779,300	\$ -	\$ 1,332,849
Vacant lots/MD313 special assessments	-	10,229	-	10,229
Other revenues	26,374	64,108	-	90,482
Total operating revenues	<u>579,923</u>	<u>853,637</u>	<u>-</u>	<u>1,433,560</u>
Operating expenses				
Salaries and wages	168,518	274,806	-	443,324
Fringe Benefits	99,114	168,590	-	267,704
Materials and supplies	31,438	4,724	-	36,162
Electric and telephone	17,773	2,985	-	20,758
Automotive expenses	6,041	7,063	-	13,104
Professional services	9,827	12,155	-	21,982
Repairs and maintenance	11,307	13,495	-	24,802
Depreciation	57,989	305,236	-	363,225
Other operating expenses	65,228	208,099	544	273,871
Total operating expenses	<u>467,235</u>	<u>997,153</u>	<u>544</u>	<u>1,464,932</u>
Operating income (loss)	<u>112,688</u>	<u>(143,516)</u>	<u>(544)</u>	<u>(31,372)</u>
Nonoperating revenue (expense)				
Connection fees	18,000	20,000	-	38,000
Interest income	10	403	37	450
Interest expense	(21,169)	(20,659)	-	(41,828)
Total nonoperating revenue (expense)	<u>(3,159)</u>	<u>(256)</u>	<u>37</u>	<u>(3,378)</u>
Income (loss) before transfers and capital contributions	109,529	(143,772)	(507)	(34,750)
Capital contributions	523,318	3,717,537	-	4,240,855
Transfers in	26,000	16,927	-	42,927
Transfers out	(16,927)	(26,000)	-	(42,927)
Change in net assets	<u>641,920</u>	<u>3,564,692</u>	<u>(507)</u>	<u>4,206,105</u>
Total net assets - beginning	<u>427,340</u>	<u>6,478,222</u>	<u>101,234</u>	<u>7,006,796</u>
Total net assets - ending	<u>\$ 1,069,260</u>	<u>\$ 10,042,914</u>	<u>\$ 100,727</u>	<u>\$ 11,212,901</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, 2011

	Enterprise Funds			Total
	Water Fund	Sewer Fund	Industrial Park Fund	
Operating activities				
Cash received from customers	\$ 540,744	\$ 813,339	\$ 2,170	\$ 1,356,253
Cash paid to vendors	(161,168)	(607,179)	-	(768,347)
Cash paid to employees	(270,817)	(111,730)	-	(382,547)
Net cash provided by (used in) operating activities	<u>108,759</u>	<u>94,430</u>	<u>2,170</u>	<u>205,359</u>
Noncapital financing activities				
Operating transfers in (out)	(100,228)	100,228	-	-
Net cash provided (used) by noncapital financing activities	<u>(100,228)</u>	<u>100,228</u>	<u>-</u>	<u>-</u>
Capital and related financing activities				
Connection fees	18,000	20,000	-	38,000
Capital contribution received	-	2,739,568	-	2,739,568
Interest paid	(21,169)	(20,659)	-	(41,828)
Payment on notes payable	(5,372)	(128,705)	-	(134,077)
Acquisition of capital assets	-	(2,694,075)	-	(2,694,075)
Net cash provided by (used in) capital and related financing activities	<u>(8,541)</u>	<u>(83,871)</u>	<u>-</u>	<u>(92,412)</u>
Investing activities				
Interest received	10	403	37	450
Net cash provided by investing activities	<u>10</u>	<u>403</u>	<u>37</u>	<u>450</u>
Net increase (decrease) in cash and cash equivalents	<u>-</u>	<u>111,190</u>	<u>2,207</u>	<u>113,397</u>
Cash and cash equivalents				
Beginning of year	<u>-</u>	<u>126,167</u>	<u>9,224</u>	<u>135,391</u>
End of year	<u>\$ -</u>	<u>\$ 237,357</u>	<u>\$ 11,431</u>	<u>\$ 248,788</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income(loss)	\$ 114,306	\$ (140,081)	\$ (544)	\$ (26,319)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation expense	57,990	305,236	-	363,226
Change in assets and liabilities				
(Increase) decrease in accounts receivable	(39,179)	(46,239)	2,170	(83,248)
Increase (decrease) in accounts payable and accrued expenses	(24,358)	(24,486)	544	(48,300)
Total adjustments	<u>(5,547)</u>	<u>234,511</u>	<u>2,714</u>	<u>231,678</u>
Net cash provided by (used in) operating activities	<u>\$ 108,759</u>	<u>\$ 94,430</u>	<u>\$ 2,170</u>	<u>\$ 205,359</u>
Noncash transactions:				
Contributed capital improvements from the Town	\$ 523,319	\$ 54,756	\$ -	578,075

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, 2011

Note 1 - Summary of significant accounting policies

The Town of Denton 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. The Town 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

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

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2011

Note 1 - Summary of significant accounting policies (continued)

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:

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, and Business Loan Fund. The Highway Fund accounts for various highway improvement 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 Special Projects and Capital Improvement Fund to account for capital projects. The Special Projects Fund accounts for various economic, urban, and housing development projects of the Town. The Capital improvement fund accounts for other committed projects of the Town

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, 2011

Note 1 - Summary of significant accounting policies (continued)

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.

The Town reports the following major governmental funds:

- General Fund. The General Fund is the general operating fund of the City. It accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are property taxes, State grants, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance general administration and sanitation services.
- Business Loan Special Revenue Fund. This fund accounts for loans and repayments committed for commercial rehabilitation and economic development.
- Highway Special Revenue Fund. This fund accounts for gasoline taxes and other grants committed to the maintenance of streets and roads.
- Special Projects Capital Projects Fund. This fund is used to account for various construction projects of the Town funded by grants and other outside sources.

**Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2011**

Note 1 - Summary of significant accounting policies (continued)

The Town reports the following major proprietary funds:

- Water Fund. This fund is used to account for the Town's water operations.
- Sewer Fund. This fund is used to account for the Town's wastewater collection and treatment operations.
- Industrial Park Fund. This fund is used to account for the sale of land in the Town industrial park.

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 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.
9. For the year ended June 30, 2011, General Fund expenditures exceeded the amended budget by \$ 10,518.

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, 2011.

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, 2011**

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 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.

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2011

Note 1 - Summary of significant accounting policies (continued)

K. Net assets / Fund Balance

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.

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, 2011.

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

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote of the Town Council. Any changes or removal of specific purpose requires majority action by the governing body.

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.

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.

Note 2 – Deposits and investments

Deposits

At year end the carrying value of the Town's deposits with banks and financial institutions was \$358,826 and the bank balance was \$692,261. Of this bank balance, \$501,723 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.

**Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2011**

Note 2 – Deposits and investments (continued)

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, 2011 the Town's deposit and investment balances were as follows:

	Fair Value
Maryland Local Government Investment Pool	\$ 1,273,449
Deposits	358,826
Cash on hand	500
Total deposits and investments	\$ 1,632,775

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.

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**Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2011**

Note 4 – Due from other governments

Amounts due from other governments at June 30, 2011 consist of the following:

	Governmental Activities	Business-type Activities
Local:		
Taxes	35,961	-
Service charges	-	345,439
Notes	-	22,062
Other	6,346	6,332
State of Maryland, direct and federal pass-through		
MDE grant	-	923,213
Income tax	79,696	-
Gasoline tax	3,524	-
State police aid	10,824	-
Byrne grant	9,800	-
Other	4,980	14,040
5th street State Highway Administration ARRA stimulus grant	410,882	-
Total	\$ 562,013	\$ 1,311,086

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, 2011, were as follows:

	Interfund Receivables	Interfund Payables
General Fund	\$ 18,543	\$ -
Highway Fund	-	-
Special Projects Fund	-	-
Water Fund	-	408,458
Sewer Fund	408,458	-
Industrial Park Fund	-	18,543
Total	\$ 427,001	\$ 427,001

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2011

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

Interfund transfers at June 30, 2011, were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 33,298	\$ 144,426
Special Projects Fund	-	17,000
Business Loan Fund	-	10,000
Highway Fund	144,426	-
Capital Improvements Fund	-	6,298
Water Fund	26,000	16,927
Sewer Fund	16,927	26,000
Total	<u>\$ 220,651</u>	<u>\$ 220,651</u>

Note 6 – Capital assets

	<u>Balances</u> <u>June 30, 2010</u>	<u>Additions /</u> <u>Transfers In</u>	<u>Deletions /</u> <u>Transfers Out</u>	<u>Balances</u> <u>June 30, 2011</u>
Governmental activities:				
Nondepreciable capital assets:				
Land	\$ 572,510	\$ -	\$ -	\$ 572,510
Construction in progress	1,335,553	1,789,896	(867,232)	2,258,217
Total nondepreciable capital assets	<u>1,908,063</u>	<u>1,789,896</u>	<u>(867,232)</u>	<u>2,830,727</u>
Depreciable capital assets:				
Land improvements	1,407,950	-	-	1,407,950
Buildings	2,736,266	-	-	2,736,266
Infrastructure	7,197,838	289,157	-	7,486,995
Furniture and equipment	325,274	69,901	-	395,175
Vehicles	615,407	-	-	615,407
Total depreciable capital assets	<u>12,282,735</u>	<u>359,058</u>	<u>-</u>	<u>12,641,793</u>
Less-accumulated depreciation				
Land improvements	(626,149)	(75,610)	-	(701,759)
Buildings	(850,710)	(68,118)	-	(918,828)
Infrastructure	(1,426,053)	(199,675)	-	(1,625,728)
Furniture and Equipment	(293,934)	(27,050)	-	(320,984)
Vehicles	(475,857)	(55,845)	-	(531,702)
Total accumulated depreciation	<u>(3,672,703)</u>	<u>(426,298)</u>	<u>-</u>	<u>(4,099,001)</u>
Total depreciable capital assets, net	<u>8,610,032</u>	<u>(67,240)</u>	<u>-</u>	<u>8,542,792</u>
Governmental activities capital assets, net	<u>\$ 10,518,095</u>	<u>\$ 1,722,656</u>	<u>\$ (867,232)</u>	<u>\$ 11,373,519</u>

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2011

Note 6 – Capital assets (continued)

	<u>Balances</u> <u>June 30, 2010</u>	<u>Additions /</u> <u>Transfers In</u>	<u>Deletions /</u> <u>Transfers Out</u>	<u>Balances</u> <u>June 30, 2011</u>
Business-type activities:				
Nondepreciable capital assets:				
Construction in progress	\$ 650,122	\$ 3,586,158	\$ (319,690)	\$ 3,916,590
Total nondepreciable capital assets	<u>650,122</u>	<u>3,586,158</u>	<u>(319,690)</u>	<u>3,916,590</u>
Depreciable capital assets:				
Municipal water system	2,324,833	523,319	-	2,848,152
Municipal sewer system	11,846,563	374,446	-	12,221,009
Machinery and equipment	254,992	32,000	-	286,992
Total depreciable capital assets	<u>14,426,388</u>	<u>929,765</u>	<u>-</u>	<u>15,356,153</u>
Less accumulated depreciation for:				
Municipal water system	(1,060,494)	(51,597)	-	(1,112,091)
Municipal sewer system	(4,949,634)	(289,096)	-	(5,238,730)
Machinery and equipment	(217,316)	(22,532)	-	(239,848)
Total accumulated depreciation	<u>(6,227,444)</u>	<u>(363,225)</u>	<u>-</u>	<u>(6,590,669)</u>
Total depreciable capital assets, net	<u>\$ 8,198,944</u>	<u>\$ 566,540</u>	<u>\$ -</u>	<u>\$ 8,765,484</u>
Business-type activities capital assets, net	<u>\$ 8,849,066</u>	<u>\$ 4,152,698</u>	<u>\$ (319,690)</u>	<u>\$ 12,682,074</u>

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

Governmental activities:	
General government	\$ 7,908
Public safety	74,762
Public works	41,736
Recreation and culture	72,569
Urban development and housing	210,266
Economic development	19,057
	<u>\$ 426,298</u>
Business-type activities:	
Water	\$ 57,989
Sewer	305,236
	<u>\$ 363,225</u>

**Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2011**

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, 2011 are as follows:

<u>Description</u>	<u>Amount</u>
Governmental activities:	
State 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%	\$ 111,615
\$266,950 issued, Series 2008 Maryland Public Improvement Bonds, due in annual installments through June 30, 2047, interest at 4.38%	<u>258,012</u>
Total State notes and bonds	<u>369,627</u>
Installment notes	
\$81,000 installment note payable, due in monthly payments of \$454 until February 2013, interest at 4.615%	62,197
\$55,000 installment note payable, due in monthly payments of \$343 until January 2013, interest at 5.80%	42,493
\$72,249 installment note payable, due in annual payments of \$9,725 until January 2013, interest at 3.96%	18,130
\$155,000 installment note payable, split with the business-type activities, due in annual payments of \$12,382 until July 2031 at 5.10%	150,529
\$29,945 installment note payable, due in monthly payments of \$562 until October 2011, interest at 4.74%	2,225
\$30,000 installment note payable, due in monthly payments of \$685 until August 2011, interest at 4.58%	<u>1,366</u>
Total installment notes	<u>276,940</u>
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%	699,406
\$750,000 intermediary relending program note, issued by the USDA, of which \$150,000 was drawn down, interest at 1%	130,669
Intermediary relending program note, issued by the USDA, of which \$130,000 was drawn down, interest at 5%	119,165

**Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2011**

<u>Description</u>	<u>Amount</u>
Intermediary relending program note, issued by the USDA, of which \$150,000 was drawn down, interest at 5%	141,582
Intermediary relending program note, issued by the USDA, of which \$170,000 was drawn down, interest at 3%	131,570
Intermediary relending program note, issued by the USDA, of which \$90,000 was drawn down, interest at 5%	<u>87,387</u>
Total federal notes and loans	<u>1,289,779</u>
Interim financing	
Provident state bank interim financing loan for construction, interest at 2.79%, due in full on December 6, 2011	<u>1,271,171</u>
Capital leases	
\$102,981 lease for highway maintenance equipment, due in monthly installments of \$1,721 through May 2013, interest at 4.20%	37,966
\$16,343 lease for police vehicle, due in monthly installments of \$301 through December 2016, interest at 3.98%	<u>8,582</u>
Total capital leases	<u>46,548</u>
Total governmental activities	<u>\$ 3,274,065</u>
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%	483,382
\$2,332,577 issued September 23, 2004, due in semi-annual installments of \$121,589 including interest at 0.4% through February 2024.	1,537,312
\$140,000, Rural Development Loan due in quarterly installments of \$1,892 including interest at 4.5%, through September 2027.	85,912
\$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>\$ 2,475,456</u>

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2011

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
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	32,001	28,532	30,009	53,826
2015	22,737	14,233	39,716	20,520	31,167	52,668
2016	24,026	12,995	40,511	10,426	32,377	51,458
2017-2021	39,930	51,590	33,375	28,537	181,986	237,188
2022-2026	25,349	45,376	42,807	19,105	221,386	197,788
2027-2031	31,534	39,190	48,327	6,816	241,027	149,544
2032-2036	39,228	31,496	-	-	217,406	97,193
2037-2041	48,802	21,922	-	-	152,003	57,697
2042-2046	60,713	10,245	-	-	145,683	18,039
2047-2051	15,630	330	-	-	-	-
Total	\$ 369,627	\$ 276,878	\$ 276,940	\$ 140,465	\$ 1,309,779	\$ 1,026,336

Year Ended June 30	Business-type Activities			
	General Obligation Notes		Other Notes	
	Principal	Interest	Principal	Interest
2012	\$ 124,853	\$ 30,799	\$ -	\$ -
2013	125,738	29,912	-	-
2014	126,646	29,005	-	-
2015	127,574	28,076	-	-
2016	497,376	27,125	-	-
2017-2021	288,925	120,478	368,850	-
2022-2026	441,919	93,154	-	-
2027-2031	65,531	73,537	-	-
2032-2036	73,474	58,992	-	-
2037-2041	91,406	41,062	-	-
2042-2046	113,711	18,757	-	-
2047-2051	29,453	617	-	-
Total	\$ 2,106,606	\$ 551,514	\$ 368,850	\$ -

**Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2011**

Note 7 - Long-term obligations (continued)

Capital leases

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

2012	\$ 24,266
2013	22,547
2014	<u>1,806</u>
Total	48,621
Less interest	<u>2,073</u>
Net	<u>\$ 46,548</u>

The following is a summary of changes in long-term liabilities of the Town for the year ended June 30, 2011:

	Balance June 30, 2010	Addition	Reductions	Balance June 30, 2011	Due Within One Year
Governmental activities:					
State notes and bonds	\$ 407,838	\$ -	\$ 38,211	\$ 369,627	\$ 19,476
Installment note	311,104	-	34,164	276,940	21,608
Federal loans and notes	1,338,924	-	29,145	1,309,779	27,836
Capital lease	68,373	-	21,825	46,548	22,756
Bank note interim financing	-	1,271,171	-	1,271,171	1,271,171
Compensated absences	<u>123,527</u>	<u>-</u>	<u>5,210</u>	<u>118,317</u>	<u>-</u>
Total	<u>\$ 2,249,766</u>	<u>\$ 1,271,171</u>	<u>\$ 128,555</u>	<u>\$ 3,392,382</u>	<u>\$ 1,362,847</u>
Business-type activities:					
Notes and bonds	\$ 2,609,533	\$ -	\$ 134,077	2,475,456	\$ 124,853
Compensated absences	<u>52,407</u>	<u>-</u>	<u>8,698</u>	<u>43,709</u>	<u>-</u>
Total	<u>\$ 2,661,940</u>	<u>\$ -</u>	<u>\$ 142,775</u>	<u>\$ 2,519,165</u>	<u>\$ 124,853</u>

Operating leases

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

2012	\$ 12,134
2013	12,134
2014	12,134
2015	<u>8,763</u>
Total	<u>\$ 45,165</u>

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2011

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.

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 2011 was based on the salaries for the year ended June 30, 2010. 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 2011. Annual payments in future years will increase by 5% per year through December 2020.

Contributions for the fiscal year ended June 30, 2011 and two preceding years were equal to the actuarially determined amounts as follows:

	June 30 <u>2011</u>	June 30 <u>2010</u>	June 30 <u>2009</u>
Total covered payroll	\$ 1,510,980	\$1,495,136	\$1,293,270
Employer normal contributions	163,639	113,331	95,314
Employer special accrued liability	75,918	72,303	68,860
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.

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2011

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.

Note 9 – 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.

Town of Denton, Maryland

**Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
Year Ended June 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
Taxes:				
Real estate tax	\$ 2,465,407	\$ 2,550,654	\$ 2,503,556	\$ (47,098)
Railroad and public utilities Corporation	74,000	74,000	60,989	(13,011)
Tax interest and penalties	100,000	100,000	110,934	10,934
Abatements (tax)	15,730	15,730	23,906	8,176
Income tax	(67,520)	(67,520)	(82,436)	(14,916)
Admission and Amusement tax	158,335	158,335	207,593	49,258
Hotel tax	1,500	1,500	1,065	(435)
	2,500	2,500	3,316	816
Total taxes	<u>2,749,952</u>	<u>2,835,199</u>	<u>2,828,923</u>	<u>(6,276)</u>
Licenses and permits:				
Traders license	10,000	10,000	10,406	406
Building and sign permits	35,000	9,300	7,960	(1,340)
Other licenses and permits	-	-	1,885	1,885
Total licenses and permits	<u>45,000</u>	<u>19,300</u>	<u>20,251</u>	<u>951</u>
Revenue from Other Agencies:				
State police aid	44,240	44,240	44,486	246
County Police Safety Grant	13,197	13,197	3,256	(9,941)
Critical areas	1,750	1,750	2,018	268
Byrne grant	-	90,268	80,022	(10,246)
Other county revenue	18,487	18,487	487	(18,000)
Other state revenue	7,500	7,500	21,892	14,392
Total revenue from other agencies	<u>85,174</u>	<u>175,442</u>	<u>152,161</u>	<u>(23,281)</u>
Service charges:				
Parking fines/meter income	12,075	-	17,807	17,807
Miscellaneous Income:				
Cable TV franchise fees	21,000	21,000	20,176	(824)
Water tower/land rental	11,000	11,000	13,750	2,750
Interest income	1,250	1,250	692	(558)
Insurance claims	-	-	4,486	4,486
Miscellaneous income	75,870	33,766	9,193	(24,573)
Post card income	-	-	17	17
Total miscellaneous income	<u>109,120</u>	<u>67,016</u>	<u>48,314</u>	<u>(18,702)</u>
Total revenues	<u>3,001,321</u>	<u>3,096,957</u>	<u>3,067,456</u>	<u>(29,501)</u>

Town of Denton, Maryland

**Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
Year Ended June 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures				
General Government:				
General administration:				
Salaries	\$ 67,084	\$ 67,084	\$ 64,178	\$ 2,906
Other operating expenses	42,336	36,122	39,342	(3,220)
	<u>109,420</u>	<u>103,206</u>	<u>103,520</u>	<u>(314)</u>
Legislative:				
Salaries	15,600	15,600	15,600	-
Other operating expenses	54,249	48,290	48,291	(1)
	<u>69,849</u>	<u>63,890</u>	<u>63,891</u>	<u>(1)</u>
Elections:				
Salaries	150	150	150	-
Other operating expenses	2,345	1,273	1,272	1
	<u>2,495</u>	<u>1,423</u>	<u>1,422</u>	<u>1</u>
Financial Administration:				
Salaries	115,908	115,908	116,766	(858)
Other operating expenses	74,865	67,837	67,266	571
Capital outlay	10,700	10,700	11,300	(600)
	<u>201,473</u>	<u>194,445</u>	<u>195,332</u>	<u>(887)</u>
Municipal Building:				
Other operating expenses	31,220	31,350	31,350	-
Capital outlay	5,000	-	-	-
	<u>36,220</u>	<u>31,350</u>	<u>31,350</u>	<u>-</u>
Total general government	<u>419,457</u>	<u>394,314</u>	<u>395,515</u>	<u>(1,201)</u>
Public Safety:				
Police Department:				
Salaries	700,588	688,198	668,610	19,588
Other operating expenses	519,951	519,951	532,043	(12,092)
Capital outlay	42,197	42,197	57,695	(15,498)
	<u>1,262,736</u>	<u>1,250,346</u>	<u>1,258,348</u>	<u>(8,002)</u>
Volunteer Fire Company:				
Other operating expenses	95,500	95,129	95,129	-
Zoning, Codes & Inspection:				
Salaries	220,150	220,150	191,853	28,297
Other operating expenses	168,019	100,230	128,555	(28,325)
	<u>388,169</u>	<u>320,380</u>	<u>320,408</u>	<u>(28)</u>
Total public safety	<u>1,746,405</u>	<u>1,665,855</u>	<u>1,673,885</u>	<u>(8,030)</u>

Town of Denton, Maryland

**Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
Year Ended June 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Public Works:				
Street Sanitation:				
Salaries	\$ 38,482	\$ 38,482	\$ 36,275	\$ 2,207
Other operating expenses	42,725	34,899	37,384	(2,485)
Capital outlay	27,000	-	-	-
	<u>108,207</u>	<u>73,381</u>	<u>73,659</u>	<u>(278)</u>
Street lighting	73,500	71,812	71,812	-
Trash collection	160,300	168,753	168,751	2
Mosquito spraying	1,000	721	721	-
	<u>343,007</u>	<u>314,667</u>	<u>314,943</u>	<u>(276)</u>
Total public works				
Recreation and Culture:				
Parks and recreation:				
Salaries	24,296	24,296	22,549	1,747
Other operating expenses	57,119	22,280	24,114	(1,834)
	<u>81,415</u>	<u>46,576</u>	<u>46,663</u>	<u>(87)</u>
Tennis courts:				
Other operating expenses	600	390	390	-
Summerfest:				
Other expense	5,000	3,375	3,377	(2)
Wheeler Park:				
Project Costs	-	-	77	(77)
	<u>87,015</u>	<u>50,341</u>	<u>50,507</u>	<u>(166)</u>
Total recreation and culture				
Urban Development and Housing:				
Community development:				
Other operating expenses	94,938	94,920	95,765	(845)
	<u>94,938</u>	<u>94,920</u>	<u>95,765</u>	<u>(845)</u>
Total urban development and housing				
Retirement payment	15,184	15,184	15,184	-
Debt service	88,112	84,713	84,713	-
	<u>2,794,118</u>	<u>2,619,994</u>	<u>2,630,512</u>	<u>(10,518)</u>
Total expenditures				
Excess (deficiency) of revenues over (under) expenditures	<u>207,203</u>	<u>476,963</u>	<u>436,944</u>	<u>(40,019)</u>

Town of Denton, Maryland

**Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
Year Ended June 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Other Financing Sources (Uses)				
Transfers in	39,000	-	33,298	33,298
Transfers out	(144,426)	(144,426)	(144,426)	-
Total other financing sources (uses)	<u>(105,426)</u>	<u>(144,426)</u>	<u>(111,128)</u>	<u>33,298</u>
Net change in fund balances	<u>\$ 101,777</u>	<u>\$ 332,537</u>	325,816	(6,721)
Fund balance - beginning			<u>362,925</u>	<u>362,925</u>
Fund balance - ending			<u>\$ 688,741</u>	<u>\$ 356,204</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, 2011, which collectively comprise the Town's basic financial statements and have issued our report thereon dated November 1, 2011. 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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*.

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
November 1, 2011



**Independent Auditor's Report on Compliance with Requirements
That Could Have a Direct and Material Effect on 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, 2011. 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, 2011.

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
November 1, 2011

Town of Denton, Maryland
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Agency	Grant Number	CFDA#	Federal Expenditures
Department of Housing and Urban Development			
Pass-through payment			
Department of Housing and Community Development:			
Community Development Block Grant			
Caroline High School	#MD-05-ED-74	14.228	\$ 46,288
Microenterprise Grant	#MD-09-ED-71	14.219	23,865
Department of Transportation			
Pass-through payment			
Caroline County			
Highway Planning and Construction			
Fifth Avenue Infrastructure Project Grant	ARRA - #CO 333ZM1	20.205	573,174
Department of Justice			
Pass-through payment			
Executive Department Office of the Governor:			
Edward Byrne Memorial Justice Assistance Grant Program			
Mobile data Transmission Grant	#BJAG-2009-1026	16.738	80,022
Department of Homeland Security			
Pass-through payment			
Maryland Emergency Management Agency			
Disaster Grants - Public Assistance			
February 2010 Snow Storm	N/A	97.036	4,199
Total			\$ 727,548

Notes to the 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, 2011

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>
Highway Planning and Construction – Fifth Avenue Infrastructure Project	20.205

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.