TOWN OF DENTON, MARYLAND

Financial Report

Year Ended June 30, 2012

TOWN OF DENTON, MARYLAND

Town Council

Dennis D. Porter, Mayor

Agnes G. Case

Conway Gregory

Robert L. Clendaniel

Dean W. Danielson

OTHER ADMINISTRATORS

Donald H. Mulrine, Town Administrator

Karen L. Monteith, Clerk-Treasurer

Vacant – Director of Planning & Codes

Rodney R. Cox – Chief of Police

Scott Getchell – Director of Public Works

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CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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, 2012, 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, 2012, 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 our report dated November 20, 2012 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's financial statements as a whole. The other supplementary information as listed in the table of contents is presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The other supplementary information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Cherry, Bekaert & Holland L.L.P.

Richmond, Virginia
November 20, 2012

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, 2012. 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

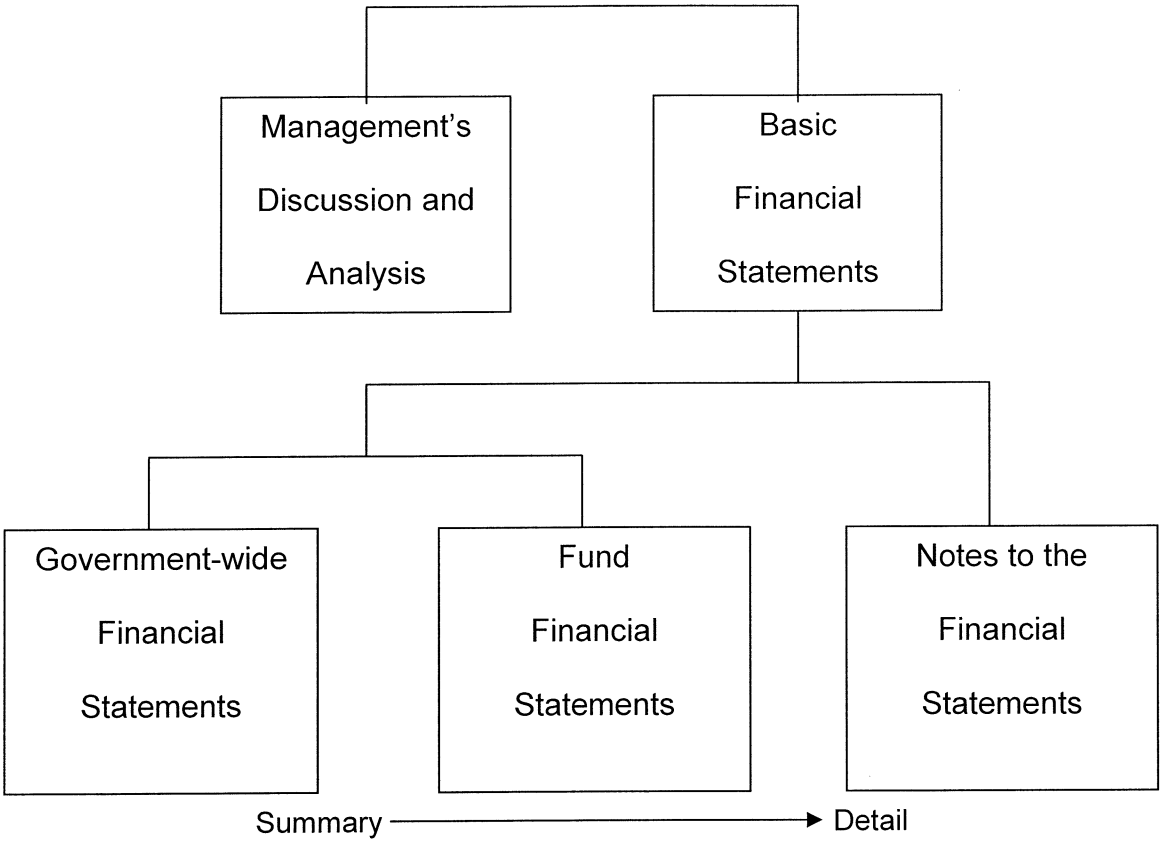
- The assets of the Town of Denton exceeded its liabilities at the close of the fiscal year by $23,971.
- The government's total net assets increased by $1,952, primarily due to an increase in both governmental and business type activities net assets.
- As of the close of the current fiscal year, the Town of Denton's governmental funds reported combined ending fund balances of $1,806, an increase of $296 during the year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was $941, or 35 percent of total general fund expenditures for the fiscal year.
- The Town of Denton's total debt increased by $493, or 9% 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.

Government-Wide Financial Analysis

The Town presents its financial statements under the reporting model required by GASB Statement No. 34. 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	
Assets	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Current and other assets	$ 3,294	$ 2,908	$ 1,649	$ 1,541	$ 4,943	$ 4,449
Capital assets	11,807	11,739	14,018	13,137	25,825	24,876
Total assets	15,101	14,647	15,667	14,678	30,768	29,325
Liabilities						
Accounts payable and other current liabilities	306	3,403	373	2,514	679	5,917
Long term liabilities	3,236	449	2,883	946	6,119	1,395
Total liabilities	3,542	3,852	3,256	3,460	6,798	7,312
Net Assets						
Invested in capital assets, net of debt	8,582	7,902	11,418	11,025	20,000	18,927
Restricted	1,301	1,310	86	-	1,387	1,310
Unrestricted	1,676	1,594	907	187	2,583	1,781
Total net assets	$ 11,559	$ 10,806	$ 12,411	$ 11,212	$ 23,970	$ 22,018

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 $23,971 as of June 30, 2012. The Town's net assets increased by $1,952 for the fiscal year ended June 30, 2012. $802 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	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	$ 373	$ 145	$ 1,637	$ 1,472	$ 2,010	$ 1,617
Operating grants and contributions	222	326	15	-	237	326
Capital grants and contributions	713	606	977	3,663	1,690	4,269
General revenues:						
Property taxes	2,313	2,617	-	-	2,313	2,617
Other taxes	311	231	-	-	311	231
Other	200	158	-	1	200	159
Total revenues	4,132	4,083	2,629	5,136	6,761	9,219
Expenses:						
General government	379	386	-	-	379	386
Public safety	1,695	1,756	-	-	1,695	1,756
Public works	572	643	-	-	572	643
Recreation and culture	168	123	-	-	168	123
Urban development and housing	281	242	-	-	281	242
Economic development	52	-	-	-	52	-
Interest on long-term debt	107	81	-	-	107	81
Retirement payment	16	15	-	-	16	15
Water	-	-	499	489	499	489
Sewer	-	-	1,039	1,018	1,039	1,018
Industrial park	-	-	1	1	1	1
Total expenses	3,270	3,246	1,539	1,508	4,809	4,754
Increase (decrease) in net assets before transfers	862	837	1,090	3,628	1,952	4,465
Transfers	(109)	(578)	109	578	-	-
Increase (decrease) in net assets	753	259	1,199	4,206	1,952	4,465
Net assets, July 1	10,806	10,547	11,212	7,006	22,018	17,553
Net assets, June 30	$ 11,559	$ 10,806	$ 12,411	$ 11,212	$ 23,970	$ 22,018

Governmental activities. Governmental activities increased the Town's net assets by $754, showing an increase of $495 over the prior year's change in net assets. The key element to the increase was the transfer from business type activities representing the assumption of a portion of the 5th Ave debt service by the water and sewer funds.

Business-type activities: Business-type activities increased the Town of Denton's net assets by $1,199, showing a decrease of $3,007 compared to prior year's change in net assets. A key element for this decrease was the receipt of a one-time capital grant of $3,513 in the prior year.

Key changes made to the rate structure include:

- The Denton Public Works Department continued work to replace water meters which were not working.
- The total number of users increased from 1645 to 1651, adding 6 new properties from the prior year for a 0.003% increase.
- **There were no rate increases in FY2012**

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 $941. 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 35 percent of total General Fund expenditures. In the prior year, the total fund balance of the General fund was entirely comprised of the unassigned fund balance in the amount of $689. A contributing factor in this increase was a decrease in expenditures and an increase in tax revenues.

At June 30, 2012, the governmental funds of the Town of Denton reported a combined fund balance of $1,806, an increase of $296 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 FY2012 tax year the revenues increased slightly over FY2011 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 continues to have an effect on the real estate tax revenues actually received in FY2012 compared to prior years. The property values will not be reassessed again until December 2013.

The Town continues to work towards maintaining at 15% fund balance, reducing expenditures significantly in FY 2012 to include a reduction in force and raising real estate tax rates from $.64/$100 of assessed value in FY2011 to $.66/$100 in FY2012. This along with the continued State of Maryland cut to the highway fund revenues by 90% and the State Police Aid by 35%, continue to affect the Town's General Fund reserve to cover this loss of revenues. The State has advised the Town that the cuts from FY 2010 will continue into FY 2013.

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 ($109), $1,003, and $13, respectively. The changes in net assets for the funds were $316, $883, 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 the Town continues to use this study to assist in establishing a rate structure for future years. There was no water and sewer rate increase that took effect in FY2012. The Town did however separate out the quarterly water base fee and the quarterly sewer admin base from the actual usage fees for billing.

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, 2012, totals $25,826 (net of accumulated depreciation). This amount represents a net increase of $1,770, or 5% 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, 2012 and 2011:

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

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	$ 573	$ 573	$ -	$ -	$ 573	$ 573
Land improvements	631	706	-	-	631	706
Buildings	1,751	1,817	-	-	1,751	1,817
Infrastructure	5,662	5,861	-	-	5,662	5,861
Equipment and vehicles	459	157	46	47	505	204
Water system	-	-	1,683	1,736	1,683	1,736
Sewer system	-	-	6,694	6,982	6,694	6,982
Construction in progress	2,732	2,258	5,595	3,917	8,327	6,175
Total	$ 11,808	$ 11,372	$ 14,018	$ 12,682	$ 25,826	$ 24,054

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, 2012, the Town of Denton had total bonded debt outstanding of $6,242. All bonded debt and notes are backed by the full faith and credit of the Town. The total bonded debt increased by $493. 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	
	2012	2011	2012	2011	2012	2011
Bonds and notes	$ 3,201	$ 3,227	$ 2,969	$ 2,475	$ 6,170	$ 5,702
Capital leases	24	47	-	-	24	47
Total	$ 3,225	$ 3,274	$ 2,969	$ 2,475	$ 6,194	$ 5,749

New debt for the fiscal year ending June 30, 2012 resulted from an issuance of a USDA loan that was used to retire a short term note and provide additional financing for the 5th Ave project.

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 8.1% is above the State average of 6.9% and comparable to the US average of 7.9% (as of July, 2012)
- 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 FY2012 along with additional cutbacks in the gasoline tax and police aid revenues. The reduction in State shared revenues will continue into FY2013.

Requests for Information

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

Town of Denton, Maryland

Statement of Net Assets
June 30, 2012

	Governmental Activities	Business Type Activities	Total Reporting Unit
Assets			
Cash and cash equivalents	$ 1,759,242	$ 623,373	$ 2,382,615
Receivables (net of allowance for uncollectibles)	32,151	589,293	621,444
Due from other governments	183,145	-	183,145
Loans receivable	933,897	-	933,897
Internal balances	18,543	(18,543)	-
Land held for resale	366,520	455,171	821,691
Land	572,510	-	572,510
Construction in progress	2,732,456	5,594,890	8,327,346
Other capital assets, net of accumulated depreciation	8,502,610	8,423,309	16,925,919
Total assets	15,101,074	15,667,493	30,768,567
Liabilities			
Accounts payable and other current liabilities	187,622	238,885	426,507
Long-term liabilities:			
Due within one year	117,748	134,021	251,769
Due in more than one year	3,236,468	2,882,891	6,119,359
Total liabilities	3,541,838	3,255,797	6,797,635
Net assets			
Invested in capital assets, net of related debt	8,582,659	11,417,832	20,000,491
Restricted	1,300,417	86,321	1,386,738
Unrestricted	1,676,160	907,543	2,583,703
Total net assets	$ 11,559,236	$ 12,411,696	$ 23,970,932

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

Town of Denton, Maryland

Statement of Activities
Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets – Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets – Primary Government: Business-type Activities	Net (Expense) Revenue and Changes in Net Assets – Primary Government: Total
Primary government:							
Governmental activities:							
General government	$ 378,778	$ 64,253	$ 487	$ -	$ (314,038)	$ -	$ (314,038)
Public safety	1,695,375	108,034	60,832	-	(1,526,509)	-	(1,526,509)
Public works	571,967	71,143	7,828	685,086	192,090	-	192,090
Recreation and culture	168,566	39,238	-	-	(129,328)	-	(129,328)
Urban development and housing	280,647	90,012	152,968	27,846	(9,821)	-	(9,821)
Economic development	52,042	-	-	-	(52,042)	-	(52,042)
Interest on long-term debt	107,128	-	-	-	(107,128)	-	(107,128)
Retirement payment	15,943	-	-	-	(15,943)	-	(15,943)
Total governmental activities	3,270,446	372,680	222,115	712,932	(1,962,719)	-	(1,962,719)
Business-type activities:							
Water	499,485	675,719	3,168	-	-	179,402	179,402
Sewer	1,039,354	961,315	11,509	977,060	-	910,530	910,530
Industrial park	800	-	-	-	-	(800)	(800)
Total business-type activities	1,539,639	1,637,034	14,677	977,060	-	1,089,132	1,089,132
Total primary government	$ 4,810,085	$ 2,009,714	$ 236,792	$ 1,689,992	(1,962,719)	1,089,132	(873,587)
General revenues:							
Property taxes					2,312,991	-	2,312,991
Other taxes					311,483	-	311,483
Interest income					40,201	756	40,957
Miscellaneous income					160,329	-	160,329
Transfers					(108,907)	108,907	-
Total general revenues and transfers					2,716,097	109,663	2,825,760
Change in net assets					753,378	1,198,795	1,952,173
Net assets - beginning					10,805,858	11,212,901	22,018,759
Net assets - ending					$ 11,559,236	$ 12,411,696	$ 23,970,932

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

Town of Denton, Maryland

Balance Sheet
Governmental Funds
June 30, 2012

	General	Special Projects	Business Loan	Highway Fund	Nonmajor Fund: Capital Improvement	Total Governmental Funds
Assets						
Cash and cash equivalents	$ 927,469	$ 143,210	$ 508,054	$ 32,862	$ 147,647	$ 1,759,242
Receivables:						
Taxes	28,484	-	-	-	-	28,484
Loans	-	-	933,897	-	-	933,897
Other receivables	7,733	-	406	-	-	8,139
Due from other funds	18,543	-	-	-	-	18,543
Due from other governments	85,527	44,808	-	52,810	-	183,145
Total assets	$ 1,067,756	$ 188,018	$ 1,442,357	$ 85,672	$ 147,647	$ 2,931,450
Liabilities and fund balances						
Liabilities:						
Accounts payable and accrued expenses	$ 122,543	$ 64,418	$ -	$ 663	$ -	$ 187,624
Deferred revenue	4,472	-	933,131	-	-	937,603
Total liabilities	127,015	64,418	933,131	663	-	1,125,227
Fund balances:						
Assigned	-	123,600	509,226	85,009	147,647	865,482
Unassigned	940,741	-	-	-	-	940,741
Total fund balances	940,741	123,600	509,226	85,009	147,647	1,806,223
Total liabilities and fund balances	$ 1,067,756	$ 188,018	$ 1,442,357	$ 85,672	$ 147,647	$ 2,931,450

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, 2012

Amounts reported for governmental activities in the statement of net assets are different because:		
Ending fund balance - governmental funds		$ 1,806,223
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Land and construction in progress	$ 3,304,966	
Depreciable assets, net	8,502,610	11,807,576
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 resale	366,520	
Deferred revenue	933,133	1,299,653
Proceeds from long term borrowing are not considered 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.		(3,354,216)
Net assets of governmental activities		$ 11,559,236

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, 2012

	General	Special Projects	Business Loan	Highway Fund	Nonmajor Fund: Capital Improvement	Total Governmental Funds
Revenues						
Taxes	$ 2,567,728	$ -	$ -	$ 63,022	$ -	$ 2,630,750
Licenses and permits	59,547	-	-	-	188,684	248,231
Revenue from other agencies	137,458	355,484	-	510,451	-	1,003,393
Service charges	17,606	-	-	-	-	17,606
Miscellaneous	172,632	33,541	101,965	21	228	308,387
Total revenues	2,954,971	389,025	101,965	573,494	188,912	4,208,367
Expenditures						
Current:						
General government	372,449	-	-	-	-	372,449
Public safety	1,787,315	-	-	-	-	1,787,315
Public works	326,126	-	-	118,014	-	444,140
Recreation and culture	49,467	-	-	-	-	49,467
Urban development and housing	115,723	35,938	18,491	-	-	170,152
Pension retirement payment	15,943	-	-	-	-	15,943
Capital outlay and projects	-	327,295	-	1,151,469	-	1,478,764
Debt service	74,249	-	31,838	105,852	-	211,939
Total expenditures	2,741,272	363,233	50,329	1,375,335	-	4,530,169
Excess (deficiency) of revenues over (under) expenditures	213,699	25,792	51,636	(801,841)	188,912	(321,802)
Other financing sources (uses)						
Loan proceeds	-	-	55,000	41,070	-	96,070
Transfers in	168,743	-	-	148,517	-	317,260
Note proceeds	-	-	-	521,759	-	521,759
Transfers out	(130,442)	(19,357)	(10,000)	-	(157,461)	(317,260)
Total other financing sources (uses)	38,301	(19,357)	45,000	711,346	(157,461)	617,829
Net change in fund balances	252,000	6,435	96,636	(90,495)	31,451	296,027
Fund balance - beginning	688,741	117,165	412,590	175,504	116,196	1,510,196
Fund balance - ending	$ 940,741	$ 123,600	$ 509,226	$ 85,009	$ 147,647	$ 1,806,223

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, 2012

Amounts reported for governmental activities in the statement of activities are different because:	
Net change in fund balances - total governmental funds	$ 296,027
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:	
Transfer water fund portion of 5th Ave project	(732,467)
Capital outlay	1,668,320
Depreciation expense	(501,797)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(14,872)
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	(1,326,204)
Repayment of principal on long-term debt and changes in compensated absences	1,364,371
Change in net assets of governmental activities	$ 753,378

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, 2012

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Taxes	$ 2,432,551	$ 2,484,912	$ 2,567,728	$ 82,816
Licenses and permits	45,300	57,845	59,547	1,702
Revenue from other agencies	183,129	130,192	137,458	7,266
Service charges	14,675	11,700	17,606	5,906
Miscellaneous	37,686	106,183	172,632	66,449
Total revenues	2,713,341	2,790,832	2,954,971	164,139
EXPENDITURES				
Current:				
General government	368,036	371,614	372,449	(835)
Public safety	1,702,548	1,746,971	1,787,315	(40,344)
Public works	320,052	315,738	326,126	(10,388)
Recreation and culture	53,443	52,845	49,467	3,378
Urban development and housing	84,250	84,125	115,723	(31,598)
Pension retirement payment	15,943	15,943	15,943	-
Debt service	98,917	74,866	74,249	617
Total expenditures	2,643,189	2,662,102	2,741,272	(79,170)
Excess (deficiency) of revenues over (under) expenditures	70,152	128,730	213,699	84,969
OTHER FINANCING SOURCES (USES)				
Transfers in	64,000	105,856	168,743	62,887
Transfers out	(130,442)	(130,442)	(130,442)	-
Total other financing sources (uses)	(66,442)	(24,586)	38,301	62,887
Net change in fund balances	$ 3,710	$ 104,144	252,000	$ 147,856
FUND BALANCE - BEGINNING			688,741	
FUND BALANCE - ENDING			$ 940,741	

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, 2012

	Enterprise Funds			
	Water Fund	Sewer Fund	Industrial Park Fund	Total
Assets				
Current assets				
Cash and cash equivalents	$ 147,500	$ 463,587	$ 12,286	$ 623,373
Receivables:				
Service charges	137,281	202,780	-	340,061
Notes receivable	-	-	19,892	19,892
Other	-	229,340	-	229,340
Due from other funds	-	366,886	-	366,886
Total current assets	284,781	1,262,593	32,178	1,579,552
Noncurrent assets				
Land held for resale	-	-	455,171	455,171
Construction in progress	880,407	4,714,483	-	5,594,890
Capital assets, net	1,692,616	6,730,693	-	8,423,309
Total noncurrent assets	2,573,023	11,445,176	455,171	14,473,370
Total assets	2,857,804	12,707,769	487,349	16,052,922
Liabilities				
Current liabilities				
Accounts payable and accrued expenses	10,199	228,686	-	238,885
Due to other funds	366,886	-	18,543	385,429
Bonds and notes payable	13,901	120,120	-	134,021
Total current liabilities	390,986	348,806	18,543	758,335
Noncurrent liabilities				
Accrued vacation and sick leave	16,932	30,763	-	47,695
Bonds and notes payable	1,064,143	1,402,203	368,850	2,835,196
Total noncurrent liabilities	1,081,075	1,432,966	368,850	2,882,891
Total liabilities	1,472,061	1,781,772	387,393	3,641,226
Net assets				
Capital assets net of related debt	1,494,979	9,922,853	-	11,417,832
Restricted	-	-	86,321	86,321
Unrestricted (deficit)	(109,236)	1,003,144	13,635	907,543
Total net assets	$ 1,385,743	$ 10,925,997	$ 99,956	$ 12,411,696

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, 2012

	Enterprise Funds			
	Water Fund	Sewer Fund	Industrial Park Fund	Total
Operating revenues				
Charges for services, net	$ 362,289	$ 595,302	$ -	$ 957,591
Vacant lots/MD313 special assessments	-	183,258	-	183,258
Other revenues	209,430	73,593	-	283,023
Total operating revenues	571,719	852,153	-	1,423,872
Operating expenses				
Salaries and wages	158,226	265,417	-	423,643
Fringe Benefits	93,989	162,005	-	255,994
Materials and supplies	48,877	9,156	-	58,033
Electric and telephone	16,694	2,690	-	19,384
Automotive expenses	7,462	9,246	-	16,708
Professional services	10,143	7,777	-	17,920
Repairs and maintenance	9,259	18,419	-	27,678
Depreciation	56,968	305,597	-	362,565
Other operating expenses	67,608	246,962	800	315,370
Total operating expenses	469,226	1,027,269	800	1,497,295
Operating income (loss)	102,493	(175,116)	(800)	(73,423)
Nonoperating revenue (expense)				
Connection fees	104,000	120,000	-	224,000
Interest income	152	575	29	756
Grant revenue	3,168	11,509	-	14,677
Interest expense	(30,259)	(22,923)	-	(53,182)
Total nonoperating revenue (expense)	77,061	109,161	29	186,251
Income (loss) before transfers and capital contributions	179,554	(65,955)	(771)	112,828
Capital contributions	127,247	958,720	-	1,085,967
Transfers in	26,000	16,318	-	42,318
Transfers out	(16,318)	(26,000)	-	(42,318)
Change in net assets	316,483	883,083	(771)	1,198,795
Total net assets - beginning	1,069,260	10,042,914	100,727	11,212,901
Total net assets - ending	$ 1,385,743	$ 10,925,997	$ 99,956	$ 12,411,696

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, 2012

	Enterprise Funds			
	Water Fund	Sewer Fund	Industrial Park Fund	Total
Operating activities				
Cash received from customers	$ 574,679	$ 854,569	$ 2,170	$ 1,431,418
Cash paid to vendors	(152,662)	(295,046)	(1,344)	(449,052)
Cash paid to employees	(250,344)	(425,308)	-	(675,652)
Net cash provided by (used in) operating activities	171,673	134,215	826	306,714
Noncapital financing activities				
Operating transfers in (out)	(31,890)	31,890	-	-
Operating grants	3,169	11,509	-	14,678
Net cash provided (used) by noncapital financing activities	(28,721)	43,399	-	14,678
Capital and related financing activities				
Connection fees	104,000	120,000	-	224,000
Capital contribution received	-	1,672,965	-	1,672,965
Interest paid	(30,259)	(22,923)	-	(53,182)
Payment on notes payable	(63,320)	(100,901)	-	(164,221)
Acquisition of capital assets	(6,025)	(1,621,101)	-	(1,627,126)
Net cash provided by (used in) capital and related financing activities	4,396	48,040	-	52,436
Investing activities				
Interest received	152	576	29	757
Net cash provided by investing activities	152	576	29	757
Net increase (decrease) in cash and cash equivalents	147,500	226,230	855	374,585
Cash and cash equivalents				
Beginning of year	-	237,357	11,431	248,788
End of year	$ 147,500	$ 463,587	$ 12,286	$ 623,373
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	$ 102,493	$ (175,116)	$ (800)	$ (73,423)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation expense	56,968	305,597	-	362,565
Change in assets and liabilities				
(Increase) decrease in accounts receivable	2,960	2,416	2,170	7,546
Increase (decrease) in accounts payable and accrued expenses	9,252	1,318	(544)	10,026
Total adjustments	69,180	309,331	1,626	380,137
Net cash provided by (used in) operating activities	$ 171,673	$ 134,215	$ 826	$ 306,714
Noncash transactions:				
Allocation of water fund share of 5th Street debt	$ 657,982	$ -	$ -	$ 657,982
Allocation of 5th Street assets related to debt	(785,229)	-	-	(785,229)

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

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.

Note 1 – Summary of significant accounting policies (continued)

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

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.

Note 1 – Summary of significant accounting policies (continued)

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.

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 Town. 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.

Note 1 – Summary of significant accounting policies (continued)

- 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.

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, 2012, General Fund expenditures exceeded the amended budget by $ 79,170.

Note 1 – Summary of significant accounting policies (continued)

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, 2012.

F. Cash and cash equivalents

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

G. Land held for resale

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

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

Note 1 – Summary of significant accounting policies (continued)

I. Vacation and sick pay liability

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

J. Estimates

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

K. Net assets / Fund 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, 2012.

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.

Note 1 – Summary of significant accounting policies (continued)

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 $391,920 and the bank balance was $526,881. Of this bank balance, $526,881 was covered by Federal depository insurance and the remaining balance was collateralized in accordance with Article 95, Section 22 of the Annotated Code of Maryland.

Investments

In accordance with the Annotated Code of Maryland and other applicable law, including regulations, the Town's investment policy permits investments in obligations of the United States or agencies thereof, obligations of the State of Maryland, interest-bearing time deposits and savings accounts in any federally insured banks or savings and loans associations in the State of Maryland, repurchase agreements, and the Maryland Local Government Investment Pool.

At June 30, 2012 the Town's deposit and investment balances were as follows:

	Fair Value
Maryland local government investment pool	$ 1,990,195
Deposits	391,920
Cash on hand	500
Total cash and investments	$ 2,382,615

Interest rate risk: Given the cash flow needs for operations as well as capital and special projects, it is the Town's policy to maintain the liquidity of its investments. The Local Government Investment Pool is not subject to maturity limits.

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

Note 3 – Property taxes

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

Note 4 – Accounts Receivable and Due from other governments

Amounts receivable at June 30, 2012 consist of the following:

	Governmental Activities	Business-type Activities
Accounts receivable:		
Taxes	$ 28,484	$ -
Service charges	-	340,061
Notes	-	19,892
Other	3,667	229,340
Total accounts receivable	$ 32,151	$ 589,293
Due from other governments:		
State and federal sources	$ 183,145	$ -

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, 2012, were as follows:

	Interfund Receivables	Interfund Payables
General Fund	$ 18,543	$ -
Highway Fund	-	-
Special Projects Fund	-	-
Water Fund	-	366,886
Sewer Fund	366,886	-
Industrial Park Fund	-	18,543
Total	$ 385,429	$ 385,429

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

Interfund transfers at June 30, 2012, were as follows:

	Transfers In	Transfers Out
General Fund	$ 168,743	$ 130,442
Special Projects Fund	-	19,357
Business Loan Fund	-	10,000
Highway Fund	148,517	-
Capital Improvements Fund	-	157,461
Water Fund	26,000	16,318
Sewer Fund	16,318	26,000
Total	$ 359,578	$ 359,578

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

Note 6 – Capital assets

	Balances June 30, 2011	Additions / Transfers In	Deletions / Transfers Out	Balances June 30, 2012
Governmental activities:				
Nondepreciable capital assets:				
Land	$ 572,510	$ -	$ -	$ 572,510
Construction in progress	2,258,217	1,206,706	(732,467)	2,732,456
Total nondepreciable capital assets	2,830,727	1,206,706	(732,467)	3,304,966
Depreciable capital assets:				
Land improvements	1,407,950	-	-	1,407,950
Buildings	2,736,266	-	-	2,736,266
Infrastructure	7,486,995	-	-	7,486,995
Furniture and equipment	395,175	28,787	-	423,962
Vehicles	615,407	432,830	(68,334)	979,903
Total depreciable capital assets	12,641,793	461,617	(68,334)	13,035,076
Less-accumulated depreciation				
Land improvements	(701,759)	(75,610)	-	(777,369)
Buildings	(918,828)	(66,540)	-	(985,368)
Infrastructure	(1,625,728)	(199,675)	-	(1,825,403)
Furniture and Equipment	(320,984)	(28,386)	-	(349,370)
Vehicles	(531,702)	(131,588)	68,334	(594,956)
Total accumulated depreciation	(4,099,001)	(501,799)	68,334	(4,532,466)
Total depreciable capital assets, net	8,542,792	(40,182)	-	8,502,610
Governmental activities capital assets, net	$ 11,373,519	$ 1,166,524	$ (732,467)	$ 11,807,576

Note 6 – Capital assets (continued)

	Balances June 30, 2011	Additions / Transfers In	Deletions / Transfers Out	Balances June 30, 2012
Business-type activities:				
Nondepreciable capital assets:				
Construction in progress	$ 3,916,590	$ 1,678,300	$ -	$ 5,594,890
Total nondepreciable capital assets	3,916,590	1,678,300	-	5,594,890
Depreciable capital assets:				
Municipal water system	2,848,152	-	-	2,848,152
Municipal sewer system	12,221,009	-	-	12,221,009
Machinery and equipment	286,992	20,390	-	307,382
Total depreciable capital assets	15,356,153	20,390	-	15,376,543
Less accumulated depreciation for:				
Municipal water system	(1,112,091)	(52,424)	-	(1,164,515)
Municipal sewer system	(5,238,730)	(288,093)	-	(5,526,823)
Machinery and equipment	(239,848)	(22,048)	-	(261,896)
Total accumulated depreciation	(6,590,669)	(362,565)	-	(6,953,234)
Total depreciable capital assets, net	8,765,484	(342,175)	-	8,423,309
Business-type activities capital asets, net	$ 12,682,074	$ 1,336,125	$ -	$ 14,018,199

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

General government	$ 6,329
Public safety	81,186
Public works	132,648
Recreation and culture	119,099
Urban development and housing	110,495
Economic development	52,042
	$ 501,799
Business-type activities:	
Water	$ 56,968
Sewer	305,597
	$ 362,565

Note 7 – Long-term obligations

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

Details of the general obligation bonds, capital leases, and notes at June 30, 2012 are as follows:

Description	Amount
Governmental activities:	
State and Federal notes and bonds:	
$265,000 issued, Town contractual share of Caroline County CDA Bonds, due in annual installments through May 2017, interest at 5.52%	$ 95,135
$ 1,240,000 Highway fund share of 5th Ave project loan issued by USDA, due in monthly installments of $4,333 until 2052, interest at 3.01%	1,200,547
$266,950 issued, Series 2008 Maryland Public Improvement Bonds, due in annual installments through June 30, 2047, interest at 4.38%	255,016
Total State notes and bonds	1,550,698
Installment notes	
$81,000 installment note payable, due in monthly payments of $454 until February 2013, interest at 4.615%	59,580
$55,000 installment note payable, due in monthly payments of $343 until January 2013, interest at 5.80%	40,801
$72,249 installment note payable, due in annual payments of $9,725 until January 2013, interest at 3.96%	9,121
$155,000 installment note payable, split with the business-type activities, due in annual payments of $12,382 until July 2031 at 5.10%	145,830
$60,764 installment note payable, financing of two police cars, due in monthly payments of $1,109 through 2017, interest at 3.56%	57,971
Total installment notes	313,303
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%	690,741

Note 7 – Long-term obligations (continued)

$750,000 intermediary relending program note, issued by the USDA, of which $205,000 was drawn down, interest at 1%	$ 180,986
Intermediary relending program note, issued by the USDA, of which $130,000 was drawn down, interest at 5%	116,057
Intermediary relending program note, issued by the USDA, of which $150,000 was drawn down, interest at 5%	138,139
Intermediary relending program note, issued by the USDA, of which $170,000 was drawn down, interest at 3%	125,578
Intermediary relending program note, issued by the USDA, of which $90,000 was drawn down, interest at 5%	85,443
Total federal notes and loans	1,336,944
Capital leases	
$102,981 lease for highway maintenance equipment, due in monthly installments of $1,721 through May 2013, interest at 4.20%	18,539
$16,343 lease for police vehicle, due in monthly installments of $301 through December 2016, interest at 3.98%	5,253
Total capital leases	23,792
Total governmental activities	$ 3,224,737
Business-type activities	
General obligation notes	
$500,000 issued, Series 2008 Maryland Public Improvement Bonds, due in annual installments through June 30, 2047, interest at 4.38%	477,770
$2,332,577 MDE note issued September 23, 2004, due in semi-annual installments of $121,589 including interest at 0.4% through February 2024.	1,421,833
$140,000, Rural Development Loan due in quarterly installments of $1,892 including interest at 4.5%, through September 2027.	82,111
$ 623,560 Water and sewer fund share of 5th Ave project loan issued by USDA, due in monthly installments of $2,233 until 2052, interest at 3.01%	618,464
State industrial park note:	
$370,000 state note to be repaid from net proceeds of the sale of lots in the new industrial park after the first $125,000 is retained by the Town. All proceeds in excess of that is to go towards the repayment which is due August 2020, no interest.	368,850
Total business-type activities	$ 2,969,028

Note 7 – Long-term obligations (continued)

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

	Governmental Activities					
Year Ended	State Notes & Bonds		Installment Notes		Federal Notes and Loans	
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2013	$ 36,826	$ 52,445	$ 30,018	$ 14,716	$ 28,899	$ 55,498
2014	38,024	50,828	43,838	29,997	31,870	54,458
2015	39,812	49,152	51,981	21,557	33,043	53,285
2016	41,622	47,393	53,220	11,019	34,267	52,061
2017	41,414	45,521	15,763	6,499	35,545	50,783
2018-2022	120,597	210,098	35,078	26,834	198,932	232,710
2023-2027	141,899	188,796	44,992	16,920	240,436	191,205
2028-2032	167,083	163,614	38,411	4,350	251,787	141,313
2033-2037	196,877	133,819	-	-	210,016	89,289
2038-2042	232,165	98,533	-	-	157,279	50,477
2043-2047	275,809	56,935	-	-	114,870	10,965
2048-2051	218,570	15,409	-	-	-	-
Total	$ 1,550,698	$ 1,112,543	$ 313,301	$ 131,892	$ 1,336,944	$ 982,044

	Business-type Activities			
Year Ended	General Obligation Notes		Other Notes	
June 30	Principal	Interest	Principal	Interest
2013	$ 134,021	$ 48,414	$ -	$ -
2014	135,182	47,254	-	-
2015	136,370	46,065	-	-
2016	506,441	44,845	-	-
2017	138,843	43,592	-	-
2018-2022	345,355	197,971	368,850	-
2023-2027	383,881	162,563	-	-
2028-2032	130,801	135,590	-	-
2033-2037	157,064	109,327	-	-
2038-2042	188,823	77,570	-	-
2043-2047	230,680	39,129	-	-
2048-2051	112,717	7,940	-	-
Total	$ 2,600,178	$ 960,260	$ 368,850	$ -

Note 7 – Long-term obligations (continued)

Capital leases

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

2013	$ 22,547
2014	1,806
Total	24,353
Less interest	561
Net	$ 23,792

The following is a summary of changes in long-term liabilities of the Town for the year ended June 30, 2012:

	Balance June 30, 2011	Addition	Reductions	Balance June 30, 2012	Due Within One Year
Governmental activities:					
State notes and bonds	$ 369,627	$ 1,210,440	$ 29,369	$ 1,550,698	$ 36,826
Installment note	276,940	60,764	24,401	313,303	30,018
Federal loans and notes	1,309,779	55,000	27,835	1,336,944	28,899
Capital lease	46,548	-	22,756	23,792	22,005
Bank note interim financing	1,271,171	521,759	1,792,930	-	-
Compensated absences	118,317	68,319	57,157	129,479	-
Total	$ 3,392,382	$ 1,916,282	$ 1,954,448	$ 3,354,216	$ 117,748
Business-type activities:					
Notes and bonds	$ 2,475,456	$ 623,560	$ 129,988	$ 2,969,028	$ 134,021
Compensated absences	43,709	25,458	21,283	47,884	-
Total	$ 2,519,165	$ 649,018	$ 151,271	$ 3,016,912	$ 134,021

Operating leases

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

2013	$ 11,249
2014	11,540
2015	11,540
2016	3,483
2017	3,483
after	290
Total	$ 41,585

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 2012 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 $239,557 in fiscal year 2012. Annual payments in future years will increase by 5% per year through December 2020.

Contributions for the fiscal year ended June 30, 2012 and two preceding years were equal to the actuarially determined amounts as follows:

	June 30 2012	June 30 2011	June 30 2010
Total covered payroll	$ 1,415,744	$1,510,980	$1,495,136
Employer normal contributions	154,883	163,639	113,331
Employer special accrued liability	79,714	75,918	72,303
Employer contribution percentage	100%	100%	100%

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

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

Note 9 – Risk management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Property and liability coverages are provided through third party insurance. The Town carries a broad range of insurance coverages, which management considers prudent for the protection of the Town's assets and operations. Coverages currently include $2,000,000 commercial general liability, $1,000,000 automobile liability, and $1,000,000 public officials' liability. The property policy provides insurance coverage for all of the Town's real and personal property up to the replacement cost value of the asset.

Note 10 – Contingent liabilities – Community Legacy Program.

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

Note 11 – Subsequent events

The Town has evaluated subsequent events through November 20, 2012, in connection with the preparation of these financial statements, which is the date the financial statements were to be issued and no additional information is required to be disclosed.

Town of Denton, Maryland

Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Taxes:				
Real estate tax	$ 2,159,151	$ 2,215,202	$ 2,215,298	$ 96
Railroad and public utilities	60,000	58,410	58,410	-
Corporation	100,000	100,000	94,315	(5,685)
Tax interest and penalties	15,900	11,400	24,348	12,948
Abatements (tax)	(71,200)	(72,100)	(73,104)	(1,004)
Income tax	165,000	165,000	239,275	74,275
Admission and Amusement tax	1,000	4,000	5,904	1,904
Hotel tax	2,700	3,000	3,282	282
Total taxes	2,432,551	2,484,912	2,567,728	82,816
Licenses and permits:				
Traders license	10,000	9,000	8,760	(240)
Building and sign permits	35,000	46,000	47,267	1,267
Other licenses and permits	300	2,845	3,520	675
Total licenses and permits	45,300	57,845	59,547	1,702
Revenue from Other Agencies:				
State police aid	43,000	43,298	44,486	1,188
County Police Safety Grant	31,355	7,436	7,718	282
Critical areas	1,750	1,750	1,750	-
Police facility grant	-	-	4,968	4,968
Byrne grant	-	7,828	7,828	-
Other county revenue	100,487	61,251	62,080	829
Other state revenue	6,537	8,629	8,628	(1)
Total revenue from other agencies	183,129	130,192	137,458	7,266
Service charges:				
Parking fines/meter income	14,675	11,700	17,606	5,906
Miscellaneous Income:				
Cable TV franchise fees	20,176	20,054	20,054	-
Water tower/land rental	11,300	17,000	17,475	475
Interest income	1,080	1,010	1,486	476
Insurance claims	-	-	-	-
Miscellaneous income	5,130	68,112	133,610	65,498
Post card income	-	7	7	-
Total miscellaneous income	37,686	106,183	172,632	66,449
Total revenues	2,713,341	2,790,832	2,954,971	164,139

Town of Denton, Maryland

Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Expenditures				
General Government:				
General administration:				
Salaries	$ 48,603	$ 48,196	$ 40,952	$ 7,244
Other operating expenses	38,825	28,427	25,099	3,328
	87,428	76,623	66,051	10,572
Legislative:				
Salaries	15,600	15,600	15,600	-
Other operating expenses	54,602	70,059	91,528	(21,469)
	70,202	85,659	107,128	(21,469)
Elections:				
Salaries	150	150	150	-
Other operating expenses	2,250	1,427	1,399	28
	2,400	1,577	1,549	28
Financial Administration:				
Salaries	116,213	116,213	116,254	(41)
Other operating expenses	76,793	76,192	71,306	4,886
Capital outlay	2,000	2,000	2,000	-
	195,006	194,405	189,560	4,845
Municipal Building:				
Other operating expenses	8,000	8,350	8,161	189
Capital outlay	5,000	5,000	-	5,000
	13,000	13,350	8,161	5,189
Total general government	368,036	371,614	372,449	(835)
Public Safety:				
Police Department:				
Salaries	656,581	656,006	647,705	8,301
Other operating expenses	536,262	538,987	540,786	(1,799)
Capital outlay	131,955	80,228	80,544	(316)
	1,324,798	1,275,221	1,269,035	6,186
Volunteer Fire Company:				
Other operating expenses	62,950	62,950	62,684	266
Zoning, Codes & Inspection:				
Salaries	168,675	166,367	146,686	19,681
Other operating expenses	146,125	198,433	264,910	(66,477)
	314,800	364,800	411,596	(46,796)
Total public safety	1,702,548	1,702,971	1,743,315	(40,344)

Town of Denton, Maryland

Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Public Works:				
Street Sanitation:				
Salaries	$ 37,113	$ 35,133	$ 36,520	$ (1,387)
Other operating expenses	39,416	48,566	50,738	(2,172)
Capital outlay	4,000	-	-	-
	80,529	83,699	87,258	(3,559)
Street lighting	77,800	71,014	71,013	1
Trash collection	160,698	160,000	166,830	(6,830)
Mosquito spraying	1,025	1,025	1,025	-
Total public works	320,052	315,738	326,126	(10,388)
Recreation and Culture:				
Parks and recreation:				
Salaries	21,648	21,777	21,329	448
Other operating expenses	27,595	26,697	23,995	2,702
	49,243	48,474	45,324	3,150
Tennis courts:				
Other operating expenses	700	656	372	284
Summerfest:				
Other expense	3,500	3,715	3,715	-
Wheeler Park:				
Project Costs	-	-	56	(56)
Total recreation and culture	53,443	52,845	49,467	3,378
Urban Development and Housing:				
Community development:				
Other operating expenses	84,250	84,125	115,723	(31,598)
Total urban development and housing	84,250	84,125	115,723	(31,598)
Retirement payment	15,943	15,943	15,943	-
Debt service	98,917	118,866	118,249	617
Total expenditures	2,643,189	2,662,102	2,741,272	(79,170)
Excess (deficiency) of revenues over (under) expenditures	70,152	128,730	213,699	84,969

Town of Denton, Maryland

Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Other Financing Sources (Uses)				
Transfers in	$ 64,000	$ 105,856	$ 168,743	$ 62,887
Transfers out	(130,442)	(130,442)	(130,442)	-
Total other financing sources (uses)	(66,442)	(24,586)	38,301	62,887
Net change in fund balances	$ 3,710	$ 104,144	252,000	$ 147,856
Fund balance - beginning			688,741	
Fund balance - ending			$ 940,741	

CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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

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, 2012, which collectively comprise the Town's basic financial statements and have issued our report thereon dated November 20, 2012. 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

Management of the Town, is responsible for establishing and maintaining effective 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 20, 2012

CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Federal 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 Town of Denton, Maryland's (the "Town") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town's major federal program for the year ended June 30, 2012. 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 compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

Internal Control Over Compliance

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 to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, 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 20, 2012

TOWN OF DENTON, MARYLAND

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

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:

Name of Program	CFDA #
Highway Planning and Construction –	
Fifth Avenue Infrastructure Project	10.760
Fifth Avenue Infrastructure Project Loan	10.760

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.

Town of Denton, Maryland
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Agency	Grant Number	CFDA#	Federal Expenditures
Department of Agriculture			
Rural Utilities Service Grant			
Fifth Avenue Infrastructure Project	00-17	10.760	$ 463,494
Fifth Avenue Infrastructure Project Loan	91-16	10.760	1,834,000
Department of Housing and Urban Development			
Pass-through payment			
Community Development Block Grant			
Caroline High School	#MD-05-ED-74	14.228	118,819
Microenterprise Grant	#MD-09-ED-71	14.219	151,135
Department of Transportation			
Pass-through payment			
Highway Planning and Construction			
Fifth Avenue Infrastructure Project Grant	ARRA - #CO 333ZM1	20.205	38,177
Department of Justice			
Pass-through payment			
Edward Byrne Memorial Justice Assistance Grant Program			
Mobile Data Transmission Grant	#BJAG-2009-1026	16.738	7,828
Department of Homeland Security			
Pass-through payment			
Disaster Grants - Public Assistance			
FEMA - Hurricane Irene	N/A	97.036	21,672
	Total		**$ 2,635,125**

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.