



TOWN OF DENTON, MARYLAND

FINANCIAL REPORT

As of and for the Year Ended June 30, 2016

And Report of Independent Auditor

TOWN OF DENTON, MARYLAND

TOWN COUNCIL

Abigail McNinch

Dennis D. Porter

Dallas Lister

Robert L. Clendaniel

Lester L. Branson

OTHER ADMINISTRATORS

Donald H. Mulrine, Jr. – Town Administrator

Karen L. Monteith, Clerk – Treasurer

Vacant – Director of Planning & Codes

Rodney R. Cox – Chief of Police

Vacant – Director of Public Works

Mark Chandler – Superintendent of Water & Wastewater Operations

Philip Clark, Sr. – Superintendent of Public Works – Water Distribution & Wastewater Collections

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Report of Independent Auditor

To the Council of the Town of Denton
Denton, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Denton, Maryland (the "Town"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As presented in Note 13 to the financial statements, the Town's business-type activities' and Sewer Fund's net position as of June 30, 2015 has been restated due to the correction of an error. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-10 and pension data on pages 41-42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The Other Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Other Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Other Supplementary Information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2017 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town's internal control over financial reporting and compliance.



Richmond, Virginia
January 5, 2017

Town of Denton, Maryland
Management's Discussion and Analysis
Year Ended June 30, 2016

As management of the Town of Denton, Maryland (the "Town"), we offer readers of the Town's financial statements, this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2016. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights:

- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$25,024,690
- The government's total net position increased by \$605,633 primarily due to an increase in the governmental activities' net position.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$3,717,150, an increase of \$761,627 during the year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,572,780 or 90% of total General Fund expenditures for the fiscal year.

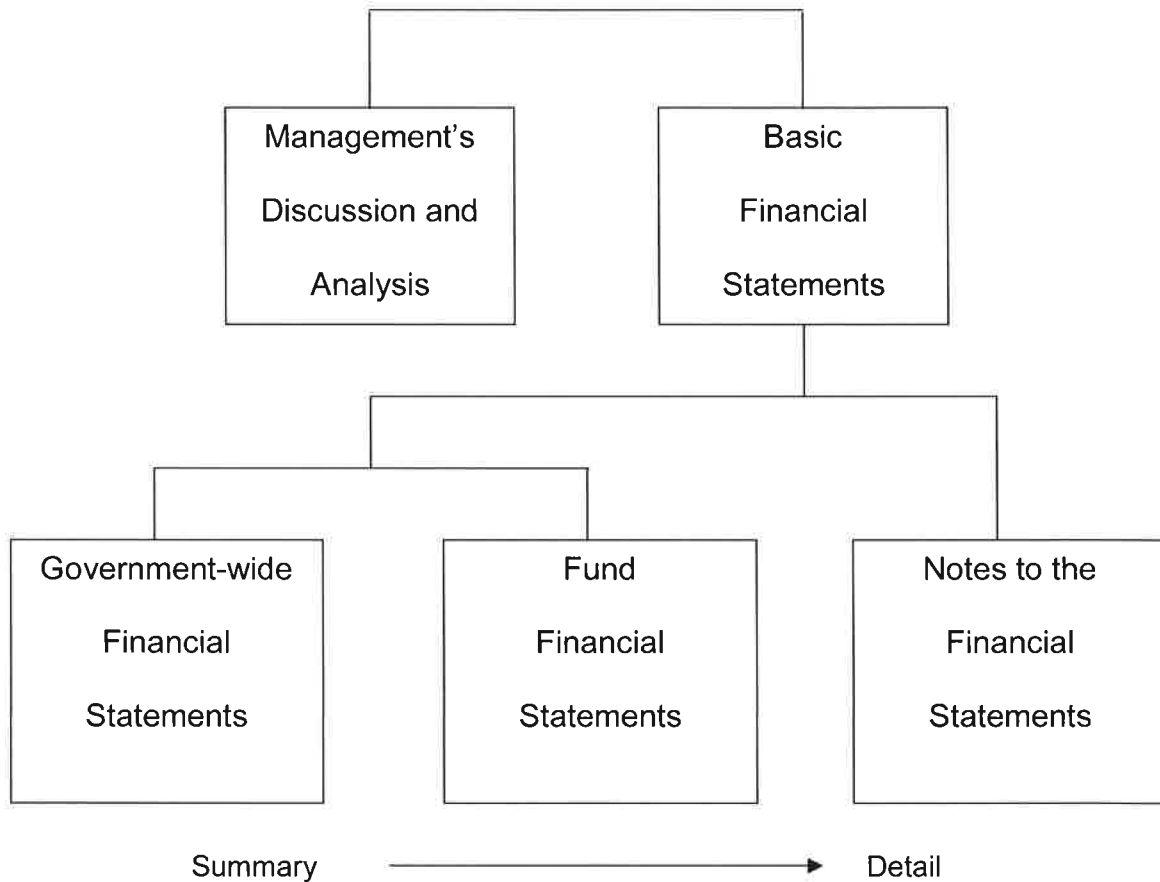
Overview of the Financial Statements

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

**Town of Denton, Maryland
Management's Discussion and Analysis
Year Ended June 30, 2016**

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

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

Town of Denton, Maryland
Management's Discussion and Analysis
Year Ended June 30, 2016

Government-wide Financial Statements

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

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

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

Fund Financial Statements

Fund financial statements provide more detailed information of the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like all other governmental entities in Maryland, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the general statutes or the Town's budget ordinance. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

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

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

Town of Denton, Maryland
Management's Discussion and Analysis
Year Ended June 30, 2016

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

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

Government-Wide Financial Analysis

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

The Town's Net Position (in thousands):

Figure 2

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015 **	2016	2015 **
Assets						
Current and other assets	\$ 4,960	\$ 4,237	\$ 2,011	\$ 1,722	\$ 6,971	\$ 5,959
Capital assets	13,519	13,587	12,998	13,348	26,517	26,935
Total assets	18,479	17,824	15,009	15,070	33,488	32,894
Deferred Outflows						
Pensions	363	167	176	90	539	257
Liabilities						
Accounts payable and other current liabilities	352	115	214	34	566	149
Long-term liabilities	5,162	5,105	3,228	3,290	8,390	8,395
Total liabilities	5,514	5,220	3,442	3,324	8,956	8,544
Deferred Inflows						
Pensions	28	127	19	61	47	188
Net Position						
Net investment in capital assets	9,818	9,740	10,848	11,107	20,666	20,847
Restricted	1,008	815	86	86	1,094	901
Unrestricted	2,474	2,089	790	582	3,264	2,671
Total net position	\$ 13,300	\$ 12,644	\$ 11,724	\$ 11,775	\$ 25,024	\$ 24,419

** The Town restated Sewer net position and capital assets for a correction of an error - See Footnote 13

Net position can serve over time as a useful indicator of a government's financial condition. The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources by \$25,024,690 as of June 30, 2016. The Town's net position increased by \$605,633 for the fiscal year ended June 30, 2016. The increase in the Town's total net position is due to a combination of increased tax revenues, charges for services, and operating grants and contributions.

**Town of Denton, Maryland
Management's Discussion and Analysis
Year Ended June 30, 2016**

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

Figure 3

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015**	2016	2015**
Revenues:						
Program revenues:						
Charges for services	\$ 363	\$ 230	\$ 1,836	\$ 1,600	\$ 2,199	\$ 1,830
Operating grants and contributions	351	237	-	30	351	267
Capital grants and contributions	286	537	-	-	286	537
General Revenues:						
Property taxes	2,607	2,547	-	-	2,607	2,547
Other taxes	514	403	-	-	514	403
Other	165	296	2	-	167	296
Total revenues	<u>4,286</u>	<u>4,250</u>	<u>1,838</u>	<u>1,630</u>	<u>6,124</u>	<u>5,880</u>
Expenses:						
General government	416	437	-	-	416	437
Public safety	1,980	1,915	-	-	1,980	1,915
Public works	706	575	-	-	706	575
Recreation and culture	133	116	-	-	133	116
Urban development and housing	257	264	-	-	257	264
Economic development	52	52	-	-	52	52
Interest on long-term debt	94	95	-	-	94	95
Retirement payment	19	18	-	-	19	18
Water	-	-	588	560	588	560
Sewer	-	-	1,274	1,139	1,274	1,139
Industrial Park	-	-	-	1	-	1
Total expenses	<u>3,657</u>	<u>3,472</u>	<u>1,862</u>	<u>1,700</u>	<u>5,519</u>	<u>5,172</u>
Transfers	<u>27</u>	<u>-</u>	<u>(27)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	656	778	(51)	(70)	605	708
Net position - beginning of year, as restated	12,644	11,866	11,775	11,960	24,419	23,826
Cumulative effect of error correction **	<u>-</u>	<u>-</u>	<u>-</u>	<u>(115)</u>	<u>-</u>	<u>(115)</u>
Net position - end of year	<u>\$ 13,300</u>	<u>\$ 12,644</u>	<u>\$ 11,724</u>	<u>\$ 11,775</u>	<u>\$ 25,024</u>	<u>\$ 24,419</u>

** The Town restated Sewer net position for a correction of an error - See Footnote 13

**Town of Denton, Maryland
Management's Discussion and Analysis
Year Ended June 30, 2016**

Governmental Activities: Governmental activities increased the Town's net position by \$656,749. The key elements to this increase are an increase in property and other taxes due to commercial development and increased grant funding received in the current year.

Business-type Activities: Business-type activities decreased the Town's net position by \$51,116.

Key factors related to the current year performance of the Town's enterprise funds were:

- The Denton Public Works Department continued work to replace water meters which were not working.
- The total number of users slightly increased from the prior year
- Water and sewer quarterly base fees remained at \$25.00 in fiscal year 2016. The water usage rate of \$3.45 per 1,000 gallons and the sewer rates of \$6.41 per 1,000 gallons remained unchanged from the prior year.

Financial Analysis of the Town's Funds

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

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

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, the total fund balance of the General Fund was mainly comprised of the unassigned fund balance in the amount of \$2,572,780. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents approximately 90% of total General Fund expenditures. In the prior year, \$2,156,756 of the \$2,157,031 fund balance of the General Fund was comprised of the unassigned fund balance. Contributing factors in the change in the General Fund unassigned fund balance include an increase in tax revenues and a decrease in funds spent on capital outlay in the current year.

At June 30, 2016, the governmental funds of the Town reported a combined fund balance of \$3,717,150, an increase of \$761,627 from the prior year. Included in this change in fund balance is an increase in tax and license revenue, as well as a decrease in capital outlay in the current year.

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.

**Town of Denton, Maryland
Management's Discussion and Analysis
Year Ended June 30, 2016**

During the FY2016 tax year, revenues increased over FY2015 due to a combination of larger real estate assessment base and a larger supplemental real estate tax in FY16. The Town continues to work towards maintaining a 15% fund balance, reducing expenditures in FY 2016 and maintaining real estate tax rates at \$.71/\$100 of assessed value.

Proprietary Funds. The Town's proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the Water, Sewer, and Industrial Park funds at the end of the fiscal year amounted to \$492,742, \$284,252, and \$13,432, respectively. The changes in net position for the funds were \$163,552, \$(216,124), and \$1,456, respectively. Other factors concerning the finances of these funds have already been addressed in the discussion of the Town's business-type activities.

The Denton Utility Commission 2010 Water and Sewer rate study was updated by MCET, and the Town continues to use this study to assist in establishing a rate structure for future years.

Capital Asset and Debt Administration

Capital Assets. The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2016, totals \$26,516,913 (net of accumulated depreciation), a net decrease of \$418,770 or less than 3% 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:

- Completion of phase 3 of the Caroline Culinary School
- Completion on the new Town Hall municipal building
- Additions related to the Crouse Park project

The following is a summary of capital assets at June 30, 2016 and 2015:

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

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015**	2016	2015**
Land	\$ 895	\$ 895	\$ -	\$ -	\$ 895	\$ 895
Land improvements	361	423	-	-	361	423
Buildings	1,486	1,552	-	-	1,486	1,552
Infrastructure	10,346	8,888	-	-	10,346	8,888
Equipment and vehicles	284	303	98	34	382	337
Water system	-	-	2,783	2,885	2,783	2,885
Sewer system	-	-	10,117	10,429	10,117	10,429
Construction in progress	147	1,526	-	-	147	1,526
Total	\$ 13,519	\$ 13,587	\$ 12,998	\$ 13,348	\$ 26,517	\$ 26,935

** The Town restated Sewer net position and capital assets for a correction of an error - See Footnote 13

**Town of Denton, Maryland
Management's Discussion and Analysis
Year Ended June 30, 2016**

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, 2016, the Town had total notes and bonded debt outstanding of \$6,188,127. All bonded debt and notes are backed by the full faith and credit of the Town. The total net bonded debt decreased by \$222,232. Details by type of debt are presented in the following table:

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

Figure 5

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Bonds and notes	\$ 3,668	\$ 3,800	\$ 2,519	\$ 2,610	\$ 6,187	\$ 6,410
Capital leases	32	47	-	-	32	47
Total	<u>\$ 3,700</u>	<u>\$ 3,847</u>	<u>\$ 2,519</u>	<u>\$ 2,610</u>	<u>\$ 6,219</u>	<u>\$ 6,457</u>

New debt for the fiscal year ended June 30, 2016 resulted from new installment notes issued to purchase new police trucks and a track loader.

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

Economic Factors and Next Year's Budgets and Rates

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

- **Unemployment.** The Caroline County unemployment rate decreased from 5.7% in FY2015 to 4.7% in FY2016. This is above the State average of 4.5% but below the US average of 4.9% (as of July 2016).
- State is now providing annually a onetime Highway User Grant funding that helps to reduce the cuts from 2010, but does not fully offset the total loss of revenues. Several municipalities continue to submit legislations seeking full reinstatement of all funds.

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, 4 N. 2nd St., Denton, MD 21629.

Town of Denton, Maryland
Statement of Net Position
June 30, 2016

	Governmental Activities	Business-type Activities	Total Reporting Unit
Assets			
Cash and cash equivalents	\$ 3,619,767	\$ 1,194,458	\$ 4,814,225
Receivables (net of allowance for uncollectibles)	43,767	380,500	424,267
Due from other governments	146,557	-	146,557
Loans receivable	765,209	-	765,209
Internal balances	18,543	(18,543)	-
Land held for resale	366,520	455,171	821,691
Land	895,372	-	895,372
Construction in progress	146,530	-	146,530
Other capital assets, net of accumulated depreciation	12,476,892	12,998,119	25,475,011
Total assets	<u>18,479,157</u>	<u>15,009,705</u>	<u>33,488,862</u>
Deferred Outflows of Resources			
Deferred outflows related to pensions	<u>363,403</u>	<u>175,623</u>	<u>539,026</u>
Liabilities			
Accounts payable and other current liabilities	136,265	62,289	198,554
Long-term liabilities:			
Due within one year	216,286	152,173	368,459
Due in more than one year	5,161,360	3,227,726	8,389,086
Total liabilities	<u>5,513,911</u>	<u>3,442,188</u>	<u>8,956,099</u>
Deferred Inflows of Resources			
Deferred inflows related to pensions	<u>28,305</u>	<u>18,794</u>	<u>47,099</u>
Net position			
Net investment in capital assets	9,817,960	10,847,599	20,665,559
Restricted	1,008,078	86,321	1,094,399
Unrestricted	2,474,306	790,426	3,264,732
Total net position	<u>\$ 13,300,344</u>	<u>\$ 11,724,346</u>	<u>\$ 25,024,690</u>

Town of Denton, Maryland
Statement of Activities
Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating	Capital	Primary Government		
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 415,808	\$ 83,441	\$ 8,363	\$ -	\$ (324,004)	\$ -	\$ (324,004)
Public safety	1,979,846	87,388	84,006	-	(1,808,452)	-	(1,808,452)
Public works	706,324	62,553	-	5,738	(638,033)	-	(638,033)
Recreation and culture	132,664	34,981	-	-	(97,683)	-	(97,683)
Urban development and housing	257,105	94,154	301,801	280,328	419,178	-	419,178
Economic development	52,042	-	-	-	(52,042)	-	(52,042)
Interest on long-term debt	93,768	-	-	-	(93,768)	-	(93,768)
Retirement payment	19,379	-	-	-	(19,379)	-	(19,379)
Total governmental activities	<u>3,656,936</u>	<u>362,517</u>	<u>394,170</u>	<u>286,066</u>	<u>(2,614,183)</u>	<u>-</u>	<u>(2,614,183)</u>
Business-type activities:							
Water	586,825	747,279	-	-	-	160,454	160,454
Sewer	1,273,167	1,084,055	-	-	-	(189,112)	(189,112)
Industrial park	368	1,749	-	-	-	1,381	1,381
Total business-type activities	<u>1,860,360</u>	<u>1,833,083</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(27,277)</u>	<u>(27,277)</u>
Total primary government	<u>\$ 5,517,296</u>	<u>\$ 2,195,600</u>	<u>\$ 394,170</u>	<u>\$ 286,066</u>	<u>(2,614,183)</u>	<u>(27,277)</u>	<u>(2,641,460)</u>
General revenues:							
Property taxes					2,606,715	-	2,606,715
Other taxes					514,173	-	514,173
Interest income					7,538	2,661	10,199
Miscellaneous income					116,006	-	116,006
Total general revenues					<u>3,244,432</u>	<u>2,661</u>	<u>3,247,093</u>
Transfers					26,500	(26,500)	-
Total general revenues and transfers					<u>3,270,932</u>	<u>(23,839)</u>	<u>3,247,093</u>
Change in net position					656,749	(51,116)	605,633
Net position - beginning, as restated per Note 13					12,643,595	11,775,462	24,419,057
Net position - ending					<u>\$ 13,300,344</u>	<u>\$ 11,724,346</u>	<u>\$ 25,024,690</u>

Town of Denton, Maryland
Balance Sheet - Governmental Funds
June 30, 2016

	General	Special Projects	Business Loan	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 2,446,201	\$ -	\$ 590,175	\$ 583,391	\$ 3,619,767
Receivables:					
Taxes	24,726	-	-	-	24,726
Loans	-	-	765,209	-	765,209
Other receivables	17,769	-	1,272	-	19,041
Due from other funds	93,576	-	-	-	93,576
Due from other governments	110,888	18,956	-	16,713	146,557
Total assets	<u>\$ 2,693,160</u>	<u>\$ 18,956</u>	<u>\$ 1,356,656</u>	<u>\$ 600,104</u>	<u>\$ 4,668,876</u>
Liabilities, deferred inflows and fund balances (deficit)					
Liabilities:					
Accounts payable and accrued expenses	\$ 61,137	\$ 15,489	\$ -	\$ 1,347	\$ 77,973
Due to other funds	-	75,033	-	-	75,033
Unearned revenues	58,292	-	-	-	58,292
Total liabilities	<u>119,429</u>	<u>90,522</u>	<u>-</u>	<u>1,347</u>	<u>211,298</u>
Deferred inflows of resources:					
Business loans	-	-	740,428	-	740,428
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>740,428</u>	<u>-</u>	<u>740,428</u>
Fund balances:					
Restricted	-	-	616,228	242,869	859,097
Assigned	951	-	-	355,888	356,839
Unassigned	2,572,780	(71,566)	-	-	2,501,214
Total fund balances (deficit)	<u>2,573,731</u>	<u>(71,566)</u>	<u>616,228</u>	<u>598,757</u>	<u>3,717,150</u>
Total liabilities, deferred inflows and fund balances (deficit)	<u>\$ 2,693,160</u>	<u>\$ 18,956</u>	<u>\$ 1,356,656</u>	<u>\$ 600,104</u>	<u>\$ 4,668,876</u>

Town of Denton, Maryland
Reconciliation of the Balance Sheet of the Governmental Funds to the
Statement of Net Position
June 30, 2016

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

Ending fund balance - governmental funds		\$ 3,717,150
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Land and construction in progress	\$ 1,041,902	
Depreciable assets, net	<u>12,476,892</u>	13,518,794
Other long-term revenues are not available to pay for current-period expenditures and, therefore, are unearned in the funds.		
Business loans		740,428
Land held for resale used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
		366,520
Long-term liabilities, including bonds payable, not due and payable in the current period and, therefore, are not reported in the funds.		
		(3,871,433)
Net pension liability, which not due and payable in the current period and, therefore, are not reported in the funds.		
		(1,506,213)
Deferred inflows/outflows related to pensions are not fund level resources.		
		<u>335,098</u>
Net position of governmental activities		<u><u>\$ 13,300,344</u></u>

Town of Denton, Maryland
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2016

	General	Special Projects	Business Loan	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 2,956,578	\$ -	\$ -	\$ 175,973	\$ 3,132,551
Licenses and permits	44,276	-	-	186,750	231,026
Revenue from other agencies	86,243	588,255	-	5,738	680,236
Service charges	22,805	-	-	-	22,805
Miscellaneous	142,659	21,841	108,299	2,651	275,450
Total revenues	<u>3,252,561</u>	<u>610,096</u>	<u>108,299</u>	<u>371,112</u>	<u>4,342,068</u>
Expenditures					
Current:					
General government	350,395	-	-	-	350,395
Public safety	1,638,485	-	-	-	1,638,485
Public works	343,001	-	-	119,563	462,564
Recreation and culture	61,961	-	-	-	61,961
Urban development and housing	62,560	37,713	22,416	-	122,689
Pension retirement payment	19,379	-	-	-	19,379
Capital outlay and projects	207,786	476,157	-	27,240	711,183
Debt service - principal	151,076	-	31,838	49,243	232,157
Debt service - interest	30,827	-	-	62,941	93,768
Total expenditures	<u>2,865,470</u>	<u>513,870</u>	<u>54,254</u>	<u>258,987</u>	<u>3,692,581</u>
Excess of revenues over expenditures	<u>387,091</u>	<u>96,226</u>	<u>54,045</u>	<u>112,125</u>	<u>649,487</u>
Other financing sources (uses)					
Transfers in	86,277	48,300	-	117,687	252,264
Transfers out	(128,501)	(17,000)	(15,000)	(65,263)	(225,764)
Note issued	71,833	-	-	13,807	85,640
Total other financing sources (uses), net	<u>29,609</u>	<u>31,300</u>	<u>(15,000)</u>	<u>66,231</u>	<u>112,140</u>
Net change in fund balances	<u>416,700</u>	<u>127,526</u>	<u>39,045</u>	<u>178,356</u>	<u>761,627</u>
Fund balance (deficit) - beginning	<u>2,157,031</u>	<u>(199,092)</u>	<u>577,183</u>	<u>420,401</u>	<u>2,955,523</u>
Fund balance (deficit) - ending	<u>\$ 2,573,731</u>	<u>\$ (71,566)</u>	<u>\$ 616,228</u>	<u>\$ 598,757</u>	<u>\$ 3,717,150</u>

Town of Denton, Maryland
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of the Governmental Funds to the
Statement of Activities
Year Ended June 30, 2016

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

Net change in fund balances - total governmental funds	\$ 761,627
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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	541,138
Depreciation expense	(609,750)

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	(85,640)
Repayment of principal on long-term debt	232,157
Change in compensated absences	(20,824)

Record the impact of changes in the Town's net pension liability components, net	(102,943)
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Revenues in the Statement of Activities that do not provide current financial resources are not reported in the funds	(59,016)
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Change in net position of governmental activities	\$ 656,749
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Town of Denton, Maryland
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Taxes	\$ 2,679,740	\$ 2,855,310	\$ 2,956,578	\$ 101,268
Licenses and permits	17,100	34,000	44,276	10,276
Revenue from other agencies	150,894	150,727	86,243	(64,484)
Service charges	17,600	19,100	22,805	3,705
Miscellaneous	291,106	309,800	142,659	(167,141)
Total revenues	<u>3,156,440</u>	<u>3,368,937</u>	<u>3,252,561</u>	<u>(116,376)</u>
Expenditures				
Current:				
General government	449,706	442,521	404,806	37,715
Public safety	1,886,053	1,917,845	1,786,468	131,377
Public works	336,167	349,592	343,001	6,591
Recreation and culture	60,914	60,914	65,774	(4,860)
Urban development and housing	64,200	77,594	64,139	13,455
Pension retirement payment	19,379	19,379	19,379	-
Debt service	184,320	184,320	181,903	2,417
Total expenditures	<u>3,000,739</u>	<u>3,052,165</u>	<u>2,865,470</u>	<u>186,695</u>
Excess of revenues over expenditures	<u>155,701</u>	<u>316,772</u>	<u>387,091</u>	<u>70,319</u>
Other financing sources (uses)				
Transfers in	41,500	77,218	86,277	9,059
Transfers out	(97,201)	(116,201)	(128,501)	(12,300)
Note issued	-	-	71,833	71,833
Expense reserve	(100,000)	(277,789)	-	277,789
Total other financing sources (uses), net	<u>(155,701)</u>	<u>(316,772)</u>	<u>29,609</u>	<u>346,381</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>416,700</u>	<u>\$ 416,700</u>
Fund balance - beginning			<u>2,157,031</u>	
Fund balance - ending			<u>\$ 2,573,731</u>	

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

Town of Denton, Maryland
Statement of Net Position - Proprietary Funds
June 30, 2016

	Enterprise Funds			
	Water Fund	Sewer Fund	Industrial Park Fund	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 759,895	\$ 412,715	\$ 21,848	\$ 1,194,458
Receivables:				
Service charges	139,943	229,345	-	369,288
Notes receivable	-	-	11,212	11,212
Due from other funds	-	165,599	-	165,599
Total current assets	899,838	807,659	33,060	1,740,557
Noncurrent assets:				
Land held for resale	-	-	455,171	455,171
Capital assets, net	2,817,590	10,180,529	-	12,998,119
Total noncurrent assets	2,817,590	10,180,529	455,171	13,453,290
Total assets	3,717,428	10,988,188	488,231	15,193,847
Deferred Outflows of Resources				
Deferred outflows related to pensions	59,428	116,195	-	175,623
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	10,792	50,412	1,085	62,289
Due to other funds	165,599	-	18,543	184,142
Bonds and notes payable	21,448	130,725	-	152,173
Total current liabilities	197,839	181,137	19,628	398,604
Noncurrent liabilities:				
Accrued vacation and sick leave	26,153	40,780	-	66,933
Net pension liability	257,689	535,907	-	793,596
Bonds and notes payable	1,022,816	975,531	368,850	2,367,197
Total noncurrent liabilities	1,306,658	1,552,218	368,850	3,227,726
Total liabilities	1,504,497	1,733,355	388,478	3,626,330
Deferred Inflows of Resources				
Deferred inflows related to pensions	6,291	12,503	-	18,794
Net position				
Net investment in capital assets	1,773,326	9,074,273	-	10,847,599
Restricted	-	-	86,321	86,321
Unrestricted	492,742	284,252	13,432	790,426
Total net position	\$ 2,266,068	\$ 9,358,525	\$ 99,753	\$ 11,724,346

Town of Denton, Maryland
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds
Year Ended June 30, 2016

	Enterprise Funds			Total
	Water Fund	Sewer Fund	Industrial Park Fund	
Operating revenues				
Charges for services, net	\$ 739,674	\$ 759,503	\$ -	\$ 1,499,177
Vacant lots/MD313 special assessments	-	201,809	-	201,809
Other revenues	7,605	122,743	1,749	132,097
Total operating revenues	747,279	1,084,055	1,749	1,833,083
Operating expenses				
Salaries and wages	166,332	271,578	-	437,910
Fringe benefits	102,852	169,712	-	272,564
Materials and supplies	4,252	9,504	-	13,756
Electric and telephone	37,712	99,254	-	136,966
Automotive expenses	6,870	9,837	-	16,707
Professional services	15,905	19,782	368	36,055
Repairs and maintenance	48,565	57,374	-	105,939
Depreciation	112,523	414,157	-	526,680
Other operating expenses	54,448	206,898	-	261,346
Total operating expenses	549,459	1,258,096	368	1,807,923
Operating income (loss)	197,820	(174,041)	1,381	25,160
Nonoperating revenues (expenses)				
Interest income	1,439	1,147	75	2,661
Interest expense	(37,366)	(15,071)	-	(52,437)
Net nonoperating revenues (expenses)	(35,927)	(13,924)	75	(49,776)
Income (loss) before transfers	161,893	(187,965)	1,456	(24,616)
Transfers in	26,000	11,091	-	37,091
Transfers out	(24,341)	(39,250)	-	(63,591)
Change in net position	163,552	(216,124)	1,456	(51,116)
Total net position - beginning, as restated per Note 13	2,102,516	9,574,649	98,297	11,775,462
Total net position - ending	\$ 2,266,068	\$ 9,358,525	\$ 99,753	\$ 11,724,346

Town of Denton, Maryland
Statement of Cash Flows - Proprietary Funds
Year Ended June 30, 2016

	Enterprise Funds			
	Water Fund	Sewer Fund	Industrial Park Fund	Total
Operating activities				
Cash received from customers	\$ 753,874	\$ 1,090,960	\$ 3,919	\$ 1,848,753
Cash paid to vendors	(167,803)	(436,655)	717	(603,741)
Cash paid to employees	(247,943)	(349,103)	-	(597,046)
Net cash provided by operating activities	<u>338,128</u>	<u>305,202</u>	<u>4,636</u>	<u>647,966</u>
Noncapital financing activities				
Operating transfers in (out)	(47,504)	21,004	5,232	(21,268)
Net cash provided by (used in) noncapital financing activities	<u>(47,504)</u>	<u>21,004</u>	<u>5,232</u>	<u>(21,268)</u>
Capital and related financing activities				
Interest paid	(37,366)	(15,071)	-	(52,437)
Net change in notes payable	9,465	(99,663)	-	(90,198)
Acquisition of capital assets	(40,331)	(136,191)	-	(176,522)
Net cash used in capital and related financing activities	<u>(68,232)</u>	<u>(250,925)</u>	<u>-</u>	<u>(319,157)</u>
Investing activities				
Interest received	1,439	1,147	75	2,661
Net cash provided by investing activities	<u>1,439</u>	<u>1,147</u>	<u>75</u>	<u>2,661</u>
Net increase in cash and cash equivalents	<u>223,831</u>	<u>76,428</u>	<u>9,943</u>	<u>310,202</u>
Cash and cash equivalents				
Beginning of year	<u>536,064</u>	<u>336,287</u>	<u>11,905</u>	<u>884,256</u>
End of year	<u>\$ 759,895</u>	<u>\$ 412,715</u>	<u>\$ 21,848</u>	<u>\$ 1,194,458</u>
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ 197,820	\$ (174,041)	\$ 1,381	\$ 25,160
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	112,523	414,157	-	526,680
Change in assets and liabilities:				
Decrease in accounts receivable	6,595	6,905	2,170	15,670
Increase in pension items	18,228	26,128	-	44,356
Increase (decrease) in accounts payable and accrued expenses	(51)	27,046	1,085	28,080
Increase in accrued sick leave	3,013	5,007	-	8,020
Net cash provided by operating activities	<u>\$ 338,128</u>	<u>\$ 305,202</u>	<u>\$ 4,636</u>	<u>\$ 647,966</u>

Town of Denton, Maryland
Notes to Financial Statements
June 30, 2016

Note 1 – Summary of significant accounting policies

The Town of Denton, Maryland (the "Town") began as a tiny settlement on the Choptank River about 1781 and quickly became a trade center for a wide agricultural area. Today, the Town serves as the seat of Caroline County and provides a range of municipal services, including general administration, public safety, economic and community development, street maintenance and sanitation, and water and wastewater utilities.

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

- A. The financial reporting entity
The Town's financial reporting entity is defined in accordance with GAAP, which defines the distinction between the town as a Primary Government and any related entities. As the Town has no entities for which it is financially accountable and meet the definition of a component unit under GAAP, these financial statements only present the Town as the Reporting Entity.
- B. Financial statement presentation
The accounting and reporting policies of the Town included in the accompanying basic financial statements conform to GAAP, which requires the following reporting presentation:

Government-wide and Fund Financial Statements

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

Government-wide statements

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

Town of Denton, Maryland
Notes to Financial Statements
June 30, 2016

Note 1 – Summary of significant accounting policies (continued)

Fund financial statements

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

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

General Fund (major) accounts for all revenues and expenditures applicable to the general operations of the Town, which are not accounted for in other funds.

Special Revenue Funds account for the proceeds of specific revenue sources (other than those derived from special assessments, expendable trusts, or dedicated for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. Special Revenue Funds consist of the major Business Loan Fund (loans made to various businesses for economic development) and the non-major Highway Fund (various highway improvement projects).

Capital Projects Funds accounts for other general capital improvement projects of the Town using the major Special Projects (various economic, urban, and housing development projects) and the non-major Capital Improvement Fund (other projects) to account for the projects.

2. Enterprise funds account for operations that are financed in a manner similar to private business enterprises. The Proprietary Fund measurement focus is based upon determination of net income, financial position, and changes in financial position. Proprietary Funds, all major funds, consist of the Water, Sewer, and Industrial Park (accounts for parcels of land purchased by the Town for future development and sale to private businesses) Funds.

The total enterprise fund columns in the proprietary fund Statement of Net Position and Statement of Revenues, Expenses and Changes in Fund Net Position are equal to the business-type activity column in the government-wide statements.

Town of Denton, Maryland
Notes to Financial Statements
June 30, 2016

Note 1 – Summary of significant accounting policies (continued)

Reconciliation of Government-wide and Fund Financial Statements

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

C. Basis of accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Real and personal property taxes are recorded as revenues and receivables when available, net of allowances for uncollectible amounts. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

Town of Denton, Maryland
Notes to Financial Statements
June 30, 2016

Note 1 – Summary of significant accounting policies (continued)

D. Budgets, budgetary accounting

The following procedures are used by the Town in establishing the budgetary data reflected in the financial statements.

1. At or before the first Town Council meeting in April of each year, the Mayor submits to the Town Council a budget for the ensuing fiscal year and an accompanying message.
2. The budget shows in detail all estimated income, proposed expenditures for current operations and capital expenditures. Total proposed expenditures cannot exceed the total of estimated income and applied surplus, if any.
3. A public hearing is conducted to obtain citizen comments.
4. The Town Council adopts the budget on or before June 10. However, if the budget is not adopted by July 1, 1/12 of the current budget can be extended for a 30 day period by majority vote.
5. The budget is legally enacted through passage of an appropriations ordinance.
6. All budgets are adopted on a basis consistent with GAAP.
7. Appropriations lapse at June 30 for all Town departments.
8. All budget data presented in the accompanying financial statements is the legally amended or revised budget as of June 30.

E. Allowance for uncollectible accounts

The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. There was no allowance recorded at June 30, 2016.

F. Cash and cash equivalents

The Town considers cash and cash equivalents to be all highly liquid investments with a maturity of three months or less.

G. Land held for resale

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

Town of Denton, Maryland
Notes to Financial Statements
June 30, 2016

Note 1 – Summary of significant accounting policies (continued)

H. Capital assets

Governmental funds: Capital outlays are recorded as expenditures on the governmental fund financial statements and as assets on the government-wide financial statements to the extent the Town's capitalization threshold of \$5,000 is met. In accordance with GAAP, infrastructure has been capitalized retroactively to 1980. Depreciation on capital assets has been recorded over the estimated useful lives using the straight-line method. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their acquisition value on the date donated. Repairs and maintenance are charged to expense when incurred. 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 acquisition 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. Deferred Outflows/Inflows of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenditure/expense) until the future period. The Town recognizes deferred outflows for changes in actuarial assumptions, differences between projected and actual earnings on investments that are being amortized over a five-year period and contributions made subsequent to the measurement date related to pensions.

A deferred inflow of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until the future period. The Town recognizes deferred inflows for the difference between the expected and actual experience related to pensions.

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

Town of Denton, Maryland
Notes to Financial Statements
June 30, 2016

Note 1 – Summary of significant accounting policies (continued)

K. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about fiduciary net positions of the Maryland State Retirement and pension System (System) and additions to/deductions from the System's fiduciary net positions have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of the employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

L. 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. Actual results could differ from those estimates.

M. Net Position / Fund Balance

Net Position in government-wide and proprietary fund financial statements is classified as net investment in capital assets, restricted, and unrestricted. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

In the governmental funds' financial statements, fund balance is composed of five potential 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, 2016.

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

Committed Fund Balance – Amounts constrained to specific purposes by formal action (adoption of an ordinance) by the government's highest level of decision-making authority (Town Council). Committed amounts do not lapse nor can they be used for any other purpose unless the government takes the same level of action (adoption of another ordinance) to remove or change the constraint. The Town does not have any committed fund balances at June 30, 2016.

Town of Denton, Maryland
Notes to Financial Statements
June 30, 2016

Note 1 – Summary of significant accounting policies (continued)

Assigned Fund Balance – Represents the 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 other governmental funds are assigned if they are not committed, restricted or nonspendable. Assigned funds lapse at the end of the fiscal year in which they were assigned. With the exception of the General Fund, this is the residual fund balance of the classification of all governmental funds with positive balances.

Unassigned Fund Balance – Represents the portion of the General Fund balance that has not been restricted, committed, or assigned to specific purposes or other funds. At June 30, 2016, the Town had a deficit unassigned fund balance in the Special Projects Fund.

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 Treasurer has the authority to deviate from this policy if it is in the best interest of the Town.

N. Internal and intra-entity activity

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

O. Change in accounting principles

Effective July 1, 2015, the Town adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements. Statement No. 72 also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. In practice, the effect on the Town's financial statements will be minor changes to the note disclosures for the Cash and Investments.

Effective July 1, 2015, the Town adopted the provisions of GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, the objective of which is to identify the hierarchy of GAAP. Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. In practice, there have been no material changes to the financial statements of the Town as a result of Statement No. 76.

Town of Denton, Maryland
Notes to Financial Statements
June 30, 2016

Note 2 – Deposits and investments

Deposits

At year end, the carrying value of the Town's deposits with banks and financial institutions was \$586,763 and the bank balance was \$786,404. The entire bank balance 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 laws and 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 ("LGIP"), which is carried at amortized cost consistent with the pool's valuation in accordance with GAAP.

At June 30, 2016, the Town's deposit and investment balances were as follows:

	Fair Value
LGIP	\$ 4,226,962
Deposits	586,763
Cash on hand	500
Total cash and investments	<u>\$ 4,814,225</u>

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 LGIP is not subject to maturity limits.

Credit risk: The Town's investments in the LGIP are rated AAAM by Standard and Poor's.

Note 3 – Property taxes

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

Town of Denton, Maryland
Notes to Financial Statements
June 30, 2016

Note 4 – Accounts receivable and loans receivable

Receivables at June 30, 2016 consist of the following:

	<u>General</u>	<u>Business Loan</u>	<u>Water</u>	<u>Sewer</u>	<u>Industrial Park</u>
Accounts receivable:					
Taxes	\$ 24,726	\$ -	\$ -	\$ -	\$ -
Loans	-	765,209	-	-	-
Service charges	-	-	139,943	229,345	-
Notes	-	-	-	-	11,212
Other	17,769	1,272	-	-	-
Total accounts receivable	<u>\$ 42,495</u>	<u>\$ 766,481</u>	<u>\$ 139,943</u>	<u>\$ 229,345</u>	<u>\$ 11,212</u>

The Business Loan fund has \$765,209 in outstanding loan payments as of June 30, 2016. Business Loans are granted by the Town to local businesses with Council approval. Payment terms on these loans vary.

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, 2016, were as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 93,576	\$ -
Special Projects Fund	-	75,033
Water Fund	-	165,599
Sewer Fund	165,599	-
Industrial Park Fund	-	18,543
Total	<u>\$ 259,175</u>	<u>\$ 259,175</u>

Town of Denton, Maryland
Notes to Financial Statements
June 30, 2016

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

Interfund transfers at June 30, 2016, were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 86,277	\$ 128,501
Special Projects Fund	48,300	17,000
Business Loan Fund	-	15,000
Highway Fund	117,687	-
Capital Improvement Fund	-	65,263
Water Fund	26,000	24,341
Sewer Fund	11,091	39,250
Total	<u>\$ 289,355</u>	<u>\$ 289,355</u>

Transfers were recorded to reallocate funding for capital projects and cover certain operating expenses during the year. These amounts are expected to be repaid within one year.

Note 6 – Capital assets

	<u>Balances July 1, 2015</u>	<u>Additions / Transfers In</u>	<u>Deletions / Transfers Out</u>	<u>Balances June 30, 2016</u>
Governmental activities:				
Nondepreciable capital assets:				
Land	\$ 895,372	\$ -	\$ -	\$ 895,372
Construction in progress	1,526,242	374,348	(1,754,060)	146,530
Total nondepreciable capital assets	<u>2,421,614</u>	<u>374,348</u>	<u>(1,754,060)</u>	<u>1,041,902</u>
Depreciable capital assets:				
Land improvements	1,407,950	-	-	1,407,950
Buildings	2,736,266	-	-	2,736,266
Infrastructure	11,556,307	1,763,125	-	13,319,432
Furniture and equipment	493,249	33,795	-	527,044
Vehicles	1,217,260	123,930	-	1,341,190
Total depreciable capital assets	<u>17,411,032</u>	<u>1,920,850</u>	<u>-</u>	<u>19,331,882</u>
Less-accumulated depreciation				
Land improvements	(985,515)	(61,787)	-	(1,047,302)
Buildings	(1,184,228)	(66,160)	-	(1,250,388)
Infrastructure	(2,667,605)	(305,431)	-	(2,973,036)
Furniture and Equipment	(445,303)	(25,893)	-	(471,196)
Vehicles	(962,589)	(150,479)	-	(1,113,068)
Total accumulated depreciation	<u>(6,245,240)</u>	<u>(609,750)</u>	<u>-</u>	<u>(6,854,990)</u>
Total depreciable capital assets, net	<u>11,165,792</u>	<u>1,311,100</u>	<u>-</u>	<u>12,476,892</u>
Governmental activities capital assets, net	<u>\$ 13,587,406</u>	<u>\$ 1,685,448</u>	<u>\$ (1,754,060)</u>	<u>\$ 13,518,794</u>

Town of Denton, Maryland
Notes to Financial Statements
June 30, 2016

Note 6 – Capital assets (continued)

	<u>Balances</u> <u>July 1, 2015 **</u>	<u>Additions /</u> <u>Transfers In</u>	<u>Deletions /</u> <u>Transfers Out</u>	<u>Balances</u> <u>June 30, 2016</u>
Business-type activities:				
Depreciable capital assets:				
Municipal water system	\$ 4,329,856	\$ -	\$ -	\$ 4,329,856
Municipal sewer system	17,163,467	86,626	-	17,250,093
Machinery and equipment	356,223	89,896	-	446,119
Total depreciable capital assets	<u>21,849,546</u>	<u>176,522</u>	<u>-</u>	<u>22,026,068</u>
Less accumulated depreciation for:				
Municipal water system	(1,445,135)	(101,967)	-	(1,547,102)
Municipal sewer system	(6,733,879)	(399,250)	-	(7,133,129)
Machinery and equipment	(322,255)	(25,463)	-	(347,718)
Total accumulated depreciation	<u>(8,501,269)</u>	<u>(526,680)</u>	<u>-</u>	<u>(9,027,949)</u>
Total depreciable capital assets, net	<u>13,348,277</u>	<u>(350,158)</u>	<u>-</u>	<u>12,998,119</u>
Business-type activities capital assets, net	<u>\$ 13,348,277</u>	<u>\$ (350,158)</u>	<u>\$ -</u>	<u>\$ 12,998,119</u>

** Sewer accumulated depreciation is restated - see Note 13.

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

Governmental activities:	
General government	\$ 46,814
Public safety	89,786
Public works	223,865
Recreation and culture	67,810
Urban development and housing	129,433
Economic development	52,042
	<u>\$ 609,750</u>
Business-type activities:	
Water	\$ 112,523
Sewer	414,157
	<u>\$ 526,680</u>

Town of Denton, Maryland
Notes to Financial Statements
June 30, 2016

Note 7 – Long-term obligations

The Town issues general obligation bonds and installment 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 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, 2016 are as follows:

Description	Amount
Governmental activities:	
State and Federal notes and bonds:	
\$265,000 issued, Town's contractual share of Caroline County CDA Bonds, due in annual installments through May 2017, interest at 5.52%.	\$ 19,554
\$1,240,000 Highway fund share of 5 th Ave project loan issued by USDA, due in monthly installments of \$4,333 until 2052, interest at 3.01%.	1,133,229
\$266,950 issued, Series 2008 Maryland Public Improvement Bonds, due in annual installments through June 30, 2047, interest at 4.38%.	241,632
Total State and Federal notes and bonds	<u>1,394,415</u>
Installment notes:	
\$145,000 installment note payable, due in monthly payments of \$806 variable interest at 65% of Prime Rate floating with a floor 2.11% and a ceiling of 2.99% for 15 years.	114,388
\$685,000 installment note payable, due in annual principal payments of \$2,283, variable interest at 65% of Prime Rate floating with a floor of 2.11% and a ceiling of 2.99% for 15 years with a 20 year amortization	585,497
\$1,100,000 installment note payable, due in annual payments of \$4,583, variable interest at 65% of Prime Rate floating with a floor of 2.11% and a ceiling of 2.99% for 15 years with a 20 year amortization.	888,958
\$60,764 installment note payable, financing of two police cars, due in monthly payments of \$1,109 through 2017, interest at 3.56%.	9,736
\$30,616 installment note payable, financing of one police car, due in monthly payments of \$546 through 2019, interest at 2.71%.	19,868
\$32,118 installment note payable, financing of one police car, due in monthly payments of \$556 through 2020, interest at 1.52%.	24,841
\$71,833 installment note payable, financing of two police trucks, due in monthly payments of \$1,543 through 2019, interest at 1.52%.	61,628
\$13,807 Highway fund share of installment note payable, financing of one trackloader, split due in semi-annually payments of \$1,438 through 2020, interest at 1.49%.	12,472
Total installment notes	<u>1,717,388</u>

Town of Denton, Maryland
Notes to Financial Statements
June 30, 2016

Note 7 – Long-term obligations (continued)

Federal notes and loans:

\$150,000 intermediary relending program note, issued by the USDA, of which \$205,000 was drawn down, due in annual payments of \$9,142 through 2036, interest at 1%.	\$ 155,804
Intermediary relending program note, issued by the USDA, of which \$130,000 was drawn down, due in annual payments of \$5,023 through 2033, interest at 5%.	101,990
Intermediary relending program note, issued by the USDA, of which \$150,000 was drawn down, due in annual payments of \$5,565 through 2034, interest at 5%.	122,558
Intermediary relending program note, issued by the USDA, of which \$170,000 was drawn down, due in annual payments of \$8,966 through 2029, interest at 3%.	99,759
Intermediary relending program note, issued by the USDA, of which \$90,000 was drawn down, due in annual payments of \$3,142 through 2036, interest at 5%.	76,843
Total Federal notes and loans	<u>556,954</u>

Capital leases:

\$77,831 lease for tractors and mowers, due in annual installments of \$17,734.40 through November 2017, interest at 6.77%.	32,077
Total governmental activities	<u>\$ 3,700,834</u>

Business type activities:

Notes and bonds:

\$500,000 issued, Series 2008 Maryland Public Improvement Bonds, due in quarterly installments through June 30, 2047, interest at 4.38%.	\$ 452,705
\$2,332,577 MDE note issued September 23, 2004, due in annual installments of \$121,589 including interest at 0.4% through February 2024.	955,435
\$140,000, Rural Development Loan due in quarterly installments of \$1,892 including interest at 4.5%, through September 2027.	65,089
\$623,560 Water and Sewer fund share of 5th Ave project loan issued by USDA, due in quarterly installments of \$6,709 until 2052, interest at 3.01%.	583,785
\$53,500 MDE note issued January 28, 2011, due in annual installments including interest at 1.2% through February 2031.	43,616
\$55,230 Water and Sewer fund share of installment note payable, financing of one trackloader, split due in semi-annually payments of \$5,752 through 2020, interest at 1.49%.	49,890
Total notes and bonds	2,150,520
\$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 are to go towards the repayment, which is due August 2020, no interest.	368,850
Total business-type activities	<u>\$ 2,519,370</u>

Town of Denton, Maryland
Notes to Financial Statements
June 30, 2016

Note 7 – Long-term obligations (continued)

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

Year Ending June 30	Governmental Activities					
	State Notes & Bonds		Installment Notes		Federal Notes and Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 41,414	\$ 45,521	\$ 134,643	\$ 40,918	\$ 24,735	\$ 19,654
2018	22,580	43,559	125,483	37,893	25,555	18,834
2019	23,324	42,815	126,070	35,048	26,409	17,980
2020	24,093	42,046	109,194	32,253	27,298	17,090
2021	24,889	41,250	93,494	29,791	28,225	16,163
2022-2026	137,350	193,345	460,339	114,445	156,456	65,486
2027-2031	161,702	168,994	429,724	58,118	156,860	36,479
2032-2036	190,509	140,187	200,951	18,141	108,748	8,504
2037-2041	224,621	106,077	37,490	3,096	2,668	25
2042-2046	265,048	65,881	-	-	-	-
2047-2051	253,108	22,825	-	-	-	-
2052	25,777	225	-	-	-	-
Total	<u>\$ 1,394,415</u>	<u>\$ 912,725</u>	<u>\$ 1,717,388</u>	<u>\$ 369,703</u>	<u>\$ 556,954</u>	<u>\$ 200,215</u>

Year Ending June 30	Business-type Activities			
	General Obligation Notes		Other Notes	
	Principal	Interest	Principal	Interest
2017	\$ 152,173	\$ 44,764	\$ -	\$ -
2018	153,650	43,284	-	-
2019	155,164	41,772	-	-
2020	156,717	40,218	-	-
2021	152,559	38,625	368,850	-
2022-2026	513,366	170,755	-	-
2027-2031	147,183	140,935	-	-
2032-2036	153,725	114,985	-	-
2037-2041	181,978	84,414	-	-
2042-2046	218,976	47,418	-	-
2047-2051	151,748	12,206	-	-
2052	13,281	117	-	-
Total	<u>\$ 2,150,520</u>	<u>\$ 779,493</u>	<u>\$ 368,850</u>	<u>\$ -</u>

Town of Denton, Maryland
Notes to Financial Statements
June 30, 2016

Note 7 – Long-term obligations (continued)

Capital leases

The Town leases certain equipment under capital lease agreements. At June 30, 2016, the Town had \$32,077 of assets held under capital lease. Future minimum lease payments are as follows:

2017	\$ 17,734
2018	17,735
Total	<u>35,469</u>
Less interest	3,392
Net	<u><u>\$ 32,077</u></u>

The following is a summary of changes in long-term liabilities of the Town for the year ended June 30, 2016:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
Governmental activities:					
State notes and bonds	\$ 1,436,037	\$ -	\$ 41,622	\$ 1,394,415	\$ 41,414
Installment notes	1,785,860	85,640	154,112	1,717,388	134,643
Federal loans and notes	578,894	-	21,940	556,954	24,735
Capital lease	46,560	-	14,483	32,077	15,494
Net pension liability	1,107,666	561,563	163,016	1,506,213	-
Compensated absences	149,775	85,933	65,109	170,599	-
Total	<u>\$ 5,104,792</u>	<u>\$ 733,136</u>	<u>\$ 460,282</u>	<u>\$ 5,377,646</u>	<u>\$ 216,286</u>
Business-type activities:					
Notes and bonds	\$ 2,609,568	\$ 55,230	\$ 145,428	\$ 2,519,370	\$ 152,173
Net pension liability	621,877	241,955	70,236	793,596	-
Compensated absences	58,913	33,716	25,696	66,933	-
Total	<u>\$ 3,290,358</u>	<u>\$ 330,901</u>	<u>\$ 241,360</u>	<u>\$ 3,379,899</u>	<u>\$ 152,173</u>

Operating leases

The Town leases certain equipment under operating lease arrangements. Current year expense was \$10,924. Future minimum lease payments are:

2017	\$ 10,924
2018	7,731
2019	<u>3,720</u>
Total	<u><u>\$ 22,375</u></u>

Town of Denton, Maryland
Notes to Financial Statements
June 30, 2016

Note 8 – Retirement plan

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.

The State of Maryland is the statutory guarantor for the payment of all pensions, annuities, retirement allowances, refunds, reserves, and other benefits of the System. The Agency is legally authorized to use all assets accumulated for the payment of benefits to pay such obligations to any plan member or beneficiary as defined by the terms of the plan. Consequently, the System is accounted for as a single plan as defined in GAAP. Additionally, the System is fiscally dependent on the State by virtue of the legislative and executive controls exercised with respect to its operations, policies, and administrative budget. Accordingly, the System is included in the State's reporting entity and disclosed in its financial statements as a pension trust fund.

The System is comprised of the Teachers' Retirement and Pension Systems, Employees' Retirement and Pension Systems, State Police Retirement System, Judges' Retirement System, and the Law Enforcement Officers' Pension System.

Members may retire with full benefits after completing thirty 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.

At the measurement date, the Town's proportionate share was .011067%, and increase from prior year's proportionate share of .009746.

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 5.0% 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 2016 was based on the salaries for the year ended June 30, 2015. 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 \$221,336 in fiscal year 2016. Annual payments in future years will increase by 5% per year through December 2020.

Town of Denton, Maryland
Notes to Financial Statements
June 30, 2016

Note 8 – Retirement plan (continued)

Actuarial Assumptions – The total pension liability for the Retirement Plan was based on an actuarial valuation measuring the liability as of June 30, 2015 using the Entry Age Normal actuarial cost method and the following assumptions.

Inflation 2.95% general, 3.45% wage
Salary increases, including Inflation 3.4% – 11.9%
Investment rate of return 7.55%

Mortality rates:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2025 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2025 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2025 with males set back 3 years and no provision for future mortality improvement.

Net Pension Liability – The most recent actuarial valuation to determine the net pension liabilities for the Town was prepared as of June 30, 2015.

Long-Term Expected Rate of Return – The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Town of Denton, Maryland
Notes to Financial Statements
June 30, 2016

Note 8 – Retirement plan (continued)

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class for use in the last actuarial experience study for the four-year period ending June 30, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Rate of Return
Public Equity	35.00%	6.30%
Fixed Income	10.00%	0.60%
Credit Opportunity	10.00%	3.20%
Real Return	14.00%	1.80%
Absolute Return	10.00%	4.20%
Private Equity	10.00%	7.20%
Real Estate	10.00%	4.40%
Cash	1.00%	0.00%
Total	100.00%	

Discount Rate

The discount rate used to measure the total pension liability was 7.55%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the state of Maryland Statutes and the employer contributions will be made in accordance with the state's funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the Board-certified rates that are funded by the Maryland General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the net pension liability of the Town, calculated using the discount rate of 7.55 percent, as well as what the Town's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.55 percent) or 1-percentage-point higher (8.55 percent) than the current rate:

	1% Decrease (6.55%)	Current Discount Rate (7.55%)	1% Increase (8.55%)
Net pension liability	\$ 3,250,427	\$ 2,299,809	\$ 1,511,557

There were no changes in assumptions or benefit terms since the prior measurement period. There were no changes between the measurement date of the collected net pension liability and the Town's reporting date.

Town of Denton, Maryland
Notes to Financial Statements
June 30, 2016

Note 8 – Retirement plan (continued)

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2016, the Town recognized pension expense of \$224,320. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 202,566	\$ -
Difference between actual and expected experience	-	47,099
Changes in assumptions	115,124	-
Employer contributions subsequent to the measurement date	221,336	-
	<u>\$ 539,026</u>	<u>\$ 47,099</u>

Deferred outflows of resources resulting from contributions made subsequent to the measurement date will be recognized as a reduction of pension expense in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	
2017	\$ 64,247
2018	64,247
2019	64,247
2020	64,247
2021	13,603
Total	<u>\$ 270,591</u>

Note 9—Other postemployment benefits (OPEB)

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 postemployment benefits; therefore, no related liability has been recorded.

Note 10 – Risk management

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

Town of Denton, Maryland
Notes to Financial Statements
June 30, 2016

Note 11 – 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 to date under this program are \$385,500.

Note 12 – Related-party transactions

The Town expects to have in the ordinary course of business lending transactions with Town Council members. The Town believes these transactions are made on substantially the same terms as those prevailing at the time for comparable transactions with other persons and do not involve more than a normal risk of collectability or present any unfavorable terms. A transaction in the form of debt took place between Mayor McNinch and the Town on July 31, 2014. Two small business loans were refinanced in the amount of \$72,000 & \$90,000 to renovate and repair a small business at 406 Market Street. The loans appear to be executed at arm's length with reasonable interest rates and standard payment terms.

Note 13 – Restatement of beginning net position

The restatement for the error correction was due to an under recording of depreciation expense in the Sewer Fund in the prior year. The impact to fairly present net position and accumulated depreciation as of June 30, 2015 is as follows:

	<u>Sewer Fund</u>	<u>Business-type Activities</u>
Net Position at June 30, 2015, as previously reported	\$ 9,689,017	\$ 11,889,830
Correction of error	<u>(114,368)</u>	<u>(114,368)</u>
Net Position at June 30, 2015, as restated	<u>\$ 9,574,649</u>	<u>\$ 11,775,462</u>
Net Capital Assets at June 30, 2015, as previously reported	\$ 10,572,863	\$ 13,462,645
Correction of error	<u>(114,368)</u>	<u>(114,368)</u>
Net Capital Assets at June 30, 2015, as restated	<u>\$ 10,458,495</u>	<u>\$ 13,348,277</u>

The impact of the correction of this error in the appropriate fiscal year would have increased the Sewer Fund's, and in turn, the business-type activities' depreciation expense by \$114,368 for the fiscal year ended June 30, 2015.

Town of Denton, Maryland
Required Supplementary Information
Schedule of the Town's Proportionate Share of the Net Pension Liability - Exhibit 1
Last 10 Fiscal Years

	2016	2015
Town's proportion of the net pension liability	0.011067%	0.009746%
Town's proportionate share of the net pension liability	\$ 2,299,809	\$ 1,729,543
Town's covered-employee payroll	\$ 1,458,891	\$ 1,448,844
Town's proportionate share of the net pension liability as a % of covered-employee payroll	157.64%	119.37%
Plan fiduciary net position as a % of total pension liability	68.78%	71.87%

As 2015 was the initial year of reporting pension requirements in accordance with GAAP, only two years of information is available.

Town of Denton, Maryland
Required Supplementary Information
Schedule of Employer Contributions - Exhibit 2
Last 10 Fiscal Years

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2016	\$ 221,337	\$ 221,336	\$ -	\$ 1,458,891	15%
2015	233,251	233,251	-	1,448,844	16%

As 2015 was the initial year of reporting pension requirements in accordance with GAAP, only two years of information is available.

Town of Denton, Maryland
Notes to Required Supplementary Information
Year Ended June 30, 2016

Changes of benefit terms – There have been no significant changes to the System benefit provisions since the prior actuarial valuation.

Actuarial Assumptions – The total pension liability for the Retirement Plan was based on an actuarial valuation measuring the liability as of June 30, 2015 using the Entry Age Normal actuarial cost method and the following assumptions.

Inflation 2.95% general, 3.45% wage
Salary increases, including Inflation 3.45% – 10.70%
Investment rate of return 7.55%

Mortality rates:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2025 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2025 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2025 with males set back 3 years and no provision for future mortality improvement.

Town of Denton, Maryland
Combining Balance Sheet – Nonmajor Governmental Funds
June 30, 2016

	Capital Improvement	Highway Fund	Total Nonmajor Governmental Funds
Assets			
Cash and cash equivalents	\$ 355,888	\$ 227,503	\$ 583,391
Due from other governments	-	16,713	16,713
	<u>355,888</u>	<u>244,216</u>	<u>600,104</u>
Total assets	<u>\$ 355,888</u>	<u>\$ 244,216</u>	<u>\$ 600,104</u>
Liabilities and fund balances			
Liabilities:			
Accounts payable and accrued expenses	\$ -	\$ 1,347	\$ 1,347
Total liabilities	<u>-</u>	<u>1,347</u>	<u>1,347</u>
Fund balances:			
Restricted	-	242,869	242,869
Assigned	355,888	-	355,888
Total fund balances	<u>355,888</u>	<u>242,869</u>	<u>598,757</u>
Total liabilities and fund balances	<u>\$ 355,888</u>	<u>\$ 244,216</u>	<u>\$ 600,104</u>
See report of independent auditor			

Town of Denton, Maryland
Combining Statement of Revenues, Expenditures and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2016

	Capital Improvement	Highway Fund	Total Nonmajor Governmental Funds
Revenues			
Taxes	\$ -	\$ 175,973	\$ 175,973
Licenses and permits	186,750	-	186,750
Revenue from other agencies	-	5,738	5,738
Miscellaneous	668	1,983	2,651
Total revenues	<u>187,418</u>	<u>183,694</u>	<u>371,112</u>
Expenditures			
Current:			
Public works	-	119,563	119,563
Capital outlay and projects	-	27,240	27,240
Debt service - principal	-	60,471	60,471
Debt service - interest	-	51,713	51,713
Total expenditures	<u>-</u>	<u>258,987</u>	<u>258,987</u>
Excess (deficiency) of revenues over (under) expenditures	<u>187,418</u>	<u>(75,293)</u>	<u>112,125</u>
Other financing sources(uses)			
Note issued	-	13,807	13,807
Transfers in/out	(65,263)	117,687	52,424
Total other financing sources(uses), net	<u>(65,263)</u>	<u>131,494</u>	<u>66,231</u>
Net change in fund balances	122,155	56,201	178,356
Fund balance - beginning	<u>233,733</u>	<u>186,668</u>	<u>420,401</u>
Fund balance - ending	<u><u>\$ 355,888</u></u>	<u><u>\$ 242,869</u></u>	<u><u>\$ 598,757</u></u>

See report of independent auditor

Town of Denton, Maryland
Schedule of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual Detail – General Fund
Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
Taxes:				
Real estate tax	\$ 2,369,446	\$ 2,483,681	\$ 2,483,759	\$ 78
Railroad and public utilities	45,000	48,901	48,901	-
Corporation	124,000	148,500	148,675	175
Tax interest and penalties	7,700	14,670	18,230	3,560
Abatements (tax)	(71,300)	(93,336)	(92,607)	729
Income tax	199,194	199,194	311,111	111,917
Admission and amusement tax	2,500	4,000	3,718	(282)
Hotel tax	3,200	49,700	34,791	(14,909)
Total taxes	<u>2,679,740</u>	<u>2,855,310</u>	<u>2,956,578</u>	<u>101,268</u>
Licenses and permits:				
Traders license	9,000	10,000	16,945	6,945
Building and sign permits	7,500	21,200	23,916	2,716
Other licenses and permits	600	2,800	3,415	615
Total licenses and permits	<u>17,100</u>	<u>34,000</u>	<u>44,276</u>	<u>10,276</u>
Revenue from Other Agencies:				
State police aid	65,843	65,843	71,984	6,141
County Police Safety Grant	3,614	3,614	3,614	-
Critical areas	1,750	1,750	1,750	-
Other county revenue	72,487	72,320	487	(71,833)
Other state revenue	7,200	7,200	8,408	1,208
Total revenue from other agencies	<u>150,894</u>	<u>150,727</u>	<u>86,243</u>	<u>(64,484)</u>
Service charges:				
Parking fines/meter income	<u>17,600</u>	<u>19,100</u>	<u>22,805</u>	<u>3,705</u>
Miscellaneous Income:				
Cable TV franchise fees	23,000	25,599	25,599	-
Water tower/land rental	16,000	16,600	16,875	275
Interest income	800	2,850	6,338	3,488
Miscellaneous income	251,306	264,749	93,845	(170,904)
Post card income	-	2	2	-
Total miscellaneous income	<u>291,106</u>	<u>309,800</u>	<u>142,659</u>	<u>(167,141)</u>
Total revenues	<u>3,156,440</u>	<u>3,368,937</u>	<u>3,252,561</u>	<u>(116,376)</u>

Town of Denton, Maryland
Schedule of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual Detail – General Fund
Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures				
General Government:				
General administration:				
Salaries	\$ 65,562	\$ 65,562	\$ 65,216	\$ 346
Other operating expenses	91,768	90,306	69,962	20,344
Total general administration	<u>157,330</u>	<u>155,868</u>	<u>135,178</u>	<u>20,690</u>
Legislative:				
Salaries	15,600	15,600	15,600	-
Other operating expenses	13,913	9,352	12,006	(2,654)
Total legislative	<u>29,513</u>	<u>24,952</u>	<u>27,606</u>	<u>(2,654)</u>
Elections:				
Salaries	150	100	100	-
Other operating expenses	2,350	2,400	1,577	823
Total elections	<u>2,500</u>	<u>2,500</u>	<u>1,677</u>	<u>823</u>
Financial Administration:				
Salaries	113,881	113,881	109,460	4,421
Other operating expenses	68,557	70,395	61,149	9,246
Total financial administration	<u>185,438</u>	<u>184,276</u>	<u>170,609</u>	<u>13,667</u>
Municipal Building:				
Other operating expenses	14,925	17,773	14,841	2,932
Capital outlay	60,000	57,152	54,895	2,257
Total municipal building	<u>74,925</u>	<u>74,925</u>	<u>69,736</u>	<u>5,189</u>
Total general government	<u>449,706</u>	<u>442,521</u>	<u>404,806</u>	<u>37,715</u>
Public Safety:				
Police Department:				
Salaries	736,338	737,338	677,022	60,316
Other operating expenses	627,395	625,961	559,194	66,767
Capital outlay	94,614	95,000	102,929	(7,929)
Total police department	<u>1,458,347</u>	<u>1,458,299</u>	<u>1,339,145</u>	<u>119,154</u>
Volunteer Fire Company:				
Other operating expenses	84,700	83,853	84,100	(247)
Capital outlay	-	32,687	32,687	-
Total volunteer fire company	<u>84,700</u>	<u>116,540</u>	<u>116,787</u>	<u>(247)</u>
Zoning, Codes, and Inspection:				
Salaries	149,936	157,797	158,000	(203)
Other operating expenses	183,070	175,209	160,169	15,040
Capital outlay	10,000	10,000	12,367	(2,367)
Total zoning, codes, and inspection	<u>343,006</u>	<u>343,006</u>	<u>330,536</u>	<u>12,470</u>
Total public safety	<u>1,886,053</u>	<u>1,917,845</u>	<u>1,786,468</u>	<u>131,377</u>

Town of Denton, Maryland
Schedule of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual Detail – General Fund
Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Street sanitation:				
Salaries	\$ 47,430	\$ 46,430	\$ 47,160	\$ (730)
Other operating expenses	45,352	55,877	50,595	5,282
Total street sanitation	<u>92,782</u>	<u>102,307</u>	<u>97,755</u>	<u>4,552</u>
Street lighting	89,000	92,900	89,408	3,492
Trash collection	153,310	153,310	154,763	(1,453)
Mosquito spraying	1,075	1,075	1,075	-
Total public works	<u>336,167</u>	<u>349,592</u>	<u>343,001</u>	<u>6,591</u>
Recreation and Culture:				
Parks and recreation:				
Salaries	30,061	30,061	29,761	300
Other operating expenses	29,853	29,853	30,162	(309)
Capital outlay	-	-	5,392	(5,392)
Total parks and recreation	<u>59,914</u>	<u>59,914</u>	<u>65,315</u>	<u>(5,401)</u>
Tennis courts:				
Other operating expenses	1,000	1,000	459	541
Total recreation and culture	<u>60,914</u>	<u>60,914</u>	<u>65,774</u>	<u>(4,860)</u>
Urban Development and Housing:				
Community development:				
Other operating expenses	<u>64,200</u>	<u>77,594</u>	<u>64,139</u>	<u>13,455</u>
Retirement payment	<u>19,379</u>	<u>19,379</u>	<u>19,379</u>	<u>-</u>
Debt service	<u>184,320</u>	<u>184,320</u>	<u>181,903</u>	<u>2,417</u>
Total expenditures	<u>3,000,739</u>	<u>3,052,165</u>	<u>2,865,470</u>	<u>186,695</u>
Excess of revenues over expenditures	<u>155,701</u>	<u>316,772</u>	<u>387,091</u>	<u>70,319</u>

Town of Denton, Maryland
Schedule of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual Detail – General Fund
Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Other Financing Sources (Uses)				
Transfers in	\$ 41,500	\$ 77,218	\$ 86,277	\$ 9,059
Transfers (out)	(97,201)	(116,201)	(128,501)	(12,300)
Expense reserve	(100,000)	(277,789)	-	277,789
Total other financing sources (uses), net	<u>(155,701)</u>	<u>(316,772)</u>	<u>29,609</u>	<u>346,381</u>
 Net change in fund balances	 <u>\$ -</u>	 <u>\$ -</u>	 416,700	 <u>\$ 416,700</u>
Fund balance - beginning			<u>2,157,031</u>	
Fund balance - ending			<u>\$ 2,573,731</u>	

See report of independent auditor

**Report of Independent Auditor on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Council of the Town of Denton
Denton, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Denton, Maryland (the "Town"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated January 5, 2017. Our report included an emphasis paragraph indicating that the net position as of June 30, 2015 of the business-type activities and the Sewer Fund has been restated from the Town's previously issued financial statements to reflect the correction of an error.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, as described below, that we consider a material weakness.

Material Weakness – Internal Control Over Financial Reporting – Correction of Error

Condition: Yearly, the Town's Finance Department oversees the preparation, processing, and recordation of thousands of financial transactions that ultimately will be reflected in the yearly audited financial statements. In order to ensure the transactions are fairly presented, procedures must be in place and functioning effectively to produce complete and accurate financial information. During the 2016 year end closing and the financial statement audit processes, an error related to prior fiscal years was identified related to under reporting of the business-type activities' and Sewer Fund's capital asset accumulated depreciation by \$114,368.

Criteria: Annual external reporting of the Town's financial activities should be performed in accordance with the requirements of accounting principles generally accepted in the United States of America.

Cause: The Town's controls failed to prevent, or detect and correct, a misstatement of an account balance.

Effect: The net position as of June 30, 2015 of the business-type activities and the Sewer Fund has been restated from the Town's previously issued financial statements to reflect the correction of an error.

Recommendation: We recommend that the Town review its current policies and procedures and make necessary changes to ensure that the Town fully monitors and reviews all financial areas throughout the year, to ensure that all transactions and activities are properly recorded within the general ledger.

Management Response: Cherry Bekaert has maintained these schedules as a convenience to the Town and the Town's accounting department reviews and accepts responsibility for the accuracy of the schedules each year. An error in updating the schedule in prior year has been discovered and unfortunately the Town staff's review of the depreciation schedules did not catch the error. In the future, Town staff will be sure to strengthen their detail review, including depreciable lives assigned to newly acquired capital assets, to ensure reporting accuracy.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Denton, Maryland's Response to Finding

The Town's response to the finding identified in our audit is described herein. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Richmond, Virginia
January 5, 2017