



# **TOWN OF DENTON, MARYLAND**

## **FINANCIAL REPORT**

*As of and for the Year Ended June 30, 2015*

*And Report of Independent Auditor*

# **TOWN OF DENTON, MARYLAND**

## **TOWN COUNCIL**

Abigail McNinch

Dennis Porter

Tara Lightner

Robert L. Clendaniel

Lester L. Branson

## **OTHER ADMINISTRATORS**

Donald H. Mulrine – Town Administrator

Karen L. Monteith, Clerk – Treasurer

Vacant – Director of Planning & Codes

Rodney R. Cox – Chief of Police

Philip E. Clark, Sr. – Superintendent of Public Works

Mark Chandler – Superintendent of Water & Wastewater Operations

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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, 2015, 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, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1 and presented in Note 12 to the financial statements, the Town adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. As a result, net position as of June 30, 2014 has been restated. 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 3-11 and pension data on pages 42-44 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 November 16, 2015 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town's internal control over financial reporting and compliance.



Richmond, Virginia  
November 16, 2015

**Town of Denton, Maryland**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2015**

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, 2015. 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 \$24,533,425
- The government's total net position increased by \$706,648 primarily due to a decrease 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 \$2,955,523, an increase of \$522,084 during the year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,156,756, or 71% of total General Fund expenditures for the fiscal year.

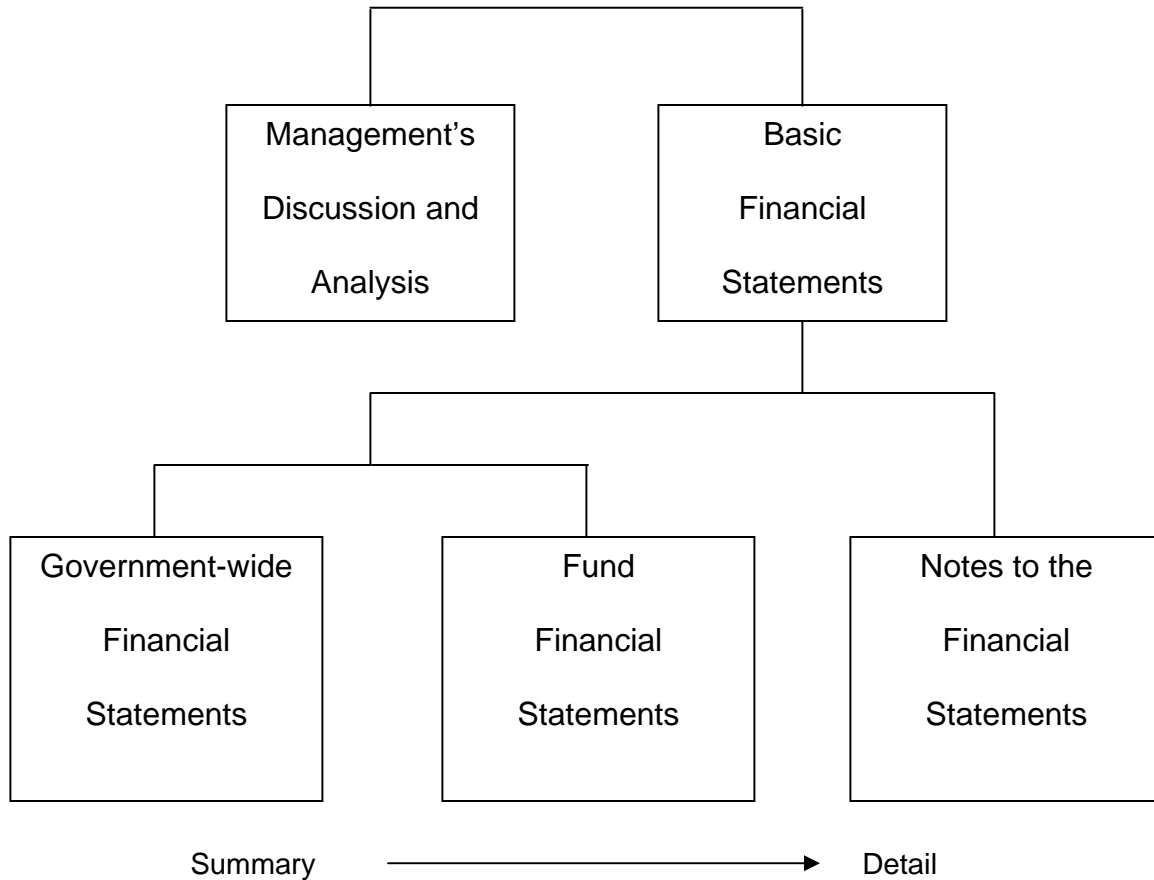
**Overview of the Financial Statements**

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, 2015**

**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, 2015**

**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, 2015**

**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**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2015</b>	<b>2014 **</b>	<b>2015</b>	<b>2014 **</b>	<b>2015</b>	<b>2014 **</b>
<b>Assets</b>						
Current and other assets	\$ 4,237	\$ 3,720	\$ 1,722	\$ 1,602	\$ 5,959	\$ 5,322
Capital assets	13,587	13,112	13,463	13,771	27,050	26,883
Total assets	17,824	16,832	15,185	15,373	33,009	32,205
<b>Deferred Outflows</b>						
Pensions	167	-	91	-	258	-
<b>Liabilities</b>						
Accounts payable and other current liabilities	115	107	34	20	149	127
Long-term liabilities	5,105	3,777	3,290	2,794	8,395	6,571
Total liabilities	5,220	3,884	3,324	2,814	8,544	6,698
<b>Deferred Inflows</b>						
Pensions	128	-	61	-	189	-
<b>Net Position</b>						
Net investment in capital assets	9,740	9,477	11,222	11,394	20,962	20,871
Restricted	815	818	86	86	901	904
Unrestricted	2,089	2,653	582	1,079	2,671	3,732
Total net position	\$ 12,644	\$ 12,948	\$ 11,890	\$ 12,559	\$ 24,534	\$ 25,507

\*\* The Town implemented GASB Statement No. 68 effective July 1, 2014. The 2014 amounts presented have not been restated to reflect the implementation of these requirements.

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 \$24,533,425 as of June 30, 2015. The Town's net position increased by \$706,648 for the fiscal year ended June 30, 2015. The increase in the Town's total net position is due to a combination of increased tax revenues and other revenues, net of recordation of the net pension liability in accordance with GASB Statement No. 68.

**Town of Denton, Maryland**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2015**

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

**Figure 3**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2015</b>	<b>2014 **</b>	<b>2015</b>	<b>2014 **</b>	<b>2015</b>	<b>2014 **</b>
Revenues:						
Program revenues:						
Charges for services	\$ 230	\$ 180	\$ 1,600	\$ 1,584	\$ 1,830	\$ 1,764
Operating grants and contributions	237	637	30	20	267	657
Capital grants and contributions	537	-	-	-	537	-
General Revenues:						
Property taxes	2,547	2,499	-	-	2,547	2,499
Other taxes	403	390	-	-	403	390
Other	293	476	-	1	293	477
Total revenues	<u>4,247</u>	<u>4,182</u>	<u>1,630</u>	<u>1,605</u>	<u>5,877</u>	<u>5,787</u>
Expenses:						
General government	437	386	-	-	437	386
Public safety	1,915	1,771	-	-	1,915	1,771
Public works	575	537	-	-	575	537
Recreation and culture	116	268	-	-	116	268
Urban development and housing	264	189	-	-	264	189
Economic development	52	52	-	-	52	52
Interest on long-term debt	95	88	-	-	95	88
Retirement payment	18	18	-	-	18	18
Water	-	-	560	543	560	543
Sewer	-	-	1,139	1,306	1,139	1,306
Industrial Park	-	-	1	-	1	-
Total expenses	<u>3,472</u>	<u>3,309</u>	<u>1,700</u>	<u>1,849</u>	<u>5,172</u>	<u>5,158</u>
Increase (decrease) in net position	775	873	(70)	(244)	705	629
Net position - beginning of year, as restated	<u>11,866</u>	<u>12,075</u>	<u>11,960</u>	<u>12,803</u>	<u>23,826</u>	<u>24,878</u>
Net position - end of year	<u>\$ 12,641</u>	<u>\$ 12,948</u>	<u>\$ 11,890</u>	<u>\$ 12,559</u>	<u>\$ 24,531</u>	<u>\$ 25,507</u>

\*\* The Town implemented GASB Statement No. 68 effective July 1, 2014. The 2014 amounts presented have not been restated to reflect the implementation of these requirements.

**Town of Denton, Maryland  
Management's Discussion and Analysis  
Year Ended June 30, 2015**

**Governmental Activities:** Governmental activities increased the Town's net position by \$789,836. The key elements to this increase/decrease are an increase/decrease in property and other taxes due to commercial development and increased/decreased grant funding received in the current year.

**Business-type Activities:** Business-type activities decreased the Town's net position by \$70,282.

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 2015. 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 \$2,169,622. 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 72% of total General Fund expenditures. In the prior year, \$1,786,875 of the \$1,787,150 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, new commercial development fees, and an increase in note proceeds in the current year related to new debt issued in the current year.

At June 30, 2015, the governmental funds of the Town reported a combined fund balance of \$2,955,523, an increase of \$522,084 from the prior year. Included in this change in fund balance is an increase in commercial economic development and property acquisition, and note proceeds from debt issued 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, 2015**

During the FY2015 tax year, revenues increased over FY2014 due to a combination of a real estate tax rate increase, a larger supplemental real estate tax in FY15, and an increase in revenue from other agencies. The Town continues to work towards maintaining a 15% fund balance, reducing expenditures in FY 2015 and raising 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 \$247,533, \$322,073 and \$11,976, respectively. The changes in net position for the funds were \$94,815, \$(164,143), and \$(954), 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, 2015, totals \$27,050,051 (net of accumulated depreciation), a net increase of \$166,954 or less than 1% over prior year. These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, vehicles, and construction in progress.

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

- Completion of phase 2 of the Caroline Culinary School
- Completion on the new Town Hall municipal building

**Town of Denton, Maryland  
Management's Discussion and Analysis  
Year Ended June 30, 2015**

The following is a summary of capital assets at June 30, 2015 and 2014:

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

**Figure 4**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Land	\$ 895	\$ 895	\$ -	\$ -	\$ 895	\$ 895
Land improvements	423	484	-	-	423	484
Buildings	1,552	1,618	-	-	1,552	1,618
Infrastructure	8,888	8,943	-	-	8,888	8,943
Equipment and vehicles	303	388	34	47	337	435
Water system	-	-	2,885	2,987	2,885	2,987
Sewer system	-	-	10,544	10,737	10,544	10,737
Construction in progress	1,526	784	-	-	1,526	784
<b>Total</b>	<b>\$ 13,587</b>	<b>\$ 13,112</b>	<b>\$ 13,463</b>	<b>\$ 13,771</b>	<b>\$ 27,050</b>	<b>\$ 26,883</b>

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, 2015, the Town had total notes and bonded debt outstanding of \$6,410,359. All bonded debt and notes are backed by the full faith and credit of the Town. The total net bonded debt increased by \$88,969. 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**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Bonds and notes	\$ 3,800	\$ 3,574	\$ 2,610	\$ 2,746	\$ 6,410	\$ 6,320
Capital leases	47	61	-	-	47	61
<b>Total</b>	<b>\$ 3,847</b>	<b>\$ 3,635</b>	<b>\$ 2,610</b>	<b>\$ 2,746</b>	<b>\$ 6,457</b>	<b>\$ 6,381</b>

New debt for the fiscal year ended June 30, 2015 resulted from new installment notes issued to purchase new police cars.

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

**Town of Denton, Maryland  
Management's Discussion and Analysis  
Year Ended June 30, 2015**

**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 7.3% in FY2014 to 5.7% in FY2015. This is above the State average of 5.6% and the US average of 5.3% (as of July 2015).
- State revenue cutbacks. The State of Maryland initiated drastic cutbacks for FY2010 for the gasoline tax and police aid revenues that are shared with localities. These cuts continued into FY2015; and the reduction in State-shared revenues is expected to continue into the future

**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, 2015**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total Reporting Unit</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 2,851,248	\$ 884,256	\$ 3,735,504
Receivables (net of allowance for uncollectibles)	24,675	396,170	420,845
Due from other governments	166,502	-	166,502
Loans receivable	814,842	-	814,842
Internal balances	13,311	(13,311)	-
Land held for resale	366,520	455,171	821,691
Land	895,372	-	895,372
Construction in progress	1,526,242	-	1,526,242
Other capital assets, net of accumulated depreciation	11,165,792	13,462,645	24,628,437
<b>Total assets</b>	<b>17,824,504</b>	<b>15,184,931</b>	<b>33,009,435</b>
<b>Deferred Outflows of Resources</b>			
Deferred outflows related to pensions	167,188	91,082	258,270
<b>Liabilities</b>			
Accounts payable and other current liabilities	115,611	34,209	149,820
Long-term liabilities:			
Due within one year	197,002	140,089	337,091
Due in more than one year	4,907,790	3,150,269	8,058,059
<b>Total liabilities</b>	<b>5,220,403</b>	<b>3,324,567</b>	<b>8,544,970</b>
<b>Deferred Inflows of Resources</b>			
Deferred inflows related to pensions	127,694	61,616	189,310
<b>Net position</b>			
Net investment in capital assets	9,740,055	11,221,927	20,961,982
Restricted	814,842	86,321	901,163
Unrestricted	2,088,698	581,582	2,670,280
<b>Total net position</b>	<b>\$ 12,643,595</b>	<b>\$ 11,889,830</b>	<b>\$ 24,533,425</b>

**Town of Denton, Maryland**  
**Statement of Activities**  
**Year Ended June 30, 2015**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 433,672	\$ 57,190	\$ 116,182	\$ -	\$ (260,300)	\$ -	\$ (260,300)
Public safety	1,915,323	54,171	116,239	-	(1,744,913)	-	(1,744,913)
Public works	575,122	18,729	2,450	-	(553,943)	-	(553,943)
Recreation and culture	116,029	8,936	-	-	(107,093)	-	(107,093)
Urban development and housing	264,425	91,033	1,750	536,974	365,332	-	365,332
Economic development	52,043	-	-	-	(52,043)	-	(52,043)
Interest on long-term debt	95,213	-	-	-	(95,213)	-	(95,213)
Retirement payment	18,456	-	-	-	(18,456)	-	(18,456)
Total governmental activities	3,470,283	230,059	236,621	536,974	(2,466,629)	-	(2,466,629)
Business-type activities:							
Water	560,499	644,088	-	-	-	83,589	83,589
Sewer	1,138,974	955,511	30,000	-	-	(153,463)	(153,463)
Industrial park	977	-	-	-	-	(977)	(977)
Total business-type activities	1,700,450	1,599,599	30,000	-	-	(70,851)	(70,851)
Total primary government	\$ 5,170,733	\$ 1,829,658	\$ 266,621	\$ 536,974	(2,466,629)	(70,851)	(2,537,480)
General revenues:							
Property taxes					2,547,314	-	2,547,314
Other taxes					403,149	-	403,149
Interest income					1,592	569	2,161
Miscellaneous income					291,504	-	291,504
Total general revenues					3,243,559	569	3,244,128
Change in net position					776,930	(70,282)	706,648
Net position - beginning, as restated per Note 12					11,866,665	11,960,112	23,826,777
Net position - ending					\$ 12,643,595	\$ 11,889,830	\$ 24,533,425



**Town of Denton, Maryland**  
**Balance Sheet - Governmental Funds**  
**June 30, 2015**

	<b>General</b>	<b>Special Projects</b>	<b>Business Loan</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>					
Cash and cash equivalents	\$ 1,872,989	\$ -	\$ 560,985	\$ 417,274	\$ 2,851,248
Receivables:					
Taxes	20,550	-	-	-	20,550
Loans	-	-	814,842	-	814,842
Other receivables	3,325	-	800	-	4,125
Due from other funds	285,400	-	-	-	285,400
Due from other governments	58,804	96,496	-	11,202	166,502
Total assets	<u>\$ 2,241,068</u>	<u>\$ 96,496</u>	<u>\$ 1,376,627</u>	<u>\$ 428,476</u>	<u>\$ 4,142,667</u>
<b>Liabilities, deferred inflows and fund balances (deficit)</b>					
Liabilities:					
Accounts payable and accrued expenses	\$ 37,533	\$ 23,499	\$ -	\$ 8,075	\$ 69,107
Due to other funds	-	272,089	-	-	272,089
Unearned revenues	46,504	-	-	-	46,504
Total liabilities	<u>84,037</u>	<u>295,588</u>	<u>-</u>	<u>8,075</u>	<u>387,700</u>
Deferred inflows of resources:					
Business loans	-	-	799,444	-	799,444
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>799,444</u>	<u>-</u>	<u>799,444</u>
Fund balances:					
Restricted	-	-	577,183	186,668	763,851
Assigned	275	-	-	233,733	234,008
Unassigned	2,156,756	(199,092)	-	-	1,957,664
Total fund balances (deficit)	<u>2,157,031</u>	<u>(199,092)</u>	<u>577,183</u>	<u>420,401</u>	<u>2,955,523</u>
Total liabilities, deferred inflows and fund balances (deficit)	<u>\$ 2,241,068</u>	<u>\$ 96,496</u>	<u>\$ 1,376,627</u>	<u>\$ 428,476</u>	<u>\$ 4,142,667</u>

**Town of Denton, Maryland**  
**Reconciliation of the Balance Sheet of Governmental Funds to the**  
**Statement of Net Position**  
**June 30, 2015**

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

Ending fund balance - governmental funds		\$ 2,955,523
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Land and construction in progress	\$ 2,421,614	
Depreciable assets, net	<u>11,165,792</u>	13,587,406
Other long-term revenues are not available to pay for current-period expenditures and, therefore, are unearned in the funds.		
Unearned revenues		799,444
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.		(3,997,126)
Net pension liability, which not due and payable in the current period and, therefore, are not reported in the funds.		(1,107,666)
Deferred inflows/outflows related to pensions are not fund level resources		<u>39,494</u>
Net position of governmental activities		<u><u>\$ 12,643,595</u></u>

**Town of Denton, Maryland**  
**Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds**  
**Year Ended June 30, 2015**

	<b>General</b>	<b>Capital Improvement Special Projects</b>	<b>Business Loan</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>					
Taxes	\$ 2,779,162	\$ -	\$ -	\$ 147,432	\$ 2,926,594
Licenses and permits	44,857	-	-	37,514	82,371
Revenue from other agencies	120,734	1,020,901	-	-	1,141,635
Service charges	17,307	-	-	-	17,307
Miscellaneous	234,454	73,073	126,598	262	434,387
Total revenues	<u>3,196,514</u>	<u>1,093,974</u>	<u>126,598</u>	<u>185,208</u>	<u>4,602,294</u>
<b>Expenditures</b>					
Current:					
General government	376,959	-	-	-	376,959
Public safety	1,670,166	-	-	-	1,670,166
Public works	324,810	-	-	96,440	421,250
Recreation and culture	50,157	-	-	-	50,157
Urban development and housing	33,425	28,091	81,978	-	143,494
Pension retirement payment	18,456	-	-	-	18,456
Capital outlay and projects	384,060	1,053,520	-	68,307	1,505,887
Debt service - principal	128,801	-	26,218	45,594	200,613
Debt service - interest	35,412	-	5,619	64,776	105,807
Total expenditures	<u>3,022,246</u>	<u>1,081,611</u>	<u>113,815</u>	<u>275,117</u>	<u>4,492,789</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>174,268</u>	<u>12,363</u>	<u>12,783</u>	<u>(89,909)</u>	<u>109,505</u>
<b>Other financing sources (uses)</b>					
Transfers in	45,671	55,446	-	221,197	322,314
Transfers out	(262,637)	(40,506)	(15,000)	(4,171)	(322,314)
Note issued	412,579	-	-	-	412,579
Total other financing sources (uses), net	<u>195,613</u>	<u>14,940</u>	<u>(15,000)</u>	<u>217,026</u>	<u>412,579</u>
<b>Net change in fund balances</b>	369,881	27,303	(2,217)	127,117	522,084
<b>Fund balance (deficit) - beginning</b>	<u>1,787,150</u>	<u>(226,395)</u>	<u>579,400</u>	<u>293,284</u>	<u>2,433,439</u>
<b>Fund balance (deficit) - ending</b>	<u>\$ 2,157,031</u>	<u>\$ (199,092)</u>	<u>\$ 577,183</u>	<u>\$ 420,401</u>	<u>\$ 2,955,523</u>

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

**Town of Denton, Maryland**  
**Reconciliation of the Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances of Governmental Funds to the**  
**Statement of Activities**  
**Year Ended June 30, 2015**

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

Net change in fund balances - total governmental funds	\$ 522,084
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the detail of the two components:	
Capital outlay	1,062,989
Depreciation expense	(587,853)
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	(412,569)
Repayment of principal on long-term debt	200,613
Change in compensated absences	(7,988)
Record the impact of changes in the Town's net pension liability components, net	(13,486)
Revenues in the Statement of Activities that do not provide current financial resources are not reported in the funds	<u>13,140</u>
Change in net position of governmental activities	<u><u>\$ 776,930</u></u>

**Town of Denton, Maryland**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual - General Fund**  
**Year Ended June 30, 2015**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Positive (Negative)</b>
<b>Revenues</b>				
Taxes	\$ 2,628,224	\$ 2,728,253	\$ 2,779,162	\$ 50,909
Licenses and permits	17,100	43,802	44,857	1,055
Revenue from other agencies	158,960	187,036	120,734	(66,302)
Service charges	17,600	16,653	17,307	654
Miscellaneous	199,820	332,428	234,454	(97,974)
Total revenues	<u>3,021,704</u>	<u>3,308,172</u>	<u>3,196,514</u>	<u>(111,658)</u>
<b>Expenditures</b>				
Current:				
General government	809,609	762,352	683,244	79,108
Public safety	1,738,840	1,815,305	1,747,941	67,364
Public works	321,776	336,614	324,810	11,804
Recreation and culture	62,877	62,039	50,157	11,882
Urban development and housing	48,000	48,120	33,425	14,695
Pension retirement payment	18,456	18,456	18,456	-
Debt service	164,435	165,548	164,213	1,335
Total expenditures	<u>3,163,993</u>	<u>3,208,434</u>	<u>3,022,246</u>	<u>186,188</u>
<b>Excess of revenues over expenditures</b>	<u>(142,289)</u>	<u>99,738</u>	<u>174,268</u>	<u>74,530</u>
<b>Other financing sources (uses)</b>				
Transfers in	58,500	45,677	45,671	(6)
Transfers out	(247,698)	(247,698)	(262,637)	(14,939)
Note issued	440,000	349,835	412,579	62,744
Expense reserve	(108,513)	(247,552)	-	247,552
Total other financing sources, net	<u>142,289</u>	<u>(99,738)</u>	<u>195,613</u>	<u>295,351</u>
<b>Net change in fund balances</b>	<u>\$ -</u>	<u>\$ -</u>	<u>369,881</u>	<u>\$ 369,881</u>
<b>Fund balance - beginning</b>			<u>1,787,150</u>	
<b>Fund balance - ending</b>			<u>\$ 2,157,031</u>	

**Town of Denton, Maryland**  
**Statement of Net Position - Proprietary Funds**  
**June 30, 2015**

	<b>Enterprise Funds</b>			<b>Total</b>
	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Industrial Park Fund</b>	
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 536,064	\$ 336,287	\$ 11,905	\$ 884,256
Receivables:				
Service charges	146,538	236,250	-	382,788
Notes receivable	-	-	13,382	13,382
Due from other funds	-	214,762	-	214,762
Total current assets	<u>682,602</u>	<u>787,299</u>	<u>25,287</u>	<u>1,495,188</u>
Noncurrent assets:				
Land held for resale	-	-	455,171	455,171
Capital assets, net	<u>2,889,782</u>	<u>10,572,863</u>	<u>-</u>	<u>13,462,645</u>
Total noncurrent assets	<u>2,889,782</u>	<u>10,572,863</u>	<u>455,171</u>	<u>13,917,816</u>
Total assets	<u>3,572,384</u>	<u>11,360,162</u>	<u>480,458</u>	<u>15,413,004</u>
<b>Deferred Outflows of Resources</b>				
Deferred outflows related to pensions	<u>31,812</u>	<u>59,270</u>	<u>-</u>	<u>91,082</u>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable and accrued expenses	10,843	23,366	-	34,209
Due to other funds	214,762	-	13,311	228,073
Bonds and notes payable	<u>15,480</u>	<u>124,609</u>	<u>-</u>	<u>140,089</u>
Total current liabilities	<u>241,085</u>	<u>147,975</u>	<u>13,311</u>	<u>402,371</u>
Noncurrent liabilities:				
Accrued vacation and sick leave	23,140	35,773	-	58,913
Net pension liability	196,615	425,262	-	621,877
Bonds and notes payable	<u>1,019,319</u>	<u>1,081,310</u>	<u>368,850</u>	<u>2,469,479</u>
Total noncurrent liabilities	<u>1,239,074</u>	<u>1,542,345</u>	<u>368,850</u>	<u>3,150,269</u>
Total liabilities	<u>1,480,159</u>	<u>1,690,320</u>	<u>382,161</u>	<u>3,552,640</u>
<b>Deferred Inflows of Resources</b>				
Deferred inflows related to pensions	<u>21,521</u>	<u>40,095</u>	<u>-</u>	<u>61,616</u>
<b>Net position</b>				
Net investment in capital assets	1,854,983	9,366,944	-	11,221,927
Restricted	-	-	86,321	86,321
Unrestricted	<u>247,533</u>	<u>322,073</u>	<u>11,976</u>	<u>581,582</u>
Total net position	<u>\$ 2,102,516</u>	<u>\$ 9,689,017</u>	<u>\$ 98,297</u>	<u>\$ 11,889,830</u>

**Town of Denton, Maryland**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds**  
**Year Ended June 30, 2015**

	<b>Enterprise Funds</b>			
	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Industrial Park Fund</b>	<b>Total</b>
<b>Operating revenues</b>				
Charges for services, net	\$ 636,960	\$ 635,675	\$ -	\$ 1,272,635
Vacant lots/MD313 special assessments	-	200,561	-	200,561
Other revenues	7,128	119,275	-	126,403
Total operating revenues	<u>644,088</u>	<u>955,511</u>	<u>-</u>	<u>1,599,599</u>
<b>Operating expenses</b>				
Salaries and wages	164,839	257,784	-	422,623
Fringe benefits	88,354	139,185	-	227,539
Materials and supplies	4,421	8,764	-	13,185
Electric and telephone	37,335	87,465	-	124,800
Automotive expenses	7,273	12,131	-	19,404
Professional services	17,581	26,796	977	45,354
Repairs and maintenance	42,137	70,862	-	112,999
Depreciation	104,456	302,761	-	407,217
Other operating expenses	86,348	217,602	-	303,950
Total operating expenses	<u>552,744</u>	<u>1,123,350</u>	<u>977</u>	<u>1,677,071</u>
<b>Operating income (loss)</b>	<u>91,344</u>	<u>(167,839)</u>	<u>(977)</u>	<u>(77,472)</u>
<b>Nonoperating revenues (expenses)</b>				
Interest income	245	301	23	569
Grant revenue	-	30,000	-	30,000
Interest expense	(7,755)	(15,624)	-	(23,379)
Total nonoperating revenues (expenses), net	<u>(7,510)</u>	<u>14,677</u>	<u>23</u>	<u>7,190</u>
<b>Income (loss) before transfers</b>	<u>83,834</u>	<u>(153,162)</u>	<u>(954)</u>	<u>(70,282)</u>
Transfers in	26,000	15,019	-	41,019
Transfers out	<u>(15,019)</u>	<u>(26,000)</u>	<u>-</u>	<u>(41,019)</u>
<b>Change in net position</b>	<u>94,815</u>	<u>(164,143)</u>	<u>(954)</u>	<u>(70,282)</u>
<b>Total net position - beginning, as restated (Note 12)</b>	<u>2,007,701</u>	<u>9,853,160</u>	<u>99,251</u>	<u>11,960,112</u>
<b>Total net position - ending</b>	<u><u>\$ 2,102,516</u></u>	<u><u>\$ 9,689,017</u></u>	<u><u>\$ 98,297</u></u>	<u><u>\$ 11,889,830</u></u>

**Town of Denton, Maryland**  
**Statement of Cash Flows - Proprietary Funds**  
**Year Ended June 30, 2015**

	Enterprise Funds			Total
	Water Fund	Sewer Fund	Industrial Park Fund	
<b>Operating activities</b>				
Cash received from customers	\$ 643,668	\$ 966,148	\$ 2,170	\$ 1,611,986
Cash paid to vendors	(199,972)	(392,189)	(977)	(593,138)
Cash paid to employees	(244,988)	(413,234)	-	(658,222)
<b>Net cash provided by operating activities</b>	<u>198,708</u>	<u>160,725</u>	<u>1,193</u>	<u>360,626</u>
<b>Noncapital financing activities</b>				
Operating transfers in (out)	(112,253)	112,253	-	-
Operating grants	-	30,000	-	30,000
<b>Net cash provided by (used in) noncapital financing activities</b>	<u>(112,253)</u>	<u>142,253</u>	<u>-</u>	<u>30,000</u>
<b>Capital and related financing activities</b>				
Interest paid	(7,755)	(15,624)	(5,232)	(28,611)
Payment on notes payable	(14,935)	(121,589)	-	(136,524)
Acquisition of capital assets	-	(99,033)	-	(99,033)
<b>Net cash used in capital and related financing activities</b>	<u>(22,690)</u>	<u>(236,246)</u>	<u>(5,232)</u>	<u>(264,168)</u>
<b>Investing activities</b>				
Interest received	245	301	23	569
<b>Net cash provided by investing activities</b>	<u>245</u>	<u>301</u>	<u>23</u>	<u>569</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>64,010</u>	<u>67,033</u>	<u>(4,016)</u>	<u>127,027</u>
<b>Cash and cash equivalents</b>				
<b>Beginning of year</b>	<u>472,054</u>	<u>269,254</u>	<u>15,921</u>	<u>757,229</u>
<b>End of year</b>	<u>\$ 536,064</u>	<u>\$ 336,287</u>	<u>\$ 11,905</u>	<u>\$ 884,256</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>				
Operating income (loss)	\$ 91,344	\$ (167,839)	\$ (977)	\$ (77,472)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	104,456	302,761	-	407,217
Other items	(8,169)	(1,601)	-	(9,770)
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	(420)	10,637	2,170	12,387
Increase in accounts payable and accrued expenses	3,292	10,386	-	13,678
Increase in accrued sick leave	8,205	6,381	-	14,586
<b>Net cash provided by operating activities</b>	<u>\$ 198,708</u>	<u>\$ 160,725</u>	<u>\$ 1,193</u>	<u>\$ 360,626</u>



**Town of Denton, Maryland**  
**Notes to Financial Statements**  
**June 30, 2015**

**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, 2015**

**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. Since the governmental fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide financial statements' governmental activities column, a reconciliation is presented to briefly explain the adjustments necessary to reconcile the fund financial statements to the government-wide financial statements. The various fund categories and fund types presented in the financial statements are as follows:

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

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

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

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

**Town of Denton, Maryland**  
**Notes to Financial Statements**  
**June 30, 2015**

**Note 1 – Summary of significant accounting policies (continued)**

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.

**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.

**Town of Denton, Maryland**  
**Notes to Financial Statements**  
**June 30, 2015**

**Note 1 – Summary of significant accounting policies (continued)**

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.

**D. Budgets, budgetary accounting**

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

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

**E. Allowance for uncollectible accounts**

The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. There was no allowance amount at June 30, 2015.

**F. Cash and cash equivalents**

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

**Town of Denton, Maryland**  
**Notes to Financial Statements**  
**June 30, 2015**

**Note 1 – Summary of significant accounting policies (continued)**

G. Land held for resale

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

H. Capital assets

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

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

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

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

I. 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) until the future period. The Town recognizes deferred outflows for changes in actuarial assumptions and differences between actual and proportionate share of contributions to the plan 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 projected and actual investment earnings related to pensions.

**Town of Denton, Maryland**  
**Notes to Financial Statements**  
**June 30, 2015**

**Note 1 – Summary of significant accounting policies (continued)**

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.

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. 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, 2015.

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, 2015.

**Town of Denton, Maryland**  
**Notes to Financial Statements**  
**June 30, 2015**

**Note 1 – Summary of significant accounting policies (continued)**

Assigned Fund Balance – 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 – The portion of the General Fund balance that has not been restricted, committed, or assigned to specific purposes or other funds. At June 30, 2015, 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, 2014, the Town adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 68, *Accounting and Financial Reporting for Pension Plans – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, which requires recording the Town’s net pension liability and related changes in the liability and deferred inflows and outflows of resources in the government-wide and proprietary fund financial statements.

**Note 2 – Deposits and investments**

**Deposits**

At year end, the carrying value of the Town's deposits with banks and financial institutions approximated \$618,459 and the bank balance approximated \$693,300. Of this bank balance, all was covered by Federal Depository Insurance and the remaining balance was collateralized in accordance with Article 95, Section 22 of the *Annotated Code of Maryland*.

**Town of Denton, Maryland**  
**Notes to Financial Statements**  
**June 30, 2015**

**Note 2 – Deposits and investments (continued)**

**Investments**

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

At June 30, 2015, the Town's deposit and investment balances were as follows:

	<u><b>Fair Value</b></u>
LGIP	\$ 3,129,451
Deposits	618,459
Cash on hand	500
Total cash and investments	<u><u>\$ 3,748,410</u></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.

**Note 4 – Accounts receivable and loans receivable**

Receivables at June 30, 2015 consist of the following:

	<u><b>General</b></u>	<u><b>Water</b></u>	<u><b>Sewer</b></u>	<u><b>Industrial Park</b></u>
Accounts receivable:				
Taxes	\$ 20,550	\$ -	\$ -	\$ -
Service charges	-	146,538	236,250	-
Notes	-	-	-	13,382
Other	3,325	-	-	-
Total accounts receivable	<u><u>\$ 23,875</u></u>	<u><u>\$ 146,538</u></u>	<u><u>\$ 236,250</u></u>	<u><u>\$ 13,382</u></u>



**Town of Denton, Maryland**  
**Notes to Financial Statements**  
**June 30, 2015**

**Note 4 – Accounts receivable and loans receivable (continued)**

The Business Loan fund has \$814,842 in outstanding loan payments as of June 30, 2015. 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, 2015, were as follows:

	<u><b>Interfund Receivables</b></u>	<u><b>Interfund Payables</b></u>
General Fund	\$ 285,400	\$ -
Special Projects	-	272,089
Water Fund	-	214,762
Sewer Fund	214,762	-
Industrial Park Fund	-	13,311
Total	<u><u>\$ 500,162</u></u>	<u><u>\$ 500,162</u></u>

Interfund transfers at June 30, 2015, were as follows:

	<u><b>Transfers In</b></u>	<u><b>Transfers Out</b></u>
General Fund	\$ 45,671	\$ 262,637
Special Projects Fund	55,446	40,506
Business Loan Fund	-	15,000
Highway Fund	221,197	4,171
Water Fund	26,000	15,019
Sewer Fund	15,019	26,000
Total	<u><u>\$ 363,333</u></u>	<u><u>\$ 363,333</u></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.

**Town of Denton, Maryland**  
**Notes to Financial Statements**  
**June 30, 2015**

**Note 6 – Capital assets**

	<u>Balances July 1, 2014</u>	<u>Additions / Transfers In</u>	<u>Deletions / Transfers Out</u>	<u>Balances June 30, 2015</u>
Governmental activities:				
Nondepreciable capital assets:				
Land	\$ 895,372	\$ -	\$ -	\$ 895,372
Construction in progress	783,229	978,683	(235,670)	1,526,242
Total nondepreciable capital assets	<u>1,678,601</u>	<u>978,683</u>	<u>(235,670)</u>	<u>2,421,614</u>
Depreciable capital assets:				
Land improvements	1,407,950	-	-	1,407,950
Buildings	2,736,266	-	-	2,736,266
Infrastructure	11,317,063	239,244	-	11,556,307
Furniture and equipment	484,160	9,089	-	493,249
Vehicles	1,145,617	71,643	-	1,217,260
Total depreciable capital assets	<u>17,091,056</u>	<u>319,976</u>	<u>-</u>	<u>17,411,032</u>
Less-accumulated depreciation				
Land improvements	(923,728)	(61,787)	-	(985,515)
Buildings	(1,118,068)	(66,160)	-	(1,184,228)
Infrastructure	(2,373,611)	(293,994)	-	(2,667,605)
Furniture and Equipment	(409,004)	(36,299)	-	(445,303)
Vehicles	(832,976)	(129,613)	-	(962,589)
Total accumulated depreciation	<u>(5,657,387)</u>	<u>(587,853)</u>	<u>-</u>	<u>(6,245,240)</u>
Total depreciable capital assets, net	<u>11,433,669</u>	<u>(267,877)</u>	<u>-</u>	<u>11,165,792</u>
Governmental activities capital assets, net	<u>\$ 13,112,270</u>	<u>\$ 710,806</u>	<u>\$ (235,670)</u>	<u>\$ 13,587,406</u>
Business-type activities:				
Depreciable capital assets:				
Municipal water system	\$ 4,329,856		\$ -	\$ 4,329,856
Municipal sewer system	17,064,434	99,033	-	17,163,467
Machinery and equipment	356,223	-	-	356,223
Total depreciable capital assets	<u>21,750,513</u>	<u>99,033</u>	<u>-</u>	<u>21,849,546</u>
Less accumulated depreciation for:				
Municipal water system	(1,343,167)	(101,968)	-	(1,445,135)
Municipal sewer system	(6,327,085)	(292,426)	-	(6,619,511)
Machinery and equipment	(309,432)	(12,823)	-	(322,255)
Total accumulated depreciation	<u>(7,979,684)</u>	<u>(407,217)</u>	<u>-</u>	<u>(8,386,901)</u>
Total depreciable capital assets, net	<u>13,770,829</u>	<u>(308,184)</u>	<u>-</u>	<u>13,462,645</u>
Business-type activities capital assets, net	<u>\$ 13,770,829</u>	<u>\$ (308,184)</u>	<u>\$ -</u>	<u>\$ 13,462,645</u>

**Town of Denton, Maryland**  
**Notes to Financial Statements**  
**June 30, 2015**

**Note 6 – Capital assets (continued)**

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

Governmental activities:

General government	\$ 47,613
Public safety	83,902
Public works	215,554
Recreation and culture	67,810
Urban development and housing	120,931
Economic development	52,043
	<u>\$ 587,853</u>

Business-type activities:

Water	\$ 104,456
Sewer	302,761
	<u>\$ 407,217</u>

**Town of Denton, Maryland**  
**Notes to Financial Statements**  
**June 30, 2015**

**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, 2015 are as follows:

<u>Description</u>	<u>Amount</u>
Governmental activities:	
State and Federal notes and bonds:	
\$265,000 issued, Town contractual share of Caroline County CDA Bonds, due in annual installments through May 2017, interest at 5.52%.	\$ 40,012
\$1,240,000 Highway fund share of 5 <sup>th</sup> Ave project loan issued by USDA, due in monthly installments of \$4,333 until 2052, interest at 3.01%.	1,150,825
\$266,950 issued, Series 2008 Maryland Public Improvement Bonds, due in annual installments through June 30, 2047, interest at 4.38%.	245,200
Total State and Federal notes and bonds	<u>1,436,037</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.	124,055
\$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	625,633
\$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.	956,844
\$60,764 installment note payable, financing of two police cars, due in monthly payments of \$1,109 through 2017, interest at 3.56%.	22,445
\$30,616 installment note payable, financing of one police car, due in monthly payments of \$546 through 2019, interest at 2.71%.	25,797
\$32,118 installment note payable, financing of one police car, due in monthly payments of \$556 through 2020, interest at 1.52%.	31,086
Total installment notes	<u>1,785,860</u>

**Town of Denton, Maryland**  
**Notes to Financial Statements**  
**June 30, 2015**

**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 \$6,000 through 2036, interest at 1%.	160,677
Intermediary relending program note, issued by the USDA, of which \$130,000 was drawn down, due in annual payments of \$9,120 through 2033,	105,768
Intermediary relending program note, issued by the USDA, of which \$150,000 was drawn down, due in annual payments of \$10.523 through	126,740
Intermediary relending program note, issued by the USDA, of which \$170,000 was drawn down, due in annual payments of \$9,938 through 2029,	106,503
Intermediary relending program note, issued by the USDA, of which \$90,000 was drawn down, due in annual payments of \$6,314 through 2036, interest at	79,206
Total Federal notes and loans	<u>578,894</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%.	46,560
Total governmental activities	<u>\$ 3,847,351</u>

State and Federal notes and bonds:

\$500,000 issued, Series 2008 Maryland Public Improvement Bonds, due in annual installments through June 30, 2047, interest at 4.38%.	\$ 459,387
\$2,332,577 MDE note issued September 23, 2004, due in semi-annual installments of \$121,589 including interest at 0.4% through February 2024.	1,072,736
\$140,000, Rural Development Loan due in quarterly installments of \$1,892 including interest at 4.5%, through September 2027.	69,634
\$623,560 Water and Sewer fund share of 5th Ave project loan issued by USDA, due in monthly installments of \$2,233 until 2052, interest at 3.01%.	595,165
\$53,500 MDE note issued January 28, 2011, due in semi-annual installments including interest at 1.2% through February 2031.	43,796
Total State and Federal notes and bonds	2,240,718
\$370,000 State note to be repaid from net proceeds of the sale of lots in the new industrial park after the first \$125,000 is retained by the Town. All proceeds in excess of that is to go towards the repayment which is due August 2020, no interest.	368,850
Total business type activities	<u>\$ 2,609,568</u>

**Town of Denton, Maryland**  
**Notes to Financial Statements**  
**June 30, 2015**

**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
2016	\$ 41,622	\$ 47,393	\$ 116,950	\$ 42,998	\$ 23,947	\$ 20,554
2017	41,414	45,521	114,236	39,935	24,616	19,772
2018	22,580	43,559	104,764	37,221	25,430	18,958
2019	23,324	42,815	105,035	34,693	26,278	18,110
2020	24,093	42,046	98,680	32,178	27,161	17,227
2021-2025	132,950	197,745	460,339	125,947	150,407	71,534
2026-2030	156,500	174,197	654,019	95,832	159,876	43,403
2031-2035	184,353	146,343	131,837	1,810	127,766	14,642
2036-2040	217,328	113,369	-	-	13,413	519
2041-2045	256,403	74,526	-	-	-	-
2046-2050	259,300	30,778	-	-	-	-
2051-2052	76,170	1,826	-	-	-	-
Total	<u>\$ 1,436,037</u>	<u>\$ 960,118</u>	<u>\$ 1,785,860</u>	<u>\$ 410,614</u>	<u>\$ 578,894</u>	<u>\$ 224,718</u>

Year Ending June 30	Business-type Activities			
	General Obligation Notes		Other Notes	
	Principal	Interest	Principal	Interest
2016	\$ 140,089	\$ 45,370	\$ -	\$ -
2017	141,372	44,088	368,850	-
2018	142,688	42,770	-	-
2019	144,038	41,422	-	-
2020	145,425	40,035	-	-
2021-2025	627,706	178,008	-	-
2026-2030	149,609	146,076	-	-
2031-2035	148,949	120,467	-	-
2036-2040	175,389	91,003	-	-
2041-2045	210,999	55,394	-	-
2046-2050	172,896	17,552	-	-
2051-2052	41,558	942	-	-
Total	<u>\$ 2,240,718</u>	<u>\$ 823,127</u>	<u>\$ 368,850</u>	<u>\$ -</u>

**Town of Denton, Maryland**  
**Notes to Financial Statements**  
**June 30, 2015**

**Note 7 – Long-term obligations (continued)**

**Capital leases**

The Town leases certain equipment under capital lease agreements. At June 30, 2015, the Town had \$46,560 of assets held under capital lease. Future minimum lease payments are as follows:

2016	\$ 17,734
2017	17,734
2018	<u>17,736</u>
Total	53,204
Less interest	<u>6,644</u>
Net	<u><u>\$ 46,560</u></u>

The following is a summary of changes in long-term liabilities of the Town for the year ended June 30, 2015:

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2015</u>	<u>Due Within</u> <u>One Year</u>
Governmental activities:					
State notes and bonds	\$ 1,475,848	\$ -	\$ 39,811	\$ 1,436,037	\$ 41,622
Installment notes	1,497,366	412,569	124,075	1,785,860	116,950
Federal loans and notes	602,084	-	23,190	578,894	23,947
Capital lease	60,097	-	13,537	46,560	14,483
Net pension liability **	1,227,249	33,607	153,190	1,107,666	-
Compensated absences	<u>141,787</u>	<u>82,521</u>	<u>74,533</u>	<u>149,775</u>	<u>-</u>
Total	<u><u>\$ 5,004,431</u></u>	<u><u>\$ 528,697</u></u>	<u><u>\$ 428,336</u></u>	<u><u>\$ 5,104,792</u></u>	<u><u>\$ 197,002</u></u>
Business-type activities:					
Notes and bonds	\$ 2,746,092	\$ -	\$ 136,524	\$ 2,609,568	\$ 140,089
Net pension liability **	679,580	16,217	73,920	621,877	-
Compensated absences	<u>47,869</u>	<u>32,459</u>	<u>21,415</u>	<u>58,913</u>	<u>-</u>
Total	<u><u>\$ 3,473,541</u></u>	<u><u>\$ 48,676</u></u>	<u><u>\$ 231,859</u></u>	<u><u>\$ 3,290,358</u></u>	<u><u>\$ 140,089</u></u>

\*\* The Town implemented GASB Statement No. 68 effective July 1, 2014. The 2014 amounts presented have not been restated to reflect the implementation of these requirements.

**Operating leases**

The Town leases certain equipment under operating lease arrangements. Current year expense was \$3,483. Future minimum lease payments are:

2016	\$ 3,483
2017	3,483
2018	<u>290</u>
Total	<u><u>\$ 7,256</u></u>

**Town of Denton, Maryland**  
**Notes to Financial Statements**  
**June 30, 2015**

**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 Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans - An Amendment of GASB Statement No.25*. 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.

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 6.2% 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 2015 was based on the salaries for the year ended June 30, 2014. 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 \$233,251 in fiscal year 2015. Annual payments in future years will increase by 5% per year through December 2020.



**Town of Denton, Maryland**  
**Notes to Financial Statements**  
**June 30, 2015**

**Note 8 – Retirement plan (continued)**

Actuarial Assumptions – The total pension liability for the Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Inflation 2.9% general, 3.4% wage  
Salary increases, including Inflation 3.4% – 11.9%  
Investment rate of return 7.65%

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, 2014. The total pension liability was determined based on that actuarial valuation as of June 30, 2013, and rolled forward to the measurement date of June 30, 2014

*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, 2015**

**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, 2014 are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Expected Rate of Return</b>
Public Equity	35.00%	4.70%
Fixed Income	10.00%	2.00%
Credit/Debt Strategies	10.00%	3.00%
Real Estate	10.00%	2.80%
Real Return	14.00%	5.00%
Absolute Return	10.00%	6.30%
Private Equity	10.00%	1.50%
Cash	1.00%	1.40%
Total	100.00%	

**Discount Rate**

The discount rate used to measure the total pension liability was 7.65%. 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 7.65 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 (6.65 percent) or 1-percentage-point higher (8.65 percent) than the current rate:

	<b>1% Decrease (6.65%)</b>	<b>Current Discount Rate (7.65%)</b>	<b>1% Increase (8.65%)</b>
Net pension liability	\$ 2,492,489	\$ 1,729,543	\$ 1,090,479

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, 2015**

**Note 8 – Retirement plan (continued)**

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

For the year ended June 30, 2014, the Town recognized pension expense of \$227,111. At June 30, 2014, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 189,310
Changes in assumptions	25,019	-
Employer contributions subsequent to the measurement date	233,251	-
	<u>\$ 258,270</u>	<u>\$ 189,310</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, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ending June 30,</b>	
2016	\$ 41,073
2017	41,073
2018	41,073
2019	41,072
Total	<u>\$ 164,291</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, 2015**

**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 – Restatement of beginning net position**

The Town restated beginning net position due to a change in accounting principle from the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. GASB 68 changed the accounting and financial reporting requirements of pension obligations by reporting pension obligations not only in the note disclosure and required supplementary information sections, but also on the face of the basic financial statements. Accordingly, the restatement below records the beginning net pension liability and deferred outflows of resources related to pensions.

The fiscal year 2014 net position beginning balance adjustment is as follows:

	<b>Governmental Activities</b>	<b>Business-type Activities</b>
Net position, June 30, 2014 as previously reported	\$ 12,947,744	\$ 12,558,751
GASB 68 adjustment - Net Pension Liability	(1,227,249)	(679,580)
GASB 68 adjustment - Deferred Outflows	146,170	80,941
Net position, June 30, 2014 as restated	<u>\$ 11,866,665</u>	<u>\$ 11,960,112</u>

	<b>Water Fund</b>	<b>Sewer Fund</b>
Net position, June 30, 2014 as previously reported	\$ 2,198,652	\$ 10,260,848
GASB 68 adjustment - Net Pension Liability	(216,769)	(462,811)
GASB 68 adjustment - Deferred Outflows	25,818	55,123
Net position, June 30, 2014 as restated	<u>\$ 2,007,701</u>	<u>\$ 9,853,160</u>

**Note 13 – 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.

**Town of Denton, Maryland**  
**Schedule of the Town's Proportionate Share of Net Pension Liability – Exhibit 1**  
**Year Ended June 30, 2015**

	<u><b>2014</b></u>
Town's proportion of the net pension liability	0.01%
Town's proportionate share of the net pension liability	\$ 1,729,543
Town's covered-employee payroll	\$ 1,392,253
Town's proportionate share of the net pension liability as a % of covered-employee payroll	124.23%
Plan fiduciary net position as a % of total pension liability	71.87%

As this is the initial year of reporting pension requirements in accordance with GAAP as updated by GASB Statement No. 68, only one year of information is available.

**Town of Denton, Maryland**  
**Schedule of Employer Contributions – Exhibit 2**  
**Year Ended June 30, 2015**

2015					
<u>Date</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Employer's Covered Employee Payroll</u>	<u>Contributions as a % of Covered Employee Payroll</u>
2015	\$ 223,251	\$ 223,251	\$ -	\$ 1,448,844	15%

As this is the initial year of reporting pension requirements in accordance with GAAP as updated by GASB Statement No. 68, only one year of information is available.

**Town of Denton, Maryland**  
**Notes to Required Supplementary Information**  
**Year Ended June 30, 2015**

**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 as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Inflation 2.9% general, 3.4% wage

Salary increases, including Inflation 3.4% – 11.9%

Investment rate of return 7.65%

**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, 2015**

	<b>Capital Improvement</b>	<b>Highway Fund</b>	<b>Total Nonmajor Governmental Funds</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 233,733	\$ 183,541	\$ 417,274
Due from other governments	<u>-</u>	<u>11,202</u>	<u>11,202</u>
Total assets	<u><u>\$ 233,733</u></u>	<u><u>\$ 194,743</u></u>	<u><u>\$ 428,476</u></u>
<b>Liabilities and fund balances</b>			
Liabilities:			
Accounts payable and accrued expenses	\$ -	\$ 8,075	\$ 8,075
Total liabilities	<u>-</u>	<u>8,075</u>	<u>8,075</u>
Fund balances:			
Restricted	-	186,668	186,668
Assigned	<u>233,733</u>	<u>-</u>	<u>233,733</u>
Total fund balances	<u><u>233,733</u></u>	<u><u>186,668</u></u>	<u><u>420,401</u></u>
Total liabilities and fund balances	<u><u>\$ 233,733</u></u>	<u><u>\$ 194,743</u></u>	<u><u>\$ 428,476</u></u>



**Town of Denton, Maryland**  
**Combining Statement of Revenues, Expenditures and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended June 30, 2015**

	<b>Capital Improvement</b>	<b>Highway Fund</b>	<b>Total Nonmajor Governmental Funds</b>
<b>Revenues</b>			
Taxes	\$ -	\$ 147,432	\$ 147,432
Licenses and permits	37,514	-	37,514
Miscellaneous	108	154	262
Total revenues	<u>37,622</u>	<u>147,586</u>	<u>185,208</u>
<b>Expenditures</b>			
Current:			
Public works	-	96,440	96,440
Capital outlay and projects	-	68,307	68,307
Debt service - principal	-	55,999	55,999
Debt service - interest	-	54,371	54,371
Total expenditures	<u>-</u>	<u>275,117</u>	<u>275,117</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>37,622</u>	<u>(127,531)</u>	<u>(89,909)</u>
<b>Other financing sources</b>			
Transfers in/out	<u>(4,171)</u>	<u>221,197</u>	<u>217,026</u>
Total other financing sources	<u>(4,171)</u>	<u>221,197</u>	<u>217,026</u>
<b>Net change in fund balances</b>	33,451	93,666	127,117
<b>Fund balance - beginning</b>	<u>200,282</u>	<u>93,002</u>	<u>293,284</u>
<b>Fund balance - ending</b>	<u>\$ 233,733</u>	<u>\$ 186,668</u>	<u>\$ 420,401</u>

**Town of Denton, Maryland**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance –**  
**Budget and Actual Detail – General Fund**  
**Year Ended June 30, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Revenues</b>				
Taxes:				
Real estate tax	\$ 2,326,930	\$ 2,403,876	\$ 2,403,876	\$ -
Railroad and public utilities	43,000	47,596	47,596	-
Corporation	124,000	133,420	133,420	-
Tax interest and penalties	7,700	22,306	22,400	94
Abatements (tax)	(78,300)	(85,280)	(85,242)	38
Income tax	199,194	199,194	248,623	49,429
Admission and amusement tax	2,500	2,644	3,992	1,348
Hotel tax	3,200	4,497	4,497	-
Total taxes	<u>2,628,224</u>	<u>2,728,253</u>	<u>2,779,162</u>	<u>50,909</u>
Licenses and permits:				
Traders license	9,000	15,000	14,955	(45)
Building and sign permits	7,500	26,762	27,212	450
Other licenses and permits	600	2,040	2,690	650
Total licenses and permits	<u>17,100</u>	<u>43,802</u>	<u>44,857</u>	<u>1,055</u>
Revenue from Other Agencies:				
State police aid	71,523	71,523	68,316	(3,207)
County Police Safety Grant	6,000	3,572	3,572	-
Critical areas	1,750	1,750	1,750	-
Other county revenue	72,487	63,041	487	(62,554)
Other state revenue	7,200	47,150	46,609	(541)
Total revenue from other agencies	<u>158,960</u>	<u>187,036</u>	<u>120,734</u>	<u>(66,302)</u>
Service charges:				
Parking fines/meter income	<u>17,600</u>	<u>16,653</u>	<u>17,307</u>	<u>654</u>
Miscellaneous Income:				
Cable TV franchise fees	21,000	23,456	23,456	-
Water tower/land rental	15,000	16,625	16,650	25
Interest income	800	1,091	1,286	195
Miscellaneous income	163,020	291,244	193,050	(98,194)
Post card income	-	12	12	-
Total miscellaneous income	<u>199,820</u>	<u>332,428</u>	<u>234,454</u>	<u>(97,974)</u>
Total revenues	<u>3,021,704</u>	<u>3,308,172</u>	<u>3,196,514</u>	<u>(111,658)</u>

**Town of Denton, Maryland**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance –**  
**Budget and Actual Detail – General Fund**  
**Year Ended June 30, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Expenditures</b>				
General Government:				
General administration:				
Salaries	\$ 60,126	\$ 60,126	\$ 57,760	\$ 2,366
Other operating expenses	85,703	80,919	58,802	22,117
Total general administration	<u>145,829</u>	<u>141,045</u>	<u>116,562</u>	<u>24,483</u>
Legislative:				
Salaries	15,600	15,600	15,600	-
Other operating expenses	13,352	13,925	13,517	408
Total legislative	<u>28,952</u>	<u>29,525</u>	<u>29,117</u>	<u>408</u>
Elections:				
Salaries	150	100	100	-
Other operating expenses	2,250	3,058	3,058	-
Total elections	<u>2,400</u>	<u>3,158</u>	<u>3,158</u>	<u>-</u>
Financial Administration:				
Salaries	110,400	110,400	107,457	2,943
Other operating expenses	66,363	67,347	62,864	4,483
Total financial administration	<u>179,763</u>	<u>179,747</u>	<u>170,321</u>	<u>9,426</u>
Municipal Building:				
Other operating expenses	62,665	59,042	57,801	1,241
Capital outlay	390,000	349,835	306,285	43,550
Total municipal building	<u>452,665</u>	<u>408,877</u>	<u>364,086</u>	<u>44,791</u>
Total general government	<u>809,609</u>	<u>762,352</u>	<u>683,244</u>	<u>79,108</u>
Public Safety:				
Police Department:				
Salaries	695,308	720,028	720,663	(635)
Other operating expenses	541,862	564,013	539,861	24,152
Capital outlay	97,700	72,857	77,028	(4,171)
Total police department	<u>1,334,870</u>	<u>1,356,898</u>	<u>1,337,552</u>	<u>19,346</u>
Volunteer Fire Company:				
Other operating expenses	<u>84,700</u>	<u>84,700</u>	<u>84,700</u>	<u>-</u>
Zoning, Codes, and Inspection:				
Salaries	137,247	137,247	116,678	20,569
Other operating expenses	172,023	231,542	204,093	27,449
Capital outlay	10,000	4,918	4,918	-
Total zoning, codes, and inspection	<u>319,270</u>	<u>373,707</u>	<u>325,689</u>	<u>48,018</u>
Total public safety	<u>1,738,840</u>	<u>1,815,305</u>	<u>1,747,941</u>	<u>67,364</u>

**Town of Denton, Maryland**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance –**  
**Budget and Actual Detail – General Fund**  
**Year Ended June 30, 2015**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Positive (Negative)</b>
Street sanitation:				
Salaries	\$ 44,863	\$ 42,863	\$ 41,294	\$ 1,569
Other operating expenses	46,644	49,176	43,302	5,874
Total street sanitation	<u>91,507</u>	<u>92,039</u>	<u>84,596</u>	<u>7,443</u>
Street lighting	79,800	88,000	86,953	1,047
Trash collection	149,394	155,500	152,186	3,314
Mosquito spraying	1,075	1,075	1,075	-
Total public works	<u>321,776</u>	<u>336,614</u>	<u>324,810</u>	<u>11,804</u>
Recreation and Culture:				
Parks and recreation:				
Salaries	28,448	28,448	25,556	2,892
Other operating expenses	30,229	30,229	21,421	8,808
Total parks and recreation	<u>58,677</u>	<u>58,677</u>	<u>46,977</u>	<u>11,700</u>
Tennis courts:				
Other operating expenses	700	700	463	237
Summerfest:				
Other expense	3,500	2,662	2,662	-
Wheeler Park:				
Project costs	<u>-</u>	<u>-</u>	<u>55</u>	<u>(55)</u>
Total recreation and culture	<u>62,877</u>	<u>62,039</u>	<u>50,157</u>	<u>11,882</u>
Urban Development and Housing:				
Community development:				
Other operating expenses	<u>48,000</u>	<u>48,120</u>	<u>33,425</u>	<u>14,695</u>
Retirement payment	<u>18,456</u>	<u>18,456</u>	<u>18,456</u>	<u>-</u>
Debt service	<u>164,435</u>	<u>165,548</u>	<u>164,213</u>	<u>1,335</u>
Total expenditures	<u>3,163,993</u>	<u>3,208,434</u>	<u>3,022,246</u>	<u>186,188</u>
<b>Excess of revenues over expenditures</b>	<u>(142,289)</u>	<u>99,738</u>	<u>174,268</u>	<u>74,530</u>

**Town of Denton, Maryland**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance –**  
**Budget and Actual Detail – General Fund**  
**Year Ended June 30, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 58,500	\$ 45,677	\$ 45,671	\$ (6)
Transfers (out)	(247,698)	(247,698)	(262,637)	(14,939)
Note issued	440,000	349,835	412,579	62,744
Expense reserve	(108,513)	(247,552)	-	247,552
Total other financing sources, net				
Total other financing sources, net	<u>142,289</u>	<u>(99,738)</u>	<u>195,613</u>	<u>295,351</u>
<b>Net change in fund balances</b>	<u>\$ -</u>	<u>\$ -</u>	369,881	<u>\$ 369,881</u>
<b>Fund balance - beginning</b>			<u>1,787,150</u>	
<b>Fund balance - ending</b>			<u><u>\$ 2,157,031</u></u>	

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

To the Council of the Town on 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, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated November 16, 2015. That report recognizes that the Town implemented two new accounting standards effective July 1, 2014.

**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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

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

**Purpose of this Report**

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

A handwritten signature in blue ink that reads "Cheryl Behrman CPA". The signature is written in a cursive, flowing style.

Richmond, Virginia  
November 16, 2015