

TOWN OF DENTON, MARYLAND

Financial Report

Year Ended June 30, 2006

TOWN OF DENTON, MARYLAND

Town Council

Lester L. Branson, Mayor

Carol D. Stockley

John A. Foster

J. Bradford Horsey

Conway Gregory

OTHER ADMINISTRATORS

Terry S. Fearins, Town Administrator

Karen L. Monteith, Clerk-Treasurer

Jennifer Shull – Director of Com. Dev. & Housing

Rodney Cox – Chief of Police

Scott Getchell – Director of Public Works & Public Utilities

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Denton, Maryland, as of and for the year ended June 30, 2006, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Denton, Maryland as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the general fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 24, 2006 on our consideration of the Town of Denton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Town of Denton's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Cherry, Bekaert & Halland, L.L.P.

Richmond, Virginia
August 24, 2006

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

As management of the Town of Denton, we offer readers of the Town of Denton's financial statements this narrative overview and analysis of the financial activities of the Town of Denton for the fiscal year ended June 30, 2006. 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

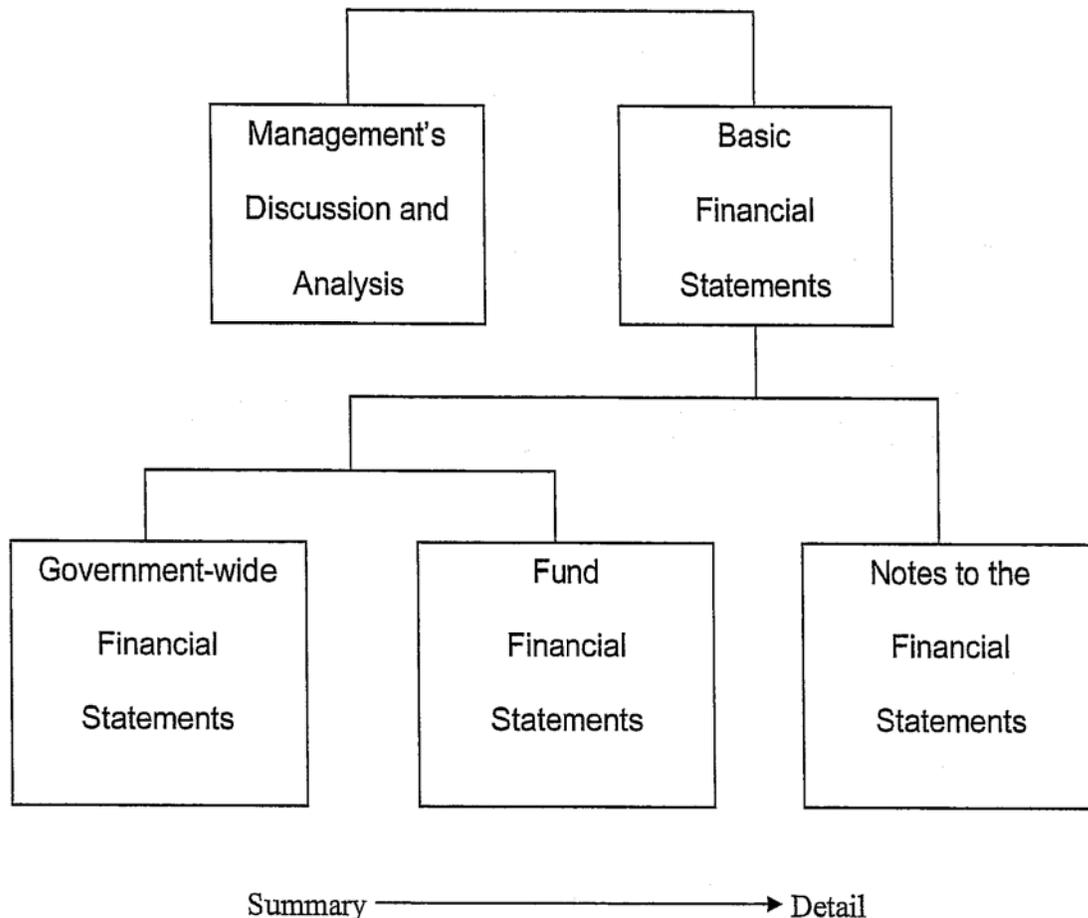
- The assets of the Town of Denton exceeded its liabilities at the close of the fiscal year by \$14,133.
- The government's total net assets increased by \$1,443, primarily due to increases in the governmental activities net assets.
- As of the close of the current fiscal year, the Town of Denton's governmental funds reported combined ending fund balances of \$(490), an increase of \$13 during the year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$145, or 7.0 percent of total general fund expenditures for the fiscal year.
- The Town of Denton's total debt decreased by \$196 (4.5%) during the current fiscal year. The line of credit was paid in full and loan for the 4th St. Smith House was paid using Community Legacy Grant funds.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

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

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

Government-wide Financial Statements

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

The two government-wide statements report the Town's net assets and how they have changed. Net assets are the difference between the Town's total assets and total liabilities. Measuring net assets is one way to measure the Town's financial condition.

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

Fund Financial Statements

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

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

The Town of Denton adopts an annual budget for its General Fund. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Council about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as

planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the Statement of Revenues, Expenditures and Changes in Fund Balances. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the variance between the final budget and the actual resources and charges.

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

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 25-40 of this report.

Government-Wide Financial Analysis

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

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

Figure 2

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 1,505	\$ 1,657	\$ 1,786	\$ 921	\$ 3,291	\$ 2,578
Capital assets	8,101	7,481	8,196	8,444	16,297	15,925
Total assets	9,606	9,138	9,982	9,365	19,588	18,503
Long-term liabilities outstanding	1,553	1,584	2,631	2,796	4,184	4,380
Other liabilities	1,157	1,295	115	138	1,272	1,433
Total liabilities	2,710	2,879	2,746	2,934	5,456	5,813
Net assets:						
Invested in capital assets, net of related debt	5,603	4,456	5,935	6,030	11,538	10,486
Restricted	-	-	-	-	-	-
Unrestricted	1,293	1,803	1,301	401	2,594	2,204
Total net assets	\$ 6,896	\$ 6,259	\$ 7,236	\$ 6,431	\$ 14,132	\$ 12,690

Net assets may serve over time as a useful indicator of a government's financial condition. The assets of the Town of Denton exceeded liabilities by \$14,13.38 as of June 30, 2006. The Town's net assets increased by \$1,443 for the fiscal year ended June 30, 2006. However, the largest portion (81.6%) reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The Town of Denton uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The remaining balance of unrestricted net assets in the amount of \$2,595 may be used to meet the government's ongoing obligations to citizens and creditors. The majority of the increase in the Town's total unrestricted governmental net assets is due to the continued investment in capital assets from the grant funds.

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

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 304	\$ 169	\$ 2,198	\$ 1,132	\$ 2,502	\$ 1,301
Operating grants and contributions	761	1,360	-	-	761	1,360
Capital grants and contributions	72	428	13	30	85	458
General revenues:						
Property taxes	1,395	1,008	-	-	1,395	1,008
Other taxes	475	494	-	-	475	494
Other	116	64	63	15	179	79
Total revenues	<u>3,123</u>	<u>3,523</u>	<u>2,274</u>	<u>1,177</u>	<u>5,397</u>	<u>4,700</u>
Expenses:						
General government	170	154	-	-	170	154
Public safety	1,402	1,119	-	-	1,402	1,119
Public works	512	425	-	-	512	425
Recreation and culture	56	34	-	-	56	34
Urban development and housing	195	122	-	-	195	122
Economic development	150	103	-	-	150	103
Interest on long-term debt	77	74	-	-	77	74
Water	-	-	517	446	517	446
Sewer	-	-	867	782	867	782
Industrial park	-	-	9	19	9	19
Total expenses	<u>2,562</u>	<u>2,031</u>	<u>1,393</u>	<u>1,247</u>	<u>3,955</u>	<u>3,278</u>
Increase in net assets before transfers	561	1,492	881	(70)	1,442	1,422
Transfers	76	21	(76)	(21)	-	-
Increase in net assets	637	1,513	805	(91)	1,442	1,422
Net assets, July 1	<u>6,259</u>	<u>4,746</u>	<u>6,431</u>	<u>6,522</u>	<u>12,690</u>	<u>11,268</u>
Net assets, June 30	<u>\$ 6,896</u>	<u>\$ 6,259</u>	<u>\$ 7,236</u>	<u>\$ 6,431</u>	<u>\$ 14,132</u>	<u>\$ 12,690</u>

Governmental activities. Governmental activities increased the Town's net assets by \$638, showing a decrease of \$875 over the prior year's change in net assets. Key elements of this decrease are as follows:

- Interim financing for the New Police Facility \$632, paid off and refinanced through USDA.
- Tax revenues remained steady with a slight increase.

Business-type activities: Business-type activities increased the Town of Denton's net assets by \$805, showing an increase of \$896 compared to prior year's change in net assets. Key elements of this increase are as follows:

- Increase in revenues charged for meter pits \$35,000
- Includes infrastructure improvements to Market & Eighth Street.
- Expenditure of \$94,210 expenses for "metering supplies" used to upgrade and replace meters, which were initially installed in 1980, and, includes transferring touch read to radio read.

Key changes made to the rate structure to offset this cost include:

- In town water rates - a new fee started January 1, 2006 of \$2.50 per quarter for all units with a water meter size $\frac{3}{4}$ " or less for the meter replacement program.
- The Denton Public Works Department continued to work to replace water meters which were not working.
- Users increased by 203. The total billing accounts in 7/1/05 was 1266. In 7/1/06 this increased to 1405 (139 additional accounts) and through 10/1/06 the total accounts increased to 1469 (64 additional accounts) bring the number of users increased by 203. This is a 16% increase.

Financial Analysis of the Town's Funds

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

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

The general fund is the chief operating fund of the Town of Denton. At the end of the current fiscal year, the total fund balance of the General Fund was entirely comprised of the unreserved fund balance in the amount of \$145. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 7.0 percent of total General Fund expenditures. In the prior year, the total fund balance of the General fund was entirely comprised of the unreserved fund balance in the amount of \$191. A contributing factor in this growth includes an increase in tax revenues and grant revenues.

At June 30, 2006, the governmental funds of Town of Denton reported a combined fund balance of (\$489), a increase of \$13 from the prior year. Included in this change in fund balance is the increased capital spending in both the General and Special Revenue Funds.

General Fund Budgetary Highlights: During the fiscal year, the Town did not revise the originally adopted budget. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

Revenues were slightly higher which enabled the Town to incur additional expenses and increase fund balance.

Proprietary Funds. The Town of Denton's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Water, Sewer, and Industrial Park funds at the end of the fiscal year amounted to (\$170), \$1313, and \$158, respectively. The changes in net assets for the funds were \$53, \$755, and (\$3), respectively. Other factors concerning the finances of this fund, have already been addressed in the discussion of the Town of Denton's business-type activities.

Capital Asset and Debt Administration

Capital assets. The Town of Denton's investment in capital assets for its governmental and business-type activities as of June 30, 2006, totals \$16,297 (net of accumulated depreciation). This amount represents a net increase of \$276, or 1.7 percent 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 (there were no significant demolitions or disposals):

- Reflects acquisition of new land for Municipal Building.
- Reflects acquisition of Fourth St. Properties.

The following is a summary of capital assets at June 30, 2006 and 2005:

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

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 573	\$ 522	\$ -	\$ -	\$ 573	\$ 522
Land improvements	55	83	-	-	55	83
Buildings	1,984	1,972	-	-	1,984	1,972
Infrastructure	5,192	2,889	-	-	5,192	2,889
Equipment and vehicles	181	158	49	37	230	195
Water system	-	-	918	958	918	958
Sewer system	-	-	7,194	7,371	7,194	7,371
Construction in progress	116	1,857	35	174	151	2,031
Total	\$ 8,101	\$ 7,481	\$ 8,196	\$ 8,540	\$ 16,297	\$ 16,021

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, 2006, the Town of Denton had total bonded debt outstanding of \$4,096. Of this, \$4,082 is debt backed by the full faith and credit of the Town. The remainder of the Town's debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds). The total bonded debt decreased by \$203 or 4.9 percent over the prior year. Details by type of debt are presented in the following table:

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

Figure 5

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Bonds and notes	\$ 1,457	\$ 1,496	\$ 2,625	\$ 2,784	\$ 4,082	\$ 4,280
Capital leases	9	8	5	11	14	19
Total	\$ 1,466	\$ 1,504	\$ 2,630	\$ 2,795	\$ 4,096	\$ 4,299

New debt for the fiscal year ending June 30, 2006 resulted from obtaining the loan for the completion of the police facility and additional installments for purchases of machinery and equipment for the governmental activities.

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

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the Town.

- Low unemployment. Caroline County unemployment rate of 4% and is above the State average of 3.7% and below the US average of 4.6 (as of September, 2006)
- Potential for up to 400,000 sq. ft. of commercial (retail/service) space proposed for Legion Road. Presently a 155,000 sq. ft. Super Wal-mart is going through the planning process.

Budget Highlights for the Fiscal Year Ending June 30, 2006

Governmental Activities: Property taxes (benefiting from the economic growth and re-assessments) are expected to lead the increase in budgeted revenue by an increase in real estate tax revenue of 23%. The Town will use these increases in revenues to finance programs currently in place, capital outlay and increase the fund balance. This will enable the Town of Denton to work towards maintaining a General Fund, fund balance of 15%. Presently the fund balance is 7.2 percent down from 7.8 percent in FY 2005.

Budgeted expenditures in the General Fund are expected to be greater than in 2006 to reflect additional personnel. Additionally the General Fund Budget includes increase in fund balance working towards 15%.

Business – type Activities: The water and sewer rates in the Town will primarily remain the same. The Town Commissioners passed legislation establishing a water meter fee for all ¾" or less meters. This fee will initially be set at \$2.50 per quarter. Meters higher than ¾" would be responsible to replace their meter at their own expense. A public hearing was held on October 3, 2005. The ordinance was adopted at the Denton Town Council meeting on November 7, 2005 and became effective January 1, 2006.

Requests for Information

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

Town of Denton, Maryland

Statement of Net Assets

June 30, 2006

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total Reporting Unit</u>
Assets			
Cash and cash equivalents	\$ 513,168	\$ 1,148,723	\$ 1,661,891
Receivables (net of allowance for uncollectibles)	165,654	274,387	440,041
Loans receivable	681,137	-	681,137
Internal balances	(7,580)	7,580	-
Land held for resale	153,010	355,708	508,718
Land	572,510	-	572,510
Construction in progress	116,400	35,446	151,846
Other capital assets, net of accumulated depreciation	7,412,152	8,160,230	15,572,382
Total assets	<u>9,606,451</u>	<u>9,982,074</u>	<u>19,588,525</u>
Liabilities			
Accounts payable and other current liabilities	125,216	115,079	240,295
Line of credit	1,031,967	-	1,031,967
Long-term liabilities:			
Due within one year	92,805	132,199	225,004
Due in more than one year	1,459,847	2,498,413	3,958,260
Total liabilities	<u>2,709,835</u>	<u>2,745,691</u>	<u>5,455,526</u>
Net assets			
Invested in capital assets, net of related debt	5,603,223	5,935,064	11,538,287
Unrestricted	1,293,393	1,301,319	2,594,712
Total net assets	<u>\$ 6,896,616</u>	<u>\$ 7,236,383</u>	<u>\$ 14,132,999</u>

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

Town of Denton, Maryland
Statement of Activities
Year Ended June 30, 2006

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 169,487	\$ 61,115	\$ 487	\$ 2,618	\$ (105,267)	\$ -	\$ (105,267)
Public safety	1,402,223	117,439	60,502	-	(1,224,282)	-	(1,224,282)
Public works	512,163	125,541	-	-	(386,622)	-	(386,622)
Recreation and culture	56,372	-	107,715	-	51,343	-	51,343
Urban development and housing	194,841	-	543,675	68,952	417,786	-	417,786
Economic development	150,065	-	49,160	-	(100,905)	-	(100,905)
Interest on long-term debt	77,473	-	-	-	(77,473)	-	(77,473)
Total governmental activities	2,562,624	304,095	761,539	71,570	(1,425,420)	-	(1,425,420)
Business-type activities:							
Water	516,688	636,602	-	-	-	119,914	119,914
Sewer	867,173	1,560,993	-	12,612	-	706,432	706,432
Industrial park	8,684	-	-	-	-	(8,684)	(8,684)
Total business-type activities	1,392,545	2,197,595	-	12,612	-	817,662	817,662
Total primary government	\$ 3,955,169	\$ 2,501,690	\$ 761,539	\$ 84,182	(1,425,420)	817,662	(607,758)
General revenues:							
Property taxes					1,395,990	-	1,395,990
Other taxes					475,379	-	475,379
Interest income					50,623	35,132	85,755
Miscellaneous income					65,216	28,271	93,487
Transfers					76,000	(76,000)	-
Total general revenues and transfers					2,063,208	(12,597)	2,050,611
Change in net assets					637,788	805,065	1,442,853
Net assets - beginning					6,258,828	6,431,318	12,690,146
Net assets - ending					\$ 6,896,616	\$ 7,236,383	\$ 14,132,999

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

Town of Denton, Maryland

**Balance Sheet
Governmental Funds
June 30, 2006**

	General	Special Projects	Business Loan	Nonmajor Governmental Fund Highway	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 146,504	\$ 217,508	\$ 96,589	\$ 52,567	\$ 513,168
Receivables:					
Taxes	10,045	-	-	-	10,045
Loans	-	-	709,676	-	709,676
Other receivables	5,599	-	-	-	5,599
Due from other governments	50,208	65,222	-	34,580	150,010
Total assets	<u>\$ 212,356</u>	<u>\$ 282,730</u>	<u>\$ 806,265</u>	<u>\$ 87,147</u>	<u>\$ 1,388,498</u>
Liabilities and fund balances					
Liabilities:					
Accounts payable and accrued expenses	\$ 67,112	\$ 49,938	\$ -	\$ 8,166	\$ 125,216
Deferred revenue	-	-	713,650	-	713,650
Due to other funds	-	7,580	-	-	7,580
Line of credit	-	1,031,967	-	-	1,031,967
Total liabilities	<u>67,112</u>	<u>1,089,485</u>	<u>713,650</u>	<u>8,166</u>	<u>1,878,413</u>
Fund balances:					
Unreserved:					
Designated (deficit)	-	(806,755)	92,615	78,981	(635,159)
Undesignated	145,244	-	-	-	145,244
Total fund balances	<u>145,244</u>	<u>(806,755)</u>	<u>92,615</u>	<u>78,981</u>	<u>(489,915)</u>
Total liabilities and fund balances	<u>\$ 212,356</u>	<u>\$ 282,730</u>	<u>\$ 806,265</u>	<u>\$ 87,147</u>	<u>\$ 1,388,498</u>

Town of Denton, Maryland
Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Assets
June 30, 2006

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

Ending fund balance - governmental funds	\$ (489,915)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	8,101,062
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	838,121
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,552,652)</u>
Net assets of governmental activities	<u>\$ 6,896,616</u>

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

Town of Denton, Maryland

Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 Year Ended June 30, 2006

	General	Special Projects	Business Loan	Nonmajor Governmental Fund Highway	Total Governmental Funds
Revenues					
Taxes	\$ 1,605,959	\$ -	\$ -	\$ 265,410	\$ 1,871,369
Licenses and permits	152,613	-	-	-	152,613
Revenue from other agencies	66,838	764,053	-	53,193	884,084
Service charges	14,829	-	-	-	14,829
Miscellaneous	99,819	66,253	85,788	1,699	253,559
Total revenues	<u>1,940,058</u>	<u>830,306</u>	<u>85,788</u>	<u>320,302</u>	<u>3,176,454</u>
Expenditures					
Current:					
General government	263,483	-	-	-	263,483
Public safety	1,338,398	-	-	-	1,338,398
Public works	239,264	-	-	233,909	473,173
Recreation and culture	43,754	103,259	-	-	147,013
Urban development and housing	90,888	637,705	65,875	-	794,468
Economic development	-	98,022	-	-	98,022
Debt service	109,156	39,767	1,500	53,389	203,812
Total expenditures	<u>2,084,943</u>	<u>878,753</u>	<u>67,375</u>	<u>287,298</u>	<u>3,318,369</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(144,885)</u>	<u>(48,447)</u>	<u>18,413</u>	<u>33,004</u>	<u>(141,915)</u>
Other financing sources (uses)					
Loan proceeds	78,964	-	-	-	78,964
Operating transfers in (out)	19,841	148,281	(91,122)	(1,000)	76,000
Total other financing sources (uses)	<u>98,805</u>	<u>148,281</u>	<u>(91,122)</u>	<u>(1,000)</u>	<u>154,964</u>
Net change in fund balances	<u>(46,080)</u>	<u>99,834</u>	<u>(72,709)</u>	<u>32,004</u>	<u>13,049</u>
Fund balance - beginning (deficit)	<u>191,324</u>	<u>(906,589)</u>	<u>165,324</u>	<u>46,977</u>	<u>(502,964)</u>
Fund balance - ending (deficit)	<u>\$ 145,244</u>	<u>\$ (806,755)</u>	<u>\$ 92,615</u>	<u>\$ 78,981</u>	<u>\$ (489,915)</u>

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, 2006**

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

Net change in fund balances - total governmental funds \$ 13,049

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	941,684
Depreciation expense	(321,438)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (27,042)

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	(94,804)
Repayment of principal on long-term debt	126,339

Change in net assets of governmental activities \$ 637,788

Town of Denton, Maryland

Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Taxes:				
Real estate tax	\$ 1,204,178	\$ 1,204,178	\$ 1,264,162	\$ 59,984
Railroad and public utilities Corporation	52,327	52,327	76,181	23,854
Tax interest and penalties	72,308	72,308	86,864	14,556
Abatements (tax)	8,094	8,094	12,142	4,048
Income tax	(42,895)	(42,895)	(43,359)	(464)
Admission and Amusement tax	131,000	131,000	201,875	70,875
Hotel tax	1,011	1,011	2,172	1,161
	2,500	2,500	5,922	3,422
Total taxes	1,428,523	1,428,523	1,605,959	177,436
Licenses and permits:				
Traders license	665	665	18,009	17,344
Building and sign permits	45,294	45,294	56,398	11,104
Cable TV franchise fees	15,079	15,079	17,047	1,968
Other licenses and permits	26,340	26,340	61,159	34,819
Total licenses and permits	87,378	87,378	152,613	65,235
Revenue from Other Agencies:				
State police aid	55,678	55,678	54,192	(1,486)
Critical areas	-	-	1,407	1,407
Police facility grant	31,500	31,500	6,310	(25,190)
Mainstreet miscellaneous revenues	-	-	4,442	4,442
Other county revenue	5,000	5,000	487	(4,513)
Total revenue from other agencies	92,178	92,178	66,838	(25,340)
Service charges:				
Parking fines/meter income	9,139	9,139	14,829	5,690
Miscellaneous Income:				
Water tower/land rental	30,791	30,791	45,083	14,292
Interest income	1,966	1,966	10,496	8,530
Insurance claims	-	-	431	431
Miscellaneous income	3,881	3,881	43,800	39,919
Post card income	14	14	9	(5)
Total miscellaneous income	36,652	36,652	99,819	63,167
Total revenues	1,653,870	1,653,870	1,940,058	286,188

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

Town of Denton, Maryland

Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Expenditures				
General Government:				
Legislative:				
Salaries	\$ 5,500	\$ 5,500	\$ 5,501	\$ (1)
Other operating expenses	15,430	15,430	41,488	(26,058)
	<u>20,930</u>	<u>20,930</u>	<u>46,989</u>	<u>(26,059)</u>
Elections:				
Salaries	45	45	45	-
Other operating expenses	1,050	1,050	1,545	(495)
	<u>1,095</u>	<u>1,095</u>	<u>1,590</u>	<u>(495)</u>
Financial Administration:				
Salaries	68,115	68,115	64,503	3,612
Other operating expenses	51,827	51,827	50,727	1,100
Capital outlay	4,000	4,000	51,931	(47,931)
	<u>123,942</u>	<u>123,942</u>	<u>167,161</u>	<u>(43,219)</u>
Municipal Building:				
Other operating expenses	5,050	5,050	8,076	(3,026)
Capital outlay	-	-	39,667	(39,667)
	<u>5,050</u>	<u>5,050</u>	<u>47,743</u>	<u>(42,693)</u>
Total general government	<u>151,017</u>	<u>151,017</u>	<u>263,483</u>	<u>(112,466)</u>
Public Safety:				
Police Department:				
Salaries	465,637	465,637	458,177	7,460
Other operating expenses	372,672	372,672	364,947	7,725
Capital outlay	59,975	59,975	179,976	(120,001)
	<u>898,284</u>	<u>898,284</u>	<u>1,003,100</u>	<u>(104,816)</u>
Volunteer Fire Company:				
Other operating expenses	41,800	41,800	41,316	484
Zoning, Codes & Inspection:				
Salaries	145,291	145,291	141,829	3,462
Other operating expenses	87,637	87,637	137,643	(50,006)
Capital outlay	2,000	2,000	14,510	(12,510)
	<u>234,928</u>	<u>234,928</u>	<u>293,982</u>	<u>(59,054)</u>
Total public safety	<u>1,175,012</u>	<u>1,175,012</u>	<u>1,338,398</u>	<u>(163,386)</u>

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

Town of Denton, Maryland

Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Public Works:				
Street Sanitation:				
Salaries	\$ 26,137	\$ 26,137	\$ 30,224	\$ (4,087)
Other operating expenses	23,712	23,712	32,233	(8,521)
Capital outlay	-	-	14,175	(14,175)
	<u>49,849</u>	<u>49,849</u>	<u>76,632</u>	<u>(26,783)</u>
Street lighting	38,000	38,000	39,874	(1,874)
Trash collection	98,000	98,000	122,168	(24,168)
Mosquito spraying	1,250	1,250	590	660
	<u>187,099</u>	<u>187,099</u>	<u>239,264</u>	<u>(52,165)</u>
Total public works				
Recreation and Culture:				
Parks and recreation:				
Salaries	16,716	16,716	19,190	(2,474)
Other operating expenses	12,242	12,242	23,758	(11,516)
	<u>28,958</u>	<u>28,958</u>	<u>42,948</u>	<u>(13,990)</u>
Tennis courts:				
Other operating expenses	5,000	5,000	613	4,387
	<u>5,000</u>	<u>5,000</u>	<u>613</u>	<u>4,387</u>
Summerfest:				
Other expense	-	-	193	(193)
	<u>-</u>	<u>-</u>	<u>193</u>	<u>(193)</u>
Total recreation and culture	<u>33,958</u>	<u>33,958</u>	<u>43,754</u>	<u>(9,796)</u>
Urban Development and Housing:				
Community development:				
Salaries	38,921	38,921	39,093	(172)
Other operating expenses	36,270	36,270	50,425	(14,155)
Capital outlay	-	-	1,370	(1,370)
	<u>75,191</u>	<u>75,191</u>	<u>90,888</u>	<u>(15,697)</u>
Total urban development and housing				
Debt service	<u>83,593</u>	<u>83,593</u>	<u>109,156</u>	<u>(25,563)</u>
Total expenditures	<u>1,705,870</u>	<u>1,705,870</u>	<u>2,084,943</u>	<u>(379,073)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(52,000)</u>	<u>(52,000)</u>	<u>(144,885)</u>	<u>(92,885)</u>

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

Town of Denton, Maryland

**Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
Year Ended June 30, 2006**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Other Financing Sources (Uses)				
Loan proceeds	\$ 25,000	\$ 25,000	\$ 78,964	\$ 53,964
Operating transfers in (out)	27,000	27,000	19,841	(7,159)
Total other financing sources (uses)	<u>52,000</u>	<u>52,000</u>	<u>98,805</u>	<u>46,805</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	(46,080)	<u>\$ (46,080)</u>
Fund Balance - Beginning			<u>191,324</u>	
Fund Balance - Ending			<u>\$ 145,244</u>	

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

Town of Denton, Maryland
Statement of Net Assets
Proprietary Funds
June 30, 2006

	Enterprise Funds			Total
	Water Fund	Sewer Fund	Industrial Park Fund	
Assets				
Current assets				
Cash and cash equivalents	\$ -	\$ 1,016,644	\$ 132,079	\$ 1,148,723
Receivables:				
Service charges	69,171	171,116	-	240,287
Notes receivable	-	-	32,912	32,912
Other	433	755	-	1,188
Due from other funds	-	198,670	7,580	206,250
Total current assets	<u>69,604</u>	<u>1,387,185</u>	<u>172,571</u>	<u>1,629,360</u>
Noncurrent assets				
Land held for resale	-	-	355,708	355,708
Construction in progress	-	35,446	-	35,446
Capital assets, net	950,049	7,210,181	-	8,160,230
Total noncurrent assets	<u>950,049</u>	<u>7,245,627</u>	<u>355,708</u>	<u>8,551,384</u>
Total assets	<u>1,019,653</u>	<u>8,632,812</u>	<u>528,279</u>	<u>10,180,744</u>
Liabilities				
Current liabilities				
Accounts payable and accrued expenses	23,683	29,472	81	53,236
Accrued vacation and sick leave	17,160	44,683	-	61,843
Due to other funds	198,670	-	-	198,670
Notes payable	-	126,867	-	126,867
Capital lease payable	2,666	2,666	-	5,332
Total current liabilities	<u>242,179</u>	<u>203,688</u>	<u>81</u>	<u>445,948</u>
Noncurrent liabilities				
Bonds and notes payable	-	2,128,413	370,000	2,498,413
Total noncurrent liabilities	<u>-</u>	<u>2,128,413</u>	<u>370,000</u>	<u>2,498,413</u>
Total liabilities	<u>242,179</u>	<u>2,332,101</u>	<u>370,081</u>	<u>2,944,361</u>
Net assets				
Capital assets net of related debt	947,383	4,987,681	-	5,935,064
Unrestricted (deficit)	(169,909)	1,313,030	158,198	1,301,319
Total net assets	<u>\$ 777,474</u>	<u>\$ 6,300,711</u>	<u>\$ 158,198</u>	<u>\$ 7,236,383</u>

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

Town of Denton, Maryland
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2006

	Enterprise Funds			Total
	Water Fund	Sewer Fund	Industrial Park Fund	
Operating revenues				
Charges for services, net	\$ 288,267	\$ 592,249	\$ -	\$ 880,516
Front footage assessments	-	29,779	-	29,779
Other revenues	51,093	72,863	-	123,956
Total operating revenues	<u>339,360</u>	<u>694,891</u>	<u>-</u>	<u>1,034,251</u>
Operating expenses				
Salaries and wages	138,401	223,378	-	361,779
Fringe Benefits	71,963	123,291	-	195,254
Materials and supplies	105,932	9,783	-	115,715
Electric and telephone	13,480	3,056	-	16,536
Automotive expenses	8,584	12,641	-	21,225
Professional services	8,156	9,804	-	17,960
Repairs and maintenance	17,892	29,575	-	47,467
Depreciation	52,481	267,488	-	319,969
Miscellaneous	97,246	161,723	8,684	267,653
Total operating expenses	<u>514,135</u>	<u>840,739</u>	<u>8,684</u>	<u>1,363,558</u>
Operating loss	<u>(174,775)</u>	<u>(145,848)</u>	<u>(8,684)</u>	<u>(329,307)</u>
Nonoperating revenue (expense)				
Connection fees	297,242	891,045	-	1,188,287
Interest income	4,932	25,297	4,903	35,132
Other nonoperating revenue	-	3,328	-	3,328
Grant revenue	-	12,612	-	12,612
Interest expense	(2,553)	(26,434)	-	(28,987)
Total nonoperating revenue (expense)	<u>299,621</u>	<u>905,848</u>	<u>4,903</u>	<u>1,210,372</u>
Income (loss) before transfers	124,846	760,000	(3,781)	881,065
Transfers in	25,000	21,000	-	46,000
Transfers out	(96,500)	(25,500)	-	(122,000)
Change in net assets	<u>53,346</u>	<u>755,500</u>	<u>(3,781)</u>	<u>805,065</u>
Total net assets - beginning	<u>724,128</u>	<u>5,545,211</u>	<u>161,979</u>	<u>6,431,318</u>
Total net assets - ending	<u>\$ 777,474</u>	<u>\$ 6,300,711</u>	<u>\$ 158,198</u>	<u>\$ 7,236,383</u>

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

Town of Denton, Maryland
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2006

	Enterprise Funds			Total
	Water Fund	Sewer Fund	Industrial Park Fund	
Operating activities				
Cash received from customers	\$ 330,489	\$ 676,557	\$ 2,170	\$ 1,009,216
Cash received from other funds	-	19,519	-	19,519
Cash paid on short term loans	(80,000)	-	-	(80,000)
Cash paid to vendors	(235,352)	(213,188)	(6,785)	(455,325)
Cash paid to employees	(207,173)	(322,027)	-	(529,200)
Cash paid to other funds	(19,519)	-	-	(19,519)
Net cash provided by (used in) operating activities	<u>(211,555)</u>	<u>160,861</u>	<u>(4,615)</u>	<u>(55,309)</u>
Noncapital financing activities				
Operating transfers in (out)	(71,500)	(4,500)	-	(76,000)
Noncapital nonoperating revenue	-	3,328	-	3,328
Net cash provided (used) by noncapital financing activities	<u>(71,500)</u>	<u>(1,172)</u>	<u>-</u>	<u>(72,672)</u>
Capital and related financing activities				
Connection fees	297,242	891,045	-	1,188,287
Grants received	-	12,612	-	12,612
Interest paid	(2,553)	(26,434)	-	(28,987)
Payment on notes payable	(3,055)	(162,027)	-	(165,082)
Acquisition of capital assets	(13,511)	(58,163)	-	(71,674)
Net cash provided (used) by capital and related financing activities	<u>278,123</u>	<u>657,033</u>	<u>-</u>	<u>935,156</u>
Investing activities				
Interest received	4,932	25,297	4,903	35,132
Net cash provided by investing activities	<u>4,932</u>	<u>25,297</u>	<u>4,903</u>	<u>35,132</u>
Net decrease in cash and cash equivalents	<u>-</u>	<u>842,019</u>	<u>288</u>	<u>842,307</u>
Cash and cash equivalents				
Beginning of year	<u>-</u>	<u>174,625</u>	<u>131,791</u>	<u>306,416</u>
End of year	<u>\$ -</u>	<u>\$ 1,016,644</u>	<u>\$ 132,079</u>	<u>\$ 1,148,723</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating loss	\$ (174,775)	\$ (145,848)	\$ (8,684)	\$ (329,307)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation expense	52,481	267,488	-	319,969
Change in assets and liabilities				
(Increase) decrease in accounts receivable	(8,871)	(18,334)	-	(27,205)
(Increase) decrease in notes receivable	-	-	2,170	2,170
(Increase) decrease in interfund receivables	(19,519)	19,519	-	-
(Increase) decrease in land held for resale	-	-	1,818	1,818
Increase (decrease) in accounts payable and accrued expenses	19,129	38,036	81	57,246
Increase (decrease) in notes payable	(80,000)	-	-	(80,000)
Total adjustments	<u>(36,780)</u>	<u>306,709</u>	<u>4,069</u>	<u>273,998</u>
Net cash provided by (used in) operating activities	<u>\$ (211,555)</u>	<u>\$ 160,861</u>	<u>\$ (4,615)</u>	<u>\$ (55,309)</u>

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

TOWN OF DENTON, MARYLAND

Notes to Financial Statements

June 30, 2006

Note 1 - Summary of significant accounting policies

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

A. The financial reporting entity

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

B. Financial statement presentation

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

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

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

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

TOWN OF DENTON, MARYLAND

Notes to Financial Statements

June 30, 2006

Note 1 - Summary of significant accounting policies (continued)

B. Financial statement presentation (concluded)

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

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

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

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

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

C. Basis of accounting

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

TOWN OF DENTON, MARYLAND

Notes to Financial Statements

June 30, 2006

Note 1 - Summary of significant accounting policies (continued)

C. Basis of accounting (concluded)

2. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.
3. Proprietary fund financial statements are reported using the accrual basis of accounting. Under the accrual method, revenues are recognized in the accounting period in which they are earned, while expenses are recognized in the accounting period in which the related liability is incurred. The Town has adopted GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting* which establishes uniform accounting and financial reporting guidelines for proprietary funds. The Town has elected to apply all GASB Statements, and all Financial Accounting Standards Board (FASB) statements issued on or before November 30, 1989, except those that conflict with the GASB.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Budgets, budgetary accounting

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

1. At or before the first Town Council meeting in April of each year, the Mayor submits to the Town Council a budget for the ensuing fiscal year and an accompanying message.

TOWN OF DENTON, MARYLAND

Notes to Financial Statements June 30, 2006

Note 1 - Summary of significant accounting policies (continued)

D. Budgets, budgetary accounting (concluded)

2. The budget shows in detail all estimated income, proposed expenditures for current operations and capital expenditures. Total proposed expenditures cannot exceed the total of estimated income and applied surplus, if any.
3. A public hearing is conducted to obtain citizen comments.
4. The Town Council adopts the budget on or before June 10. However, if the budget is not adopted by July 1, 1/12 of the current budget can be extended for a 30 day period by majority vote.
5. The budget is legally enacted through passage of an appropriations ordinance.
6. All budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).
7. Appropriations lapse at June 30 for all Town departments.
8. All budget data presented in the accompanying financial statements is the legally amended or revised budget as of June 30. For fiscal year 2006, there were no amendments to the budget.
9. For the year ended June 30, 2006, General Fund expenditures exceeded the amended budget by \$379,073.

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, 2006.

F. Cash and cash equivalents

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

G. Inventory

Inventory consists of lots held for resale in the Denton Industrial Park. They are carried at the lower of cost or net realizable value. Cost includes the original acquisition price and all development costs.

TOWN OF DENTON, MARYLAND

Notes to Financial Statements June 30, 2006

Note 1 - Summary of significant accounting policies (continued)

H. Capital assets

Governmental funds: Capital outlays are recorded as expenditures on the governmental fund financial statements and as assets on the government-wide financial statements to the extent the Town's capitalization threshold of \$5,000 is met. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively to 1980. Depreciation on capital assets has been recorded over the estimated useful lives using the straight-line method. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Depreciation has been provided over the estimated useful lives using the straight-line method. The useful lives for depreciation purposes are as follows:

Machinery and equipment	5-15 years
Land improvements and buildings	15-40 years

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

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

I. Vacation and sick pay liability

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

J. Estimates

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

K. Net assets / fund equity

Net Assets in government-wide and proprietary financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

TOWN OF DENTON, MARYLAND

Notes to Financial Statements

June 30, 2006

Note 1 - Summary of significant accounting policies (continued)

K. Net assets / fund equity (concluded)

In the fund financial statements, Town funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 – Deposits and investments

Deposits

At year end the carrying value of the Town's deposits with banks and financial institutions was \$60,340 and the bank balance was \$282,237. Of this bank balance, \$116,413 was covered by Federal depository insurance and the remaining balance was collateralized in accordance with Article 95, Section 22 of the Annotated Code of Maryland.

Investments

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

At June 30, 2006 the Town's deposit and investment balances were as follows:

	Fair Value
Maryland Local Government Investment Pool	\$ 1,601,051
Deposits	60,340
Cash on hand	500
Total deposits and investments	<u>\$ 1,661,891</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 Local Government Investment Pool is not subject to maturity limits.

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

Note 3 - Property taxes

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

TOWN OF DENTON, MARYLAND

**Notes to Financial Statements
June 30, 2006**

Note 4 – Accounts Receivable

Accounts receivable at June 30, 2006 consist of the following:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Local:		
Taxes	\$ 10,045	\$ -
Loans	681,137	-
Service charges	-	240,287
Notes	-	32,912
Other	5,599	1,188
State of Maryland:		
Income tax	36,829	-
Gasoline tax	29,165	-
Other	11,495	-
Various federal and state grants	72,521	-
Total	<u>\$ 846,791</u>	<u>\$ 274,387</u>

Note 5 – Interfund receivables, payables, and transfers

During the course of normal business operations, the Town has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, or satisfy certain obligations. These transactions are generally reflected as transfers. Interfund receivables and payables represent the lending/borrowing arrangements resulting from the timing of these expenditures versus the receipt of these revenues.

Interfund balances at June 30, 2006, were as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Special Projects Fund	\$ -	\$ 7,580
Water Fund	-	198,670
Sewer Fund	198,670	-
Industrial Park Fund	7,580	-
Total	<u>\$ 206,250</u>	<u>\$ 206,250</u>

TOWN OF DENTON, MARYLAND

**Notes to Financial Statements
June 30, 2006**

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

Interfund transfers at June 30, 2006, were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 20,000	\$ 159
Special Projects Fund	156,281	8,000
Business Loan Fund	-	91,122
Highway Fund	-	1,000
Water Fund	25,000	96,500
Sewer Fund	21,000	25,500
Total	<u>\$ 222,281</u>	<u>\$ 222,281</u>

Note 6 – Capital assets

	<u>Balances June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances June 30, 2006</u>
Governmental activities:				
<i>Nondepreciable capital assets:</i>				
Land	\$ 522,343	\$ 50,167	\$ -	\$ 572,510
Construction in progress	1,856,594	711,559	(2,451,753)	116,400
Total nondepreciable capital assets	<u>2,378,937</u>	<u>761,726</u>	<u>(2,451,753)</u>	<u>688,910</u>
<i>Depreciable capital assets:</i>				
Land improvements	442,028	15,602	-	457,630
Buildings	2,500,056	76,131	-	2,576,187
Infrastructure	3,484,572	2,451,753	-	5,936,325
Furniture and equipment	256,038	7,069	-	263,107
Vehicles	303,438	81,156	-	384,594
Total depreciable capital assets	<u>6,986,132</u>	<u>2,631,711</u>	<u>-</u>	<u>9,617,843</u>
Less - accumulated depreciation:				
Land improvements	(359,349)	(43,594)	-	(402,943)
Buildings	(527,880)	(64,575)	-	(592,455)
Infrastructure	(595,938)	(148,408)	-	(744,346)
Furniture and equipment	(176,357)	(24,495)	-	(200,852)
Vehicles	(224,729)	(40,366)	-	(265,095)
Total accumulated depreciation	<u>(1,884,253)</u>	<u>(321,438)</u>	<u>-</u>	<u>(2,205,691)</u>
Total depreciable capital assets, net	<u>5,101,879</u>	<u>2,310,273</u>	<u>-</u>	<u>7,412,152</u>
Governmental activities capital assets, net	<u>\$ 7,480,816</u>	<u>\$ 3,071,999</u>	<u>\$ (2,451,753)</u>	<u>\$ 8,101,062</u>

TOWN OF DENTON, MARYLAND

**Notes to Financial Statements
June 30, 2006**

Note 6 – Capital assets (continued)

	Balances <u>June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	Balances <u>June 30, 2006</u>
Business-type activities:				
<i>Nondepreciable capital assets:</i>				
Construction in progress	\$ 38,119	\$ 12,950	\$(15,623)	\$ 35,446
<i>Depreciable capital assets:</i>				
Municipal water system	1,824,833	-	-	1,824,833
Municipal sewer system	11,001,136	41,509	-	11,042,645
Machinery and equipment	180,548	32,838	-	213,386
Total depreciable capital assets	<u>13,006,517</u>	<u>74,347</u>	<u>-</u>	<u>13,080,864</u>
Less accumulated depreciation for:				
Municipal water system	(867,247)	(39,187)	-	(906,434)
Municipal sewer system	(3,589,704)	(259,698)	-	(3,849,402)
Machinery and equipment	(143,714)	(21,084)	-	(164,798)
Total accumulated depreciation	<u>(4,600,665)</u>	<u>(319,969)</u>	<u>-</u>	<u>(4,920,634)</u>
Total depreciable capital assets, net	<u>8,405,852</u>	<u>(245,622)</u>	<u>-</u>	<u>8,160,230</u>
Business-type activities capital assets, net	<u>\$ 8,443,971</u>	<u>\$(232,672)</u>	<u>\$(15,623)</u>	<u>\$ 8,195,676</u>

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

Governmental activities:	
General government	\$ 3,880
Public safety	120,633
Public works	66,729
Recreation and culture	11,696
Urban development and housing	66,457
Economic development	52,043
	<u>\$ 321,438</u>
Business-type activities:	
Water	\$ 52,481
Sewer	267,488
	<u>\$ 319,969</u>

TOWN OF DENTON, MARYLAND

Notes to Financial Statements

June 30, 2006

Note 7 - Long-term obligations

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

Details of the general obligation bonds and notes of the Town at June 30, 2006 are as follows:

Governmental activities:

State notes and bonds:

	<u>Amount</u>
\$207,900 issued, Town contractual share of Caroline County CDA Bonds, due in annual installments through May 1, 2010, interest at 5.84%.	\$ 70,359
\$265,000 issued, Town contractual share of Caroline County CDA Bonds, due in annual installments through May 2017, interest at 5.52%	184,661
\$20,000 issued, Community Legacy Program Note, entire principal amount due December 2009, no interest	<u>20,000</u>
Total state notes and bonds	275,020

Installment notes:

\$81,000 installment note payable, due in monthly payments of \$427 until January 2008, interest at 3.93% with a final balloon payment of \$70,964	73,870
\$55,000 installment note payable, due in monthly payments of \$308 until January 2008, interest at 4.50% with a final balloon payment of \$48,681	49,828
\$72,249 installment note payable due in annual payments of \$9,725 until January 2013, interest at 3.96%	58,255
\$25,000 installment note payable, due in monthly payments of \$552 until February 2008, interest at 2.90%	10,774
\$50,167 installment note payable, due in monthly payments of \$924 until August 2010, interest at 3.95%	42,486
\$28,797 installment note payable, due in monthly payments of \$659 until September 2009, interest at 4.68%	23,799

TOWN OF DENTON, MARYLAND

Notes to Financial Statements

June 30, 2006

Note 7 - Long-term obligations (continued)

Governmental activities (continued):

Installment notes (continued):

	<u>Amount</u>
\$21,000 installment note payable, due in monthly payments of \$384 until December 2009, interest at 3.61%	\$ 15,096
\$26,000 installment note payable, due in monthly payments of \$593 until May 2009, interest at 4.49%	<u>19,919</u>
Total installment notes	<u>294,027</u>

Federal notes and loans:

\$750,000 police facility loan, issued by the USDA, due in monthly payments of \$3,495 until September 2043, interest at 4.75%	738,167
\$750,000 intermediary relending program note, issued by the USDA, of which \$150,000 was drawn down, interest at 1%	<u>150,000</u>
Total federal notes and loans	<u>888,167</u>
Total governmental activities	<u>\$ 1,457,214</u>

Business-type activities:

General obligation notes:

State of Maryland:

\$62,000 issued September 23, 1980, due in annual installments of \$4,672 including interest at 6.1%, through October 2010.	\$ 19,608
\$52,775 issued May, 15, 1981, due in annual installments of \$3,977 including interest at 6.1% through May 2011.	16,690
\$28,000 issued June 30, 1981, due in annual installments of \$2,110 including interest at 6.1%, through June 2011.	8,866
\$2,332,577 issued September 23, 2004, due in semi-annual installments of \$121,589 including interest at 0.4% through February 2024.	2,107,610
\$140,000, Rural Development Loan due in quarterly installments of \$1,892 including interest at 4.5%, through September 2027.	102,506

State of Maryland:

\$370,000 state note to be repaid from net proceeds of the sale of lots in the new industrial park after the first \$125,000 is retained by the Town. All proceeds in excess of that is to go towards the repayment which is due August 2020, no interest.	<u>370,000</u>
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Total proprietary funds	<u>2,625,280</u>
Total long-term debt	<u>\$ 4,082,494</u>

TOWN OF DENTON, MARYLAND

**Notes to Financial Statements
June 30, 2006**

Note 7 - Long-term obligations (continued)

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

Year Ended June 30	Governmental Activities					
	State Notes & Bonds		Other Notes and Loans		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 28,972	\$ 14,434	\$ 55,955	\$ 47,640	\$ 84,927	\$ 62,074
2008	32,462	12,845	172,101	42,556	204,563	55,401
2009	33,030	11,038	48,568	38,773	81,598	49,811
2010	53,598	9,173	35,558	37,130	89,156	46,303
2011	15,343	7,264	23,483	36,054	38,826	43,318
2012-2016	92,061	22,384	89,868	169,008	181,929	191,392
2017-2021	19,554	1,242	85,442	154,258	104,996	155,500
2022-2026	-	-	102,427	137,273	102,427	137,273
2027-2031	-	-	123,577	116,123	123,577	116,123
2032-2036	-	-	143,432	89,742	143,432	89,742
2037-2041	-	-	152,003	57,697	152,003	57,697
2042-2046	-	-	149,780	18,039	149,780	18,039
Total	\$ 275,020	\$ 78,380	\$ 1,182,194	\$ 944,293	\$ 1,457,214	\$ 1,022,673

Year Ended June 30	Business-type Activities					
	General Obligation Notes		Other Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 124,202	\$ 15,714	\$ -	\$ -	\$ 124,202	\$ 15,714
2008	125,283	14,634	-	-	125,283	14,634
2009	126,400	13,516	-	-	126,400	13,516
2010	127,558	12,358	-	-	127,558	12,358
2011	128,707	11,158	-	-	128,707	11,158
2012-2016	602,660	43,126	-	-	602,660	43,126
2017-2021	619,611	26,175	370,000	-	989,611	26,175
2022-2026	394,443	8,164	-	-	394,443	8,164
2027-2031	6,416	133	-	-	6,416	133
Total	\$ 2,255,280	\$ 144,978	\$ 370,000	\$ -	\$ 2,625,280	\$ 144,978

TOWN OF DENTON, MARYLAND

**Notes to Financial Statements
June 30, 2006**

Note 7 - Long-term obligations (continued)

The following is a summary of changes in long-term liabilities of the Town for the year ended June 30, 2006:

	Balance July 1, 2005	Addition	Reductions	Balance June 30, 2006	Due Within One Year
Governmental activities:					
State notes and bonds	\$ 305,466	\$ -	\$ (30,446)	\$ 275,020	\$ 28,972
Installment note	295,870	78,964	(80,807)	294,027	44,584
Federal loans and notes	894,855	-	(6,688)	888,167	11,371
Capital lease	7,628	9,428	(8,398)	8,658	7,878
Compensated absences	80,368	6,412	-	86,780	-
Total	\$ 1,584,187	\$ 94,804	\$ (126,339)	\$ 1,552,652	\$ 92,805
Business-type activities:					
Capital lease	\$ 11,442	\$ -	\$ (6,110)	\$ 5,332	\$ 5,332
Notes	2,784,252	-	(158,972)	2,625,280	126,867
Compensated absences	34,010	7,793	-	41,803	-
Total	\$ 2,829,704	\$ 7,793	\$ (165,082)	\$ 2,672,415	\$ 132,199

The Town entered into a capital lease agreement for certain equipment in the governmental activities as well as the business-type activities. The Town acquired a backhoe operator through a capital lease for the amount of \$54,535. The allocation of the expense related to the capital lease is 40% from the Highway Fund, 30% from Water and 30% from Sewer. At June 30, 2006, future minimum lease payments due under capital leases with initial or remaining noncancellable lease terms in excess of one year are as follows:

Fiscal Year	Capital Leases	
	Governmental Activities	Business-type Activities
2006	\$ 7,980	\$ 5,453
2007	783	-
Total minimum lease payments	8,763	5,453
Less amount representing interest	105	121
Present value of net minimum lease payments	<u>\$ 8,658</u>	<u>\$ 5,332</u>

TOWN OF DENTON, MARYLAND

**Notes to Financial Statements
June 30, 2006**

Note 8 – Line of credit

The Town obtained a revolving line of credit in the amount of \$450,000 dated March 29, 2005 with interest payable monthly at a rate equal to the Mercantile Floating Prime Rate of Interest. During the year ended June 30, 2006, the Town paid off the balance drawn down in full.

The Town obtained a promissory note in the amount of \$1,031,950 dated December 10, 2004 for the acquisition of capital assets. During the year ended June 30, 2006, the Town drew \$196,997 of that amount for the purpose of interim financing. Interest is payable monthly at 2.76%.

The summary of activities of the short term debt is shown below:

	Balance July 1, 2005	Addition	Reductions	Balance June 30, 2006	Interest Paid
Governmental activities:					
Line of credit	\$ 343,877	\$ -	\$ (343,877)	\$ -	\$ -
Short term note	884,483	196,997	(49,513)	1,031,967	29,647
Total	<u>\$ 1,228,360</u>	<u>\$ 196,997</u>	<u>\$ (393,390)</u>	<u>\$ 1,031,967</u>	<u>\$ 29,647</u>
Business-type activities:					
Line of credit	<u>\$ 80,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 80,000</u>	<u>\$ 2,425</u>

Note 9 – Conduit debt

The Town has issued economic development revenue bonds pursuant to the Maryland Economic Development Revenue Bond Act. All responsibility for the payment of this debt rests with the Borrower. The Town, as issuer, has no responsibility for the payment of this debt. The amount outstanding at June 30, 2006 is as follows:

<u>Description</u>	<u>Original issue</u>	<u>Outstanding, June 30, 2006</u>
Shore Nursing & Rehabilitation bonds, series 1997	\$ 4,150,000	not available
Caroline Nursing/the Gables, series 1999	2,750,000	\$ 2,299,963
Channel Markers Foundation, series 2001	628,200	195,608

TOWN OF DENTON, MARYLAND

Notes to Financial Statements

June 30, 2006

Note 10 - 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.

Members may retire with full benefits after completing 30 years of eligible services regardless of age or at age sixty-two or older with specified years of service. On retirement from service, a member shall receive an annual service retirement allowance based on the member's average final compensation and years of creditable service. A member may retire with reduced benefits after attaining age fifty-five and completing fifteen years of eligible service.

The System issues a publicly available financial report that includes disclosures regarding: actuarial value of assets; total actuarial accrued liability; unfunded actuarial accrued liability, if any; and funded liability ratio. This report may be obtained from the Maryland State Retirement and Pension System, 301 West Preston Street, Baltimore, Maryland 21201.

Funding Policy. Town employees contribute 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 2006 was based on the salaries for the year ended June 30, 2005. 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 \$129,595 in fiscal year 2006. Annual payments in future years will increase by 5% per year through December 2020.

Contributions for the fiscal year ended June 30, 2006 and two preceding years were equal to the actuarially determined amounts as follows:

	June 30 <u>2006</u>	June 30, <u>2005</u>	June 30, <u>2004</u>
Total covered payroll	\$ 971,065	\$ 799,138	\$ 852,341
Employer normal contributions	70,111	58,257	42,703
Employer special accrued liability	59,484	56,651	53,953

The Town also offers a voluntary defined contribution plan to accept employee contributions. The Town does not contribute to this plan.

Note 11 – Fund deficit

The following funds had a deficit fund equity balance at June 30, 2006:

Special Projects Fund	\$ (806,755)
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The Town anticipates the elimination of the fund deficit once the proceeds of state and federal long term borrowing is used to pay off the line of credit.

TOWN OF DENTON, MARYLAND

Notes to Financial Statements

June 30, 2006

Note 12 - Risk management

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

TOWN OF DENTON, MARYLAND

Schedule of Expenditures of Federal Awards Year Ended June 30, 2006

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency Grant, or Pass-through Number</u>	<u>Federal Expenditures</u>
Department of Homeland Security			
Pass-through payment			
Police Facility Grant	97.039		\$ 6,310
Department of Housing and Urban Development			
Pass-through payment			
Department of Housing and Community Development			
Community Development Block Grant			
Economic Development - Old School Acquisition Grant	14.219		<u>37,703</u>
Total federal awards			<u>\$ 44,013</u>

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

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

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

To the Honorable Town Council
Town of Denton, Maryland

We have audited the basic financial statements of the Town of Denton, Maryland as of and for the year ended June 30, 2006, and have issued our report thereon dated August 24, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Denton's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Denton's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of the Town of Denton in a separate letter dated August 24, 2006.

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

Cherry Be Kent & Holland, L.L.P.

Richmond, Virginia
August 24, 2006