

TOWN OF DENTON, MARYLAND

Financial Report

Year Ended June 30, 2007

TOWN OF DENTON, MARYLAND

Town Council

John A. Foster, Mayor

Lester L. Branson

Robert Clendaniel

Dennis Porter

Conway Gregory

OTHER ADMINISTRATORS

Terry S. Fearins, Town Administrator

Karen L. Monteith, Clerk-Treasurer

Jennifer Shull – Director of Housing & Community Development

Rodney Cox – Chief of Police

Scott Getchell – Director of Public Works

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Denton, Maryland, as of and for the year ended June 30, 2007, 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.

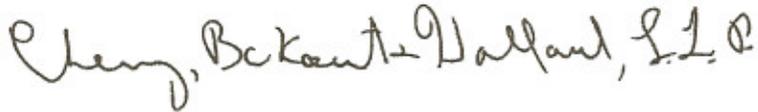
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Denton, Maryland as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the general fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 28, 2007 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 combining statements for nonmajor funds and the schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The combining statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Cheryl Beckwith Halland, L.L.P." The signature is written in dark ink and is positioned above the typed name and date.

Richmond, Virginia
November 28, 2007

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, 2007. 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

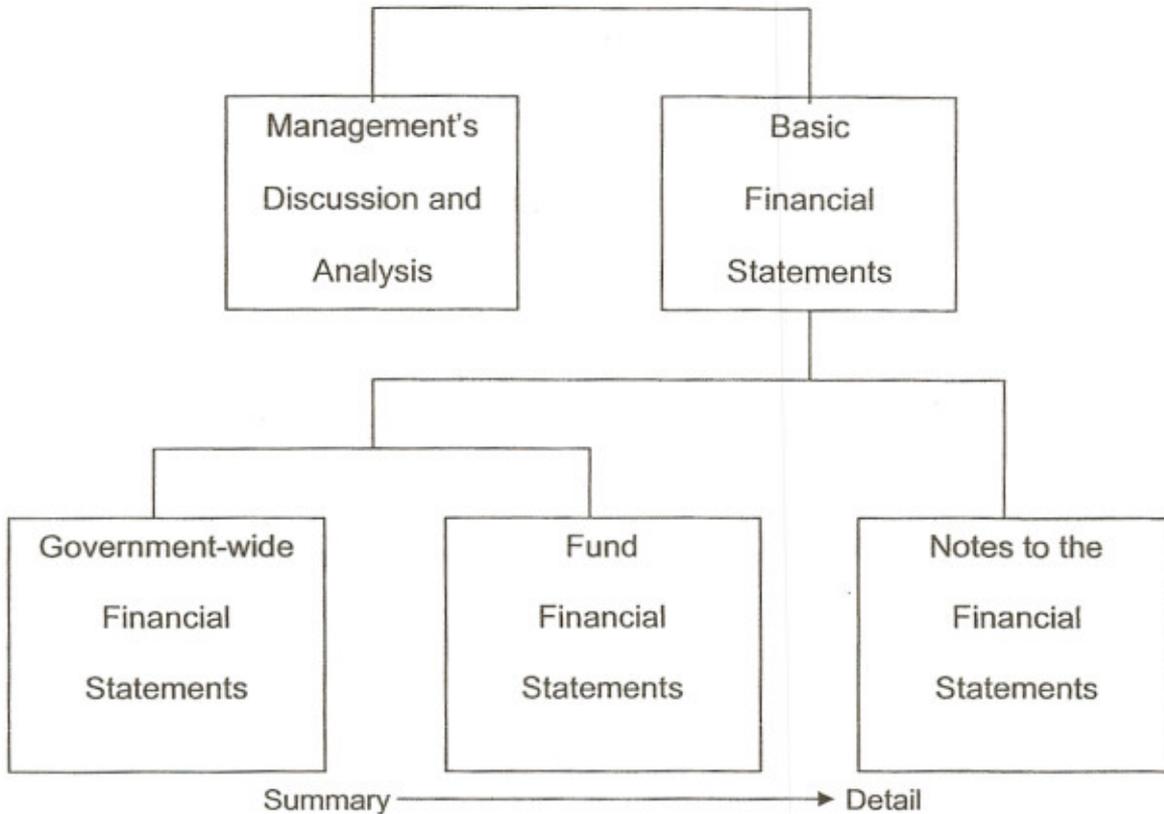
- The assets of the Town of Denton exceeded its liabilities at the close of the fiscal year by \$16,302.
- The government's total net assets increased by \$2,170, primarily due to increases in the governmental activities net assets.
- As of the close of the current fiscal year, the Town of Denton's governmental funds reported combined ending fund balances of \$(173), an increase of \$317 during the year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$297, or 13.4 percent of total general fund expenditures for the fiscal year.
- The Town of Denton's total debt increased by \$170 (4%) during the current fiscal year.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

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

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

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

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

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

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

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

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 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	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 2,004	\$ 1,505	\$ 2,035	\$ 1,786	\$ 4,039	\$ 3,291
Capital assets	9,467	8,101	8,649	8,196	18,116	\$ 16,297
Total assets	<u>11,471</u>	<u>9,606</u>	<u>10,684</u>	<u>9,982</u>	<u>22,155</u>	<u>19,588</u>
Long-term liabilities outstanding	1,806	1,553	2,548	2,631	4,354	4,184
Other liabilities	1,131	1,157	111	115	1,242	1,272
Total liabilities	<u>2,937</u>	<u>2,710</u>	<u>2,916</u>	<u>2,746</u>	<u>5,853</u>	<u>5,456</u>
Net assets:						
Invested in capital assets, net of related debt	6,743	5,603	5,784	5,935	12,527	11,538
Unrestricted	1,791	1,293	1,984	1,301	3,775	2,594
Total net assets	<u>\$ 8,534</u>	<u>\$ 6,896</u>	<u>\$ 7,768</u>	<u>\$ 7,236</u>	<u>\$ 16,302</u>	<u>\$ 14,132</u>

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 \$16,559 as of June 30, 2007. The Town's net assets increased by \$2,170 for the fiscal year ended June 30, 2007. However, a significant portion (75.6%) 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 \$3,775 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	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$ 334	\$ 304	\$ 2,212	\$ 2,198	\$ 2,546	\$ 2,502
Operating grants and contributions	702	761	-	-	702	761
Capital grants and contributions	884	72	214	13	1,098	85
General revenues:						
Property taxes	1,767	1,395	-	-	1,767	1,395
Other taxes	523	475	-	-	523	475
Other	170	116	100	63	270	179
Total revenues	<u>4,380</u>	<u>3,123</u>	<u>2,526</u>	<u>2,274</u>	<u>6,906</u>	<u>5,397</u>
Expenses:						
General government	236	170	-	-	236	170
Public safety	1,442	1,402	-	-	1,442	1,402
Public works	637	512	-	-	637	512
Recreation and culture	45	56	-	-	45	56
Urban development and housing	652	195	-	-	652	195
Economic development	125	150	-	-	125	150
Interest on long-term debt	129	77	-	-	129	77
Water	-	-	526	517	526	517
Sewer	-	-	943	867	943	867
Industrial park	-	-	1	9	1	9
Total expenses	<u>3,266</u>	<u>2,562</u>	<u>1,470</u>	<u>1,393</u>	<u>4,736</u>	<u>3,955</u>
Increase in net assets before transfers	1,114	561	1,056	881	2,170	1,442
Transfers	524	76	(524)	(76)	-	-
Increase in net assets	1,638	637	532	805	2,170	1,442
Net assets, July 1	<u>6,896</u>	<u>6,259</u>	<u>7,236</u>	<u>6,431</u>	<u>14,132</u>	<u>12,690</u>
Net assets, June 30	<u>\$ 8,534</u>	<u>\$ 6,896</u>	<u>\$ 7,768</u>	<u>\$ 7,236</u>	<u>\$ 16,302</u>	<u>\$ 14,132</u>

Governmental activities. Governmental activities increased the Town's net assets by \$1,638, showing an increase of \$1,001 over the prior year's change in net assets. Key elements of this increase are as follows:

- CDGB grant funds of approximately \$800,000 were received.
- Tax revenues increased \$419.

Business-type activities: Business-type activities increased the Town of Denton's net assets by \$532, showing a decrease of \$273 compared to prior year's change in net assets. Key elements of this decrease are as follows:

- Increase in revenues charged for connections of \$271.
- Increase in MDE revenues of \$201.
- Transfers to governmental activities of \$524.

Key changes made to the rate structure include:

- The Denton Public Works Department continued to work to replace water meters which were not working.
- Users increased by 244. The total billing accounts in 7/1/06 was 1405. In 7/1/07 this increased to 1639 (234 additional accounts) and through 10/1/07 the total accounts increased to 1649 (10 additional accounts) bring the number of users increased by 244. This is a 17.4% 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 \$298. 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 14 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 \$145. A contributing factor in this growth includes an increase in tax revenues and maintaining a sustainable level of expenses.

At June 30, 2007, the governmental funds of the Town of Denton reported a combined fund deficit of \$173, a reduction of \$317 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 (\$142), \$1,962, and \$165, respectively. The changes in net assets for the funds were \$2, \$523, and \$7, 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, 2007, totals \$18,116 (net of accumulated depreciation). This amount represents a net increase of \$1,819, or 11.2 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 construction in progress of Market Street Phase II.

The following is a summary of capital assets at June 30, 2007 and 2006:

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

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 573	\$ 573	\$ -	\$ -	\$ 573	\$ 573
Land improvements	47	55	-	-	47	55
Buildings	2,100	1,984	-	-	2,100	1,984
Infrastructure	5,043	5,192	-	-	5,043	5,192
Equipment and vehicles	161	181	42	49	203	230
Water system	-	-	880	918	880	918
Sewer system	-	-	6,978	7,194	6,978	7,194
Construction in progress	1,543	116	749	35	2,292	151
Total	\$ 9,467	\$ 8,101	\$ 8,649	\$ 8,196	\$ 18,116	\$ 16,297

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, 2007, the Town of Denton had total bonded debt outstanding of \$4,194. Of this, \$4,193 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 increased by \$97 or 2.4 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	
	2007	2006	2007	2006	2007	2006
Bonds and notes	\$ 1,692	\$ 1,457	\$ 2,501	\$ 2,625	\$ 4,193	\$ 4,082
Capital leases	1	9	-	5	1	14
Total	\$ 1,693	\$ 1,466	\$ 2,501	\$ 2,630	\$ 4,194	\$ 4,096

New debt for the fiscal year ending June 30, 2007 resulted from obtaining two new USDA IRP loans and installments for purchase of machinery and equipment.

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 4.5% and is above the State average of 3.8% and below the US average of 4.7 (as of October, 2007)
- 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, 2007

Governmental Activities: Property and Income 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 24%. 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 13.4 percent up from 7.2 percent in FY 2006.

Budgeted expenditures in the General Fund are expected to be greater than in 2008 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 $\frac{3}{4}$ " or less meters. This fee will initially be set at \$2.50 per quarter. Meters higher than $\frac{3}{4}$ " would be responsible to replace their meter at their own expense. This will be increased to \$3.50 per quarter effective 10/1/07.

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, 2007

	Governmental Activities	Business Type Activities	Total Reporting Unit
Assets			
Cash and cash equivalents	\$ 766,912	\$ 1,089,197	\$ 1,856,109
Receivables (net of allowance for uncollectibles)	198,815	582,595	781,410
Loans receivable	892,522	-	892,522
Internal balances	(7,580)	7,580	-
Land held for resale	153,010	355,708	508,718
Land	572,510	-	572,510
Construction in progress	1,543,374	749,068	2,292,442
Other capital assets, net of accumulated depreciation	7,351,399	7,899,853	15,251,252
Total assets	<u>11,470,962</u>	<u>10,684,001</u>	<u>22,154,963</u>
Liabilities			
Accounts payable and other current liabilities	99,078	110,958	210,036
Unearned revenue	-	257,000	257,000
Line of credit	1,031,967	-	1,031,967
Long-term liabilities:			
Due within one year	212,220	125,283	337,503
Due in more than one year	1,593,668	2,422,569	4,016,237
Total liabilities	<u>2,936,933</u>	<u>2,915,810</u>	<u>5,852,743</u>
Net assets			
Invested in capital assets, net of related debt	6,742,567	6,517,791	13,260,358
Unrestricted	1,791,462	1,250,400	3,041,862
Total net assets	<u>\$ 8,534,029</u>	<u>\$ 7,768,191</u>	<u>\$ 16,302,220</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, 2007

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating	Capital	Primary Government		
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 235,965	\$ 67,508	\$ 9,926	\$ -	\$ (158,531)	\$ -	\$ (158,531)
Public safety	1,441,978	121,935	97,675	-	(1,222,368)	-	(1,222,368)
Public works	636,994	137,594	-	-	(499,400)	-	(499,400)
Recreation and culture	45,025	3,926	(3,912)	-	(45,011)	-	(45,011)
Urban development and housing	651,861	436	594,641	884,114	827,330	-	827,330
Economic development	124,837	2,617	3,610	-	(118,610)	-	(118,610)
Interest on long-term debt	129,885	-	-	-	(129,885)	-	(129,885)
Total governmental activities	<u>3,266,545</u>	<u>334,016</u>	<u>701,940</u>	<u>884,114</u>	<u>(1,346,475)</u>	<u>-</u>	<u>(1,346,475)</u>
Business-type activities:							
Water	526,131	668,339	-	-	-	142,208	142,208
Sewer	943,389	1,561,173	-	213,702	-	831,486	831,486
Industrial park	522	-	-	-	-	(522)	(522)
Total business-type activities	<u>1,470,042</u>	<u>2,229,512</u>	<u>-</u>	<u>213,702</u>	<u>-</u>	<u>973,172</u>	<u>973,172</u>
Total primary government	<u>\$ 4,736,587</u>	<u>\$ 2,563,528</u>	<u>\$ 701,940</u>	<u>\$ 1,097,816</u>	<u>(1,346,475)</u>	<u>973,172</u>	<u>(373,303)</u>
General revenues:							
Property taxes					1,767,707	-	1,767,707
Other taxes					522,876	-	522,876
Interest income					61,749	81,430	143,179
Miscellaneous income					52,336	1,426	53,762
Gain on sale of property					55,000	-	55,000
Transfers					524,220	(524,220)	-
Total general revenues and transfers					<u>2,983,888</u>	<u>(441,364)</u>	<u>2,542,524</u>
Change in net assets					1,637,413	531,808	2,169,221
Net assets - beginning					6,896,616	7,236,383	14,132,999
Net assets - ending					<u>\$ 8,534,029</u>	<u>\$ 7,768,191</u>	<u>\$ 16,302,220</u>

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

Town of Denton, Maryland

Balance Sheet
Governmental Funds
June 30, 2007

	General	Special Projects	Business Loan	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 259,800	\$ 250,101	\$ 195,698	\$ 61,313	\$ 766,912
Receivables:					
Taxes	25,097	-	-	-	25,097
Loans	-	-	921,061	-	921,061
Other receivables	5,867	-	-	-	5,867
Due from other governments	64,313	44,610	-	58,928	167,851
Total assets	<u>\$ 355,077</u>	<u>\$ 294,711</u>	<u>\$ 1,116,759</u>	<u>\$ 120,241</u>	<u>\$ 1,886,788</u>
Liabilities and fund balances					
Liabilities:					
Accounts payable and accrued expenses	\$ 57,554	\$ 15,293	\$ 90	\$ 26,141	\$ 99,078
Deferred revenue	-	-	920,672	-	920,672
Due to other funds	-	7,580	-	-	7,580
Line of credit	-	1,031,967	-	-	1,031,967
Total liabilities	<u>57,554</u>	<u>1,054,840</u>	<u>920,762</u>	<u>26,141</u>	<u>2,059,297</u>
Fund balances:					
Unreserved:					
Designated (deficit)	-	(760,129)	195,997	94,100	(470,032)
Undesignated	297,523	-	-	-	297,523
Total fund balances	<u>297,523</u>	<u>(760,129)</u>	<u>195,997</u>	<u>94,100</u>	<u>(172,509)</u>
Total liabilities and fund balances	<u>\$ 355,077</u>	<u>\$ 294,711</u>	<u>\$ 1,116,759</u>	<u>\$ 120,241</u>	<u>\$ 1,886,788</u>

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

Town of Denton, Maryland
Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Assets
June 30, 2007

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

Ending fund balance - governmental funds	\$ (172,509)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	9,467,283
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	1,045,143
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,805,888)</u>
Net assets of governmental activities	<u>\$ 8,534,029</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, 2007

	General	Special Projects	Business Loan	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 1,994,505	\$ -	\$ -	\$ 296,078	\$ 2,290,583
Licenses and permits	154,929	-	-	21,809	176,738
Revenue from other agencies	108,731	1,477,323	-	121,655	1,707,709
Service charges	12,506	-	-	-	12,506
Miscellaneous	43,682	113,607	168,505	2,386	328,180
Total revenues	<u>2,314,353</u>	<u>1,590,930</u>	<u>168,505</u>	<u>441,928</u>	<u>4,515,716</u>
Expenditures					
Current:					
General government	351,006	-	-	-	351,006
Public safety	1,375,833	-	-	-	1,375,833
Public works	263,197	-	-	372,621	635,818
Recreation and culture	34,205	-	-	-	34,205
Urban development and housing	75,547	1,988,056	333,295	-	2,396,898
Economic development	-	78,518	-	-	78,518
Debt service	115,402	176,279	1,828	51,688	345,197
Total expenditures	<u>2,215,190</u>	<u>2,242,853</u>	<u>335,123</u>	<u>424,309</u>	<u>5,217,475</u>
Excess (deficiency) of revenues over (under) expenditures	<u>99,163</u>	<u>(651,923)</u>	<u>(166,618)</u>	<u>17,619</u>	<u>(701,759)</u>
Other financing sources (uses)					
Loan proceeds	29,945	185,000	280,000	-	494,945
Operating transfers in (out)	23,171	513,549	(10,000)	(2,500)	524,220
Total other financing sources (uses)	<u>53,116</u>	<u>698,549</u>	<u>270,000</u>	<u>(2,500)</u>	<u>1,019,165</u>
Net change in fund balances	<u>152,279</u>	<u>46,626</u>	<u>103,382</u>	<u>15,119</u>	<u>317,406</u>
Fund balance - beginning (deficit)	<u>145,244</u>	<u>(806,755)</u>	<u>92,615</u>	<u>78,981</u>	<u>(489,915)</u>
Fund balance - ending (deficit)	<u>\$ 297,523</u>	<u>\$ (760,129)</u>	<u>\$ 195,997</u>	<u>\$ 94,100</u>	<u>\$ (172,509)</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, 2007

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

Net change in fund balances - total governmental funds \$ 317,406

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	1,669,678
Depreciation expense	(303,457)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 207,022

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	(521,304)
Repayment of principal on long-term debt	<u>268,068</u>

Change in net assets of governmental activities \$ 1,637,413

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, 2007

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Taxes:				
Real estate tax	\$ 1,476,505	\$ 1,476,505	\$ 1,634,407	\$ 157,902
Railroad and public utilities	60,765	60,765	75,988	15,223
Corporation	86,842	86,842	105,326	18,484
Tax interest and penalties	3,949	3,949	15,709	11,760
Abatements (tax)	(39,592)	(39,592)	(63,723)	(24,131)
Income tax	188,039	188,039	214,453	26,414
Admission and Amusement tax	1,213	1,213	5,963	4,750
Hotel tax	3,215	3,215	6,382	3,167
Total taxes	1,780,936	1,780,936	1,994,505	213,569
Licenses and permits:				
Traders license	579	579	13,146	12,567
Building and sign permits	82,558	82,558	65,892	(16,666)
Cable TV franchise fees	17,000	17,000	18,880	1,880
Other licenses and permits	37,700	37,700	57,011	19,311
Total licenses and permits	137,837	137,837	154,929	17,092
Revenue from Other Agencies:				
State police aid	93,278	93,278	62,707	(30,571)
Critical areas	-	-	1,130	1,130
Police facility grant	-	-	34,968	34,968
Other county revenue	-	-	487	487
Total revenue from other agencies	93,278	93,278	108,731	15,453
Service charges:				
Parking fines/meter income	8,412	8,412	12,506	4,094
Miscellaneous Income:				
Water tower/land rental	30,000	30,000	30,932	932
Interest income	5,717	5,717	17,056	11,339
Miscellaneous income	6,845	6,845	(4,315)	(11,160)
Post card income	4	4	9	5
Total miscellaneous income	42,566	42,566	43,682	1,116
Total revenues	2,063,029	2,063,029	2,314,353	251,324

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, 2007

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Expenditures				
General Government:				
General administration:				
Salaries	\$ 18,673	\$ 18,673	\$ 15,162	\$ 3,511
Other operating expenses	26,463	26,463	7,549	18,914
	<u>45,136</u>	<u>45,136</u>	<u>22,711</u>	<u>22,425</u>
Legislative:				
Salaries	5,500	5,500	6,584	(1,084)
Other operating expenses	25,822	25,822	53,279	(27,457)
	<u>31,322</u>	<u>31,322</u>	<u>59,863</u>	<u>(28,541)</u>
Elections:				
Salaries	45	45	45	-
Other operating expenses	1,350	1,350	1,265	85
	<u>1,395</u>	<u>1,395</u>	<u>1,310</u>	<u>85</u>
Financial Administration:				
Salaries	101,685	101,685	63,182	38,503
Other operating expenses	81,033	81,033	54,732	26,301
Capital outlay	4,200	4,200	-	4,200
	<u>186,918</u>	<u>186,918</u>	<u>117,914</u>	<u>69,004</u>
Municipal Building:				
Other operating expenses	8,250	8,250	17,068	(8,818)
Capital outlay	-	-	132,140	(132,140)
	<u>8,250</u>	<u>8,250</u>	<u>149,208</u>	<u>(140,958)</u>
Total general government	<u>273,021</u>	<u>273,021</u>	<u>351,006</u>	<u>(77,985)</u>
Public Safety:				
Police Department:				
Salaries	528,962	528,962	529,233	(271)
Other operating expenses	396,390	396,390	410,926	(14,536)
Capital outlay	81,525	81,525	52,147	29,378
	<u>1,006,877</u>	<u>1,006,877</u>	<u>992,306</u>	<u>14,571</u>
Volunteer Fire Company:				
Other operating expenses	<u>62,600</u>	<u>62,600</u>	<u>56,651</u>	<u>5,949</u>
Zoning, Codes & Inspection:				
Salaries	194,713	194,713	177,570	17,143
Other operating expenses	134,904	134,904	149,306	(14,402)
	<u>329,617</u>	<u>329,617</u>	<u>326,876</u>	<u>2,741</u>
Total public safety	<u>1,399,094</u>	<u>1,399,094</u>	<u>1,375,833</u>	<u>23,261</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, 2007

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Public Works:				
Street Sanitation:				
Salaries	\$ 31,221	\$ 31,221	\$ 28,344	\$ 2,877
Other operating expenses	32,676	32,676	37,707	(5,031)
	<u>63,897</u>	<u>63,897</u>	<u>66,051</u>	<u>(2,154)</u>
Street lighting	39,000	39,000	55,864	(16,864)
Trash collection	105,000	105,000	140,955	(35,955)
Mosquito spraying	1,250	1,250	327	923
	<u>209,147</u>	<u>209,147</u>	<u>263,197</u>	<u>(54,050)</u>
Total public works				
Recreation and Culture:				
Parks and recreation:				
Salaries	20,155	20,155	13,702	6,453
Other operating expenses	18,083	18,083	20,174	(2,091)
	<u>38,238</u>	<u>38,238</u>	<u>33,876</u>	<u>4,362</u>
Tennis courts:				
Other operating expenses	11,100	11,100	329	10,771
	<u>49,338</u>	<u>49,338</u>	<u>34,205</u>	<u>15,133</u>
Total recreation and culture				
Urban Development and Housing:				
Community development:				
Salaries	15,976	15,976	2,449	13,527
Other operating expenses	63,621	63,621	73,098	(9,477)
	<u>79,597</u>	<u>79,597</u>	<u>75,547</u>	<u>4,050</u>
Total urban development and housing				
Debt service	108,446	108,446	115,402	(6,956)
	<u>2,118,643</u>	<u>2,118,643</u>	<u>2,215,190</u>	<u>(96,547)</u>
Total expenditures				
Excess (deficiency) of revenues over (under) expenditures	<u>(55,614)</u>	<u>(55,614)</u>	<u>99,163</u>	<u>154,777</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, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Other Financing Sources (Uses)				
Loan proceeds	\$ 30,000	\$ 30,000	\$ 29,945	\$ (55)
Operating transfers in (out)	10,000	10,000	23,171	13,171
Total other financing sources (uses)	<u>40,000</u>	<u>40,000</u>	<u>53,116</u>	<u>13,116</u>
Net change in fund balances	<u>\$ (15,614)</u>	<u>\$ (15,614)</u>	152,279	<u>\$ 167,893</u>
Fund Balance - Beginning			<u>145,244</u>	
Fund Balance - Ending			<u>\$ 297,523</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, 2007

	Enterprise Funds			
	Water Fund	Sewer Fund	Industrial	Total
			Park Fund	
Assets				
Current assets				
Cash and cash equivalents	\$ -	\$ 948,317	\$ 140,880	\$ 1,089,197
Receivables:				
Service charges	83,864	184,804	-	268,668
Notes receivable	-	-	30,742	30,742
Other	-	283,185	-	283,185
Due from other funds	-	196,816	7,580	204,396
Total current assets	83,864	1,613,122	179,202	1,876,188
Noncurrent assets				
Land held for resale	-	-	355,708	355,708
Construction in progress	15,134	733,934	-	749,068
Capital assets, net	906,290	6,993,563	-	7,899,853
Total noncurrent assets	921,424	7,727,497	355,708	9,004,629
Total assets	1,005,288	9,340,619	534,910	10,880,817
Liabilities				
Current liabilities				
Accounts payable and accrued expenses	11,194	99,579	185	110,958
Unearned revenue	-	257,000	-	257,000
Due to other funds	196,816	-	-	196,816
Notes payable	-	125,283	-	125,283
Total current liabilities	208,010	481,862	185	690,057
Noncurrent liabilities				
Accrued vacation and sick leave	17,856	28,886	-	46,742
Bonds and notes payable	-	2,005,827	370,000	2,375,827
Total noncurrent liabilities	17,856	2,034,713	370,000	2,422,569
Total liabilities	225,866	2,516,575	370,185	3,112,626
Net assets				
Capital assets net of related debt	921,404	5,596,387	-	6,517,791
Unrestricted (deficit)	(141,982)	1,227,657	164,725	1,250,400
Total net assets	\$ 779,422	\$ 6,824,044	\$ 164,725	\$ 7,768,191

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, 2007

	Enterprise Funds			Total
	Water Fund	Sewer Fund	Industrial Park Fund	
Operating revenues				
Charges for services, net	\$ 325,343	\$ 691,392	\$ -	\$ 1,016,735
Front footage assessments	-	12,478	-	12,478
Other revenues	58,287	67,537	-	125,824
Total operating revenues	<u>383,630</u>	<u>771,407</u>	<u>-</u>	<u>1,155,037</u>
Operating expenses				
Salaries and wages	126,358	215,174	-	341,532
Fringe Benefits	73,049	124,709	-	197,758
Materials and supplies	70,332	10,245	-	80,577
Electric and telephone	21,185	2,926	-	24,111
Automotive expenses	10,251	12,983	-	23,234
Professional services	27,518	21,806	-	49,324
Repairs and maintenance	33,144	68,575	-	101,719
Depreciation	53,823	270,146	-	323,969
Miscellaneous	110,471	194,694	522	305,687
Total operating expenses	<u>526,131</u>	<u>921,258</u>	<u>522</u>	<u>1,447,911</u>
Operating loss	<u>(142,501)</u>	<u>(149,851)</u>	<u>(522)</u>	<u>(292,874)</u>
Nonoperating revenue (expense)				
Connection fees	284,709	789,766	-	1,074,475
Interest income	8,972	65,409	7,049	81,430
Other nonoperating revenue	-	1,426	-	1,426
Grant revenue	-	213,702	-	213,702
Interest expense	-	(22,131)	-	(22,131)
Total nonoperating revenue (expense)	<u>293,681</u>	<u>1,048,172</u>	<u>7,049</u>	<u>1,348,902</u>
Income (loss) before transfers	151,180	898,321	6,527	1,056,028
Transfers in	307,245	20,998	-	328,243
Transfers out	(456,477)	(395,986)	-	(852,463)
Change in net assets	1,948	523,333	6,527	531,808
Total net assets - beginning	<u>777,474</u>	<u>6,300,711</u>	<u>158,198</u>	<u>7,236,383</u>
Total net assets - ending	<u>\$ 779,422</u>	<u>\$ 6,824,044</u>	<u>\$ 164,725</u>	<u>\$ 7,768,191</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, 2007

	Enterprise Funds			Total
	Water Fund	Sewer Fund	Industrial Park Fund	
Operating activities				
Cash received from customers	\$ 369,370	\$ 732,289	\$ 2,170	\$ 1,103,829
Cash received from other funds	-	1,854	-	1,854
Cash paid to vendors	(285,390)	(241,122)	(418)	(526,930)
Cash paid to employees	(198,711)	(355,680)	-	(554,391)
Cash paid to other funds	(1,854)	-	-	(1,854)
Net cash provided by (used in) operating activities	(116,585)	137,341	1,752	22,508
Noncapital financing activities				
Operating transfers in (out)	(149,232)	(374,988)	-	(524,220)
Noncapital nonoperating revenue	-	1,426	-	1,426
Net cash provided (used) by noncapital financing activities	(149,232)	(373,562)	-	(522,794)
Capital and related financing activities				
Connection fees	284,709	789,766	-	1,074,475
Grants received	-	213,702	-	213,702
Interest paid	-	(22,131)	-	(22,131)
Payment on notes payable	(2,666)	(126,836)	-	(129,502)
Acquisition of capital assets	(25,198)	(752,016)	-	(777,214)
Net cash provided (used) by capital and related financing activities	256,845	102,485	-	359,330
Investing activities				
Interest received	8,972	65,409	7,049	81,430
Net cash provided by investing activities	8,972	65,409	7,049	81,430
Net decrease in cash and cash equivalents	-	(68,327)	8,801	(59,526)
Cash and cash equivalents				
Beginning of year	-	1,016,644	132,079	1,148,723
End of year	\$ -	\$ 948,317	\$ 140,880	\$ 1,089,197
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating loss	\$ (142,501)	\$ (149,851)	\$ (522)	\$ (292,874)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation expense	53,823	270,146	-	323,969
Change in assets and liabilities				
(Increase) decrease in accounts receivable	(14,260)	(296,118)	-	(310,378)
(Increase) decrease in notes receivable	-	-	2,170	2,170
(Increase) decrease in interfund receivables	(1,854)	1,854	-	-
Increase (decrease) in accounts payable and accrued expenses	(11,793)	54,310	104	42,621
Increase (decrease) in unearned income	-	257,000	-	257,000
Total adjustments	25,916	287,192	2,274	315,382
Net cash provided by (used in) operating activities	\$ (116,585)	\$ 137,341	\$ 1,752	\$ 22,508

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

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2007

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
Year Ended June 30, 2007

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, Capital Improvement 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.

Capital projects fund accounts for other general capital improvement projects of the Town.

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

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

C. Basis of accounting

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

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2007

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
Year Ended June 30, 2007

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 2007, there were no amendments to the budget.
9. For the year ended June 30, 2007, General Fund expenditures exceeded the amended budget by \$96,547.

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, 2007.

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
Year Ended June 30, 2007

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
Year Ended June 30, 2007**

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 \$314,518 and the bank balance was \$807,969. Of this bank balance, \$192,028 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, 2007 the Town's deposit and investment balances were as follows:

	Fair Value
Maryland Local Government Investment Pool	\$ 1,541,091
Deposits	314,518
Cash on hand	500
Total deposits and investments	\$ 1,856,109

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
Year Ended June 30, 2007

Note 4 – Accounts Receivable

Accounts receivable at June 30, 2007 consist of the following:

	Governmental Activities	Business-type Activities
Local:		
Taxes	\$ 25,097	\$ -
Loans	892,522	-
Service charges	-	268,668
Notes	-	30,742
Other	5,867	283,185
State of Maryland:		
Income tax	46,359	-
Gasoline tax	52,728	-
Other	17,242	-
Various federal and state grants	51,522	-
Total	\$ 1,091,337	\$ 582,595

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, 2007, were as follows:

	Interfund Receivables	Interfund Payables
Special Projects Fund	\$ -	\$ 7,580
Water Fund	-	196,816
Sewer Fund	196,816	-
Industrial Park Fund	7,580	-
Total	\$ 204,396	\$ 204,396

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2007

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

Interfund transfers at June 30, 2007, were as follows:

	Transfers In	Transfers Out
General Fund	\$ 23,171	\$ -
Special Projects Fund	633,247	119,698
Business Loan Fund	-	10,000
Highway Fund	-	2,500
Water Fund	307,245	456,477
Sewer Fund	20,998	395,986
Total	<u>\$ 984,661</u>	<u>\$ 984,661</u>

Note 6 – Capital assets

	Balances June 30, 2006	Additions	Deletions	Balances June 30, 2007
Governmental activities:				
<i>Nondepreciable capital assets:</i>				
Land	\$ 572,510	\$ -	\$ -	\$ 572,510
Construction in progress	116,400	1,426,974	-	1,543,374
Total nondepreciable capital assets	<u>688,910</u>			<u>2,115,884</u>
<i>Depreciable capital assets:</i>				
Land improvements	457,630	-	-	457,630
Buildings	2,576,187	185,000	-	2,761,187
Infrastructure	5,936,325	-	-	5,936,325
Furniture and equipment	263,107	20,211	-	283,318
Vehicles	384,594	37,493	(13,615)	408,472
Total depreciable capital assets	<u>9,617,843</u>	<u>242,704</u>	<u>(13,615)</u>	<u>9,846,932</u>
Less - accumulated depreciation:				
Land improvements	(402,943)	(7,593)	-	(410,536)
Buildings	(592,455)	(68,530)	-	(660,985)
Infrastructure	(744,346)	(148,408)	-	(892,754)
Furniture and equipment	(200,852)	(28,915)	-	(229,767)
Vehicles	(265,095)	(50,011)	13,615	(301,491)
Total accumulated depreciation	<u>(2,205,691)</u>	<u>(303,457)</u>	<u>13,615</u>	<u>(2,495,533)</u>
Total depreciable capital assets, net	<u>7,412,152</u>	<u>(60,753)</u>	<u>-</u>	<u>7,351,399</u>
Governmental activities capital assets, net	<u>\$ 8,101,062</u>	<u>\$ (60,753)</u>	<u>\$ -</u>	<u>\$ 9,467,283</u>

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2007

Note 6 – Capital assets (continued)

	Balances June 30, 2006	Additions	Deletions	Balances June 30, 2007
Business-type activities:				
<i>Nondepreciable capital assets:</i>				
Construction in progress	\$ 35,446	\$ 713,622		\$ 749,068
<i>Depreciable capital assets:</i>				
Municipal water system	1,824,833	-	-	1,824,833
Municipal sewer system	11,042,645	45,980	-	11,088,625
Machinery and equipment	213,386	17,612	-	230,998
Total depreciable capital assets	<u>13,080,864</u>	<u>63,592</u>	<u>-</u>	<u>13,144,456</u>
Less accumulated depreciation for:				
Municipal water system	(906,434)	(38,515)	-	(944,949)
Municipal sewer system	(3,849,402)	(260,847)	-	(4,110,249)
Machinery and equipment	(164,798)	(24,607)	-	(189,405)
Total accumulated depreciation	<u>(4,920,634)</u>	<u>(323,969)</u>	<u>-</u>	<u>(5,244,603)</u>
Total depreciable capital assets, net	<u>8,160,230</u>	<u>(260,377)</u>	<u>-</u>	<u>7,899,853</u>
Business-type activities capital assets, net	<u>\$ 8,195,676</u>	<u>\$ 453,245</u>	<u>\$ -</u>	<u>\$ 8,648,921</u>

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

Governmental activities:	
General government	\$ 3,210
Public safety	97,222
Public works	68,205
Recreation and culture	11,696
Urban development and housing	71,082
Economic development	52,042
	<u>\$ 303,457</u>
Business-type activities:	
Water	\$ 53,823
Sewer	270,146
	<u>\$ 323,969</u>

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2007

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, 2007 are as follows:

Governmental activities:

State notes and bonds:

	Amount
\$207,900 issued, Town contractual share of Caroline County CDA Bonds, due in annual installments through May 1, 2010, interest at 5.84%.	\$ 53,889
\$265,000 issued, Town contractual share of Caroline County CDA Bonds, due in annual installments through May 2017, interest at 5.52%	172,159
\$20,000 issued, Community Legacy Program Note, entire principal amount due December 2009, no interest	20,000
Total state notes and bonds	246,048

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	71,619
\$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	48,416
\$72,249 installment note payable due in annual payments of \$9,725 until January 2013, interest at 3.96%	50,896
\$25,000 installment note payable, due in monthly payments of \$552 until February 2008, interest at 2.90%	4,373
\$50,167 installment note payable, due in monthly payments of \$924 until August 2010, interest at 3.95%	33,569
\$28,797 installment note payable, due in monthly payments of \$659 until September 2009, interest at 4.68%	16,859

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2007

Note 7 - Long-term obligations (continued)

Governmental activities (continued):

Installment notes (continued):

	Amount
\$21,000 installment note payable, due in monthly payments of \$384 until December 2009, interest at 3.61%	\$ 10,978

\$26,000 installment note payable, due in monthly payments of \$593 until May 2009, interest at 4.49%	13,457
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\$185,000 note payable, due at maturity on July 27, 2008, interest at 8.25%	8,721
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\$29,945 installment note payable, due in monthly payments of \$562 until October 2011, interest at 4.74%	26,350
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Total installment notes	285,238
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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%	730,676
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\$750,000 intermediary relending program note, issued by the USDA, of which \$150,000 was drawn down, interest at 1%	150,000
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Intermediary relending program note, issued by the USDA, of which \$130,000 was drawn down, interest at 5%	130,000
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Intermediary relending program note, issued by the USDA, of which \$150,000 was drawn down, interest at 5%	150,000
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Total federal notes and loans	1,160,676
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Total governmental activities	\$ 1,691,962
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Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2007

Note 7 - Long-term obligations (continued)

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.	\$ 16,132
\$52,775 issued May, 15, 1981, due in annual installments of \$3,977 including interest at 6.1% through May 2011.	13,730
\$28,000 issued June 30, 1981, due in annual installments of \$2,110 including interest at 6.1%, through June 2011.	7,296
\$2,332,577 issued September 23, 2004, due in semi-annual installments of \$121,589 including interest at 0.4% through February 2024.	1,994,451
\$140,000, Rural Development Loan due in quarterly installments of \$1,892 including interest at 4.5%, through September 2027.	99,501
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>
Total proprietary funds	<u>2,501,110</u>
Total long-term debt	<u>\$ 4,193,072</u>

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2007

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
2008	\$ 32,462	\$ 12,845	\$ 178,972	\$ 54,897	\$ 211,434	\$ 67,742
2009	33,030	11,038	68,689	58,708	101,719	69,746
2010	53,598	9,173	47,775	59,344	101,373	68,517
2011	15,343	7,264	36,785	58,048	52,128	65,312
2012	16,480	6,420	31,133	57,086	47,613	63,506
2013-2017	95,135	17,206	121,202	276,132	216,337	293,338
2018-2022	-	-	136,812	264,039	136,812	264,039
2023-2027	-	-	167,947	249,341	167,947	249,341
2028-2032	-	-	207,144	230,875	207,144	230,875
2033-2037	-	-	176,932	212,052	176,932	212,052
2038-2042	-	-	159,223	209,700	159,223	209,700
2043-2047	-	-	113,300	124,265	113,300	124,265
Total	\$ 246,048	\$ 63,946	\$ 1,445,914	\$ 1,854,487	\$ 1,691,962	\$ 1,918,433

Year Ended June 30	Business-type Activities					
	General Obligation Notes		Other Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
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	119,241	9,917	-	-	119,241	9,917
2013-2017	605,940	39,846	370,000	-	975,940	39,846
2018-2022	623,177	22,609	-	-	623,177	22,609
2023-2027	274,804	5,226	-	-	274,804	5,226
Total	\$ 2,131,110	\$ 129,264	\$ 370,000	\$ -	\$ 2,501,110	\$ 129,264

**Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2007**

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, 2007:

	Balance July 1, 2006	Addition	Reductions	Balance June 30, 2007	Due Within One Year
Governmental activities:					
State notes and bonds	\$ 275,020	\$ -	\$ (28,972)	\$ 246,048	\$ 32,462
Installment note	294,027	214,945	(223,734)	285,238	173,161
Federal loans and notes	888,167	280,000	(7,491)	1,160,676	5,810
Capital lease	8,658	-	(7,871)	787	787
Compensated absences	86,780	26,359	-	113,139	-
Total	<u>\$ 1,552,652</u>	<u>\$ 521,304</u>	<u>\$ (268,068)</u>	<u>\$ 1,805,888</u>	<u>\$ 212,220</u>
Business-type activities:					
Capital lease	\$ 5,332	\$ -	\$ (5,332)	\$ -	\$ -
Notes	2,625,280	-	(124,170)	2,501,110	125,283
Compensated absences	41,803	4,939	-	46,742	-
Total	<u>\$ 2,672,415</u>	<u>\$ 4,939</u>	<u>\$ (129,502)</u>	<u>\$ 2,547,852</u>	<u>\$ 125,283</u>

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, 2007, future minimum lease payments are \$787 for governmental activities and \$0 for business-type activities.

Note 8 – Line of credit

The Town obtained a promissory note in the amount of \$1,031,967 dated December 10, 2004 for the acquisition of capital assets. During the year ended June 30, 2007, the Town did not make any draws from the note for interim financing. Interest is payable monthly at 2.76%.

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

	Balance July 1, 2006	Addition	Reductions	Balance June 30, 2007	Interest Paid
Governmental activities:					
Short term note	\$ 1,031,967	\$ -	\$ -	\$ 1,031,967	\$ 52,756

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2007

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, 2007 is as follows:

<u>Description</u>	<u>Original issue</u>	<u>Outstanding, June 30, 2007</u>
Shore Nursing & Rehabilitation bonds, series 1997	\$ 4,150,000	\$ 0
Caroline Nursing/the Gables, series 1999	2,750,000	2,223,707
Channel Markers Foundation, series 2001	628,200	N/A

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 2007 was based on the salaries for the year ended June 30, 2006. 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 \$144,006 in fiscal year 2007. Annual payments in future years will increase by 5% per year through December 2020.

Contributions for the fiscal year ended June 30, 2007 and two preceding years were equal to the actuarially determined amounts as follows:

	<u>June 30 2007</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Total covered payroll	\$1,099,030	\$ 971,065	\$ 799,138
Employer normal contributions	81,548	70,111	58,257
Employer special accrued liability	62,458	59,484	56,651

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

Town of Denton, Maryland
Notes to Financial Statements
Year Ended June 30, 2007

Note 11 – Fund deficit

The following funds had a deficit fund equity balance at June 30, 2007:

Special Projects Fund	\$ (760,129)
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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.

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
 Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2007

	Highway	Capital Improvement	Total Nonmajor Governmental Funds
Assets			
Cash and cash equivalents	\$ 39,394	\$ 21,919	\$ 61,313
Due from other governments	58,928	-	58,928
Total assets	<u>\$ 98,322</u>	<u>\$ 21,919</u>	<u>\$ 120,241</u>
Liabilities and fund balances			
Liabilities:			
Accounts payable and accrued expenses	\$ 26,141	\$ -	\$ 26,141
Total liabilities	<u>26,141</u>	<u>-</u>	<u>26,141</u>
Fund balances:			
Unreserved:			
Designated	72,181	21,919	94,100
Total fund balances	<u>72,181</u>	<u>21,919</u>	<u>94,100</u>
Total liabilities and fund balances	<u>\$ 98,322</u>	<u>\$ 21,919</u>	<u>\$ 120,241</u>

Town of Denton, Maryland

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Nonmajor Governmental Funds
 Year Ended June 30, 2007

	Highway	Capital Improvement	Total Nonmajor Governmental Funds
Revenues			
Taxes	\$ 296,078	\$ -	\$ 296,078
Licenses and permits	-	21,809	21,809
Revenue from other agencies	121,655	-	121,655
Miscellaneous	2,276	110	2,386
Total revenues	<u>420,009</u>	<u>21,919</u>	<u>441,928</u>
Expenditures			
Current:			
Public works	372,621	-	372,621
Debt service	51,688	-	51,688
Total expenditures	<u>424,309</u>	<u>-</u>	<u>424,309</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(4,300)</u>	<u>21,919</u>	<u>17,619</u>
Other financing sources (uses)			
Operating transfers in (out)	(2,500)	-	(2,500)
Total other financing sources (uses)	<u>(2,500)</u>	<u>-</u>	<u>(2,500)</u>
Net change in fund balances	(6,800)	21,919	15,119
Fund balance - beginning (deficit)	<u>78,981</u>	<u>-</u>	<u>78,981</u>
Fund balance - ending (deficit)	<u>\$ 72,181</u>	<u>\$ 21,919</u>	<u>\$ 94,100</u>



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

To the Council of the Town of Denton
Denton, Maryland

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Denton (the "Town") as of and for the year ended June 30, 2007, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated November 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control. We consider deficiency 2007-1 described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control. We consider deficiency 2007.1 in the accompanying schedule of findings and questioned costs to be a material weakness in internal control over financial reporting.

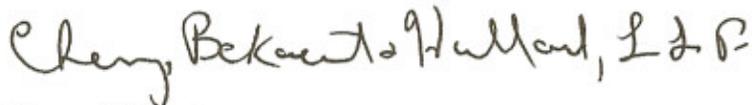
Compliance and Other Matters

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

We noted certain matters that we reported to management of the Town in a separate letter dated November 28, 2007.

The Town's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Town's response and, accordingly, we express no opinion on it.

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



Richmond, Virginia
November 28, 2007



**Report on Compliance With Requirements
Applicable to Each Major Program and on Internal Control
Over Compliance in Accordance With OMB Circular A-133**

To the Council of the Town of Denton
Denton, Maryland

Compliance

We have audited the compliance of the Town of Denton (the "Town") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The Town's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Town's compliance with those requirements.

In our opinion, the Town complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2007-02.

Internal Control Over Compliance

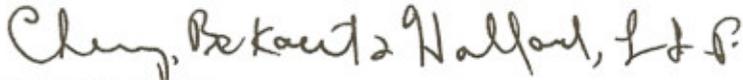
The management of the Town is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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



Richmond, Virginia
November 28, 2007

TOWN OF DENTON, MARYLAND

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007**

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Department of Agriculture		
Direct payment		
Intermediary Relending Program Loan	10.767	\$ 280,000
Department of Commerce		
Pass-through payment		
Formula Grant - Coastal Zone Management Administration	11.419	73,650
Department of Justice		
Pass-through payment		
Public Safety Partnership and Community Policing Grant	16.710	34,968
Department of Housing and Urban Development		
Pass-through payment		
Department of Housing and Community Development		
Community Development Block Grant	14.219	
Market Street Phase II Grant		800,000
Economic Development - Old School Acquisition Grant		<u>12,564</u>
Total federal awards		<u>\$ 1,201,182</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.

TOWN OF DENTON, MARYLAND

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

A. Summary of Auditors' Results

1. The type of report issued on the basic financial statements: **Unqualified opinions**
2. Significant deficiencies in internal control disclosed by the audit of the financial statements: **Yes**
3. Noncompliance, which is material to the financial statements: **No**
4. Significant Deficiencies in internal control over major programs: **No**
Material weaknesses: **No**
5. The type of report issued on compliance for major programs: **Unqualified opinion**
6. Any audit findings which are required to be reported under Section 510(1) of OMB Circular A-133:
Yes
7. The programs tested as major programs were:

<u>Name of Program</u>	<u>CFDA #</u>
CDBG	14.219
8. Dollar threshold to distinguish between Type A and Type B Programs: **\$300,000**
9. The Town of Denton was not determined to be a low risk auditee.

TOWN OF DENTON, MARYLAND

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

B. Findings Relating to the Financial Statements Reported in Accordance with Government Auditing Standards

2007-01 Internal Control over Financial Reporting

Criteria:

Management of the Town has responsibility for the preparation of year end financial statements and note disclosures in accordance with accounting principles generally accepted in the United States of America (GAAP). While it is routine for small and medium size governments to rely on the auditors for the preparation of their financial statements, new audit requirements now require auditors to identify a weakness in internal control if the auditee relies on the auditor for the preparation and review of the year end financial statements and disclosures

Condition:

The Town does not prepare its own financial statements and instead relies on the auditor to prepare the year end financial statements and note disclosures in accordance with GAAP.

Cause:

The Town maintains its accounts and ledgers, and does its monthly reporting on a budgetary basis of accounting for its governmental and proprietary funds. Due to a limited number of staff and resources, the Town does not have the capacity or expertise to convert these statements for year end GAAP-basis reporting or prepare all the related note disclosures.

Effect:

The Town does not have a process in place to review and verify the financial statements and note disclosures prepared by the external auditor.

Recommendation:

We recommend that, a process be established to review and approve the financial statements and note disclosures prepared by the external auditor. If it is not cost effective to have the expertise on staff on a full time basis, consider outsourcing the financial statement preparation and/or review process to a 3rd party.

Management Response:

Staff received knowledge of this new requirement during the FY2007 auditing process. In the future the Town will consider the external auditor's recommendation and will seek the most cost efficient way to comply and through the procurement process look to outsource the financial statement preparation in the future.

TOWN OF DENTON, MARYLAND

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

C. Findings and Questioned Costs Relating to Federal Awards:

2007-2: Period of Availability of Funds

Criteria:

In accordance with requirements of the Department of Housing and Community Development, CDBG funds should be disbursed during a period of no longer than five business days upon receipt.

Condition:

In one of four cash drawdowns tested, CDBG funds were not disbursed in the required period of time. Funds received on February 5, 2007 were disbursed on February 15, 2007.

Cause:

The Town currently deposits CDBG drawdowns into the CDBG bank account, then writes a check to transfer the funds to the Town's general checking account from which a check is written to the contractor. In this instance, the funds were transferred on a timely basis from the CDBG account to the general fund; however, the check to the contractor was not made until the Town's next regular check run which extended the time period beyond the five business day requirement.

Effect:

There are no known questioned costs as a result of the above noncompliance.

Recommendation:

Because funds are deposited then transferred from one bank account to another, the timing on the disbursement to comply with the 5 day requirement will always be tight. We recommend that a special check run be made if waiting until the regular check run will extend the pay period beyond five business days. The Town should also consider whether the CDBG drawdowns can be deposited directly into the general account, thus eliminating the delay caused by the transfer of funds from one account to the other.

Management Response:

CDBG grant funds are required to be placed into a non-interest bearing account and are distributed directly to the financial institution. The funds are then transferred to the General bank account and the expense is run through the accounting software to provide full tracking and report capabilities. Because the funds are sent directly to the bank we usually have to call regularly to see if they have been received. Usually we receive a deposit receipt from the bank sometime in person when a teller hands it to us or in the mail. Once the funds are confirmed then the process begins to transfer to the general account and process a check for the expense. Checks from the general account are normally processed every two weeks. This particular transaction occurred in between check runs.

The Town will monitor more closely and process a special check run if necessary to comply with the CDBG requirements.

C. Resolution of Prior Year's Findings

There were no findings reported in the prior year.