

# **TOWN OF DENTON, MARYLAND**

## **Financial Report**

**Year Ended June 30, 2004**

# **TOWN OF DENTON, MARYLAND**

## **BOARD OF TOWN COMMISSIONERS**

J. Bradford Horsey, Mayor

H. Victoria Goldsborough

Lester L. Branson

Carol D. Stockley

John A. Foster

## **OTHER OFFICIALS**

Terry S. Fearins, Town Manager

Karen L. Monteith, Clerk/Treasurer

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## Independent Auditors' Report

To the Commissioners 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, 2004, 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, 2004, 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 State of America

As described in Note 1 to the financial statements, the Town adopted Governmental Accounting Standards Board (GASB) Statement Number 34 during the year ended June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 29, 2004 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 2 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.

*Cherry Bekaert & Holland, L.L.P.*

Richmond, Virginia  
October 29, 2004



## **Management's Discussion and Analysis**

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, 2004. 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**

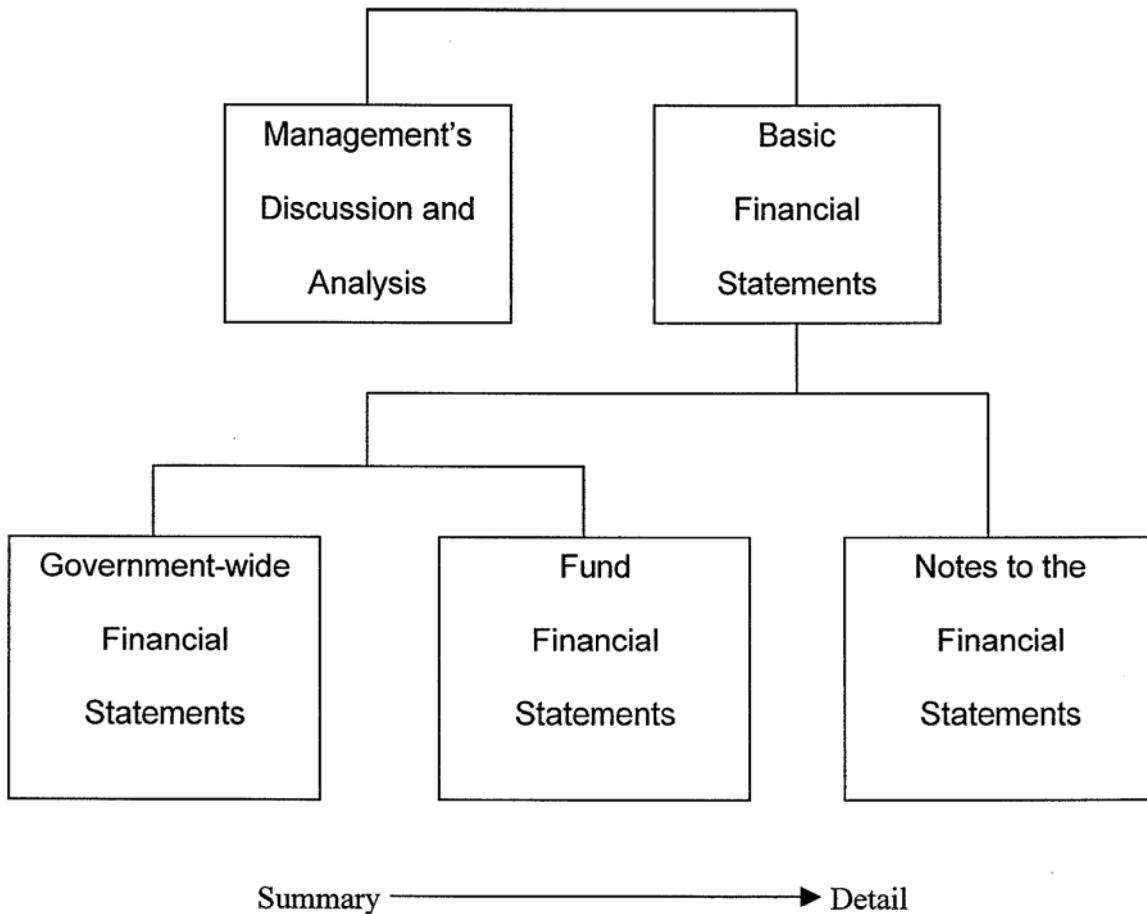
- The assets of the Town of Denton exceeded its liabilities at the close of the fiscal year by \$10,663,516.
- The government's total net assets increased by \$723,529, primarily due to increases in the business-type activities net assets.
- As of the close of the current fiscal year, the Town of Denton's governmental funds reported combined ending fund balances of \$166,434, an increase of \$81,079 during the year. The entire balance is available for spending at the government's discretion.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$82,218, or 3.8 percent of total general fund expenditures for the fiscal year.
- The Town of Denton's total debt increased by \$452,954 (10%) during the current fiscal year. The key factor in this increase was the issuance of grant anticipation note of \$632,508 for the construction of the new police facility and \$97,249 in installment notes for police equipment and vehicles.

### **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**

The fund financial statements provide a more detailed look at 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 Board 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 difference or 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 27-42 of this report.

### **Government-Wide Financial Analysis**

The government-wide financial statements for the fiscal year ended June 30, 2004 are the beginning of a new era in financial reporting for the Town of Denton, and many other units of government across the United States. Prior to this year, the Town of Denton maintained their governmental and proprietary fund groups as two separate and very distinct types of accounting without any type of consolidated statement that accurately reflected the operations and net assets of the government as a whole. There was a total column that appeared on the financial statements, but it was a memorandum total only. No attempt was made to adjust the statements in such a way that the total column would represent the overall financial condition of the Town of Denton. These statements were basically the equivalent of the fund financial statements that appear in this report with fiduciary funds and two account groups, the long-term debt and the general fixed assets, added in.

The changes in the financial statement reporting model are mandated by the Governmental Accounting Standards Board (GASB). GASB Statement 34 dictated the changes you see in the Town of Denton's financial reports. The Town of Denton was required to implement these changes for the fiscal year ended June 30, 2004.

Because of the new reporting model, comparative data for all facets of this report are not available. Where comparative numbers are available, they have been included, such as with net assets. Future years' reports will have more comparative data that will allow more opportunities for comparative analysis.

## The Town of Denton's Net Assets

Figure 2

	Governmental Activities 2004	Business-Type Activities 2004	Total 2004
Current and other assets	\$ 1,015,843	\$ 1,541,361	\$ 2,557,204
Capital assets	5,263,713	8,638,297	13,902,010
Total assets	6,279,556	10,179,658	16,459,214
Long-term liabilities outstanding	1,288,806	3,285,287	4,574,093
Other liabilities	849,409	372,196	1,221,605
Total liabilities	2,138,215	3,657,483	5,795,698
Net assets:			
Invested in capital assets, net of related debt	4,033,427	6,081,372	10,114,799
Restricted	-	18,927	18,927
Unrestricted	107,914	421,876	529,790
Total net assets	\$ 4,141,341	\$ 6,522,175	\$ 10,663,516

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Denton exceeded liabilities by \$10,663,516 as of June 30, 2004. The Town's net assets increased by \$723,529 for the fiscal year ended June 30, 2004. However, the largest portion (94.9%) 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. Although the Town of Denton's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Denton's net assets (0.2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets in the amount of \$529,790 may be used to meet the government's ongoing obligations to citizens and creditors.

Several particular aspects of the Town's financial operations positively influenced the total unrestricted governmental net assets:

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 98%. The only outstanding taxes would be from properties not sold at tax sale or a delay in property tax receipts due to bankruptcy.

# **Town of Denton Changes in Net Assets**

Figure 3

	Governmental Activities 2004	Business-type Activities 2004	Total 2004
Revenues:			
Program revenues:			
Charges for services	\$ 227,101	\$ 1,146,351	\$ 1,373,452
Operating grants and contributions	355,407	-	355,407
Capital grants and contributions	160,381	480,412	640,793
General revenues:			
Property taxes	842,507	-	842,507
Other taxes	440,409	-	440,409
Other	59,361	2,826	62,187
Total revenues	2,085,166	1,629,589	3,714,755
Expenses:			
General government	138,738	-	138,738
Public safety	929,027	-	929,027
Public works	366,492	-	366,492
Recreation and culture	34,157	-	34,157
Urban development and housing	268,252	-	268,252
Economic development	30,052	-	30,052
Interest on long-term debt	50,717	-	50,717
Water	-	358,043	358,043
Sewer	-	767,933	767,933
Industrial park	-	47,815	47,815
Total expenses	1,817,435	1,173,791	2,991,226
Increase in net assets before transfers	267,731	455,798	723,529
Transfers	15,000	(15,000)	-
Increase in net assets	282,731	440,798	723,529
Net assets, July 1	3,858,610	6,081,377	9,939,987
Net assets, June 30	\$ 4,141,341	\$ 6,522,175	\$ 10,663,516

**Governmental activities.** Governmental activities increased the Town's net assets by \$282,731, thereby accounting for 39% of the total growth in the net assets of the Town of Denton. Key elements of this increase are as follows:

- Grant revenues in recreational area were used to construct capital assets for Wheeler Park.
- Grant revenues were used to defray the capital construction cost for the New Denton Police Facility
- Tax revenues remained steady with a slight increase.

**Business-type activities:** Business-type activities increased the Town of Denton's net assets by \$440,798, accounting for 61% of the total growth in the government's net assets. Key elements of this increase are as follows:

- In town water rates were increased from \$1.73 to \$2.00 and out of town rates were increased from \$3.46 to \$4.00. This is per 1000 gallons of usage.
- In town sewer rates were increased from \$5.18 to \$5.35 and out of town rates were increased from \$10.36 to \$10.70. This is per 1000 gallons of usage.
- The Water Capacity Charge increased to \$500 per ERU.
- The Denton Public Works Department continued to work to replace water meters which were not working.

### **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 \$82,218. 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 3.8 percent of total General Fund expenditures.

At June 30, 2004, the governmental funds of Town of Denton reported a combined fund balance of \$166,434, a 95 percent increase over last year. Included in this change in fund balance are increases in fund balance 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. A part time property maintenance inspector was hired to meet the inspection demands void created by the increase in building permit inspections.

**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 \$421,876. The total growth in net assets was \$440,798. Other factors concerning the finances of this fund has 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, 2004, totals \$13,902,010 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals):

- Equipment of \$97,249 in governmental-type activities for the police department.
- Construction in progress of \$696,395 in governmental-type activities for the construction of the new police facility.
- Land of \$87,297 in governmental-type activities for the Dollar General lot by the municipal building.
- Pump station of \$548,336 in the business-type activities for the Sewer fund.
- No major demolitions were recorded this year.



## Town of Denton's Capital Assets

**Figure 4**

	Governmental Activities	Business-type Activities	Total
	2004	2004	2004
Land	\$ 388,196	\$ -	\$ 388,196
Land improvements	442,028	-	442,028
Buildings	1,137,116	-	1,137,116
Infrastructure	3,484,572	-	3,484,572
Equipment	237,302	167,697	404,999
Vehicles	271,438	-	271,438
Water system	-	1,791,789	1,791,789
Sewer system	-	10,963,007	10,963,007
Construction in progress	993,201	-	993,201
<b>Total</b>	<b>\$ 6,953,853</b>	<b>\$ 12,922,493</b>	<b>\$ 19,876,346</b>

Additional information on the Town's capital assets can be found in Note 6 of the Basic Financial Statements.

**Long-term Debt.** As of June 30, 2004, the Town of Denton had total bonded debt outstanding of \$3,854,305. Of this, \$3,125,943 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).

## Town of Denton's Outstanding Debt General Obligation Bonds and Notes

**Figure 5**

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
General obligation bonds	\$ 586,274	\$ 606,011	\$ 2,539,669	\$ 2,590,582	\$ 3,125,943	\$ 3,196,593
Notes payable	632,508	-	728,362	828,049	1,360,870	828,049
Capital leases	11,504	15,191	17,256	22,786	28,760	37,977
<b>Total</b>	<b>\$ 1,230,286</b>	<b>\$ 621,202</b>	<b>\$ 3,285,287</b>	<b>\$ 3,441,417</b>	<b>\$ 4,515,573</b>	<b>\$ 4,062,619</b>

The Town of Denton's total debt increased by \$452,954 (10%) during the past fiscal year, primarily due to the \$632,508 grant anticipation note issued for the construction of the new police facility. The government also issued \$97,249 in installment notes to finance police equipment and vehicles.

Additional information regarding the Town of Denton's long-term debt can be found in Note 7 on pages 36-39 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 4.4% and is slightly above the State average of 4.2%.
- New manufacturing jobs. The Town added approximately 25 new jobs last year in the manufacturing sector with the expansion of the Boaters World facility.

#### **Budget Highlights for the Fiscal Year Ending June 30, 2005**

**Governmental Activities:** Property taxes (benefiting from the economic growth) and revenues from permits and fees are expected to lead the increase in budgeted revenue by an increase in real estate tax revenue of 9% percent and an additional \$24,000 in building permit fees. The Town will use these increases in revenues to finance programs currently in place.

Budgeted expenditures in the General Fund are expected to be less than in 2004 primarily due to the construction of the Police Facility being completed during that period of time.

**Business – type Activities:** The water and sewer rates in the Town will increase by 3% for sewer and 11% for water, primarily to cover increased costs of operations. General operating expenses in the water fund will increase by 22% representing increased personnel costs associated with an increase in the number employees serving the water operations, and 43% representing increase of material, supplies, and other operating expenses and water meter replacement program for this year. General operating expenses in the sewer fund will increase by 24% representing increased personnel costs associated with increase in the number employees serving the sewer operations, and 1% representing increased material, supplies, and other operating expenses.

#### **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. 3<sup>rd</sup> St., Denton, MD 21629.

# Town of Denton, Maryland

## Statement of Net Assets

June 30, 2004

	<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total Reporting Unit</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 274,797	\$ 440,763	\$ 715,560
Receivables (net of allowance for uncollectibles)	754,455	737,426	1,491,881
Internal balances	(13,409)	13,409	-
Land held for resale	-	349,763	349,763
Land	388,196	-	388,196
Construction in progress	993,201	-	993,201
Other capital assets, net of accumulated depreciation	3,882,316	8,638,297	12,520,613
<b>Total assets</b>	<u>6,279,556</u>	<u>10,179,658</u>	<u>16,459,214</u>
<b>Liabilities</b>			
Accounts payable and other current liabilities	122,600	372,196	494,796
Unearned revenue	591,809	-	591,809
Line of credit - tax anticipation	135,000	-	135,000
Long-term liabilities:			
Due within one year	52,968	157,258	210,226
Due in more than one year	1,235,838	3,128,029	4,363,867
<b>Total liabilities</b>	<u>2,138,215</u>	<u>3,657,483</u>	<u>5,795,698</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	4,033,427	6,081,372	10,114,799
Restricted	-	18,927	18,927
Unrestricted	107,914	421,876	529,790
<b>Total net assets</b>	<u>\$ 4,141,341</u>	<u>\$ 6,522,175</u>	<u>\$ 10,663,516</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, 2004**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-type Activities
<b>Primary government:</b>						
Governmental activities:						
General government	\$ 138,738	\$ 46,728	\$ 3,987	\$ -	\$ (88,023)	\$ -
Public safety	929,027	89,034	118,865	25,000	(696,128)	-
Public works	366,492	46,594	-	1,607	(318,291)	-
Recreation and culture	34,157	-	33,786	-	(371)	-
Urban development and housing	268,252	44,745	198,769	-	(24,738)	-
Economic development	30,052	-	-	133,774	103,722	-
Interest on long-term debt	50,717	-	-	-	(50,717)	-
Total governmental activities	1,817,435	227,101	355,407	160,381	(1,074,546)	-
<b>Business-type activities:</b>						
Water	358,043	312,218	-	1,623	-	(44,202)
Sewer	767,933	791,213	-	478,789	-	502,069
Industrial park	47,815	42,920	-	-	-	(4,895)
Total business-type activities	1,173,791	1,146,351	-	480,412	-	452,972
<b>Total primary government</b>	<b>\$ 2,991,226</b>	<b>\$ 1,373,452</b>	<b>\$ 355,407</b>	<b>\$ 640,793</b>	<b>(1,074,546)</b>	<b>(621,574)</b>
General revenues:						
Property taxes					842,507	-
Other taxes					440,409	-
Interest income					24,925	2,800
Miscellaneous income					34,436	26
Transfers					15,000	(15,000)
Total general revenues and transfers					1,357,277	(12,174)
Change in net assets					282,731	440,798
Net assets - beginning					3,858,610	6,081,377
Net assets - ending					\$ 4,141,341	\$ 6,522,175
						\$ 10,663,516

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

**Town of Denton, Maryland**

**Balance Sheet  
Governmental Funds  
June 30, 2004**

	<u>General</u>	<u>Special Projects</u>	<u>Business Loan</u>	<u>Nonmajor Governmental Fund Highway</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Cash and cash equivalents	\$ 167,584	\$ -	\$ 107,213	\$ -	\$ 274,797
Receivables:					
Taxes	9,392	-	-	-	9,392
Loans	-	-	327,548	-	327,548
Other receivables	5,930	10	259,524	-	265,464
Due from other funds	92,694	-	-	35,052	127,746
Due from other governments	51,188	62,375	-	38,488	152,051
Total assets	<u>\$ 326,788</u>	<u>\$ 62,385</u>	<u>\$ 694,285</u>	<u>\$ 73,540</u>	<u>\$ 1,156,998</u>
<b>Liabilities and fund balances</b>					
Liabilities:					
Accounts payable and accrued expenses	\$ 74,518	\$ 43,538	\$ -	\$ 4,544	\$ 122,600
Deferred revenue	-	-	591,809	-	591,809
Due to other funds	35,052	72,659	-	33,444	141,155
Line of credit - tax anticipation	135,000	-	-	-	135,000
Total liabilities	<u>244,570</u>	<u>116,197</u>	<u>591,809</u>	<u>37,988</u>	<u>990,564</u>
Fund balances:					
Designated	-	(53,812)	102,476	35,552	84,216
Undesignated	82,218	-	-	-	82,218
Total fund balances	<u>82,218</u>	<u>(53,812)</u>	<u>102,476</u>	<u>35,552</u>	<u>166,434</u>
Total liabilities and fund balances	<u>\$ 326,788</u>	<u>\$ 62,385</u>	<u>\$ 694,285</u>	<u>\$ 73,540</u>	<u>\$ 1,156,998</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, 2004**

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

Ending fund balance - governmental funds	\$ 166,434
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	5,263,713
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,288,806)</u>
Net assets of governmental activities	<u>\$ 4,141,341</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, 2004**

	General	Special Projects	Business Loan	Nonmajor Governmental Fund Highway	Total Governmental Funds
<b>Revenues</b>					
Taxes	\$ 1,097,611	\$ -	\$ -	\$ 185,305	\$ 1,282,916
Licenses and permits	121,034	-	-	-	121,034
Revenue from other agencies	136,484	377,147	550	1,607	515,788
Service charges	11,516	-	-	-	11,516
Miscellaneous	60,002	22,661	68,400	2,849	153,912
Total revenues	<u>1,426,647</u>	<u>399,808</u>	<u>68,950</u>	<u>189,761</u>	<u>2,085,166</u>
<b>Expenditures</b>					
Current:					
General government	132,292	-	-	-	132,292
Public safety	1,693,276	-	-	-	1,693,276
Public works	197,110	-	-	114,197	311,307
Recreation and culture	32,639	-	-	-	32,639
Urban development and housing	65,675	279,853	721	-	346,249
Economic development	-	65,306	-	-	65,306
Debt service	50,181	72,936	-	44,658	167,775
Total expenditures	<u>2,171,173</u>	<u>418,095</u>	<u>721</u>	<u>158,855</u>	<u>2,748,844</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>(744,526)</u>	<u>(18,287)</u>	<u>68,229</u>	<u>30,906</u>	<u>(663,678)</u>
<b>Other financing sources (uses)</b>					
Loan proceeds	729,757	-	-	-	729,757
Operating transfers in (out)	27,000	(1,000)	(10,000)	(1,000)	15,000
Total other financing sources (uses)	<u>756,757</u>	<u>(1,000)</u>	<u>(10,000)</u>	<u>(1,000)</u>	<u>744,757</u>
<b>Net change in fund balances</b>	<u>12,231</u>	<u>(19,287)</u>	<u>58,229</u>	<u>29,906</u>	<u>81,079</u>
<b>Fund balance - beginning</b>	<u>69,987</u>	<u>(34,525)</u>	<u>44,247</u>	<u>5,646</u>	<u>85,355</u>
<b>Fund balance - ending</b>	<u>\$ 82,218</u>	<u>\$ (53,812)</u>	<u>\$ 102,476</u>	<u>\$ 35,552</u>	<u>\$ 166,434</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, 2004**

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

Net change in fund balances - total governmental funds	\$	81,079
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the detail of the two components:

Capital outlay	988,983
Depreciation expense	(175,688)

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.

(611,643)

Change in net assets of governmental activities	\$	<u>282,731</u>
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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, 2004**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Revenues</b>				
Taxes:				
Real estate tax	\$ 811,800	\$ 811,800	\$ 859,759	\$ 47,959
Railroad and public utilities	88,114	88,114	54,240	(33,874)
Corporation	65,933	65,933	65,359	(574)
Tax interest and penalties	3,340	3,340	10,089	6,749
Abatements (Tax)	(17,871)	(17,871)	(17,338)	533
Income tax	140,744	140,744	125,148	(15,596)
Admission and Amusement tax	-	-	354	354
<b>Total taxes</b>	<u>1,092,060</u>	<u>1,092,060</u>	<u>1,097,611</u>	<u>5,551</u>
Licenses and permits:				
Traders license	2,761	2,761	10,488	7,727
Building and sign permits	24,902	24,902	53,605	28,703
Cable TV franchise fees	2,798	2,798	13,779	10,981
Other licenses and permits	1,250	1,250	43,162	41,912
<b>Total licenses and permits</b>	<u>31,711</u>	<u>31,711</u>	<u>121,034</u>	<u>89,323</u>
Revenue from Other Agencies:				
State Police aid	56,000	56,000	90,078	34,078
County Police Safety Grant	-	-	240	240
Critical areas	-	-	1,040	1,040
Police Facility Grant	711,190	711,190	39,349	(671,841)
Mainstreet Miscellaneous Revenues	-	-	5,290	5,290
Other county revenue	-	-	487	487
<b>Total revenue from other agencies</b>	<u>767,190</u>	<u>767,190</u>	<u>136,484</u>	<u>(630,706)</u>
Service charges:				
Parking fines/meter income	2,807	2,807	11,516	8,709
Miscellaneous Income:				
Water tower/land rental	33,931	33,931	45,887	11,956
Interest income	2,033	2,033	1,067	(966)
Insurance claims	4,940	4,940	6,273	1,333
Miscellaneous income	5,218	5,218	6,752	1,534
Post card income	2	2	23	21
<b>Total miscellaneous income</b>	<u>46,124</u>	<u>46,124</u>	<u>60,002</u>	<u>13,878</u>
<b>Total revenues</b>	<u>1,939,892</u>	<u>1,939,892</u>	<u>1,426,647</u>	<u>(513,245)</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, 2004**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Expenditures</b>				
General Government:				
Legislative:				
Salaries	\$ 5,500	\$ 5,500	\$ 5,250	\$ 250
Other operating expenses	17,370	17,370	20,014	(2,644)
	<u>22,870</u>	<u>22,870</u>	<u>25,264</u>	<u>(2,394)</u>
Elections:				
Salaries	45	45	45	-
Other operating expenses	1,050	1,050	897	153
	<u>1,095</u>	<u>1,095</u>	<u>942</u>	<u>153</u>
Financial Administration:				
Salaries	52,477	52,477	55,007	(2,530)
Other operating expenses	43,267	43,267	39,213	4,054
Capital outlay	-	-	309	(309)
	<u>95,744</u>	<u>95,744</u>	<u>94,529</u>	<u>1,215</u>
Municipal Building:				
Other operating expenses	8,687	8,687	8,457	230
Capital outlay	-	-	3,100	(3,100)
	<u>8,687</u>	<u>8,687</u>	<u>11,557</u>	<u>(2,870)</u>
Total general government	<u>128,396</u>	<u>128,396</u>	<u>132,292</u>	<u>(3,896)</u>
Public Safety:				
Police Department:				
Salaries	396,672	396,672	395,644	1,028
Other operating expenses	273,217	273,217	294,718	(21,501)
Capital outlay	740,315	740,315	837,306	(96,991)
	<u>1,410,204</u>	<u>1,410,204</u>	<u>1,527,668</u>	<u>(117,464)</u>
Volunteer Fire Company:				
Other operating expenses	16,800	16,800	16,677	123
Zoning, Codes & Inspection:				
Salaries	87,412	87,412	84,969	2,443
Other operating expenses	59,737	59,737	63,962	(4,225)
	<u>147,149</u>	<u>147,149</u>	<u>148,931</u>	<u>(1,782)</u>
Total public safety	<u>1,574,153</u>	<u>1,574,153</u>	<u>1,693,276</u>	<u>(119,123)</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, 2004**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Public Works:				
Street Sanitation:				
Salaries	\$ 22,571	\$ 22,571	\$ 22,702	\$ (131)
Other operating expenses	25,116	25,116	29,244	(4,128)
Capital Outlay	-	-	1,500	(1,500)
	<u>47,687</u>	<u>47,687</u>	<u>53,446</u>	<u>(5,759)</u>
Street lighting	39,800	39,800	43,856	(4,056)
Trash collection	93,739	93,739	99,027	(5,288)
Mosquito Spraying	<u>1,250</u>	<u>1,250</u>	<u>781</u>	<u>469</u>
Total public works	<u>182,476</u>	<u>182,476</u>	<u>197,110</u>	<u>(14,634)</u>
Recreation and Culture:				
Parks and recreation:				
Salaries	11,286	11,286	11,811	(525)
Other operating expenses	<u>13,283</u>	<u>13,283</u>	<u>19,503</u>	<u>(6,220)</u>
	<u>24,569</u>	<u>24,569</u>	<u>31,314</u>	<u>(6,745)</u>
Tennis courts:				
Other operating expenses	<u>-</u>	<u>-</u>	<u>896</u>	<u>(896)</u>
Critical Areas:				
Project Costs	<u>-</u>	<u>-</u>	<u>429</u>	<u>(429)</u>
Total recreation and culture	<u>24,569</u>	<u>24,569</u>	<u>32,639</u>	<u>(8,070)</u>
Urban Development and Housing:				
Community development:				
Salaries	31,362	31,362	30,503	859
Other operating expenses	<u>30,462</u>	<u>30,462</u>	<u>35,172</u>	<u>(4,710)</u>
Total urban development and housing	<u>61,824</u>	<u>61,824</u>	<u>65,675</u>	<u>(3,851)</u>
Debt service	<u>43,774</u>	<u>43,774</u>	<u>50,181</u>	<u>(6,407)</u>
Total expenditures	<u>2,015,192</u>	<u>2,015,192</u>	<u>2,171,173</u>	<u>(155,981)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(75,300)</u>	<u>(75,300)</u>	<u>(744,526)</u>	<u>(669,226)</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, 2004**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
OTHER FINANCING SOURCES (USES)				
Loan proceeds	\$ -	\$ -	\$ 729,757	\$ 729,757
Operating transfers in (out)	70,000	70,000	27,000	(43,000)
Total other financing sources (uses)	<u>70,000</u>	<u>70,000</u>	<u>756,757</u>	<u>686,757</u>
<b>Net change in fund balances</b>	<u>\$ (5,300)</u>	<u>\$ (5,300)</u>	12,231	<u>\$ 17,531</u>
FUND BALANCE - BEGINNING			<u>69,987</u>	
FUND BALANCE - ENDING			<u>\$ 82,218</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, 2004**

	Enterprise Funds			
	Water Fund	Sewer Fund	Industrial Park Fund	Total
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ -	\$ 274,954	\$ 165,809	\$ 440,763
Receivables:				
Service charges	55,109	138,579	-	193,688
Capital lease note receivable	-	-	358,466	358,466
Notes receivable	-	-	39,060	39,060
Other	160	146,052	-	146,212
Due from other funds	-	176,812	13,409	190,221
Land held for resale	-	-	349,763	349,763
Total current assets	55,269	736,397	926,507	1,718,173
Noncurrent assets				
Capital assets, net	995,829	7,642,468	-	8,638,297
Total noncurrent assets	995,829	7,642,468	-	8,638,297
Total assets	1,051,098	8,378,865	926,507	10,356,470
<b>Liabilities</b>				
Current liabilities				
Accounts payable and accrued expenses	38,312	310,049	-	348,361
Accrued vacation and sick leave	10,247	13,588	-	23,835
Due to other funds	176,812	-	-	176,812
Total current liabilities	225,371	323,637	-	549,008
Noncurrent liabilities				
Capital lease payable	8,628	8,628	-	17,256
Bonds and notes payable	-	2,539,669	728,362	3,268,031
Total noncurrent liabilities	8,628	2,548,297	728,362	3,285,287
Total liabilities	233,999	2,871,934	728,362	3,834,295
<b>Net assets</b>				
Capital assets net of related debt	987,201	5,094,171	-	6,081,372
Restricted	-	-	18,927	18,927
Unrestricted	(170,102)	412,760	179,218	421,876
Total net assets	\$ 817,099	\$ 5,506,931	\$ 198,145	\$ 6,522,175

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, 2004**

	Enterprise Funds			
	Water Fund	Sewer Fund	Industrial Park Fund	Total
<b>Operating revenues</b>				
Charges for services, net	\$ 221,888	\$ 510,780	\$ -	\$ 732,668
Front footage assessments	-	10,183	-	10,183
Other revenues	-	25	42,920	42,945
Total operating revenues	221,888	520,988	42,920	785,796
<b>Operating expenses</b>				
Salaries and wages	92,785	141,771	-	234,556
Fringe Benefits	50,217	85,969	-	136,186
Materials and supplies	24,275	8,348	-	32,623
Electric and telephone	12,307	2,577	-	14,884
Automotive expenses	5,004	6,685	-	11,689
Professional services	2,068	5,006	-	7,074
Repairs and maintenance	8,794	4,221	-	13,015
Depreciation	50,134	262,812	-	312,946
Miscellaneous	111,952	132,628	15,865	260,445
Total operating expenses	357,536	650,017	15,865	1,023,418
<b>Operating income (loss)</b>	(135,648)	(129,029)	27,055	(237,622)
<b>Nonoperating revenue (expense)</b>				
Connection fees	90,330	270,250	-	360,580
Interest income	288	1,490	1,023	2,801
Grant revenue	1,623	4,034	-	5,657
Interest expense	(507)	(117,916)	(31,950)	(150,373)
Total nonoperating revenue (expense)	91,734	157,858	(30,927)	218,665
<b>Income (loss) before transfers and contributions</b>	(43,914)	28,829	(3,872)	(18,957)
Transfers in	35,500	-	-	35,500
Transfers out	-	(36,500)	(14,000)	(50,500)
Capital contributions	-	474,755	-	474,755
<b>Change in net assets</b>	(8,414)	467,084	(17,872)	440,798
<b>Total net assets - beginning</b>	825,513	5,039,847	216,017	6,081,377
<b>Total net assets - ending</b>	\$ 817,099	\$ 5,506,931	\$ 198,145	\$ 6,522,175

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, 2004**

	Enterprise Funds			Total
	Water Fund	Sewer Fund	Industrial Park Fund	
<b>Operating activities</b>				
Cash received from customers	\$ 228,049	\$ 712,581	\$ 142,607	\$ 1,083,237
Cash received from other funds	-	17,626	-	17,626
Cash paid to vendors	(133,137)	(159,465)	(17,799)	(310,401)
Cash paid to employees	(145,425)	(230,582)	-	(376,007)
Cash paid to other funds	(48,411)	-	108,918	60,507
<b>Net cash provided by (used in) operating activities</b>	<b>(98,924)</b>	<b>340,160</b>	<b>233,726</b>	<b>474,962</b>
<b>Noncapital financing activities</b>				
Operating transfers in (out)	35,500	(36,500)	(14,000)	(15,000)
<b>Net cash provided (used) by noncapital financing activities</b>	<b>35,500</b>	<b>(36,500)</b>	<b>(14,000)</b>	<b>(15,000)</b>
<b>Capital and related financing activities</b>				
Connection fees	90,330	270,250	-	360,580
Grants received	1,623	4,034	-	5,657
Capital contribution received	-	474,755	-	474,755
Interest paid	(507)	(117,916)	(31,950)	(150,373)
Payment on notes payable	(2,765)	(53,678)	(99,687)	(156,130)
Acquisition of capital assets	(25,545)	(607,641)	-	(633,186)
<b>Net cash provided (used) by capital and related financing activities</b>	<b>63,136</b>	<b>(30,196)</b>	<b>(131,637)</b>	<b>(98,697)</b>
<b>Investing activities</b>				
Interest received	288	1,490	1,023	2,801
<b>Net cash provided by investing activities</b>	<b>288</b>	<b>1,490</b>	<b>1,023</b>	<b>2,801</b>
<b>Net increase in cash and cash equivalents</b>	<b>-</b>	<b>274,954</b>	<b>89,112</b>	<b>364,066</b>
<b>Cash and cash equivalents</b>				
Beginning of year	-	-	76,697	76,697
End of year	<u>\$ -</u>	<u>\$ 274,954</u>	<u>\$ 165,809</u>	<u>\$ 440,763</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>				
Operating income (loss)	\$ (135,648)	\$ (129,029)	\$ 27,055	\$ (237,622)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation expense	50,134	262,812	-	312,946
Change in assets and liabilities				
(Increase) decrease in accounts receivable	6,161	(97,253)	-	(91,092)
(Increase) decrease in notes receivable	-	-	99,687	99,687
(Increase) decrease in interfund receivables	(48,411)	17,626	108,918	78,133
(Increase) decrease in land held for resale	-	-	(1,934)	(1,934)
Increase (decrease) in accounts payable and accrued expenses	28,840	286,004	-	314,844
Total adjustments	<u>36,724</u>	<u>469,189</u>	<u>206,671</u>	<u>712,584</u>
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (98,924)</b>	<b>\$ 340,160</b>	<b>\$ 233,726</b>	<b>\$ 474,962</b>

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

# TOWN OF DENTON, MARYLAND

## Notes to Financial Statements

June 30, 2004

### 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 this criteria, there were no organizations identified for inclusion as a component unit in the Town's financial statements.

B. Financial Statement Presentation

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

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

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

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



# TOWN OF DENTON, MARYLAND

## Notes to Financial Statements June 30, 2004

### Note 1 - Summary of significant accounting policies (continued)

#### B. Financial Statement Presentation (concluded)

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

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

Special Revenue Funds account for the proceeds of specific revenue sources (other than those derived from special assessments, expendable trusts, or dedicated for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. Special Revenue Funds consist of the Highway Fund, Special Projects Fund and Business Loan Fund.

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 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.
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.

## TOWN OF DENTON, MARYLAND

### Notes to Financial Statements June 30, 2004

#### Note 1 - Summary of significant accounting policies (continued)

##### C. Basis of Accounting (concluded)

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 Board of Commissioners' meeting in April of each year, the Mayor submits to the Board of Commissioners a budget for the ensuing fiscal year and an accompanying message.
2. The budget shows in detail all estimated income, proposed expenditures for current operations and capital expenditures. Total proposed expenditures cannot exceed the total of estimated income and applied surplus, if any.
3. A public hearing is conducted to obtain citizen comments.
4. The Board of Commissioners 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).

## TOWN OF DENTON, MARYLAND

### Notes to Financial Statements June 30, 2004

#### Note 1 - Summary of significant accounting policies (continued)

##### D. Budgets, Budgetary Accounting (concluded)

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 2004, there were no amendments to the budget.
9. For the year ended June 30, 2004, General Fund expenditures exceeded the amended budget by \$155,981.

##### 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, 2004.

##### 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 cost. Cost includes the original acquisition price and all development costs.

##### H. Capital Assets

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

Machinery and Equipment	5-15 years
Land Improvements and Buildings	15-40 years

## TOWN OF DENTON, MARYLAND

### Notes to Financial Statements June 30, 2004

#### Note 1 - Summary of significant accounting policies (continued)

##### H. Capital Assets (concluded)

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, 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.

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.

## TOWN OF DENTON, MARYLAND

### Notes to Financial Statements June 30, 2004

#### Note 2 – Deposits and investments

##### *Deposits*

At year end the carrying value of the Town's deposits with banks and financial institutions was \$180,379 and the bank balance was \$233,998. Of this bank balance, \$137,081 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*

The Town's investments are categorized to give an indication of the level of custody risk assumed at June 30, 2004. Category 1 includes investments that are insured or registered or for which the securities are held by the Town or its safekeeping agent in the Town's name. Category 2 includes uninsured or unregistered investments for which the securities are held by the counterparty's trust department or safekeeping agent in the Town's name. Category 3 includes uninsured or unregistered investments for which the securities are held by the counterparty or by its trust department or safekeeping agent, but not in the Town's name. The investments in the Local Government Investment Pool and the Money Market Mutual Funds are not subject to categorization as to assumed risks because, in the aggregate, they are considered pooled investments in nature and are not evidenced by securities that exist in physical or book entry form.

At June 30, 2004 the Town's deposit and investment balance were as follows:

	<u>Fair Value</u>
Investments not subject to categorization:	
Investment in Maryland Local Government Investment Pool	\$ 534,681
Total deposits	180,379
Cash on hand	500
Total deposits and investments	<u>\$ 715,560</u>

#### Note 3 - Property Taxes

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

# TOWN OF DENTON, MARYLAND

## Notes to Financial Statements June 30, 2004

### Note 4 – Accounts Receivable

Accounts receivable at June 30, 2004 consist of the following:

	Governmental Activities	Business-type Activities
Local:		
Taxes	\$ 9,392	\$ -
Loans	327,548	-
Service charges	-	193,688
Notes	-	397,526
Other	265,464	146,212
State of Maryland:		
Income tax	29,360	-
Gasoline tax	38,488	-
Other	496	-
Various federal and state grants	83,707	-
Total	<u>\$ 754,455</u>	<u>\$ 737,426</u>

### Note 5 – Interfund receivables and payables

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, 2004, were as follows:

	Interfund Receivables	Interfund Payables
General Fund	\$ 92,694	\$ 35,052
Special Projects Fund	-	72,659
Water fund	-	176,812
Sewer fund	176,812	-
Industrial park fund	13,409	-
Nonmajor governmental fund	35,052	33,444
Total	<u>\$ 317,967</u>	<u>\$ 317,967</u>

# TOWN OF DENTON, MARYLAND

## Notes to Financial Statements June 30, 2004

### Note 6 – Capital assets

	Restated Balances June 30, 2003	Additions	Deletions	Balances June 30, 2004
Governmental activities:				
<i>Nondepreciable capital assets:</i>				
Land	\$ 300,899	\$ 87,297	\$ -	\$ 388,196
Construction in progress	296,806	696,395	-	993,201
Total nondepreciable capital assets	<u>597,705</u>	<u>783,692</u>	<u>-</u>	<u>1,381,397</u>
<i>Depreciable capital assets:</i>				
Land Improvements	410,195	31,833	-	442,028
Buildings	1,137,116	-	-	1,137,116
Infrastructure	3,433,363	51,209	-	3,484,572
Furniture and Equipment	140,053	97,249	-	237,302
Vehicles	246,438	25,000	-	271,438
Total depreciable capital assets	<u>5,367,165</u>	<u>205,291</u>	<u>-</u>	<u>5,572,456</u>
Less - accumulated depreciation:				
Land Improvements	(350,405)	(4,472)	-	(354,877)
Buildings	(445,532)	(28,598)	-	(474,130)
Infrastructure	(421,710)	(87,114)	-	(508,824)
Furniture and Equipment	(122,266)	(27,045)	-	(149,311)
Vehicles	(174,539)	(28,459)	-	(202,998)
Total accumulated depreciation	<u>(1,514,452)</u>	<u>(175,688)</u>	<u>-</u>	<u>(1,690,140)</u>
Total depreciable capital assets, net	<u>3,852,713</u>	<u>29,603</u>	<u>-</u>	<u>3,882,316</u>
Governmental activities capital assets, net	<u>\$ 4,450,418</u>	<u>\$ 813,295</u>	<u>\$ -</u>	<u>\$ 5,263,713</u>
Business-type activities:				
<i>Depreciable capital assets:</i>				
Municipal water system	\$ 1,791,789	\$ -	\$ -	\$ 1,791,789
Municipal sewer system	10,360,417	602,590	-	10,963,007
Machinery and equipment	137,101	30,596	-	167,697
Total depreciable capital assets	<u>12,289,307</u>	<u>633,186</u>	<u>-</u>	<u>12,922,493</u>
Less accumulated depreciation for:				
Municipal water system	(786,467)	(40,390)	-	(826,857)
Municipal sewer system	(3,073,337)	(257,707)	-	(3,331,044)
Machinery and equipment	(111,446)	(14,849)	-	(126,295)
Total accumulated depreciation	<u>(3,971,250)</u>	<u>(312,946)</u>	<u>-</u>	<u>(4,284,196)</u>
Business-type activities capital assets, net	<u>\$ 8,318,057</u>	<u>\$ 320,240</u>	<u>\$ -</u>	<u>\$ 8,638,297</u>

# TOWN OF DENTON, MARYLAND

## Notes to Financial Statements June 30, 2004

### Note 6 – Capital assets (continued)

The gross cost and accumulated depreciation balances at June 30, 2003 were restated to capitalize infrastructure assets, to reflect the changes of adopting the capitalization threshold of \$5,000, to reclassify certain capital assets to be categorized between depreciable and nondepreciable assets and to record accumulated depreciation in accordance with the adoption of GASB Statement No. 34. The cost of assets were restated as follows:

	Balances June 30, 2003	Restatement		Restated Balances June 30, 2003
		Additions	Deletions	
Governmental activities:				
Land	\$ -	\$ 300,899	\$ -	\$ 300,899
Land improvements	-	410,195	-	410,195
Buildings	2,172,711	-	(1,035,595)	1,137,116
Infrastructure	-	3,433,363	-	3,433,363
Furniture and equipment	274,707	-	(134,654)	140,053
Vehicles	295,111	-	(48,673)	246,438
Construction in progress	-	296,806	-	296,806
	<u>\$ 2,742,529</u>	<u>\$ 4,441,263</u>	<u>\$ (1,218,922)</u>	<u>\$ 5,964,870</u>
Business-type activities:				
Municipal water system	\$ 1,857,069	\$ -	\$ (65,280)	\$ 1,791,789
Municipal sewer system	10,371,077	-	(10,660)	10,360,417
Machinery and equipment	252,288	-	(115,187)	137,101
	<u>\$ 12,480,434</u>	<u>\$ -</u>	<u>\$ (191,127)</u>	<u>\$ 12,289,307</u>

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

Governmental activities:	
General government	\$ 6,099
Public safety	53,658
Public works	59,053
Recreation and culture	1,433
Urban development and housing	3,402
Economic development	52,043
	<u>\$ 175,688</u>
Business-type activities:	
Water	\$ 50,134
Sewer	262,812
	<u>\$ 312,946</u>



## TOWN OF DENTON, MARYLAND

### Notes to Financial Statements

June 30, 2004

#### Note 7 - Long-term obligations

The Town issues general obligation bonds 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 of the Town at June 30, 2004 are as follows:

Governmental activities:

State Notes and Bonds:

	<u>Amount</u>
\$207,900 issued, Town contractual share of Caroline County CDA Bonds, due in annual installments through May 1, 2010, interest at 5.84%.	\$ 103,528
\$265,000 issued, Town contractual share of Caroline County CDA Bonds, due in annual installments through May 2017, interest at 5.52%	<u>207,420</u>
Total State Notes and Bonds	310,948

Installment notes:

\$8,877 installment note payable, due in monthly payments of \$201 until February 2006, interest at 4.14%	3,690
\$15,123 installment note payable, due in monthly payments of \$342 until November 2005, interest at 4.12%	5,672
\$42,624 installment note payable, due in monthly payments of \$245 until October 2005, interest at 4.75%	40,039
\$81,000 installment note payable, due in monthly payments of \$427 until January 2008, interest at 3.93% with a final balloon payment of \$35,100	78,086
\$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	52,564
\$72,249 installment note payable due in annual payments of \$9,725 until January 2013, interest at 3.96%.	72,249
\$25,000 installment note payable, due in monthly payments of \$552 until February 2008, interest at 2.9%.	<u>23,026</u>
Total Installment Notes	<u>275,326</u>
Total governmental activities	<u>\$ 586,274</u>

# TOWN OF DENTON, MARYLAND

## Notes to Financial Statements June 30, 2004

### Note 7 - Long-term obligations (continued)

#### Business-type activities:

##### General Obligation Notes:

##### State of Maryland:

	<u>Amount</u>
\$110,000 issued October 20, 1975, due in annual installments of \$7,848 including interest at 5.6% through October 2005.	14,443
\$62,000 issued September 23, 1980, due in annual installments of \$4,672 including interest at 6.1%, through October 2010.	25,973
\$52,775 issued May, 15, 1981, due in annual installments of \$3,977 including interest at 6.1% through May 2011.	22,108
\$28,000 issued June 30, 1981, due in annual installments of \$2,110 including interest at 6.1%, through June 2011.	11,741
\$2,453,700, Rural Development Loan due in quarterly installments of \$33,150 including interest at 4.5%, through January 2039.	2,330,072
\$140,000, Rural Development Loan due in quarterly installments of \$1,892 including interest at 4.5%, through September 2040.	135,332

##### Other Notes:

##### County Commissioners of Caroline County:

\$400,000 issued December 17, 1986, due in quarterly installments of \$9,669, including interest at 10.1% through March 2007. Secured by leased industrial property and assignment of related lease.	91,857
\$362,296 issued April 28, 1987, due in quarterly installments of \$8,895, including interest at 6.8% through March 2007. Secured by leased industrial property and assignment of related lease.	88,658
\$600,000 issued June 30, 1988, due in quarterly installments of \$14,345, including interest at 6.6% through December 2007. Secured by leased industrial property and assignment of related lease.	177,847

##### 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.

370,000

Total Proprietary Funds

3,268,031

Total Long-Term Debt

\$ 3,854,305

# TOWN OF DENTON, MARYLAND

## Notes to Financial Statements

June 30, 2004

### 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		Installment Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 25,483	\$ 17,333	\$ 23,609	\$ 11,020	\$ 49,092	\$ 28,353
2006	28,405	15,977	58,625	8,818	87,030	24,795
2007	28,972	14,434	17,516	7,658	46,488	22,092
2008	32,462	12,845	132,429	3,883	164,891	16,728
2009	33,030	11,038	8,047	1,707	41,077	12,745
2010-2014	101,223	32,899	35,100	3,527	136,323	36,426
2015-2019	61,373	7,164	-	-	61,373	7,164
Total	<u>\$ 310,948</u>	<u>\$ 111,690</u>	<u>\$ 275,326</u>	<u>\$ 36,613</u>	<u>\$ 586,274</u>	<u>\$ 148,303</u>

Year Ended June 30	Business-type Activities					
	General Obligation Notes		Other Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 43,884	\$ 114,893	\$ 107,561	\$ 24,082	\$ 151,445	\$ 138,975
2006	46,029	112,708	116,059	15,577	162,088	128,285
2007	40,514	110,413	106,728	6,433	147,242	116,846
2008	42,491	108,437	28,014	699	70,505	109,136
2009	44,564	106,363	-	-	44,564	106,363
2010-2014	223,364	498,942	-	-	223,364	498,942
2015-2019	254,791	446,049	-	-	254,791	446,049
2020-2024	318,681	382,159	370,000	-	688,681	382,159
2025-2029	398,590	302,250	-	-	398,590	302,250
2030-2034	498,537	202,303	-	-	498,537	202,303
2035-2039	617,741	77,295	-	-	617,741	77,295
2040-2044	10,483	381	-	-	10,483	381
Total	<u>\$ 2,539,669</u>	<u>\$ 2,462,193</u>	<u>\$ 728,362</u>	<u>\$ 46,791</u>	<u>\$ 3,268,031</u>	<u>\$ 2,508,984</u>

# TOWN OF DENTON, MARYLAND

## Notes to Financial Statements June 30, 2004

### 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, 2004:

	Balance July 1, 2003	Addition	Reductions	Balance June 30, 2004	Due Within One Year
Governmental activities:					
State notes and bonds	\$ 335,862	\$ -	\$ 24,914	\$ 310,948	\$ 25,483
Installment note	270,149	97,249	92,072	275,326	23,609
Capital lease	15,191	-	3,687	11,504	3,876
Grant anticipation note	-	632,508	-	632,508	-
Accrued Vacation	55,961	2,559	-	58,520	-
Total	<u>\$ 677,163</u>	<u>\$ 732,316</u>	<u>\$ 120,673</u>	<u>\$ 1,288,806</u>	<u>\$ 52,968</u>
Business-type activities:					
Capital lease	\$ 22,786	\$ -	\$ 5,530	\$ 17,256	\$ 5,813
Notes	3,418,631	-	150,600	3,268,031	151,445
Total	<u>\$ 3,441,417</u>	<u>\$ -</u>	<u>\$ 156,130</u>	<u>\$ 3,285,287</u>	<u>\$ 157,258</u>

The Town obtained an interim financing agreement in anticipation of the receipt of USDA revolving loan grant. This agreement is similar to a line of credit in the amount of \$750,000 with interest payable monthly at a rate of 2.49%. The Town drew \$632,508 for the construction of a new police facility. The USDA loan that is used to refinance this loan will be repayable in 40 years from the date of closing and payments are made on a monthly basis.

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, 2004, future minimum lease payments due under capital leases with initial or remaining noncancellable lease terms in excess of one year are as follows:

Fiscal Year	Capital Leases	
	Governmental Activities	Business-type Activities
2005	\$ 4,363	\$ 6,544
2006	4,363	6,544
2007	3,636	5,454
Total minimum lease payments	12,362	18,542
Less amount representing interest	858	1,286
Present value of net minimum lease payments	<u>\$ 11,504</u>	<u>\$ 17,256</u>

## TOWN OF DENTON, MARYLAND

### Notes to Financial Statements June 30, 2004

#### Note 8 – Line of credit

The Town obtained a revolving line of credit in the amount of \$200,000 dated as of May 8, 2003. During the year ended June 30, 2004, the Town drew \$135,000 of that line of credit for the purpose of interim financing. Interest is payable monthly at a rate equal to  $\frac{3}{4}$  percent below Mercantile Floating Prime Rate of Interest. The interest expense for fiscal year 2004 was \$991. The balance was paid off in August 2004.

#### Note 9 - Capital lease receivable

The construction of leased industrial property located in the Industrial Park has been financed under the Maryland Industrial Land Act loan program through the Caroline County Commissioners. The related lease calls for monthly rental payments of \$10,970 through December 2007.

Total minimum lease payments at June 30, 2004	\$ 458,153
Less amount representing interest, at 6.6 to 10.1%	<u>99,687</u>
Present value of remaining net minimum lease payments - presented as capital lease receivable in the Industrial Park Fund	<u>\$ 358,466</u>

The leases also contain options which permit the lessee to purchase the property at any time upon payment of the lease's present value.

#### Note 10 - Operating Lease

The Town leases property under an operating lease for the Town Police Office. The lease was extended until the new police facility was completed. During the year ended June 30, 2004, the lease payments totaled \$13,200. There was no minimum lease payment due at June 30, 2004.

#### Note 11 – 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. Outstanding conduit debt obligations amount as of June 30, 2004 were not available. The amount outstanding at June 30, 2004 is as follows:

<u>Description</u>	<u>Original issue</u>	<u>Outstanding, June 30, 2004</u>
Shore Nursing & Rehabilitation bonds, series 1997	\$ 4,150,000	not available
Caroline Nursing/the Gables, series 1999	2,750,000	2,371,203
Channel Market Foundation, series 2001	628,200	581,403

## TOWN OF DENTON, MARYLAND

### Notes to Financial Statements

June 30, 2004

#### Note 12 - Deferred revenue

Revenues collected in advance of the fiscal year in which they are earned are recorded as deferred revenues in the government-wide and governmental fund financial statements. Deferred revenue in the governmental funds financial statements also includes revenues that are measurable but not available. Deferred revenues totaling \$591,809 as presented in the government-wide statements under governmental activities and in the governmental fund financial statements under the Business Loan fund are entirely comprised of the business loans receivable at June 30, 2004.

#### Note 13 - 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 2004 was based on the salaries for the year ended June 30, 2003. 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 \$96,656 in fiscal year 2004. Annual payments in future years will increase by 5% per year through December 2020.

Contributions for the fiscal year ended June 30 were equal to the actuarially determined amounts as follows:

	<u>June 30, 2004</u>
Total covered payroll	\$ 852,341
Employer normal contributions	42,703
Employer special accrued liability	53,953

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 June 30, 2004**

#### **Note 15 – Fund Deficit**

The following funds had a deficit fund equity balance at June 30, 2004:

Special Projects Fund	\$ (53,812)
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#### **Note 16 – Surety bonds**

Fidelity and Deposit Company, Surety: Karen L. Monteith	\$ 10,000
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Fidelity and Deposit Companies, Surety: All Town employees	\$ 10,000
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#### **Note 17 - 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.



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

To the Honorable Town Commissioners  
Town of Denton, Maryland

We have audited the basic financial statements of The Town of Denton, Maryland as of and for the year ended June 30, 2004, and have issued our report thereon dated October 29, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

However, we noted certain other matters involving the internal control over financial reporting that we have reported to management of the Town of Denton in a separate letter dated October 29, 2004.

**Compliance**

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

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

*Cherry, Bekantz & Holland, L.L.P.*

Richmond, Virginia

October 29, 2004