

TOWN OF DENTON, MARYLAND

Financial Report

Year Ended June 30, 2005

TOWN OF DENTON, MARYLAND

BOARD OF TOWN COMMISSIONERS

J. Bradford Horsey, Mayor

H. Victoria Goldsborough

Carol D. Stockley

John A. Foster

Lester L. Branson

OTHER OFFICIALS

Terry S. Fearins, Town Administrator

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, 2005, 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, 2005, 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

In accordance with *Government Auditing Standards*, we have also issued a report dated September 30, 2005 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.

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

Cheng, Beckett & Halland, LLP

Richmond, Virginia

September 30, 2005

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, 2005. 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

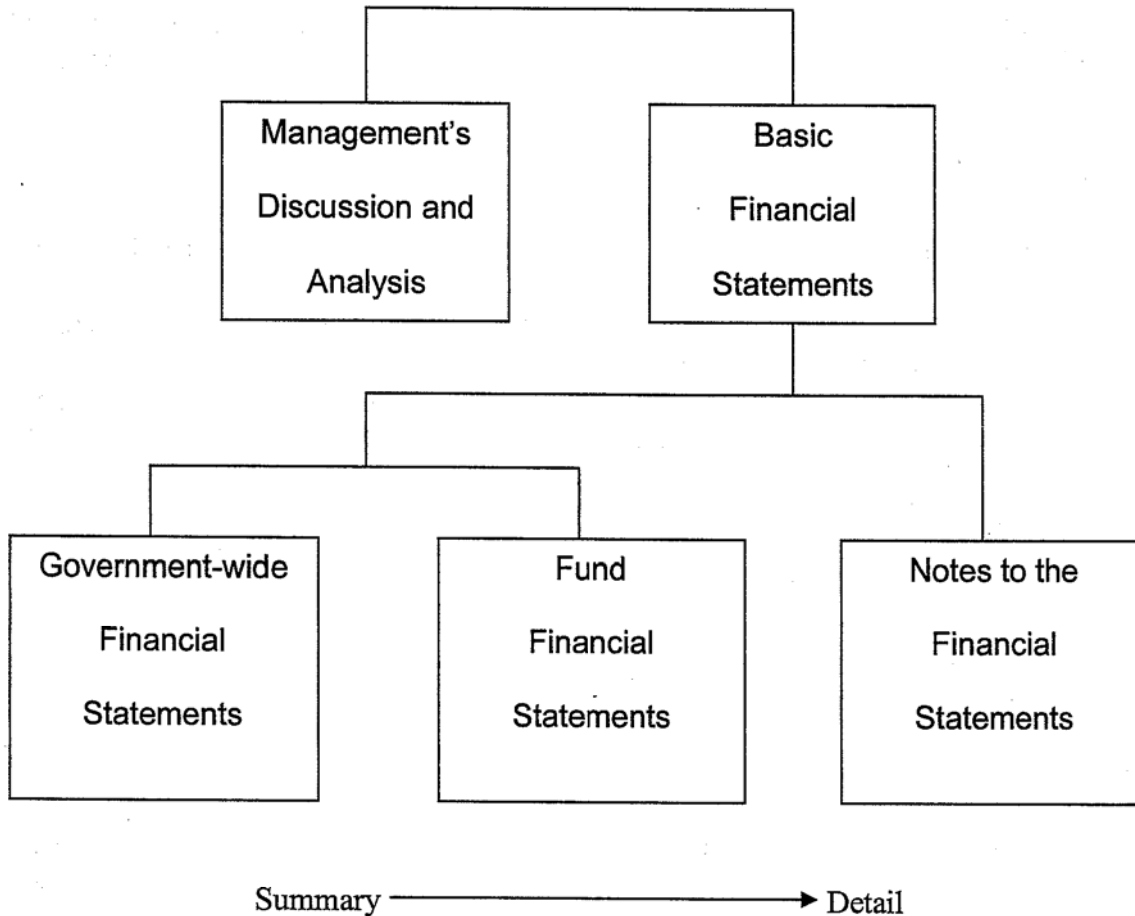
- The assets of the Town of Denton exceeded its liabilities at the close of the fiscal year by \$12,690.
- The government's total net assets increased by \$1,422, primarily due to increases in the governmental activities net assets.
- As of the close of the current fiscal year, the Town of Denton's governmental funds reported combined ending fund balances of \$(503), a decrease of \$669 during the year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$191, or 7.8 percent of total general fund expenditures for the fiscal year.
- The Town of Denton's total debt decreased by \$216 (4.8%) during the current fiscal year. The debt principal payments were offset by new loans obtained for the wastewater treatment plant.

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 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 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	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 1,657	\$ 1,016	\$ 921	\$ 1,541	\$ 2,578	\$ 2,557
Capital assets	7,481	5,263	8,444	8,638	15,925	13,901
Total assets	9,138	6,279	9,365	10,179	18,503	16,458
Long-term liabilities outstanding	1,584	1,289	2,796	3,285	4,380	4,574
Other liabilities	1,295	849	138	372	1,433	1,221
Total liabilities	2,879	2,138	2,934	3,657	5,813	5,795
Net assets:						
Invested in capital assets, net of related debt	4,456	4,033	6,030	6,081	10,486	10,114
Restricted	-	-	-	19	-	19
Unrestricted	1,803	108	401	422	2,204	530
Total net assets	\$ 6,259	\$ 4,141	\$ 6,431	\$ 6,522	\$ 12,690	\$ 10,663

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 \$12,690 as of June 30, 2005. The Town's net assets increased by \$1,422 for the fiscal year ended June 30, 2005. However, the largest portion (82.6%) reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The Town of Denton uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The remaining balance of unrestricted net assets in the amount of \$2,204 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	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 169	\$ 227	\$ 1,132	\$ 1,146	\$ 1,301	\$ 1,373
Operating grants and contributions	1,360	355	-	-	1,360	355
Capital grants and contributions	428	160	30	480	458	640
General revenues:						
Property taxes	1,008	843	-	-	1,008	843
Other taxes	494	440	-	-	494	440
Other	64	59	15	3	79	62
Total revenues	<u>3,523</u>	<u>2,084</u>	<u>1,177</u>	<u>1,629</u>	<u>4,700</u>	<u>3,713</u>
Expenses:						
General government	154	139	-	-	154	139
Public safety	1,119	929	-	-	1,119	929
Public works	425	366	-	-	425	366
Recreation and culture	34	34	-	-	34	34
Urban development and housing	122	268	-	-	122	268
Economic development	103	30	-	-	103	30
Interest on long-term debt	74	51	-	-	74	51
Water	-	-	446	358	446	358
Sewer	-	-	782	768	782	768
Industrial park	-	-	19	48	19	48
Total expenses	<u>2,031</u>	<u>1,817</u>	<u>1,247</u>	<u>1,174</u>	<u>3,278</u>	<u>2,991</u>
Increase in net assets before transfers	1,492	267	(70)	455	1,422	722
Transfers	21	15	(21)	(15)	-	-
Increase in net assets	1,513	282	(91)	440	1,422	722
Net assets, July 1	4,746	3,859	6,522	6,082	11,268	9,941
Net assets, June 30	<u>\$ 6,259</u>	<u>\$ 4,141</u>	<u>\$ 6,431</u>	<u>\$ 6,522</u>	<u>\$ 12,690</u>	<u>\$ 10,663</u>

Governmental activities. Governmental activities increased the Town's net assets by \$1,513, showing an increase of \$1,231 over the prior year's change in net assets. 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 decreased the Town of Denton's net assets by \$91, showing a decrease of \$531 compared to prior year's change in net assets. Key elements of this decrease are as follows:

- Increase in the employee cost for water 30,000 and sewer 70,000 fund. This was as a result of an additional employee (increasing position from part time to full time) and an increase of health care expenses by about 20%.
- Expenditure of \$57,519 expenses for "metering supplies" used to upgrade and replace meters, which were initially installed in 1980, and, includes transferring touch read to radio read.

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

- In town water rates were increased from \$2.00 to \$2.25 and out of town rates were increased from \$4.00 to \$4.50. This is per 1000 gallons of usage.
- In town sewer rates were increased from \$5.35 to \$5.50 and out of town rates were increased from \$10.70 to \$11.00. This is per 1000 gallons of usage.
- The Water Capacity Charge increased to \$1500 per ERU.
- The Sewer Capacity Charge increased to \$4500 per ERU.
- The Denton Public Works Department continued to work to replace water meters which were not working.
- Users increased by 94. The total billing accounts in 7/1/04 was 1185. In 7/1/05 this increased to 1266 (81 additional accounts) and through 10/1/05 the total accounts increased to 1279 (13 additional accounts) bring the number of users increased by 94. This is a 7% 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 \$191. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 7.8 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 \$82. A contributing factor in this growth includes an increase in tax revenues and grant revenues.

At June 30, 2005, the governmental funds of Town of Denton reported a combined fund balance of (\$503), a decrease of \$669 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 (\$265), \$505, and \$162, respectively. The changes in net assets for the funds were (\$93), \$38, and (\$36), respectively. 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, 2005, totals \$16,021 (net of accumulated depreciation). This amount represents a net increase of \$2,119, or 15 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):

- Building of \$357 in governmental-type activities for the development of the culinary school under urban development.
- Construction in progress of \$906 in governmental-type activities for the redevelopment of the Market Street.
- Construction in progress of \$658 in governmental-type activities for the redevelopment of the 8th Street.

- Construction in progress of \$169 in governmental-type activities for the development of Wheeler Park under the parks and recreation department.

The following is a summary of capital assets at June 30, 2005 and 2004:

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

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 522	\$ 388	\$ -	\$ -	\$ 522	\$ 388
Land improvements	83	87	-	-	83	87
Buildings	1,972	663	-	-	1,972	663
Infrastructure	2,889	2,976	-	-	2,889	2,976
Equipment and vehicles	158	157	37	42	195	199
Water system	-	-	958	964	958	964
Sewer system	-	-	7,371	7,632	7,371	7,632
Construction in progress	1,857	993	174	-	2,031	993
Total	\$7,481	\$5,264	\$8,540	\$8,638	\$16,021	\$13,902

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, 2005, the Town of Denton had total bonded debt outstanding of \$3,386. Of this, \$3,015 is debt backed by the full faith and credit of the Town. The remainder of the Town's debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds). The total bonded debt decreased \$468 or 13 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	
	2005	2004	2005	2004	2005	2004
General obligation bond	\$ 601	\$ 586	\$ 2,414	\$ 2,540	\$ 3,015	\$ 3,126
Notes payable	895	633	370	728	1,265	1,361
Capital leases	8	11	11	17	19	28
Total	\$ 1,504	\$ 1,230	\$ 2,795	\$ 3,285	\$ 4,299	\$ 4,515

New debt for the fiscal year ending June 30, 2005 resulted from obtaining the loan for the completion of the police facility and additional installments for purchases of machinery and equipment for the governmental activities.

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

Economic Factors and Next Year's Budgets and Rates

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

- Low unemployment. Caroline County unemployment rate of 3.6% and is below the State average of 3.9% and below the US average of 4.8 (as of September, 2005)
- Potential for up to 400,000 sq. ft. of commercial (retail/service) space proposed for Legion Road. Presently a 155,000 sq. ft. Super Walmart is going through the planning process.

Budget Highlights for the Fiscal Year Ending June 30, 2005

Governmental Activities: Property taxes (benefiting from the economic growth and re-assessments) are expected to lead the increase in budgeted revenue by an increase in real estate tax revenue of 23%. The Town will use these increases in revenues to finance programs currently in place, capital outlay and increase the fund balance. This will enable the Town of Denton to work towards maintaining a General Fund, fund balance of 15%. Presently the fund balance is 7.8 percent up from 5.5 percent in FY 2004.

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 remain the same. The Town Council is presently considering the establishment of a water meter fee for all $\frac{3}{4}$ " or less meters. This fee would be initially set at \$2.50 per quarter. Meters higher than $\frac{3}{4}$ " would be responsible to replace their meter at their own expense. A public hearing was held on October 3, 2005. The ordinance will be considered for adoption at the Denton Town Council meeting on November 7th.

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.



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Town of Denton, Maryland

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business Type Activities	Total Reporting Unit
Assets			
Cash and cash equivalents	\$ 654,184	\$ 306,416	\$ 960,600
Receivables (net of allowance for uncollectibles)	149,692	249,352	399,044
Loans receivable	707,676	-	707,676
Internal balances	(7,580)	7,580	-
Land held for resale	153,010	357,526	510,536
Land	522,343	-	522,343
Construction in progress	1,856,594	38,119	1,894,713
Other capital assets, net of accumulated depreciation	5,101,879	8,405,852	13,507,731
Total assets	<u>9,137,798</u>	<u>9,364,845</u>	<u>18,502,643</u>
Liabilities			
Accounts payable and other current liabilities	66,423	57,833	124,256
Line of credit	1,228,360	80,000	1,308,360
Long-term liabilities:			
Due within one year	108,162	135,342	243,504
Due in more than one year	1,476,025	2,660,352	4,136,377
Total liabilities	<u>2,878,970</u>	<u>2,933,527</u>	<u>5,812,497</u>
Net assets			
Invested in capital assets, net of related debt	4,978,269	6,029,719	11,007,988
Unrestricted	1,280,559	401,599	1,682,158
Total net assets	<u>\$ 6,258,828</u>	<u>\$ 6,431,318</u>	<u>\$ 12,690,146</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, 2005

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
Primary government:						
Governmental activities:						
General government	\$ 154,216	\$ 45,499	\$ 21,985	\$ 80,984	\$ (5,748)	\$ -
Public safety	1,118,985	74,912	141,721	-	(902,352)	-
Public works	425,123	48,634	-	-	(376,489)	-
Recreation and culture	34,201	-	257,898	-	223,697	-
Urban development and housing	121,698	-	915,657	347,500	1,141,459	-
Economic development	103,026	-	23,109	-	(79,917)	-
Interest on long-term debt	73,663	-	-	-	(73,663)	-
Total governmental activities	2,030,912	169,045	1,360,370	428,484	(73,013)	(73,013)
Business-type activities:						
Water	445,639	353,111	-	-	-	(92,528)
Sewer	781,732	778,637	-	29,996	-	26,901
Industrial park	19,105	-	-	-	-	(19,105)
Total business-type activities	1,246,476	1,131,748	-	29,996	-	(84,732)
Total primary government	\$ 3,277,388	\$ 1,300,793	\$ 1,360,370	\$ 458,480	(73,013)	(157,745)
General revenues:						
Property taxes					1,143,035	-
Other taxes					358,065	-
Interest income					35,365	12,530
Miscellaneous income					28,776	2,068
Transfers					20,723	(20,723)
Total general revenues and transfers					1,585,964	(6,125)
Change in net assets					1,512,951	(90,857)
Net assets - beginning					4,745,877	6,522,175
Net assets - ending					\$ 6,258,828	\$ 6,431,318
						\$ 12,690,146

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

Town of Denton, Maryland

**Balance Sheet
Governmental Funds
June 30, 2005**

	General	Special Projects	Business Loan	Nonmajor Governmental Fund Highway	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 150,345	\$ 318,031	\$ 169,801	\$ 16,007	\$ 654,184
Receivables:					
Taxes	16,836	-	-	-	16,836
Loans	-	-	736,215	-	736,215
Other receivables	9,502	-	-	-	9,502
Due from other governments	64,682	22,320	-	36,352	123,354
Total assets	<u>\$ 241,365</u>	<u>\$ 340,351</u>	<u>\$ 906,016</u>	<u>\$ 52,359</u>	<u>\$ 1,540,091</u>
Liabilities and fund balances					
Liabilities:					
Accounts payable and accrued expenses	\$ 50,041	\$ 11,000	\$ -	\$ 5,382	\$ 66,423
Deferred revenue	-	-	740,692	-	740,692
Due to other funds	-	7,580	-	-	7,580
Line of credit	-	1,228,360	-	-	1,228,360
Total liabilities	<u>50,041</u>	<u>1,246,940</u>	<u>740,692</u>	<u>5,382</u>	<u>2,043,055</u>
Fund balances:					
Designated	-	(906,589)	165,324	46,977	(694,288)
Undesignated	191,324	-	-	-	191,324
Total fund balances	<u>191,324</u>	<u>(906,589)</u>	<u>165,324</u>	<u>46,977</u>	<u>(502,964)</u>
Total liabilities and fund balances	<u>\$ 241,365</u>	<u>\$ 340,351</u>	<u>\$ 906,016</u>	<u>\$ 52,359</u>	<u>\$ 1,540,091</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, 2005

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

Ending fund balance - governmental funds	\$ (502,964)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	7,480,816
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	865,163
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,584,187)</u>
Net assets of governmental activities	<u>\$ 6,258,828</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, 2005**

	General	Special Projects	Business Loan	Nonmajor Governmental Fund Highway	Total Governmental Funds
Revenues					
Taxes	\$ 1,298,792	\$ -	\$ -	\$ 202,308	\$ 1,501,100
Licenses and permits	100,683	-	-	-	100,683
Revenue from other agencies	978,411	1,499,838	150	12,668	2,491,067
Service charges	11,727	-	-	-	11,727
Miscellaneous	130,893	25,537	90,596	370	247,396
Total revenues	<u>2,520,506</u>	<u>1,525,375</u>	<u>90,746</u>	<u>215,346</u>	<u>4,351,973</u>
Expenditures					
Current:					
General government	200,665	-	-	-	200,665
Public safety	1,092,096	-	-	-	1,092,096
Public works	207,036	-	-	159,721	366,757
Recreation and culture	148,733	259,254	-	-	407,987
Urban development and housing	67,961	2,122,496	166,895	-	2,357,352
Economic development	-	50,983	-	-	50,983
Debt service	719,051	-	1,003	43,200	763,254
Total expenditures	<u>2,435,542</u>	<u>2,432,733</u>	<u>167,898</u>	<u>202,921</u>	<u>5,239,094</u>
Excess (deficiency) of revenues over (under) expenditures	<u>84,964</u>	<u>(907,358)</u>	<u>(77,152)</u>	<u>12,425</u>	<u>(887,121)</u>
Other financing sources (uses)					
Loan proceeds	47,000	-	150,000	-	197,000
Operating transfers in (out)	(22,858)	54,581	(10,000)	(1,000)	20,723
Total other financing sources (uses)	<u>24,142</u>	<u>54,581</u>	<u>140,000</u>	<u>(1,000)</u>	<u>217,723</u>
Net change in fund balances	<u>109,106</u>	<u>(852,777)</u>	<u>62,848</u>	<u>11,425</u>	<u>(669,398)</u>
Fund balance - beginning	<u>82,218</u>	<u>(53,812)</u>	<u>102,476</u>	<u>35,552</u>	<u>166,434</u>
Fund balance - ending	<u>\$ 191,324</u>	<u>\$ (906,589)</u>	<u>\$ 165,324</u>	<u>\$ 46,977</u>	<u>\$ (502,964)</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, 2005

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

Net change in fund balances - total governmental funds	\$ (669,398)
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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	2,411,216
Depreciation expense	(194,113)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	260,627
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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.

(295,381)

Change in net assets of governmental activities	<u>\$ 1,512,951</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, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
Taxes:				
Real estate tax	\$ 947,732	\$ 947,732	\$ 1,048,042	\$ 100,310
Railroad and public utilities	54,240	54,240	52,177	(2,063)
Corporation	65,000	65,000	76,068	11,068
Tax interest and penalties	11,303	11,303	10,648	(655)
Abatements (Tax)	(20,000)	(20,000)	(43,900)	(23,900)
Income tax	127,291	127,291	150,248	22,957
Admission and Amusement tax	324	324	1,040	716
Hotel tax	-	-	4,469	4,469
Total taxes	<u>1,185,890</u>	<u>1,185,890</u>	<u>1,298,792</u>	<u>112,902</u>
Licenses and permits:				
Traders license	809	809	11,629	10,820
Building and sign permits	43,332	43,332	39,084	(4,248)
Cable TV franchise fees	13,000	13,000	15,079	2,079
Other licenses and permits	31,299	31,299	34,891	3,592
Total licenses and permits	<u>88,440</u>	<u>88,440</u>	<u>100,683</u>	<u>12,243</u>
Revenue from Other Agencies:				
State Police aid	80,000	80,000	73,092	(6,908)
Critical areas	405	405	1,341	936
CDBG neighborhood admin	-	-	67,160	67,160
Police Facility Grant	-	-	797,655	797,655
Mainstreet Miscellaneous Revenues	207	207	4,734	4,527
Other county revenue	20,000	20,000	21,014	1,014
Other state revenue	-	-	13,415	13,415
Total revenue from other agencies	<u>100,612</u>	<u>100,612</u>	<u>978,411</u>	<u>877,799</u>
Service charges:				
Parking fines/meter income	7,710	7,710	11,727	4,017
Miscellaneous Income:				
Water tower/land rental	33,031	33,031	35,291	2,260
Interest income	2,330	2,330	2,784	454
Insurance claims	6,275	6,275	-	(6,275)
Miscellaneous income	2,068	2,068	92,792	90,724
Post card income	16	16	26	10
Total miscellaneous income	<u>43,720</u>	<u>43,720</u>	<u>130,893</u>	<u>87,173</u>
Total revenues	<u>1,426,372</u>	<u>1,426,372</u>	<u>2,520,506</u>	<u>1,094,134</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, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures				
General Government:				
Legislative:				
Salaries	\$ 5,500	\$ 5,500	\$ 4,915	\$ 585
Other operating expenses	18,446	18,446	27,941	(9,495)
	<u>23,946</u>	<u>23,946</u>	<u>32,856</u>	<u>(8,910)</u>
Elections:				
Salaries	45	45	45	-
Other operating expenses	1,050	1,050	908	142
	<u>1,095</u>	<u>1,095</u>	<u>953</u>	<u>142</u>
Financial Administration:				
Salaries	59,071	59,071	61,349	(2,278)
Other operating expenses	42,823	42,823	42,675	148
Capital outlay	2,835	2,835	589	2,246
	<u>104,729</u>	<u>104,729</u>	<u>104,613</u>	<u>116</u>
Municipal Building:				
Other operating expenses	5,144	5,144	39,537	(34,393)
Capital outlay	2,300	2,300	22,706	(20,406)
	<u>7,444</u>	<u>7,444</u>	<u>62,243</u>	<u>(54,799)</u>
Total general government	<u>137,214</u>	<u>137,214</u>	<u>200,665</u>	<u>(63,451)</u>
Public Safety:				
Police Department:				
Salaries	415,230	415,230	432,836	(17,606)
Other operating expenses	314,048	314,048	320,505	(6,457)
Capital outlay	45,325	45,325	50,759	(5,434)
	<u>774,603</u>	<u>774,603</u>	<u>804,100</u>	<u>(29,497)</u>
Volunteer Fire Company:				
Other operating expenses	<u>16,800</u>	<u>16,800</u>	<u>16,217</u>	<u>583</u>
Zoning, Codes & Inspection:				
Salaries	103,438	103,438	118,068	(14,630)
Other operating expenses	66,653	66,653	121,027	(54,374)
Capital outlay	3,000	3,000	32,684	(29,684)
	<u>173,091</u>	<u>173,091</u>	<u>271,779</u>	<u>(98,688)</u>
Total public safety	<u>964,494</u>	<u>964,494</u>	<u>1,092,096</u>	<u>(127,602)</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, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Public Works:				
Street Sanitation:				
Salaries	\$ 22,620	\$ 22,620	\$ 26,130	\$ (3,510)
Other operating expenses	26,361	26,361	32,555	(6,194)
Capital Outlay	8,400	8,400	-	8,400
	<u>57,381</u>	<u>57,381</u>	<u>58,685</u>	<u>(1,304)</u>
Street lighting	39,000	39,000	41,773	(2,773)
Trash collection	93,737	93,737	105,988	(12,251)
Mosquito Spraying	1,250	1,250	590	660
	<u>191,368</u>	<u>191,368</u>	<u>207,036</u>	<u>(15,668)</u>
Total public works				
Recreation and Culture:				
Parks and recreation:				
Salaries	13,779	13,779	9,999	3,780
Other operating expenses	22,606	22,606	24,510	(1,904)
	<u>36,385</u>	<u>36,385</u>	<u>34,509</u>	<u>1,876</u>
Tennis courts:				
Other operating expenses	-	-	642	(642)
	<u>-</u>	<u>-</u>	<u>642</u>	<u>(642)</u>
Wheeler Park:				
Project Costs	-	-	113,582	(113,582)
	<u>-</u>	<u>-</u>	<u>113,582</u>	<u>(113,582)</u>
Total recreation and culture	<u>36,385</u>	<u>36,385</u>	<u>148,733</u>	<u>(112,348)</u>
Urban Development and Housing:				
Community development:				
Salaries	36,338	36,338	33,398	2,940
Other operating expenses	33,046	33,046	32,096	950
Capital outlay	1,888	1,888	2,467	(579)
	<u>71,272</u>	<u>71,272</u>	<u>67,961</u>	<u>3,311</u>
Total urban development and housing				
Debt service	<u>81,633</u>	<u>81,633</u>	<u>719,051</u>	<u>(637,418)</u>
Total expenditures	<u>1,482,366</u>	<u>1,482,366</u>	<u>2,435,542</u>	<u>(953,176)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(55,994)</u>	<u>(55,994)</u>	<u>84,964</u>	<u>140,958</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, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
OTHER FINANCING SOURCES (USES)				
Loan proceeds	\$ -	\$ -	\$ 47,000	\$ 47,000
Operating transfers in (out)	45,000	45,000	(22,858)	(67,858)
Total other financing sources (uses)	<u>45,000</u>	<u>45,000</u>	<u>24,142</u>	<u>(20,858)</u>
Net change in fund balances	<u>\$ (10,994)</u>	<u>\$ (10,994)</u>	109,106	<u>\$ 120,100</u>
FUND BALANCE - BEGINNING			<u>82,218</u>	
FUND BALANCE - ENDING			<u>\$ 191,324</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, 2005**

	Enterprise Funds			Total
	Water Fund	Sewer Fund	Industrial Park Fund	
Assets				
Current assets				
Cash and cash equivalents	\$ -	\$ 174,625	\$ 131,791	\$ 306,416
Receivables:				
Service charges	59,749	136,837	-	196,586
Notes receivable	-	-	35,082	35,082
Other	984	16,700	-	17,684
Due from other funds	-	218,189	7,580	225,769
Total current assets	60,733	546,351	174,453	781,537
Noncurrent assets				
Land held for resale	-	-	357,526	357,526
Construction in progress	-	38,119	-	38,119
Capital assets, net	989,019	7,416,833	-	8,405,852
Total noncurrent assets	989,019	7,454,952	357,526	8,801,497
Total assets	1,049,752	8,001,303	531,979	9,583,034
Liabilities				
Current liabilities				
Accounts payable and accrued expenses	7,745	16,078	-	23,823
Accrued vacation and sick leave	13,969	20,041	-	34,010
Due to other funds	218,189	-	-	218,189
Notes payable	80,000	-	-	80,000
Total current liabilities	319,903	36,119	-	356,022
Noncurrent liabilities				
Capital lease payable	5,721	5,721	-	11,442
Bonds and notes payable	-	2,414,252	370,000	2,784,252
Total noncurrent liabilities	5,721	2,419,973	370,000	2,795,694
Total liabilities	325,624	2,456,092	370,000	3,151,716
Net assets				
Capital assets net of related debt	989,019	5,040,700	-	6,029,719
Unrestricted	(264,891)	504,511	161,979	401,599
Total net assets	\$ 724,128	\$ 5,545,211	\$ 161,979	\$ 6,431,318

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, 2005

	Enterprise Funds			
	Water Fund	Sewer Fund	Industrial Park Fund	Total
Operating revenues				
Charges for services, net	\$ 261,439	\$ 548,985	\$ -	\$ 810,424
Front footage assessments	-	9,808	-	9,808
Other revenues	16,789	11,516	-	28,305
Total operating revenues	278,228	570,309	-	848,537
Operating expenses				
Salaries and wages	115,054	194,175	-	309,229
Fringe Benefits	61,815	104,468	-	166,283
Materials and supplies	68,262	6,765	-	75,027
Electric and telephone	14,645	2,474	-	17,119
Automotive expenses	6,766	8,937	-	15,703
Professional services	11,645	19,297	-	30,942
Repairs and maintenance	3,760	4,223	-	7,983
Depreciation	52,704	263,765	-	316,469
Miscellaneous	110,190	131,210	12,345	253,745
Total operating expenses	444,841	735,314	12,345	1,192,500
Operating loss	(166,613)	(165,005)	(12,345)	(343,963)
Nonoperating revenue (expense)				
Connection fees	76,922	208,328	-	285,250
Interest income	4,018	5,879	2,662	12,559
Other nonoperating revenue	-	2,232	-	2,232
Grant revenue	-	29,996	-	29,996
Interest expense	(798)	(48,650)	(6,760)	(56,208)
Total nonoperating revenue (expense)	80,142	197,785	(4,098)	273,829
Income (loss) before transfers and contributions	(86,471)	32,780	(16,443)	(70,134)
Transfers in	-	5,500	-	5,500
Transfers out	(6,500)	-	(19,723)	(26,223)
Change in net assets	(92,971)	38,280	(36,166)	(90,857)
Total net assets - beginning	817,099	5,506,931	198,145	6,522,175
Total net assets - ending	\$ 724,128	\$ 5,545,211	\$ 161,979	\$ 6,431,318

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, 2005

	Enterprise Funds			Total
	Water Fund	Sewer Fund	Industrial Park Fund	
Operating activities				
Cash received from customers	\$ 272,764	\$ 701,403	\$ 362,444	\$ 1,336,611
Cash received from other funds	41,377	-	5,829	47,206
Cash received from short term loans	80,000	-	-	80,000
Cash paid to vendors	(245,835)	(466,877)	(20,108)	(732,820)
Cash paid to employees	(173,147)	(292,190)	-	(465,337)
Cash paid to other funds	-	(41,377)	-	(41,377)
Net cash provided by (used in) operating activities	(24,841)	(99,041)	348,165	224,283
Noncapital financing activities				
Operating transfers in (out)	(6,500)	5,500	(19,723)	(20,723)
Noncapital nonoperating revenue	-	2,232	-	2,232
Net cash provided (used) by noncapital financing activities	(6,500)	7,732	(19,723)	(18,491)
Capital and related financing activities				
Connection fees	76,922	208,328	-	285,250
Grants received	-	29,996	-	29,996
Interest paid	(798)	(48,650)	(6,760)	(56,208)
Payment on notes payable	(2,907)	(128,324)	(358,362)	(489,593)
Acquisition of capital assets	(45,894)	(76,249)	-	(122,143)
Net cash provided (used) by capital and related financing activities	27,323	(14,899)	(365,122)	(352,698)
Investing activities				
Interest received	4,018	5,879	2,662	12,559
Net cash provided by investing activities	4,018	5,879	2,662	12,559
Net decrease in cash and cash equivalents	-	(100,329)	(34,018)	(134,347)
Cash and cash equivalents				
Beginning of year	-	274,954	165,809	440,763
End of year	\$ -	\$ 174,625	\$ 131,791	\$ 306,416
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating loss	\$ (166,613)	\$ (165,005)	\$ (12,345)	\$ (343,963)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation expense	52,704	263,765	-	316,469
Change in assets and liabilities				
(Increase) decrease in accounts receivable	(5,464)	131,094	-	125,630
(Increase) decrease in notes receivable	-	-	362,444	362,444
(Increase) decrease in interfund receivables	41,377	(41,377)	5,829	5,829
(Increase) decrease in land held for resale	-	-	(7,763)	(7,763)
Increase (decrease) in accounts payable and accrued expenses	(26,845)	(287,518)	-	(314,363)
Increase (decrease) in notes payable	80,000	-	-	80,000
Total adjustments	141,772	65,964	360,510	568,246
Net cash provided by (used in) operating activities	\$ (24,841)	\$ (99,041)	\$ 348,165	\$ 224,283
Noncash investing, capital, and financing activities:				
Refunding on sewer capital related debt	\$ -	\$ 2,332,577	\$ -	\$ 2,332,577

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



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TOWN OF DENTON, MARYLAND

Notes to Financial Statements

June 30, 2005

Note 1 - Summary of significant accounting policies

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

A. The Financial Reporting Entity

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

B. Financial Statement Presentation

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

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

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

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

TOWN OF DENTON, MARYLAND

Notes to Financial Statements June 30, 2005

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, 2005

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, 2005

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 2005, there were no amendments to the budget.
9. For the year ended June 30, 2005, General Fund expenditures exceeded the amended budget by \$953,176.

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, 2005.

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.

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, 2005

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, 2005

Note 2 – Deposits and investments

Deposits

At year end the carrying value of the Town's deposits with banks and financial institutions was \$364,974 and the bank balance was \$599,605. Of this bank balance, \$137,099 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, 2005 the Town's deposit and investment balance were as follows:

	Fair Value
Maryland Local Government Investment Pool	\$ 595,126
Deposits	364,974
Cash on hand	500
Total deposits and investments	<u>\$ 960,600</u>

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 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, 2005

Note 4 – Accounts Receivable

Accounts receivable at June 30, 2005 consist of the following:

	Governmental Activities	Business-type Activities
Local:		
Taxes	\$ 16,836	\$ -
Loans	707,676	-
Service charges	-	196,586
Notes	-	35,082
Other	9,502	17,684
State of Maryland:		
Income tax	44,000	-
Gasoline tax	29,197	-
Other	923	-
Various federal and state grants	49,234	-
Total	<u>\$ 857,368</u>	<u>\$ 249,352</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, 2005, were as follows:

	Interfund Receivables	Interfund Payables
Special Projects Fund	\$ -	\$ 7,580
Water fund	-	218,189
Sewer fund	218,189	-
Industrial park fund	7,580	-
Total	<u>\$ 225,769</u>	<u>\$ 225,769</u>

TOWN OF DENTON, MARYLAND

Notes to Financial Statements June 30, 2005

Note 6 – Capital assets

	Balances June 30, 2004	Additions	Deletions	Balances June 30, 2005
Governmental activities:				
<i>Nondepreciable capital assets:</i>				
Land	\$ 388,196	\$ 134,147	\$ -	\$ 522,343
Construction in progress	993,201	1,869,515	(1,006,122)	1,856,594
Total nondepreciable capital assets	<u>1,381,397</u>	<u>2,003,662</u>	<u>(1,006,122)</u>	<u>2,378,937</u>
<i>Depreciable capital assets:</i>				
Land Improvements	442,028	-	-	442,028
Buildings	1,137,116	1,362,940	-	2,500,056
Infrastructure	3,484,572	-	-	3,484,572
Furniture and Equipment	237,302	18,736	-	256,038
Vehicles	271,438	32,000	-	303,438
Total depreciable capital assets	<u>5,572,456</u>	<u>1,413,676</u>	<u>-</u>	<u>6,986,132</u>
Less - accumulated depreciation:				
Land Improvements	(354,877)	(4,472)	-	(359,349)
Buildings	(474,130)	(53,750)	-	(527,880)
Infrastructure	(508,824)	(87,114)	-	(595,938)
Furniture and Equipment	(149,311)	(27,046)	-	(176,357)
Vehicles	(202,998)	(21,731)	-	(224,729)
Total accumulated depreciation	<u>(1,690,140)</u>	<u>(194,113)</u>	<u>-</u>	<u>(1,884,253)</u>
Total depreciable capital assets, net	<u>3,882,316</u>	<u>1,219,563</u>	<u>-</u>	<u>5,101,879</u>
Governmental activities capital assets, net	<u>\$ 5,263,713</u>	<u>\$ 3,223,225</u>	<u>\$ (1,006,122)</u>	<u>\$ 7,480,816</u>

TOWN OF DENTON, MARYLAND

Notes to Financial Statements June 30, 2005

Note 6 – Capital assets (continued)

	Balances June 30, 2004	Additions	Deletions	Balances June 30, 2005
Business-type activities:				
<i>Nondepreciable capital assets:</i>				
Construction in Progress	\$ -	\$ 38,119	\$ -	\$ 38,119
<i>Depreciable capital assets:</i>				
Municipal water system	1,791,789	33,044	-	1,824,833
Municipal sewer system	10,963,007	38,129	-	11,001,136
Machinery and equipment	167,697	12,851	-	180,548
Total depreciable capital assets	<u>12,922,493</u>	<u>84,024</u>	<u>-</u>	<u>13,006,517</u>
Less accumulated depreciation for:				
Municipal water system	(826,857)	(40,390)	-	(867,247)
Municipal sewer system	(3,331,044)	(258,660)	-	(3,589,704)
Machinery and equipment	(126,295)	(17,419)	-	(143,714)
Total accumulated depreciation	<u>(4,284,196)</u>	<u>(316,469)</u>	<u>-</u>	<u>(4,600,665)</u>
Total depreciable capital assets, net	<u>8,638,297</u>	<u>(232,445)</u>	<u>-</u>	<u>8,405,852</u>
Business-type activities capital assets, net	<u>\$ 8,638,297</u>	<u>\$(194,326)</u>	<u>\$ -</u>	<u>\$ 8,443,971</u>

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

Governmental activities:	
General government	\$ 6,099
Public safety	70,883
Public works	59,053
Recreation and culture	2,633
Urban development and housing	3,402
Economic development	52,043
	<u>\$ 194,113</u>
Business-type activities:	
Water	\$ 52,704
Sewer	263,765
	<u>\$ 316,469</u>

TOWN OF DENTON, MARYLAND

Notes to Financial Statements June 30, 2005

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, 2005 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%.	\$ 89,411
\$265,000 issued, Town contractual share of Caroline County CDA Bonds, due in annual installments through May 2017, interest at 5.52%	196,055
\$20,000 issued, Community Legacy Program Note, entire principal amount due December 2009, no interest	<u>20,000</u>
Total State Notes and Bonds	305,466

Installment notes:

\$8,877 installment note payable, due in monthly payments of \$201 until February 2006, interest at 4.14%	1,387
\$15,123 installment note payable, due in monthly payments of \$342 until November 2005, interest at 4.12%	1,724
\$42,624 installment note payable, due in monthly payments of \$245 until October 2005, interest at 4.75% with a final balloon payment of \$38,618	38,982
\$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	76,104
\$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	51,177
\$72,249 installment note payable due in annual payments of \$9,725 until January 2013, interest at 3.96%	65,432
\$25,000 installment note payable, due in monthly payments of \$552 until February 2008, interest at 2.90%	16,990

TOWN OF DENTON, MARYLAND

Notes to Financial Statements June 30, 2005

Note 7 - Long-term obligations (continued)

Governmental activities (continued):

Installment notes (continued):

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

Amount
\$ 19,067

\$26,000 installment note payable, due in monthly payments of \$593 until May 2009, interest at 4.49%

25,007

Total installment notes

295,870

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%

744,855

\$750,000 intermediary relending program note, issued by the USDA, of which \$150,000 was drawn down, interest at 1%

150,000

Total other notes and loans

894,855

Total governmental activities

\$ 1,496,191

Business-type activities:

General Obligation Notes:

State of Maryland:

\$110,000 issued October 20, 1975, due in annual installments of \$7,848 including interest at 5.6% through October 2005.

7,400

\$62,000 issued September 23, 1980, due in annual installments of \$4,672 including interest at 6.1%, through October 2010.

22,885

\$52,775 issued May, 15, 1981, due in annual installments of \$3,977 including interest at 6.1% through May 2011.

19,479

\$28,000 issued June 30, 1981, due in annual installments of \$2,110 including interest at 6.1%, through June 2011.

10,346

\$2,332,577 issued September 23, 2004, due in semi-annual installments of \$121,589 including interest at 0.4% through February 2024

2,220,318

\$140,000, Rural Development Loan due in quarterly installments of \$1,892 including interest at 4.5%, through September 2040.

133,823

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

2,784,251

Total Long-Term Debt

\$ 3,370,525

TOWN OF DENTON, MARYLAND

Notes to Financial Statements June 30, 2005

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
2006	\$ 28,405	\$ 15,977	\$ 75,683	\$ 47,893	\$ 104,088	\$ 63,870
2007	28,972	14,434	39,453	45,376	68,425	59,810
2008	32,462	12,845	154,882	40,783	187,344	53,628
2009	33,030	11,038	30,589	37,753	63,619	48,791
2010	53,598	9,173	14,500	35,414	68,098	44,587
2011-2015	86,946	27,230	104,469	173,857	191,415	201,087
2016-2020	42,053	3,660	82,465	157,234	124,518	160,894
2021-2025	-	-	98,727	140,973	98,727	140,973
2026-2030	-	-	118,966	120,734	118,966	120,734
2031-2035	-	-	143,680	95,493	143,680	95,493
2036-2040	-	-	145,110	64,590	145,110	64,590
2041-2045	-	-	182,201	26,693	182,201	26,693
Total	<u>\$ 305,466</u>	<u>\$ 94,357</u>	<u>\$ 1,190,725</u>	<u>\$ 986,793</u>	<u>\$ 1,496,191</u>	<u>\$ 1,081,150</u>

Year Ended June 30	Business-type Activities					
	General Obligation Notes		Other Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 129,231	\$ 18,498	\$ -	\$ -	\$ 129,231	\$ 18,498
2007	122,813	17,103	-	-	122,813	17,103
2008	123,830	16,087	-	-	123,830	16,087
2009	124,881	15,036	-	-	124,881	15,036
2010	125,969	13,947	-	-	125,969	13,947
2011-2015	600,420	56,074	-	-	600,420	56,074
2016-2020	604,721	41,065	370,000	-	974,721	41,065
2021-2025	498,440	25,756	-	-	498,440	25,756
2026-2030	21,149	16,691	-	-	21,149	16,691
2031-2035	26,452	11,388	-	-	26,452	11,388
2036-2040	33,085	4,755	-	-	33,085	4,755
2041-2045	3,260	35	-	-	3,260	35
Total	<u>\$ 2,414,251</u>	<u>\$ 236,435</u>	<u>\$ 370,000</u>	<u>\$ -</u>	<u>\$ 2,784,251</u>	<u>\$ 236,435</u>

TOWN OF DENTON, MARYLAND

Notes to Financial Statements June 30, 2005

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, 2005:

	Balance July 1, 2004	Addition	Reductions	Balance June 30, 2005	Due Within One Year
Governmental activities:					
State notes and bonds	\$ 310,948	\$ 20,000	\$ 25,482	\$ 305,466	\$ 28,404
Installment note	275,326	47,000	26,456	295,870	69,125
Federal loans and notes	-	900,000	5,145	894,855	6,559
Capital lease	11,504	-	3,876	7,628	4,074
Grant anticipation note	632,508	-	632,508	-	-
Accrued Vacation	58,520	21,848	-	80,368	-
Total	\$ 1,288,806	\$ 988,848	\$ 693,467	\$ 1,584,187	\$ 108,162
Business-type activities:					
Capital lease	\$ 17,256	\$ -	\$ 5,814	\$ 11,442	\$ 6,111
Notes	3,268,031	2,332,577	2,816,356	2,784,252	129,231
Total	\$ 3,285,287	\$ 2,332,577	\$ 2,822,170	\$ 2,795,694	\$ 135,342

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, 2005, future minimum lease payments due under capital leases with initial or remaining noncancellable lease terms in excess of one year are as follows:

Fiscal Year	Capital Leases	
	Governmental Activities	Business-type Activities
2006	\$ 4,363	\$ 6,544
2007	3,636	5,454
Total minimum lease payments	7,999	11,998
Less amount representing interest	371	556
Present value of net minimum lease payments	\$ 7,628	\$ 11,442

TOWN OF DENTON, MARYLAND

Notes to Financial Statements

June 30, 2005

Note 8 – Line of credit

The Town obtained a revolving line of credit in the amount of \$450,000 dated March 29, 2005. During the year ended June 30, 2005, the Town drew \$423,877 of that line of credit for the purpose of interim financing. Interest is payable monthly at a rate equal to the Mercantile Floating Prime Rate of Interest. \$310,000 of the balance was paid off on July 11, 2005.

The Town also obtained a promissory note in the amount of \$1,031,950 dated December 10, 2004. During the year ended June 30, 2005, the Town drew \$884,483 of that amount for the purpose of interim financing. Interest is payable monthly at 2.76%.

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

	Balance July 1, 2004	Addition	Reductions	Balance June 30, 2005	Interest Paid
Governmental activities:					
Line of credit	\$ 135,000	\$ 343,877	\$ 135,000	\$ 343,877	\$ 1,264
Short term note	-	884,483	-	884,483	8,844
Total	<u>\$ 135,000</u>	<u>\$ 1,228,360</u>	<u>\$ 135,000</u>	<u>\$ 1,228,360</u>	<u>\$ 10,108</u>
Business-type activities:					
Line of credit	<u>\$ -</u>	<u>\$ 80,000</u>	<u>\$ -</u>	<u>\$ 80,000</u>	<u>\$ 433</u>

Note 9 - Capital lease receivable

The construction of leased industrial property located in the Industrial Park had been financed under the Maryland Industrial Land Act loan program through the Caroline County Commissioners. The related lease called for monthly rental payments of \$10,970 through December 2007. For the year ended June 30, 2005, the lessee exercised the option to purchase the property for the lease's present value at \$358,466.

Note 10 – 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, 2005 were not available. The amount outstanding at June 30, 2005 is as follows:

Description	Original issue	Outstanding, June 30, 2005
Shore Nursing & Rehabilitation bonds, series 1997	\$ 4,150,000	not available
Caroline Nursing/the Gables, series 1999	2,750,000	2,379,958
Channel Markers Foundation, series 2001	628,200	553,010

TOWN OF DENTON, MARYLAND

Notes to Financial Statements June 30, 2005

Note 11 - 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 2005 was based on the salaries for the year ended June 30, 2004. 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 \$114,908 in fiscal year 2005. 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, 2005</u>
Total covered payroll	\$ 799,138
Employer normal contributions	58,257
Employer special accrued liability	56,651

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

Note 12 – Fund Deficit

The following funds had a deficit fund equity balance at June 30, 2005:

Special Projects Fund	\$ (906,589)
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TOWN OF DENTON, MARYLAND

Notes to Financial Statements June 30, 2005

Note 13 – Surety bonds

Fidelity and Deposit Company, Surety:		
Karen L. Monteith	\$	10,000
Fidelity and Deposit Companies, Surety:		
All Town employees	\$	10,000

Note 14 - 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.

Note 15 – Prior Period Adjustment

During the audit of the year ended June 30, 2005, it was noted that the amounts shown as unearned revenue on the government-wide statements at June 30, 2004 should have been recognized as revenue and an adjustment to beginning net assets. Accordingly, an adjustment of \$591,809 was made to reclassify the amount from unearned revenue to net assets. The net increase in the change in net assets on the government-wide statements for the year ended June 30, 2004 is \$48,409. There is no effect on the fund financial statements for the year ended June 30, 2004.



**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, 2005, and have issued our report thereon dated September 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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 September 30, 2005.

Compliance and Other Matters

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

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.

Cheryl Betsart-Hall, L.L.B.

Richmond, Virginia
September 30, 2005



**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control
over Compliance in Accordance With OMB Circular A-133**

The Honorable Town Commissioners
Town of Denton, Maryland

Compliance

We have audited the compliance of the Town of Denton, Maryland (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, 2005. The Town's major federal programs are identified in the summary of auditors' 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 required 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 consider necessary in the circumstances. We believe that our audit provided 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, 2005.

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 grant agreements applicable to federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of internal control over compliance would not necessarily disclose all matters of internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grant agreements that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weakness.

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

Cheng, BeKaeta Hallway, L. R. P.

Richmond Virginia
September 30, 2005

Schedule of Expenditures of Federal Awards Year Ended June 30, 2005

(1) The grant was received on June 30, 2005 and the loan related to the expenditures for this grant was paid off on July 11, 2005.

TOWN OF DENTON, MARYLAND

Schedule of Findings and Questioned Costs Year Ended June 30, 2005

A. Summary of Auditors' Results

1. The type of report issued on the basic financial statements: **Unqualified opinion**
2. Reportable conditions in internal control disclosed by the audit of the financial statements: **No**
3. Noncompliance, which is material to the financial statements: **No**
4. Reportable conditions in internal control over major programs: **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: **No**
7. The programs tested as major programs were:

<u>Name of Program</u>	<u>CFDA #</u>
Community Development Block Grants/Small Cities Grants	14.219
Community Facilities Loans	10.766

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.

B. Findings Relating to the Financial Statements Reported in Accordance with Government Auditing Standards: **None**

C. Findings and Questioned Costs Relating to Federal Awards: **None**