TOWN OF DENTON, MARYLAND

Financial Report

Year Ended June 30, 2008

TOWN OF DENTON, MARYLAND

Town Council

John A. Foster, Mayor

Lester L. Branson Robert Clendaniel

Dennis Porter Randolph Moore

OTHER ADMINISTRATORS

Terry S. Fearins, Town Administrator

Karen L. Monteith, Clerk-Treasurer

William Kastning - Director of Planning & Codes

Rodney Cox - Chief of Police

Scott Getchell - Director of Public Works

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Denton, Maryland (the "Town"), as of and for the year ended June 30, 2008, 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 as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the general fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 30, 2008 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The accompanying combining statements for nonmajor funds and the schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The combining statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Cherry, Bekanto Holland, L. L.P.

Richmond, Virginia November 30, 2008

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, 2008. 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. Unless otherwise indicated, all financial information presented in the MD&A are in thousands (000's).

Financial Highlights

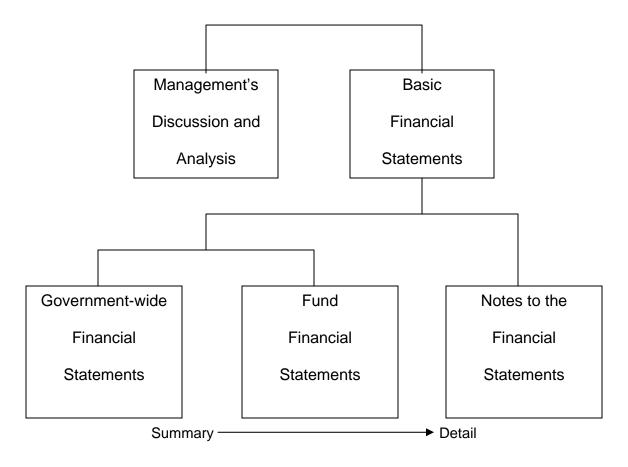
- The assets of the Town of Denton exceeded its liabilities at the close of the fiscal year by \$17,185.
- The government's total net assets increased by \$883, primarily due to increases in the governmental activities net assets.
- As of the close of the current fiscal year, the Town of Denton's governmental funds reported combined ending fund balances of \$905, an increase of \$1,077 during the year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$426, or 17.2 percent of total general fund expenditures for the fiscal year.
- The Town of Denton's total debt increased by \$806 (18.5%) during the current fiscal year.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

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

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

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

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

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

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

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

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

Government-Wide Financial Analysis

This is the third 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

	Governr Activi		Busines Activ		Total Primary Government			
	2008	2007	2008	2007	2008	2007		
Current and other assets	\$ 2,161	\$ 2,004	\$ 1,306	\$ 2,035	\$ 3,467	\$ 4,039		
Capital assets Total assets	10,009 12,170	9,467 11,471	9,013 10,319	8,649 10,684	<u>19,022</u> 22,489	<u>18,116</u> 22,155		
	,							
Long-term liabilities outstanding	2,237	1,806	2,923	2,548	5,160	4,354		
Other liabilities	107	1,131	37	368	144	1,499		
Total liabilities	2,344	2,937	2,960	2,916	5,304	5,853		
Net assets: Invested in capital assets,								
net of related debt	7,882	6,743	6,509	6,518	14,391	13,261		
Unrestricted	1,944	1,791	850	1,250	2,794	3,041		
Total net assets	\$ 9,826	\$8,534	\$ 7,359	\$7,768	\$ 17,185	\$ 16,302		

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 \$17,185 as of June 30, 2008. The Town's net assets increased by \$883 for the fiscal year ended June 30, 2008. However, a significant portion (83.7%) 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 \$2,794 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		Busine Activ	Total						
	2008		2007		2008	2007	2008			2007
Revenues:										
Program revenues:										
Charges for services	\$ 30	8	\$	334	\$ 1,231	\$ 2,230	\$	1,539	\$	2,564
Operating grants and contributions	53	8		702	-	-		538		702
Capital grants and contributions	65	5		884	66	214		721		1,098
General revenues:										
Property taxes	2,09	2	1,	767	-	-		2,092		1,767
Other taxes	56	6		523	-	-		566		523
Other	(6	5)		170	34	82		(31)		252
Total revenues	4,09	4	4,	380	1,331	2,526		5,425		6,906
					•					
Expenses:										
General government	29	0		236	-	-		290		236
Public safety	1,53	7	1,	442	-	-		1,537		1,442
Public works	56	9		637	-	-		569		637
Recreation and culture	12	8		45	-	-		128		45
Urban development and housing	19	9		652	-	-		199		652
Economic development	11	2		125	-	-		112		125
Interest on long-term debt	12	0		129	_	_		120		129
Water		_		-	531	526		531		526
Sewer		-		-	1,002	943		1,002		943
Industrial park		_		-	54	1		54		1
Total expenses	2,95	5	3,	266	1,587	1,470		4,542		4,736
·	•				•	•		·		
Increase in net assets before transfers	1,13	9	1,	114	(256)	1,056		883		2,170
	,		,		,	,				•
Transfers	15	3		524	(153)	(524)		-		-
					•	•				,
Increase in net assets	1,29	2	1.	638	(409)	532		883		2,170
	,		,		,					•
Net assets, July 1	8,53	4	6.	896	7,768	7,236		16,302		14,132
-, ,						,		.,		
Net assets, June 30	\$ 9,82	6	\$ 8,	534	\$ 7,359	\$ 7,768	\$	17,185	\$	16,302

Governmental activities. Governmental activities increased the Town's net assets by \$1,292, showing a decrease of \$346 over the prior year's change in net assets. Key elements of the increase in net assets are as follows:

- Capital grant funds of approximately \$655 were received.
- Tax revenues increased \$324.

Business-type activities: Business-type activities decreased the Town of Denton's net assets by \$409, showing a decrease of \$941 compared to prior year's change in net assets. Key elements of this decrease are as follows:

• Decrease in revenues charged for connections of \$969.

Key changes made to the rate structure include:

- The Denton Public Works Department continued to work to replace water meters which were not working.
- Users increased by 48. The total billing accounts in 7/1/07 was 1639. In 7/1/08 this increased to 1677 (38 additional accounts) and through 10/1/08 the total accounts increased to 1687 (10 additional accounts) bring the number of users increased by 48. This is a 3% 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 \$426. 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 17.2 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 \$298. A contributing factor in this growth includes an increase in tax revenues and maintaining a sustainable level of expenses.

At June 30, 2008, the governmental funds of the Town of Denton reported a combined fund balance of \$905, an increase of \$1,077 from the prior year. Included in this change in fund balance is the contribution from the water fund, loan proceeds, and decreased urban development and housing spending.

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 (\$517), \$1,261, and \$106, respectively. The changes in net assets for the funds were (\$353), \$3, and (\$59), respectively. Other factors concerning the finances of these funds have already been addressed in the discussion of the Town of Denton's business-type activities.

Capital Asset and Debt Administration

Capital assets. The Town of Denton's investment in capital assets for its governmental and business—type activities as of June 30, 2008, totals \$19,022 (net of accumulated depreciation). This amount represents a net increase of \$906, or 5.0 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:

- Construction in progress of Market Street Phase II
- A street sweeper
- Land improvements of Crouse Park Phase I

The following is a summary of capital assets at June 30, 2008 and 2007:

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

Figure 4

	Governmental			Business-type								
		Activities			Activities				Total			
		2008		2007	2008 2007		2007	2008			2007	
Land	\$	573	\$	573	\$ -	\$	-	\$	573	\$	573	
Land improvements		833		47	-		-		833		47	
Buildings		1,856		2,100	-		-		1,856		2,100	
Infrastructure		4,395		5,043	-		-		4,395		5,043	
Equipment and vehicles		296		161	40		42		336		203	
Water system		-		-	1,342		880		1,342		880	
Sewer system		-		-	7,456		6,978		7,456		6,978	
Construction in progress		2,056		1,543	175		749		2,231		2,292	
		•		•	•		•					
Total	\$	10,009	\$	9,467	\$ 9,013	\$	8,649	\$	19,022	\$	18,116	

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, 2008, the Town of Denton had total bonded debt outstanding of \$5,000. Of this, \$4,909 is debt backed by the full faith and credit of the Town. The remainder of the Town's debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds). The total bonded debt increased by \$806 or 19.2 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				
		2008 2007		2008 2			2007 2008		2008		2007	
Bonds and notes	\$	2,036	\$	1,692	\$	2,873	\$	2,501	\$	4,909	\$	4,193
Capital leases		91		1		-		-		91		1
Total	\$	2,127	\$	1,693	\$	2,873	\$	2,501	\$	5,000	\$	4,194

New debt for the fiscal year ending June 30, 2008 resulted from the issuance of Maryland Public Improvement Bonds, obtaining a new USDA loan, entry into a capital lease, and the issuance of an installment note.

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. The Caroline County unemployment rate of 5.2% is above the State average of 4.6% and below the US average of 6.1 (as of September, 2008)
- Presently a 155,000 sq. ft. Super Wal-mart is going through the planning process

Budget Highlights for the Fiscal Year Ending June 30, 2009

Governmental Activities: Property taxes are expected to lead the increase in budgeted revenue by an increase in real estate tax revenue of 9%. 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 14.5 percent up from 13.4 percent in FY 2007.

Budgeted expenditures in the General Fund are expected to be greater than 2009 to reflect additional personnel.

Business–type Activities: The water and sewer rates in the Town for FY2008 primarily remained the same. The Town Council passed legislation amending the water meter replacement fee and increasing the size of the meter from ¾" to 1" or less in size. The meter replacement fee increased from \$2.50 per quarter to \$3.50 per quarter. Properties with meters larger than 1" are responsible to replace their meter at their own expense.

The water and sewer rates in the Town are proposed by the Utility Commission to be increased in FY2009. The Utility Commission has been working the past year to develop a water and sewer rate study model, which will aid them in establishing a rate structure.

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.

Statement of Net Assets June 30, 2008

	Governmental Activities			Business Type Activities	Total Reporting Unit
Assets					
Cash and cash equivalents	\$	821,921	\$	573,798	\$ 1,395,719
Receivables (net of allowance for		470 407		225 225	405 400
uncollectibles)		170,427		295,065	465,492
Loans receivable		997,361		(40.540)	997,361
Internal balances		18,543		(18,543)	-
Land held for resale		153,010		455,171	608,181
Land		572,510		-	572,510
Construction in progress		2,056,743		175,366	2,232,109
Other capital assets, net of					
accumulated depreciation		7,379,989		8,838,039	 16,218,028
Total assets		12,170,504		10,318,896	22,489,400
Liabilities					
Accounts payable and other current liabilities Long-term liabilities:		107,621		36,658	144,279
Due within one year		137,898		131,322	269,220
Due in more than one year		2,098,865		2,791,610	4,890,475
Total liabilities		2,344,384		2,959,590	5,303,974
Net assets					
Invested in capital assets, net of related debt		7,881,927		6,508,860	14,390,787
Unrestricted		1,944,193		850,446	 2,794,639
Total net assets	\$	9,826,120	\$	7,359,306	\$ 17,185,426

Statement of Activities Year Ended June 30, 2008

			Program Revenu	es		Net (Expense) Revenue and Changes in Net Assets					
			Operating	Capital	Р	rimary Governme	nt				
		Charges for	Grants and	Grants and	Governmental	Business-type					
Functions/Programs	Expenses	Services	Contributions	Contributions	Activities	Activities	Total				
Primary government:											
Governmental activities:											
General government	\$ 289,599	\$ 51,209	\$ 487	\$ -	\$ (237,903)	\$ -	\$ (237,903)				
Public safety	1,537,586	89,760	78,818	-	(1,369,008)	-	(1,369,008)				
Public works	569,311	128,359	-	-	(440,952)	-	(440,952)				
Recreation and culture	127,938	22,639	-	-	(105,299)	-	(105,299)				
Urban development and housing	198,714	3,982	452,408	655,477	913,153	-	913,153				
Economic development	111,854	12,617	6,250	-	(92,987)	-	(92,987)				
Interest on long-term debt	120,156	-	-	-	(120,156)	-	(120,156)				
Total governmental activities	2,955,158	308,566	537,963	655,477	(1,453,152)		(1,453,152)				
Business-type activities:											
Water	531,012	405,831	-	-	-	(125,181)	(125,181)				
Sewer	1,002,759	825,344	-	65,685	-	(111,730)	(111,730)				
Industrial park	53,734	-	-	-	-	(53,734)	(53,734)				
Total business-type activities	1,587,505	1,231,175		65,685		(290,645)	(290,645)				
Total primary government	\$ 4,542,663	\$ 1,539,741	\$ 537,963	\$ 721,162	(1,453,152)	(290,645)	(1,743,797)				
	General revenue	es:									
	Property taxe	es			2,091,576	-	2,091,576				
	Other taxes				565,723	-	565,723				
	Interest incor	me			62,032	34,538	96,570				
	Miscellaneou	is income			53,509	-	53,509				
	Loss on sale	of property			(180,375)	-	(180,375)				
	Transfers				152,778	(152,778)					
	Total gene	ral revenues and	transfers		2,745,243	(118,240)	2,627,003				
	Change in	net assets			1,292,091	(408,885)	883,206				
	Net assets - beg	jinning			8,534,029	7,768,191	16,302,220				
	Net assets - end	ling			\$ 9,826,120	\$ 7,359,306	\$ 17,185,426				

Balance Sheet Governmental Funds June 30, 2008

	General		Special Projects		Business Loan		lonmajor vernmental Funds	Go	Total vernmental Funds
Assets									
Cash and cash equivalents	\$	343,951	\$	92,152	\$	256,078	\$ 129,740	\$	821,921
Receivables:									
Taxes		29,747		-		-	-		29,747
Loans		-		-		1,025,900	-		1,025,900
Other receivables		5,303		-		-	-		5,303
Due from other funds		47,517		-		-	-		47,517
Due from other governments		78,549		5,635		-	51,193		135,377
Total assets	\$	505,067	\$	97,787	\$	1,281,978	\$ 180,933	\$	2,065,765
Liabilities and fund balances Liabilities:									
Accounts payable and accrued expenses	\$	79,153	\$	22,880	\$	274	\$ 5,314	\$	107,621
Deferred revenue		-		-		1,024,372	-		1,024,372
Due to other funds		-		-		_	28,974		28,974
Total liabilities		79,153		22,880		1,024,646	34,288		1,160,967
Fund balances: Unreserved:									
Designated (deficit)		-		74,907		257,332	146,645		478,884
Undesignated		425,914		-		-	-		425,914
Total fund balances		425,914		74,907		257,332	146,645		904,798
Total liabilities and fund balances	\$	505,067	\$	97,787	\$	1,281,978	\$ 180,933	\$	2,065,765

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2008

Amounts reported for governmental activities in the statement of net assets are different because:	
Ending fund balance - governmental funds	\$ 904,798
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	10,009,242
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	1,148,843
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	 (2,236,763)
Net assets of governmental activities	\$ 9,826,120

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds Year Ended June 30, 2008

•		General		Special Projects		Business Loan		lonmajor vernmental Funds	Go	Total vernmental Funds
Revenues	Φ.	0.000.500	•		Φ.		Φ.	040 770	•	0.057.000
Taxes	\$	2,338,526	\$	-	\$	-	\$	318,773	\$	2,657,299
Licenses and permits		76,612		-		-		105,138		181,750
Revenue from other agencies		82,105		1,111,335		-		69,951		1,263,391
Service charges		14,717		<u>-</u>						14,717
Miscellaneous		66,840		49,150		148,846		4,153		268,989
Total revenues		2,578,800		1,160,485		148,846		498,015		4,386,146
Expenditures Current:										
General government		393,516		-		-		-		393,516
Public safety		1,506,498		-		-		-		1,506,498
Public works		309,806		_		_		340,006		649,812
Recreation and culture		59,300		_		_		, <u> </u>		59,300
Urban development and housing		81,621		1,189,481		215,674		-		1,486,776
Economic development		-		220,030		-		_		220,030
Debt service		122,604				31,837		61,175		215,616
Total expenditures		2,473,345		1,409,511		247,511		401,181		4,531,548
Excess (deficiency) of revenues				,,-		,				,,
over (under) expenditures		105,455		(249,026)		(98,665)		96,834		(145,402)
Other financing sources (uses)										
Loan proceeds		30,000		266,950		170,000		102,981		569,931
Operating transfers in (out)		(7,064)		317,112		(10,000)		(147,270)		152,778
Contribution from water fund		-		500,000		-		-		500,000
Total other financing sources (uses)		22,936		1,084,062		160,000		(44,289)		1,222,709
Net change in fund balances		128,391		835,036		61,335		52,545		1,077,307
Fund balance - beginning (deficit)		297,523		(760,129)		195,997		94,100		(172,509)
Fund balance - ending (deficit)	\$	425,914	\$	74,907	\$	257,332	\$	146,645	\$	904,798

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2008

Amounts reported for governmental activities in the statement of activities are different because:	
Net change in fund balances - total governmental funds	\$ 1,077,307
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 Depreciation expense Disposal of capital assets Transfer to business-type activities	1,604,466 (356,347) (206,161) (500,000)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	103,700
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related accounts.	
Issuance of long-term debt Repayment of principal on long-term debt	 (569,931) 139,057

1,292,091

Change in net assets of governmental activities

Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - General Fund Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Taxes:				
Real estate tax	\$ 1,831,347	\$ 1,831,347	\$ 1,938,339	\$ 106,992
Railroad and public utilities	75,988	75,988	74,349	(1,639)
Corporation	105,963	105,963	126,924	20,961
Tax interest and penalties	10,625	10,625	19,833	9,208
Abatements (tax)	(46,334)	(46,334)	(67,869)	(21,535)
Income tax	212,093	212,093	239,857	27,764
Admission and Amusement tax	1,213	1,213	3,917	2,704
Hotel tax	3,215	3,215	3,176	(39)
Total taxes	2,194,110	2,194,110	2,338,526	144,416
Licenses and permits:				
Traders license	500	500	10,576	10,076
Building and sign permits	55,000	55,000	37,274	(17,726)
Cable TV franchise fees	17,000	17,000	19,324	2,324
Other licenses and permits	48,360	48,360	9,438	(38,922)
Total licenses and permits	120,860	120,860	76,612	(44,248)
Revenue from Other Agencies:				
State police aid	71,600	71,600	55,274	(16,326)
Critical areas	1,500	1,500	2,370	870
Police facility grant	25,000	25,000	23,544	(1,456)
Mainstreet miscellaneous revenues	-	-	430	430
Other county revenue	-	-	487	487
Total revenue from other agencies	98,100	98,100	82,105	(15,995)
Service charges:				
Parking fines/meter income	13,132	13,132	14,717	1,585
Miscellaneous Income:				
Water tower/land rental	30,000	30,000	21,188	(8,812)
Interest income	5,717	5,717	13,121	7,404
Insurance claims	-	-	9,735	9,735
Miscellaneous income	14,178	14,178	22,793	8,615
Post card income	4	4	3_	(1)
Total miscellaneous income	49,899	49,899	66,840	16,941
Total revenues	2,476,101	2,476,101	2,578,800	102,699

Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - General Fund Year Ended June 30, 2008

	Original Budget	Final Budget		
Expenditures				
General Government:				
General administration:				
Salaries	\$ 30,398	\$ 30,398	\$ 29,980	\$ 418
Other operating expenses	24,423	24,423	20,373	4,050
	54,821	54,821	50,353	4,468
Legislative:				
Salaries	11,000	11,000	10,917	83
Other operating expenses	41,322	41,322	48,920	(7,598)
outer operating expenses	52,322	52,322	59,837	(7,515)
				(1,010)
Elections:				
Salaries	45	45	45	-
Other operating expenses	1,950	1,950	1,273	677
	1,995	1,995	1,318	677
Financial Administration:				
Salaries	101,018	101,018	100,207	811
Other operating expenses	66,153	66,153	60,723	5,430
Capital outlay	1,700	1,700	5,628	(3,928)
	168,871	168,871	166,558	2,313
Municipal Building:				
Other operating expenses	8,450	8,450	12,028	(3,578)
Capital outlay	0,400	-	103,422	(103,422)
Capital Outlay	8,450	8,450	115,450	(107,000)
			110,100	(101,000)
Total general government	286,459	286,459	393,516	(107,057)
Dublic Cofet				
Public Safety:				
Police Department: Salaries	618,566	618,566	540,069	78,497
Other operating expenses	460,563	460,563	448,932	11,631
Capital outlay	61,468	61,468	68,590	(7,122)
Capital Gullay	1,140,597	1,140,597	1,057,591	83,006
		1,110,001	1,007,001	
Volunteer Fire Company:				
Other operating expenses	82,600	82,600	116,238	(33,638)
		' <u> </u>		
Zoning, Codes & Inspection:				
Salaries	222,467	222,467	165,027	57,440
Other operating expenses	125,303	125,303	167,642	(42,339)
Capital outlay	2,400	2,400	-	2,400
	350,170	350,170	332,669	17,501
Total public safety	1,573,367	1,573,367	1,506,498	66,869
: - :-:: p : : : : : : : : : : : : :		.,5.0,007	.,555,155	

Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - General Fund Year Ended June 30, 2008

	Original Budget		nal dget	Actual		/ariance Positive legative)
Public Works:						<u> </u>
Street Sanitation:						
Salaries	\$ 34,03	32 \$	34,032	\$ 29,916	\$	4,116
Other operating expenses	39,34	17	39,347	36,452		2,895
Capital outlay	19,00		19,000	 19,355		(355)
	92,37	79	92,379	85,723		6,656
Street lighting	49,00	00	49,000	62,780		(13,780)
Trash collection	128,11		28,110	160,443		(32,333)
Mosquito spraying	1,25	50_	1,250	 860		390
Total public works	270,73	39 2	70,739	 309,806		(39,067)
Recreation and Culture: Parks and recreation:						
Salaries	22,22	28	22,228	18,522		3,706
Other operating expenses	33,56	<u> </u>	33,563	 35,935		(2,372)
	55,79	91	55,791	54,457		1,334
Tennis courts:						
Other operating expenses	11,10	00	11,100	 731		10,369
Summerfest:						
Other expense	4,45	50	4,450	 4,112		338
Total recreation and culture	71,34	<u> </u>	71,341	 59,300		12,041
Urban Development and Housing: Community development:						
Salaries	7,05	57	7,057	808		6,249
Other operating expenses	66,95	57_	66,957	 80,813		(13,856)
Total urban development and housing	74,01	14	74,014	 81,621		(7,607)
Debt service	119,27	771	19,277	 122,604		(3,327)
Total expenditures	2,395,19	972,3	95,197	 2,473,345		(78,148)
Excess (deficiency) of revenues						
over (under) expenditures	80,90)4	80,904	105,455		24,551

Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - General Fund Year Ended June 30, 2008

	Original Final Budget Budget			Actual	Variance Positive (Negative)		
Other Financing Sources (Uses)							
Loan proceeds	\$	30,000	\$	30,000	\$ 30,000	\$	-
Operating transfers in (out)		19,500		19,500	(7,064)		(26,564)
Total other financing sources (uses)		49,500		49,500	22,936		(26,564)
Net change in fund balances		130,404		130,404	128,391		(2,013)
Fund balance - beginning		(130,404)		(130,404)	 297,523		427,927
Fund balance - ending	\$		\$		\$ 425,914	\$	425,914

Statement of Net Assets Proprietary Funds June 30, 2008

	Enterprise Funds									
	Water	Sewer	Park							
	Fund	Fund	Fund	Total						
Assets										
Current assets										
Cash and cash equivalents	\$ -	\$ 562,954	\$ 10,844	\$ 573,798						
Receivables:										
Service charges	84,562	167,964		252,526						
Notes receivable	-	-	28,572	28,572						
Other	-	13,967	-	13,967						
Due from other funds Total current assets	94 562	574,680	39,416	574,680						
Total current assets	84,562	1,319,565	39,416	1,443,543						
Noncurrent assets										
Land held for resale	-	-	455,171	455,171						
Construction in progress	83,147	92,219	-	175,366						
Capital assets, net	1,358,338	7,479,701	-	8,838,039						
Total noncurrent assets	1,441,485	7,571,920	455,171	9,468,576						
Total assets	1,526,047	8,891,485	494,587	10,912,119						
Liabilities										
Current liabilities										
Accounts payable and accrued expenses	10,488	24,774	1,396	36,658						
Due to other funds	574,680	-	18,543	593,223						
Notes payable		131,322		131,322						
Total current liabilities	585,168	156,096	19,939	761,203						
Noncurrent liabilities										
Accrued vacation and sick leave	18,861	30,676	-	49,537						
Bonds and notes payable	498,698	1,874,525	368,850	2,742,073						
Total noncurrent liabilities	517,559	1,905,201	368,850	2,791,610						
Total liabilities	1,102,727	2,061,297	388,789	3,552,813						
Net assets										
Capital assets net of related debt	942.787	5,566,073	_	6,508,860						
Unrestricted (deficit)	(519,467)	1,264,115	105,798	850,446						
Total net assets	\$ 423,320	\$ 6,830,188	\$ 105,798	\$ 7,359,306						

Statement of Revenues, Expenses, and Changes in Fund Net Assets Proprietary Funds Year Ended June 30, 2008

				Enterpris	se Fu	ınds	
	Industrial						
		Water		Sewer		Park	
		Fund		Fund		Fund	Total
Operating revenues							
Charges for services, net	\$	334,409	\$	690,397	\$	-	\$ 1,024,806
Front footage assessments		-		9,533		-	9,533
Other revenues		25,644		65,692		-	91,336
Total operating revenues		360,053		765,622		-	1,125,675
Operating expenses							
Salaries and wages		147,439		252,228		-	399,667
Fringe Benefits		80,442		138,809		_	219,251
Materials and supplies		72,991		9,095		_	82,086
Electric and telephone		22,122		2,586		-	24,708
Automotive expenses		8,050		11,684		-	19,734
Professional services		20,615		15,905		-	36,520
Repairs and maintenance		15,712		18,944		-	34,656
Depreciation		51,648		289,776		-	341,424
Miscellaneous		106,659		242,694		5,817	355,170
Loss on sale of land held for resale		-				47,917	 47,917
Total operating expenses		525,678		981,721		53,734	 1,561,133
Operating loss		(165,625)		(216,099)		(53,734)	 (435,458)
Nonoperating revenue (expense)							
Connection fees		45,778		59,722		-	105,500
Interest income		3,504		28,647		2,387	34,538
Grant revenue		-		65,685		-	65,685
Interest expense		(5,334)		(21,038)			 (26,372)
Total nonoperating revenue (expense)		43,948		133,016		2,387	 179,351
Income (loss) before transfers		(121,677)		(83,083)		(51,347)	(256,107)
Transfers in		74,683		153,327		-	228,010
Transfers out		(309,108)		(64,100)		(7,580)	(380,788)
Change in net assets		(356,102)		6,144		(58,927)	(408,885)
Total net assets - beginning		779,422		6,824,044		164,725	 7,768,191
Total net assets - ending	\$	423,320	\$	6,830,188	\$	105,798	\$ 7,359,306

Statement of Cash Flows Proprietary Funds Year Ended June 30, 2008

	Enterprise Funds							
		Water Fund		Sewer Fund	lr	ndustrial Park Fund	Total	
Operating activities								
Cash received from customers	\$	359,355	\$	794,680	\$	61,473	\$	1,215,508
Cash paid to vendors	Ψ	(246,855)	Ψ	(375,713)	*	(211,289)	Ψ.	(833,857)
Cash paid to employees		(226,876)		(389,247)		-		(616,123)
Net cash provided by (used in)		(- / /		(, /				(/ - /
operating activities		(114,376)		29,720		(149,816)		(234,472)
Noncapital financing activities								
Operating transfers in (out)		143,439		(288,637)		18,543		(126,655)
Capital and related financing activities								
Connection fees		45,778		59,722		-		105,500
Proceeds from notes and bonds		500,000		-		-		500,000
Grants received		-		65,685		-		65,685
Interest paid		(5,334)		(21,038)		-		(26,372)
Payment on notes payable		(1,302)		(125,263)		(1,150)		(127,715)
Acquisition of capital assets		(571,709)		(134,199)				(705,908)
Net cash provided by (used in) capital and								
related financing activities		(32,567)		(155,093)		(1,150)		(188,810)
Investing activities								
Interest received		3,504		28,647	_	2,387		34,538
Net decrease in cash and cash equivalents				(385,363)		(130,036)		(515,399)
Cash and cash equivalents								
Beginning of year		<u> </u>	-	948,317		140,880		1,089,197
End of year	\$		\$	562,954	\$	10,844	\$	573,798
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities								
Operating loss	\$	(165,625)	\$	(216,099)	\$	(53,734)	\$	(435,458)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:								
Depreciation expense		51,648		289,776		-		341,424
Change in assets and liabilities		(000)		200 050				205 200
(Increase) decrease in accounts receivable		(698)		286,058		0.470		285,360
(Increase) decrease in notes receivable (Increase) decrease in land held for resale		-		-		2,170 (99,463)		2,170 (99,463)
Increase (decrease) in accounts payable and accrued		-		-		(99,403)		(99,403)
expenses		299		(73,015)		1,211		(71,505)
Increase (decrease) in unearned income				(257,000)				(257,000)
Total adjustments		51,249		245,819		(96,082)		200,986
Net cash provided by (used in) operating activities	\$	(114,376)	\$	29,720	\$	(149,816)	\$	(234,472)
Noncash investing, capital, and financing activities:								
Contribution of capital asset from								
governmental activities	\$	500,000	\$		\$		\$	500,000

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. <u>Financial statement presentation</u>

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 non-fiduciary activities of the primary government. These statements include the financial activities of the overall government. For the most part, the effect of the inter-fund 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:

Note 1 - Summary of significant accounting policies (continued)

B. Financial statement presentation (concluded)

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

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

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

<u>Capital projects fund</u> accounts for other general capital improvement projects of the Town. The Town has a Capital Improvement Fund to account for capital projects.

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

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

C. Basis of accounting

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.

Note 1 - Summary of significant accounting policies (continued)

C. Basis of accounting (concluded)

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

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

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

D. <u>Budgets, budgetary accounting</u>

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

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

Note 1 - Summary of significant accounting policies (continued)

D. Budgets, budgetary accounting (concluded)

- 2. The budget shows in detail all estimated income, proposed expenditures for current operations and capital expenditures. Total proposed expenditures cannot exceed the total of estimated income and applied surplus, if any.
- 3. A public hearing is conducted to obtain citizen comments.
- 4. The Town Council adopts the budget on or before June 10. However, if the budget is not adopted by July 1, 1/12 of the current budget can be extended for a 30 day period by majority vote.
- 5. The budget is legally enacted through passage of an appropriations ordinance.
- 6. All budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).
- 7. Appropriations lapse at June 30 for all Town departments.
- 8. All budget data presented in the accompanying financial statements is the legally amended or revised budget as of June 30. For fiscal year 2008, there were no amendments to the budget.
- 9. For the year ended June 30, 2008, General Fund expenditures exceeded the amended budget by \$78,148.

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, 2008.

F. Cash and cash equivalents

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

G. Land held for resale

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

Note 1 - Summary of significant accounting policies (continued)

H. Capital assets

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

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

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

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

I. Vacation and sick pay liability

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

J. Estimates

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

K. Net assets / fund equity

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

Note 1 - Summary of significant accounting policies (continued)

K. Net assets / fund equity (concluded)

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

Note 2 - Deposits and investments

Deposits

At year end the carrying value of the Town's deposits with banks and financial institutions was \$180,991 and the bank balance was \$306,109. Of this bank balance, \$202,626 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.

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At June 30, 2008 the Town's deposit and investment balances were as follows:

	ı alı
	Value
Maryland Local Government Investment Pool	\$ 1,214,228
Deposits	180,991
Cash on hand	500
Total deposits and investments	\$ 1,395,719

Interest rate risk. Given the cash flow needs for operations as well as capital and special projects, it is the Town's policy to maintain the liquidity of its investments. The Local Government Investment Pool is not subject to maturity limits.

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

Note 3 - Property taxes

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

Note 4 - Accounts Receivable

Accounts receivable at June 30, 2008 consist of the following:

	 Governmental <u>Activities</u>				
Local:					
Taxes	\$ 29,747	\$	-		
Loans	997,361		-		
Service charges	-		252,526		
Notes	-		28,572		
Other	5,303		13,967		
State of Maryland:					
Income tax	63,059		-		
Gasoline tax	48,938		-		
Other	10,850		-		
Various federal and state grants	 12,530				
Total	\$ 1,167,788	\$	295,065		

Note 5 - Interfund receivables, payables, and transfers

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

Interfund balances at June 30, 2008, were as follows:

	Interfund <u>Payables</u>		
\$	47,517	\$	-
	-		28,974
	-		574,680
	574,680		-
			18,543
\$	622,197	\$	622,197
	Rec	574,680 	Receivables F \$ 47,517 \$ 574,680

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

Interfund transfers at June 30, 2008,	were as fol	ows:							
				T	ransfers	s In	Transfers Out		
General Fund				\$	27	,000	\$	34,064	
Special Projects Fund					419	,299		102,187	
Business Loan Fund						-		10,000	
Highway Fund					4	,659		151,929	
Water Fund					74	,683		309,108	
Sewer Fund					153	,327		64,100	
Industrial Park Fund								7,580	
Total				\$	678	<u>,968</u>	\$	678,968	
Note 6 – Capital assets									
		Balances		Additions /	Del	etions /		Balances	
	,	lune 30, 2007		Transfers In	Trans	sfers Out	Ju	ne 30, 2008	
Governmental activities:									
Nondepreciable capital assets:									
Land	\$	572,510	\$	-	\$	-	\$	572,510	
Construction in progress	*	1 543 374	•	539 154	•	(25.785)		2 056 743	

	Ju	ne 30, 2007	Transfers In Transfe		ansfers Out	Ju	ne 30, 2008	
Governmental activities:								
Nondepreciable capital assets:								
Land	\$	572,510	\$	-	\$	-	\$	572,510
Construction in progress		1,543,374		539,154		(25,785)		2,056,743
Total nondepreciable capital assets		2,115,884		539,154		(25,785)		2,629,253
Depreciable capital assets:	·							_
Land improvements		457,630		849,884		-		1,307,514
Buildings		2,761,187		-		(185,000)		2,576,187
Infrastructure		5,936,325		-		(500,000)		5,436,325
Furniture and equipment		283,318		19,240		-		302,558
Vehicles		408,472		196,188		-		604,660
Total depreciable capital assets		9,846,932		1,065,312		(685,000)		10,227,244
Less-accumulated depreciation		_		_				_
Land improvements		(410,536)		(64,252)		-		(474,788)
Buildings		(660,985)		(63,905)		4,625		(720,265)
Infrastructure		(892,754)		(148,407)		-		(1,041,161)
Furniture and Equipment		(229,767)		(31,509)		-		(261,276)
Vehicles		(301,491)		(48,274)				(349,765)
Total accumulated depreciation		(2,495,533)		(356,347)		4,625		(2,847,255)
Total depreciable capital assets, net		7,351,399		708,965		(680,375)		7,379,989
Governmental activities capital assets, net	\$	9,467,283	\$	1,248,119	\$	(706,160)	\$	10,009,242

Note 6 - Capital assets (continued)

		Balances ne 30, 2007	Additions / Transfers In		Deletions / Transfers Out			Balances ne 30, 2008
Business-type activities: Nondepreciable capital assets:								
Construction in progress	\$	749,068	\$	184,236	\$	(757,938)	\$	175,366
Depreciable capital assets:	Ψ	7 10,000	Ψ	10 1,200	Ψ	(101,000)	Ψ	170,000
Municipal water system		1,824,833		500,000		-		2,324,833
Municipal sewer system		11,088,625		757,938		-		11,846,563
Machinery and equipment		230,998		21,670				252,668
Total depreciable capital assets		13,144,456		1,279,608		-		14,424,064
Less accumulated depreciation for:								
Municipal water system		(944,949)		(38,515)				(983,464)
Municipal sewer system		(4,110,249)		(279,795)				(4,390,044)
Machinery and equipment		(189,405)		(23,112)				(212,517)
Total accumulated depreciation		(5,244,603)		(341,422)				(5,586,025)
Total depreciable capital assets, net		7,899,853		938,186				8,838,039
Business-type activities capital asets, net	\$	8,648,921	\$	1,122,422	\$	(757,938)	\$	9,013,405
Depreciation expense was charged to the pr	ograr	ms of the Tov	vn as	follows:				
Governmental activities:								
General government					\$	4,335		
Public safety					•	95,366		
Public works						69,792		
Recreation and culture						68,355		
Urban development and housing						66,457		
Economic development						52,042		
Economic development					\$	356,347		
					Ψ	330,347		
Business-type activities:								
Water					\$	51,646		
Sewer						289,776		
					\$	341,422		
					_			

Note 7 - Long-term obligations

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

Details of the general obligation bonds, capital leases, and notes of the Town at June 30, 2008 are as follows:

Governmental activities: State notes and bonds:	 Amount
\$207,900 issued, Town contractual share of Caroline County CDA Bonds, due in annual installments through May 1, 2010, interest at 5.84%.	\$ 35,066
\$265,000 issued, Town contractual share of Caroline County CDA Bonds, due in annual installments through May 2017, interest at 5.52%	158,520
\$20,000 issued, Community Legacy Program Note, entire principal amount due December 2009, no interest	20,000
\$266,950 issued, Series 2008 Maryland Public Improvement Bonds, due in annual installments through June 30, 2047, interest at 4.38%	 266,255
Total state notes and bonds	 479,841
Installment notes: \$81,000 installment note payable, due in monthly payments of \$454 until February 2013, interest at 4.615% with a final balloon payment of \$59,131	69,354
\$55,000 installment note payable, due in monthly payments of \$343 until January 2013, interest at 5.80% with a final balloon payment of \$41,334	47,010
\$72,249 installment note payable due in annual payments of \$9,725 until January 2013, interest at 3.96%	43,148
\$25,000 installment note payable, due in monthly payments of \$552 until February 2008, interest at 2.90%	9
\$50,167 installment note payable, due in monthly payments of \$924 until August 2010, interest at 3.95%	23,621
\$28,797 installment note payable, due in monthly payments of \$659 until September 2009, interest at 4.68%	9,585

Note 7 - Long-term obligations (continued)

Governmental activities (continued): Installment notes (continued):	Amount
\$21,000 installment note payable, due in monthly payments of \$384 until December 2009, interest at 3.61%	6,707
\$26,000 installment note payable, due in monthly payments of \$593 until May 2009, interest at 4.49%	6,768
\$185,000 note payable, due at maturity on July 27, 2008, interest at 8.25%	8,721
\$29,945 installment note payable, due in monthly payments of \$562 until October 2011, interest at 4.74%	20,740
\$30,000 installment note payable, due in monthly payments of \$685 until August 2011, interest at 4.58%	24,196
Total installment notes	259,859
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%	723,321
\$750,000 intermediary relending program note, issued by the USDA, of which \$150,000 was drawn down, interest at 1%	145,500
Intermediary relending program note, issued by the USDA, of which \$130,000 was drawn down, interest at 5%	128,690
Intermediary relending program note, issued by the USDA, of which \$150,000 was drawn down, interest at 5%	150,000
Intermediary relending program note, issued by the USDA, of which \$170,000 was drawn down, interest at 5%	148,518
Total federal notes and loans	1,296,029
Capital Leases: \$102,981 lease for highway maintenance equipment, due in monthly	
installments of \$1,721 through May 2013, interest at 4.20%	91,586
Total governmental activities	2,127,315

Note 7 - Long-term obligations (continued)

Business-type activities: General obligation notes: State of Maryland:	
\$500,000 issued, Series 2008 Maryland Public Improvement Bonds, due in annual installments through June 30, 2047, interest at 4.38%	\$ 498,698
\$62,000 issued September 23, 1980, due in annual installments of \$4,672 including interest at 6.1%, through October 2010.	12,444
\$52,775 issued May, 15, 1981, due in annual installments of \$3,977 including interest at 6.1% through May 2011.	10,590
\$28,000 issued June 30, 1981, due in annual installments of \$2,110 including interest at 6.1%, through June 2011.	5,630
\$2,332,577 issued September 23, 2004, due in semi-annual installments of \$121,589 including interest at 0.4% through February 2024.	1,880,840
\$140,000, Rural Development Loan due in quarterly installments of \$1,892 including interest at 4.5%, through September 2027.	96,343 2,504,545
Other notes: State of Maryland: \$270,000 state pate to be repaid from not precede of the calc of late.	
\$370,000 state note to be repaid from net proceeds of the sale of lots in the new industrial park after the first \$125,000 is retained by the Town. All proceeds in excess of that is to go towards the repayment which is due August 2020, no interest.	 368,850
Total proprietary funds	2,873,395
Total long-term debt	\$ 5,000,710

Note 7 - Long-term obligations (continued)

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

			Governmen	tal Activities		
Year Ended	State Note	es & Bonds	Other Notes	and Loans	To	otal
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2009	35,659	22,554	102,239	73,516	137,898	96,070
2010	56,344	20,572	82,856	72,718	139,200	93,290
2011	18,211	18,541	73,286	69,926	91,497	88,467
2012	19,476	17,569	62,228	67,526	81,704	85,095
2013	20,747	16,529	59,052	65,530	79,799	82,059
2014-2018	95,393	64,542	177,117	310,917	272,510	375,459
2019-2023	22,236	48,488	215,865	285,524	238,101	334,012
2024-2028	27,662	43,063	255,211	254,096	282,873	297,159
2029-2033	34,412	36,312	217,846	226,678	252,258	262,990
2034-2038	42,808	27,915	158,368	210,493	201,176	238,408
2039-2043	53,259	17,469	166,786	209,700	220,045	227,169
2044-2048	53,634	22,991	76,620	82,168	130,254	105,159
Total	\$ 479,841	\$ 356,545	\$ 1,647,474	\$ 1,928,792	\$ 2,127,315	\$ 2,285,337
			Business-ty	oe Activities		
Year Ended	General Obli	igation Notes	Other	Notes	To	otal
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2009	131,322	35,088	-	-	131,322	35,088
2010	132,700	33,709	-	-	132,700	33,709
2011	134,078	32,280	-	-	134,078	32,280
2012	124,853	30,799	-	-	124,853	30,799
2013	125,738	29,912	-	-	125,738	29,912
2014-2018	642,750	135,503	-	-	642,750	135,503
2019-2023	668,454	109,799	368,850	-	1,037,304	109,799
2024-2028	199,794	83,565	-	-	199,794	83,565
2029-2033	64,452	68,014	-	-	64,452	68,014
2034-2038	80,181	52,286	-	-	80,181	52,286
2039-2043	99,748	32,720	-	-	99,748	32,720
2044-2048	100,475	8,916			100,475	8,916
Total	\$ 2,504,545	\$ 652,591	\$ 368,850	\$ -	\$ 2,873,395	\$ 652,591

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, 2008:

	Ju	Balance ne 30, 2007	 Addition	R	eductions	Ju	Balance ne 30, 2008	 ue Within Ine Year
Governmental activities: State notes and bonds Installment note Federal loans and notes Capital lease Compensated absences	\$	246,048 285,238 1,160,676 787 113,139	\$ 266,950 30,000 170,000 102,981	\$	(33,157) (55,379) (34,647) (12,182) (3,691)	\$	479,841 259,859 1,296,029 91,586 109,448	\$ 2,629 95,872 22,267 17,130
Total	\$	1,805,888	\$ 569,931	\$	(139,056)	\$	2,236,763	\$ 137,898
Business-type activities: Notes and bonds Compensated absences	\$	2,501,110 46,742	\$ 500,000 2,795	\$	(127,715)	\$	2,873,395 49,537	\$ 131,322
Total	\$	2,547,852	\$ 502,795	\$	(127,715)	\$	2,922,932	\$ 131,322

Note 8 - Line of credit

The Town obtained a promissory note in the amount of \$1,031,967 dated December 10, 2004 for the acquisition of capital assets. During the year ended June 30, 2008, the Town obtained long-term financing, the proceeds from which were used to retire the short-term line of credit.

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

	Balance			Balance	Interest
	July 1, 2007	Addition	Reductions	June 30, 2008	Paid
Governmental activities:					
Short term note	\$ 1,031,967	\$ -	\$ (1,031,967)	\$ -	\$ 39,906

Note 9 - Conduit debt

The Town has issued economic development revenue bonds pursuant to the Maryland Economic Development Revenue Bond Act. All responsibility for the payment of this debt rests with the Borrower. The Town, as issuer, has no responsibility for the payment of this debt. The amount outstanding at June 30, 2008 is as follows:

		Outstanding,
<u>Description</u>	Original issue	<u>June 30, 2008</u>
Caroline Nursing/the Gables, series 1999	2,750,000	2,135,787
Channel Markers Foundation, series 2001	628,200	107,205

Note 10 - Retirement plan

Effective July 1, 2001, the Town elected to participate in the statewide contributory system of the State of Maryland. The State Retirement Agency (the Agency) is the administrator of the System, a cost sharing multiple-employer public employee retirement system. The System was established by the State Personnel and Pension Articles of the Annotated Code of Maryland Rules and Regulations and provides retirement allowances to System members and beneficiaries.

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

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

Funding Policy. Town employees contribute 2% of their gross employee compensation. Required contributions not funded by employee contributions are funded entirely by the Town. Employer contributions are based upon salaries for the preceding fiscal year. The Town's contribution for fiscal year 2008 was based on the salaries for the year ended June 30, 2007. 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 \$159,376 in fiscal year 2008. Annual payments in future years will increase by 5% per year through December 2020.

Contributions for the fiscal year ended June 30, 2008 and two preceding years were equal to the actuarially determined amounts as follows:

	June 30	June 30	June 30,
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Total covered payroll	\$1,158,789	\$1,099,030	\$ 971,065
Employer normal contributions	93,795	81,548	70,111
Employer special accrued liability	65,581	62,458	59,484

The Town administers the Employee Benefits Plan of the Town of Denton, a voluntary defined contribution plan, to accept employee contributions. The Town does not contribute to this plan.

Note 11 - Risk management

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

Town of Denton, Maryland

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2008

	H	lighway		Capital provement	Gov	Total onmajor vernmental Funds
Assets						
Cash and cash equivalents	\$	-	\$	129,740	\$	129,740
Due from other governments		51,193				51,193
Total assets	\$	51,193	\$	129,740	\$	180,933
Liabilities and fund balances Liabilities:						
Accounts payable and accrued expenses	\$	5,314	\$	_	\$	5,314
Due to other funds	•	28,974	•	-	·	28,974
Total liabilities		34,288		-		34,288
Fund balances: Unreserved:						
Designated		16,905		129,740		146,645
Total fund balances		16,905		129,740		146,645
Total liabilities and fund balances	\$	51,193	\$	129,740	\$	180,933

Town of Denton, Maryland

Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2008

	H	lighway	Capital Improvement	Total Nonmajor Governmental Funds
Revenues		<u> </u>		
Taxes	\$	318,773	\$ -	\$ 318,773
Licenses and permits		-	105,138	105,138
Revenue from other agencies		69,951	-	69,951
Miscellaneous		1,470	2,683	4,153
Total revenues		390,194	107,821	498,015
Expenditures				
Current:				
Public works		340,006	-	340,006
Debt service		61,175		61,175
Total expenditures		401,181		401,181
Excess (deficiency) of revenues				
over (under) expenditures	-	(10,987)	107,821	96,834
Other financing sources (uses)				
Loan proceeds		102,981	-	102,981
Operating transfers in (out)		(147,270)	-	(147,270)
Total other financing sources (uses)		(44,289)		(44,289)
Net change in fund balances		(55,276)	107,821	52,545
Fund balance - beginning (deficit)		72,181	21,919	94,100
Fund balance - ending (deficit)	\$	16,905	\$ 129,740	\$ 146,645



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

To the Council of the Town of Denton Denton, Maryland

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Denton, Maryland (the "Town"), as of and for the year ended June 30, 2008, which collectively comprise the Town's basic financial statements and have issued our report thereon dated November 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Town, in a separate letter November 30, 2008.

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

Cherry, Bekant o Holland, L. L.P.

Richmond, Virginia November 30, 2008



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

To the Council of the Town of Denton Denton, Maryland

Compliance

We have audited the compliance of the Town of Denton, 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, 2008. The Town's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the major federal program is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

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

In our opinion, the Town complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance

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

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

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

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

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

Cherry, Bekanto Holland, L. L.P.

Richmond, Virginia November 30, 2008

TOWN OF DENTON, MARYLAND

Schedule of Expenditures of Federal Awards Year Ended June 30, 2008

	Federal	
Federal Grantor/Pass-through	CFDA	Federal
Grantor/Program Title	Number	Expenditures
Department of Agriculture		
Direct payment		
Community Facilities Loans and Grants	10.766	\$ 1,033,127
Intermediary Relending Program Loan	10.767	170,000
Department of Commerce		
Pass-through payment		
Department of Natural Resources		
Formula Grant - Coastal Zone Management Administration	11.419	36,437
Department of Interior		
Pass-through payment		
Department of Natural Resources		
Sportfishing and Boating Safety Act	15.622	100,000
Department of Justice		
Pass-through payment		
Governor's Office of Crime Control & Prevention		
Public Safety Partnership and Community Policing Grants	16.710	23,544
Department of Housing and Urban Development		
Pass-through payment		
Department of Housing and Community Development		
Community Development Block Grant	14.227	
North Denton Development		38,804
Economic Development - Old School Acquisition Grant		12,288
Total federal awards		\$ 1,414,200

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

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

TOWN OF DENTON, MARYLAND

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

A. Summary of Auditors' Results

- 1. The type of report issued on the basic financial statements: **Unqualified opinions**
- 2. Significant deficiencies in internal control disclosed by the audit of the financial statements: **No**

Material weaknesses: No

- 3. Noncompliance, which is material to the financial statements: No
- 4. Significant Deficiencies in internal control over major programs: **No**

Material weaknesses: No

- 5. The type of report issued on compliance for major programs: **Unqualified opinion**
- Any audit findings which are required to be reported under Section 510(1) of OMB Circular A-133: No
- 7. The program tested as a major program was:

Name of Program CFDA #

Community Facilities Loans and Grants

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

There are no financial statement findings to report.

C. Findings and Questioned Costs Relating to Federal Awards:

There are no federal award findings and questioned costs to report.

D. Resolution of Prior Year's Findings

Findings reported in the prior year have been addressed by management and are therefore not reported in the current year.