

TOWN OF CENTREVILLE, MARYLAND
FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTAL
INFORMATION, AND OTHER FINANCIAL INFORMATION

Years Ended June 30, 2007 and 2006

C O N T E N T S

| | <u>PAGE</u> |
|--|-------------|
| INDEPENDENT AUDITORS' REPORT | 1 |
| INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS | 3 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 5 |
| BASIC FINANCIAL STATEMENTS | |
| Government-wide financial statements: | |
| Statement of net assets | 16 |
| Statement of activities | 18 |
| Fund financial statements: | |
| Balance sheet - governmental funds | 20 |
| Reconciliation of total governmental fund balances to net assets of governmental activities | 22 |
| Statement of revenues, expenditures, and changes in fund balances - governmental funds | 24 |
| Reconciliation of the statement of revenues, expenditures, and changes in fund balances of governmental funds to the statement of activities | 26 |
| Statements of net assets - proprietary funds - business-type activities - enterprise fund | 28 |
| Statements of revenues, expenses, and changes in net assets - proprietary funds - business-type activities - enterprise fund | 29 |
| Statements of cash flows - proprietary funds - business-type activities - enterprise fund | 30 |
| Notes to financial statements | 31 |

CONTENTS - Continued

| | <u>PAGE</u> |
|--|--------------------|
| REQUIRED SUPPLEMENTAL INFORMATION | |
| Schedule of revenues, expenditures and changes in fund balance - budget and actual - general fund - fund 1 only | 46 |
| OTHER FINANCIAL INFORMATION | |
| Combining balance sheet - general fund | 49 |
| Combining statement of revenues, expenditures, and changes in fund balances - general fund | 50 |
| Schedule of revenues, expenses and changes in net assets - enterprise fund | 51 |

INDEPENDENT AUDITORS' REPORT

The Honorable Town Council

TOWN OF CENTREVILLE STATE OF MARYLAND

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund, of the Town of Centreville, Maryland, as of and for the years ended June 30, 2007 and 2006, which collectively comprise the Town's basic financial statements as listed in the foregoing Table of Contents. These financial statements are the responsibility of the Town of Centreville's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits 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 audits provide 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, and each major fund of the Town of Centreville, Maryland as of June 30, 2007 and 2006 and the respective changes in financial position and, where applicable, cash flows thereof for the years 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 our report dated May 28, 2008 on our consideration of the Town of Centreville, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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 on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audits.

TOWN OF CENTREVILLE

The management's discussion and analysis on pages 5-15 and budgetary comparison information on pages 46-48 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Centreville, Maryland's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements 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.

Mayer Hoffman McCann P.C.

May 28, 2008
Easton, Maryland

**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**

The Honorable Town Council

**TOWN OF CENTREVILLE
STATE OF MARYLAND**

We have audited the accompanying financial statements of the governmental activities, business-type activities, and each major fund of the Town of Centreville, Maryland (the Town), as of and for the years ended June 30, 2007 and 2006, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated May 28, 2008. We conducted our audits 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 Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

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

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

TOWN OF CENTREVILLE

Formal Policy Documentation

During the audit, a lack of formal policies and formal approvals of various items were noted. It is suggested that the Town Council and Town management establish policies on the following matters to ensure official approvals occur and are documented in the Town minutes. The implementation of the following monitoring controls will decrease the Town's susceptibility to fraudulent activities.

- Establish a policy to require the Town Manager to approve all journal entries and review all appropriate supporting documentation.

Material Adjusting Journal Entries

- The auditor identified material misstatements in the financial statements for the period under audit that were not initially identified by the entity's internal control (i.e., cash in trust and related bonds payable).

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.

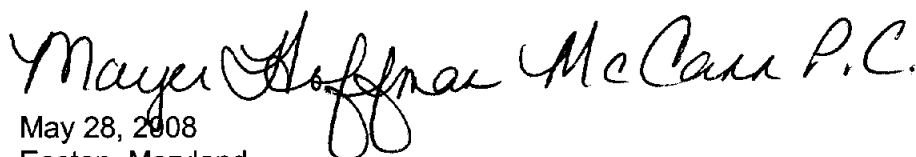
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the significant deficiencies described above to be a material weakness.

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 audits 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 also noted certain matters that we have reported to management of the Town in a separate letter dated May 28, 2008.

This report is intended solely for the information and use of the Town Council and management and is not intended to be and should not be used by anyone other than those specified parties.


Mayer Hoffman McCann P.C.
May 28, 2008
Easton, Maryland

This section of the Town of Centreville's annual financial report presents our discussion and analysis of the Town's financial performance during the fiscal year ended June 30, 2007. Readers are encouraged to consider the information presented here in conjunction with the financial statements and notes to the financial statements (which immediately follow this discussion).

FINANCIAL HIGHLIGHTS

- The Town's total net assets were \$32.4 million at June 30, 2007, as compared to \$25.7 million at June 30, 2006.
- During the year, the Town's expenses after grants and fees for services were \$1,622,149, and revenue generated from taxes and other sources for governmental programs was \$1,916,140. In addition, the Town received donated property from developers in the amount of \$1.506 million.
- The total cost of the Town's programs was \$2.675 million, and one new program was added this year – watershed preservation.
- In the Town's business-type activities, revenues were \$4.443 million more than the \$1,148,113 of expenses. The Town received donated property from developers in the amount of \$3.217 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts- *management's discussion and analysis* (this section), the *basic financial statements*, *required supplemental information*, and an additional section that presents *combining statements*. The basic financial statements include two kinds of statements that present different views of the Town:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the Town's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Town government, reporting the Town's operations *in more detail* than the government-wide statements.
 - The *governmental funds* statements tell how general government services such as public safety were financed in the *short term* as well as what remains for future spending.
 - *Proprietary funds* statements offer *short-term* and *long-term* financial information about the activities the government operates *like businesses*, such as the water and sewer system.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplemental information* that further explains and supports the information in the financial statements. In addition to the required elements, we have included a section with combining statements that provide details about certain governmental funds, which are added together and presented as the general fund in the basic financial statements. The remainder of this overview section of the management's discussion and analysis explains the structure and content of each of the statements.

Government-Wide Financial Statements

The government-wide statements report information about the Town as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the government's assets and liabilities. All of the current year's revenue and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Town's *net assets* and how they have changed. Net assets (the difference between the Town's assets and liabilities) is one way to measure the Town's financial health or *position*. Over time, increases or decreases in the Town's net assets are an indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Town you need to consider additional non-financial factors such as changes in the Town's property tax base and the condition of the Town's roads.

In the government-wide financial statements, the Town's activities are divided into two categories:

- *Governmental activities* - Most of the Town's basic services are included here, such as police, fire, public works, and parks departments and general administration. Property taxes and state and federal grants finance most of these activities.
- *Business-type activities* - The Town charges fees to customers to help cover the costs of certain services it provides. The Town's water and sewer system are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the Town's *funds*, focusing on its most significant or "major" funds, not the Town as a whole. Funds are accounting devices that the Town uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by State law and by bond covenants. The Town Council establishes other funds to control and manage money for particular purposes (such as the Investment Fund) or to show that it is properly using certain taxes and grants.

The Town has two types of funds:

- *Governmental funds* - Most of the Town's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets can be readily converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a short-term view that helps you determine where there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them. In addition, the Town has an investment fund that is restricted by the Town Council and Charter.
- *Proprietary funds* - Services for which the Town charges customers a fee are generally reported in the proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. In fact, the Town's *enterprise funds* are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town's *combined* net assets were \$32.4 million at June 30, 2007 and \$25.7 million at June 30, 2006. Looking at the net assets and net expenses of governmental and business-type activities separately, however, two very different stories emerge. The following table reflects the condensed Government-Wide Statement of Net Assets:

Table A-1
Local Net Assets
(in thousands of dollars)

| | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | | <u>Total</u> | |
|--|------------------------------------|-------------------------|-------------------------------------|-------------------------|-------------------------|-------------------------|
| | <u>2007</u> | <u>2006</u> | <u>2007</u> | <u>2006</u> | <u>2007</u> | <u>2006</u> |
| Current and other assets | \$ 10,736 | \$ 7,052 | \$ 11,415 | \$ 6,886 | \$ 22,151 | \$ 13,938 |
| Capital assets | <u>6,950</u> | <u>3,388</u> | <u>16,352</u> | <u>12,655</u> | <u>23,303</u> | <u>16,043</u> |
| TOTAL ASSETS | <u>\$ 17,686</u> | <u>\$ 10,440</u> | <u>\$ 27,767</u> | <u>\$ 19,541</u> | <u>\$ 45,453</u> | <u>\$ 29,981</u> |
| Long-term liabilities | \$ 4,817 | \$ 34 | \$ 6,843 | \$ 2,383 | \$ 11,660 | \$ 2,417 |
| Other liabilities | <u>539</u> | <u>162</u> | <u>897</u> | <u>1,686</u> | <u>1,436</u> | <u>1,848</u> |
| TOTAL LIABILITIES | <u>\$ 5,356</u> | <u>\$ 196</u> | <u>\$ 7,740</u> | <u>\$ 4,069</u> | <u>\$ 13,096</u> | <u>\$ 4,265</u> |
| Invested in capital assets, net of related debt | \$ 4,869 | \$ 3,389 | \$ 13,839 | \$ 10,080 | \$ 18,708 | \$ 13,469 |
| Restricted | 4,044 | 4,051 | - | - | 4,044 | 4,051 |
| Unrestricted | <u>3,417</u> | <u>2,804</u> | <u>6,188</u> | <u>5,392</u> | <u>9,605</u> | <u>8,196</u> |
| TOTAL NET ASSETS | <u>\$ 12,330</u> | <u>\$ 10,244</u> | <u>\$ 20,027</u> | <u>\$ 15,472</u> | <u>\$ 32,357</u> | <u>\$ 25,716</u> |

Net assets for the governmental activities increased in the current year by \$2,086 thousand primarily due to donated property of \$1,506 thousand. Net assets for the business-type activities increased by \$4,555 thousand primarily due to donated property of \$3,217 thousand and a net operating excess of \$1,211 thousand.

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE – Continued

Table A-2
Changes in Local Net Assets
(in thousands of dollars)

| | Governmental Activities | | Business-type Activities | | Total | |
|--|------------------------------------|---------------------|-------------------------------------|---------------------|----------------------|----------------------|
| | <u>2007</u> | <u>2006</u> | <u>2007</u> | <u>2006</u> | <u>2007</u> | <u>2006</u> |
| PROGRAM REVENUES: | | | | | | |
| Charges for services | \$ 649 | \$ 624 | \$ 2,374 | \$ 4,203 | \$ 3,023 | \$ 4,827 |
| State grants and Entitlements | 404 | 381 | - | 1,783 | 404 | 2,164 |
| County grants | - | 111 | - | - | - | 111 |
| Donated property | 1,506 | 1,833 | 3,217 | - | 4,723 | 1,833 |
| GENERAL REVENUES: | | | | | | |
| Property taxes | 1,611 | 1,264 | - | - | 1,611 | 1,264 |
| Other taxes | 300 | 225 | - | - | 300 | 225 |
| Other | <u>290</u> | <u>99</u> | <u>112</u> | <u>23</u> | <u>402</u> | <u>122</u> |
| TOTAL REVENUES BEFORE PROPERTY ADJUSTMENTS | 4,760 | 4,537 | 5,703 | 6,009 | 10,463 | 10,546 |
| LOSS ON DISPOSAL OF PROPERTY | <u>-</u> | <u>-</u> | <u>-</u> | <u>(360)</u> | <u>-</u> | <u>(360)</u> |
| TOTAL REVENUES | <u>\$ 4,760</u> | <u>\$ 4,537</u> | <u>\$ 5,703</u> | <u>\$ 5,649</u> | <u>\$ 10,463</u> | <u>\$ 10,186</u> |
| EXPENSES: | | | | | | |
| General government | \$ 671 | \$ 661 | \$ - | \$ - | \$ 671 | \$ 661 |
| Public safety | 831 | 631 | - | - | 831 | 631 |
| Public works | 900 | 660 | - | - | 900 | 660 |
| Parks and recreation | 93 | 69 | - | - | 93 | 69 |
| Cemetery | 94 | 59 | - | - | 94 | 59 |
| Watershed preservation | 86 | - | - | - | 86 | - |
| Water | - | - | 330 | 361 | 330 | 361 |
| Sewer | - | - | 806 | 1,207 | 806 | 1,207 |
| Farm | <u>-</u> | <u>-</u> | <u>12</u> | <u>103</u> | <u>12</u> | <u>103</u> |
| TOTAL EXPENSES | <u>\$ 2,675</u> | <u>\$ 2,080</u> | <u>\$ 1,148</u> | <u>\$ 1,671</u> | <u>\$ 3,823</u> | <u>\$ 3,751</u> |
| INCREASE IN NET ASSETS | \$ 2,085 | \$ 2,457 | \$ 4,555 | \$ 3,978 | \$ 6,640 | \$ 6,435 |
| NET ASSETS - BEGINNING | <u>10,244</u> | <u>7,787</u> | <u>15,472</u> | <u>11,494</u> | <u>25,716</u> | <u>19,281</u> |
| NET ASSETS-ENDING | <u>\$12,329</u> | <u>\$10,244</u> | <u>\$20,027</u> | <u>\$15,472</u> | <u>\$32,356</u> | <u>\$25,716</u> |

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE – Continued

Governmental Activities

Revenue from the Town's governmental activities was \$4,760 thousand, while total expenses were \$2,675 thousand. Table A-3 presents the cost of each of the Town's five largest services - general government, public safety, public works, parks and recreation, cemetery, and watershed preservation - as well as each service's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost shows the financial burden that was placed on the Town's taxpayers by each of these services.

- The cost of all governmental activities this year was \$2,675 thousand. Some of that cost was financed by:
 - Those who directly benefited from the programs (\$649 thousand), or
 - Other governments and organizations that subsidized certain programs with grants and contributions (\$404 thousand).
- The Town financed the remaining \$1,622 thousand "public benefit" portion of governmental activities with \$1,912 thousand in taxes.

**Table A-3
Net Cost of Centreville's Government Activities
(in thousands of dollars)**

| | <u>Total Cost of Services</u> | | <u>Net Cost (Surplus) of Services</u> | |
|------------------------|-------------------------------|------------------------|---|------------------------|
| | <u>2007</u> | <u>2006</u> | <u>2007</u> | <u>2006</u> |
| General government | \$ 671 | \$ 661 | \$ (50) | \$ (153) |
| Public safety | 831 | 631 | 768 | 571 |
| Public works | 900 | 660 | (823) | (1,381) |
| Parks and recreation | 93 | 69 | 93 | 69 |
| Cemetery | 94 | 59 | 42 | 25 |
| Watershed preservation | <u>86</u> | <u>-</u> | <u>86</u> | <u>-</u> |
| TOTAL | <u>\$ 2,675</u> | <u>\$ 2,080</u> | <u>\$ 116</u> | <u>\$ (869)</u> |

Business-type Activities

Revenues of the Town's business-type activities were \$5,703 thousand and expenses were \$1,148 thousand. (Refer to Table A-2.) Factors contributing to these results included:

- The cost of sewer, water and farm activities were within the budgets established for 2007.
- Surplus funds will be consumed in future years by principal repayment and interest expenses on the debt incurred to finance the plant as well as depreciation of the plant.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As the Town completed this year, its governmental funds reported total fund equity of \$12,329 thousand. Included in this year's net change in fund balances of \$2,085 thousand is property tax revenue of \$1,658 thousand.

**Town of Centreville
Revenues Classified by Source
General Fund
For the Years Ended June 30, 2007 and 2006**

| | <u>2007</u> | <u>Percent Of Total</u> | <u>2006</u> | <u>Percent Of Total</u> |
|---|---------------------|-----------------------------|---------------------|-----------------------------|
| REVENUES AND OTHER FINANCING SOURCES | | | | |
| General property taxes | \$ 1,657,796 | 32.1% | \$ 1,264,233 | 45.8% |
| Other local taxes | 253,977 | 4.9 | 224,905 | 8.2 |
| Permits and licenses | 176,092 | 3.4 | 246,160 | 8.9 |
| Charges for services | 419,987 | 8.1 | 343,136 | 12.5 |
| Intergovernmental | 403,820 | 7.8 | 491,888 | 17.8 |
| Loan proceeds | 2,000,000 | 38.7 | - | - |
| Miscellaneous | 164,475 | 2.9 | 74,939 | 2.7 |
| Operating transfers | <u>110,000</u> | <u>2.1</u> | <u>112,067</u> | <u>4.1</u> |
| TOTAL REVENUES AND OTHER FINANCING SOURCES | <u>\$ 5,186,147</u> | <u>100.0%</u> | <u>\$ 2,757,328</u> | <u>100.0%</u> |

**Town of Centreville
Expenditures by Function
General Fund
For the Years Ended June 30, 2007 and 2006**

| | <u>2007</u> | <u>Percent Of Total</u> | <u>2006</u> | <u>Percent Of Total</u> |
|--------------------------------------|---------------------|-----------------------------|---------------------|-----------------------------|
| EXPENDITURES | | | | |
| Current operations: | | | | |
| General government administration | \$ 625,288 | 13.7% | \$ 626,233 | 27.3% |
| Public safety | 780,810 | 17.2 | 598,578 | 26.1 |
| Public works | 699,659 | 15.4 | 565,100 | 24.6 |
| Parks and recreation | 81,756 | 1.8 | 54,445 | 2.4 |
| Cemetery | 92,445 | 2.0 | 55,439 | 2.4 |
| Watershed preservation | 85,988 | 1.9 | - | - |
| Capital outlay | 2,152,372 | 48.0 | 346,585 | 15.1 |
| Debt service: | | | | |
| Principal | - | 0.0 | 46,226 | 2.0 |
| Interest | <u>-</u> | <u>0.0</u> | <u>1,745</u> | <u>0.1</u> |
| TOTAL EXPENDITURES | <u>\$ 4,518,318</u> | <u>100.0%</u> | <u>\$ 2,294,351</u> | <u>100.0%</u> |

General Fund Budgetary Highlights

Over the course of the year, the Town Council revised the Town budget. Current and prior budget amendments have occurred that fall into two categories:

- Amendments and supplemental appropriations approved shortly after the beginning of the year to reflect the actual beginning account balances (correcting the estimated amounts in the budget adopted in the previous year).
- Increases in appropriations to prevent budget overruns.

General Fund Budgetary Highlights - continued

Increases were made in 2007 for streets maintenance, watershed preservation, and cemetery improvements for a total of \$53 thousand. In addition, resources available for appropriations were \$53 thousand above the final budgeted amounts due to a grant and donation. Included in miscellaneous revenue and capital outlays were developer contributions in-kind of streets and infrastructure in the amount of \$1,506 thousand.

CAPITAL ASSETS AND DEBT ADMINISTRATION**Capital Assets**

The Town's total investment in capital assets, including construction in progress, for its governmental and business type activities amounts to \$23,092 thousand and \$16,043 thousand, as of June 30, 2007 and June 30, 2006 respectively (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, recreation and park facilities, utility properties and facilities, as well as other typical capital items.

This year's major capital additions included:

- Construction project for Water Treatment
- Road, sewer, and water upgrades on Little Kidwell, Chesterfield Avenue
- Rebuilt the street sweeper
- Replacement of a town vehicle
- Replacement of a police vehicle

Table A-4
Town of Centreville's Capital Assets
(in thousands of dollars)

| | Governmental Activities | | Business-type Activities | | Total | |
|--------------------------------------|------------------------------------|------------------------|-------------------------------------|------------------------|------------------------|------------------------|
| | <u>2007</u> | <u>2006</u> | <u>2007</u> | <u>2006</u> | <u>2007</u> | <u>2006</u> |
| Land | \$ 2,180 | \$ 139 | \$ 1,161 | \$ 1,161 | \$ 3,341 | \$ 1,300 |
| Buildings | 169 | 174 | 11,121 | 8,636 | 11,290 | 8,810 |
| Land improvements | 12 | 22 | - | - | 12 | 22 |
| Infrastructure | 3,995 | 2,651 | 3,578 | 2,387 | 7,573 | 5,038 |
| Furniture, fixtures and equipment | 417 | 402 | 34 | 41 | 451 | 443 |
| Construction in progress | <u>97</u> | <u>-</u> | <u>328</u> | <u>430</u> | <u>425</u> | <u>430</u> |
| TOTAL | <u>\$ 6,870</u> | <u>\$ 3,388</u> | <u>\$16,222</u> | <u>\$12,655</u> | <u>\$23,092</u> | <u>\$16,043</u> |

Long-term Debt

As of June 30, 2007, the Town had \$11,660 thousand in loans and bond commitments outstanding as shown in Table A-5. More detailed information about the Town's long-term liabilities is presented in Note 8 to the financial statements.

Table A-5
Town of Centreville's Outstanding Debt
(in thousands of dollars)

| | Governmental | | Business-type | | Total | |
|-------------------|------------------------|--------------------|------------------------|------------------------|-------------------------|------------------------|
| | Activities | | Activities | | | |
| | <u>2007</u> | <u>2006</u> | <u>2007</u> | <u>2006</u> | <u>2007</u> | <u>2006</u> |
| Mortgage loans | \$ 2,000 | \$ - | \$ - | \$ - | \$ 2,000 | \$ - |
| Loans from USDA | - | - | 1,025 | 1,036 | 1,025 | 1,036 |
| Loans from MD DOE | - | - | 1,358 | 1,538 | 1,358 | 1,538 |
| CDA LGIF bond | <u>2,817</u> | <u>-</u> | <u>4,460</u> | <u>-</u> | <u>7,277</u> | <u>-</u> |
| TOTAL | <u>\$ 4,817</u> | <u>\$ -</u> | <u>\$ 6,843</u> | <u>\$ 2,573</u> | <u>\$ 11,660</u> | <u>\$ 2,574</u> |

MAINTAINING THE CONDITION OF THE TOWN'S INFRASTRUCTURE

GASB Statement Number 34 allows the Town to report depreciation expense on infrastructure assets or to adopt the modified approach, which allows depreciation expense to be ignored if expenditures that are necessary to maintain infrastructure assets to an objectively determined level of service are made. Primarily due to the cost versus benefit concept and consistent with what appears to be an overwhelming "industry standard" being adopted by governmental entities subject to GASB Statement Number 34, the Town has adopted the reporting of depreciation expense.

SUBSEQUENT ITEMS FOR FUTURE FINANCIAL STATEMENTS

Looking to the future, there are a number of pending issues and initiatives which may impact future finances. These items could generally be considered in terms of long-term capital improvements and are in various stages of consideration.

Growth

As we consider a long-range perspective, questions of how far and how fast the Town will grow will need to be answered. The answer to these questions should include consideration of the resources, infrastructure, services, and facilities required by such growth. The Centreville Community Plan has been updated as part of the planning process and is currently undergoing final markup in anticipation of legislative approval. Both the current Plan (1998) and the draft Plan under consideration (2007) address the geographic extent of the Town's future growth by identifying specific growth areas, and prospective population density likely within those areas. More challenging to predict is the pacing of such prospective growth, which is influenced by market forces, government regulation, and specific legislative action. The draft Plan does address the resources, infrastructure, services, and facilities required for future growth, as well as the environmental impacts of such prospective future growth.

Roads

Long-term capital planning includes transportation networks and facilities. As population continues to grow in and around Centreville, increasing demand is placed on streets, sidewalks, and related transportation infrastructure. While certain State revenue supports the maintenance or upgrade of streets, this revenue stream cannot keep pace with the long-term needs for road restoration, repair, and maintenance. During the fall of 2007, the Town replaced the older portion of Little Kidwell Avenue roadway, including the curb, gutter, and sidewalk. To minimize the future disturbance to these new amenities, the local water and sewer utilities were also replaced, including lateral connections. The roadways on Spring and Holton Streets were also restored by the mill and overlay process during this project. Designs for a major reconstruction of Chesterfield Avenue, Draper Lane, and portions of Water Street and Homewood Avenue, have been completed in anticipation of bidding and construction during 2008. Phase one of this project involved completing the sidewalk connection along Chesterfield Avenue, and future phases will also include certain utility replacements. Road maintenance, and integration of major roads projects with utility upgrades, must continue to be considered as part of the Town's long-term capital planning.

Utilities: Overview

The administration of the Town's water and wastewater utilities is governed by Chapter 118 of the Centreville Code, as well as a Capacity Management Plan and a Water and Sewer Allocation Policy adopted by the Town Council. These policy and planning tools provide technical and administrative guidance with which to regulate and allocate utility resources. Establishing caps on the total amount of available capacity to be distributed each year, and determining the distribution of that available annual capacity across specific use categories, such as residential, commercial, and institutional, provides clear, equitable, and orderly criteria for staff and the development community. Financial planning will assure that the utility costs for each component of these two utilities is adequately reflected in the relevant charges, and appropriately billed to current or future customers. The planning for adequate future utility infrastructure will also affect the rate and extent to which additional development occurs within the Town of Centreville.

Water System: Overview

The municipal water system requires significant infrastructure and operational capability to assure the availability, treatment, storage, and distribution of water for drinking and other uses, including fire control.

Water System: Availability

The availability of permitted sources of water for the municipal water system is presently sufficient to meet near term demand, and the pumping capabilities are scaled to pump significant additional volumes of water, if needed. However, significant increased demand and growth in the future will require seeking additional permits for water appropriations from State Regulators (MDE).

Water System: Treatment

The U.S. Environmental Protection Agency (EPA) lowered the minimum contaminant levels for arsenic in drinking water from 50 to 10 ppm, effective January 2006. Municipalities with arsenic levels above the new standard, including Centreville, are required to treat their water supply to reduce the naturally occurring levels to the new compliance standard. The Town is addressing this regulatory requirement by adding advanced treatment systems to two primary wells supplying drinking water to the Town. The North Brook Water Treatment Facility (WTF) was completed in March 2007 and is producing water that meets the new EPA standard. A second and similar WTF is currently nearing completion on Comet Drive in the Centreville Business Park. When operational and integrated into the Town's Water System in early 2008, these two facilities will have sufficient capacity to meet treatment needs well into the future.

Water System: Storage

Centreville's 200,000 gallon Powell Street elevated water storage tank is over 35 years old and approaching the end of its expected useful life. In 2007, the Town also took ownership of an aging and relocated 100,000 gallon tank located on Wexford Drive. Consideration needs to be given to rehabilitating these structures as part of the ongoing process to maintain utility infrastructure. The Comet Drive elevated tank has a 300,000 gallon capacity and is in very good condition. The draft Water Distribution System report provided by the Town engineers in 2007 indicates that approximately 600,000 gallons of additional elevated water storage is needed to maintain an adequate supply and pressure of water for drinking and fire control to current Centreville users; even larger volumes will be needed as the Town grows. These needs warrant additional financial appropriations and will impact future capital expenditures.

Water System: Distribution

The draft Water Distribution System report also called for an additional water line looping along Route 304 on the east side of Town to increase flow for fire control and service redundancy. The Town's engineers are presently designing this improvement. These needs warrant additional appropriations and will impact future capital expenditures.

Wastewater System: Overview

The municipal wastewater system requires significant infrastructure and operational capability to assure the sanitary collection and treatment of raw wastewater, and the storage and discharge of treated wastewater. Among these components, treatment and discharge capacity are the limiting factors, given existing commitments to developers through Public Works Agreements.

Wastewater System: Collection

Wastewater collection systems transport wastewater from sources through sanitary sewer pipes and pump stations to a treatment facility. While the Town has embarked on ambitious upgrades to the North and South Pump Stations, additional improvements are needed for the Wharf Lift Station and the sanitary sewer pipes. Total wastewater flows are directly affected by the additional unwanted volumes that may come from inappropriate connections to the sanitary sewer (inflow) or seepage into the system from groundwater influences (infiltration). These flows directly impact the Town's capacity to treat and dispose of wastewater by adding additional volume. Eliminating these undesirable flows into the wastewater system provides additional capacity for the Town's users. The Town of Centreville completed the second phase of an Inflow and Infiltration (I&I) Study in 2006, which determined actual and potential external sources of flow and recommended solutions to these problems. The results of this study provided a prioritized methodology for upgrading the sewer collection system to provide a cost effective means by which to add capacity to the Town's wastewater infrastructure. These upgrades have been initiated in the order of priority established in the study. Those upgrades already completed have had quantifiable success in reducing inflow and infiltration, and thereby enhancing the system's capacity.

Wastewater System: Treatment

The Town's engineers believe the wastewater treatment facility (WWTF) is able to treat up to 750,000 gallons per day (gpd), but there are challenges inherent in the state regulatory process to increasing the rating of the facility above the current limit of 500,000 gpd. The existing treatment system is scalable, and with the installation of a third chamber, can increase capacity well above 1,000,000 gpd to meet possible future demand.

Wastewater System: Discharge

A limiting factor to providing additional sewer allocations lies in the ability to discharge treated wastewater. The Town is permitted to discharge 500,000 gpd to surface water (Gravel Run) during four months of the year, and is permitted year round discharge of 542,000 gpd to ground water (Centreville Water Reuse Area, also know as the Sprayfield). However, the ground water discharge permit is dependent on suitable weather and farming conditions. Moderate additional capacity remains in the existing spray field facility with the addition of infrastructure, but long-term needs will generally depend upon the availability of additional land for spray disposal, expansion of the stream discharge pipe further into the Corsica River, or other technologies.

Municipal Facilities

The Town's employees are scattered among three buildings plus a rented office. Further growth will require hiring additional employees who will need a suitable workplace. The Town will have acquired two new properties by the end of 2007 and the Council has discussed construction of a new municipal building or expansion of one or two existing buildings to accommodate new staff.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Town of Centreville, 101 Lawyers Row, Centreville, Maryland 21617.

TOWN OF CENTREVILLE, MARYLAND

STATEMENT OF NET ASSETS

June 30, 2007

| <u>ASSETS</u> | PRIMARY GOVERNMENT | | <u>TOTAL</u> |
|---|------------------------------------|-------------------------------------|----------------------|
| | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | \$ 3,016,467 | \$ 6,691,490 | \$ 9,707,957 |
| Cash in trust | 2,736,818 | 4,330,024 | 7,066,842 |
| Investments | 3,818,170 | 106,970 | 3,925,140 |
| Receivables: | | | |
| Taxes | 76,242 | 6,771 | 83,013 |
| Accounts (net) | 432,178 | 815,345 | 1,247,523 |
| Interest | 50,112 | 17,773 | 67,885 |
| Prepays and other assets | 13,113 | - | 13,113 |
| Notes receivable | 40,000 | - | 40,000 |
| Due from other funds | <u>553,293</u> | <u>(553,293)</u> | <u>-</u> |
| TOTAL CURRENT ASSETS | <u>10,736,393</u> | <u>11,415,080</u> | <u>22,151,473</u> |
| NONCURRENT ASSETS | | | |
| Unamortized bond issuance costs | 80,282 | 130,351 | 210,633 |
| Capital assets, net | 6,772,067 | 15,893,935 | 22,666,002 |
| Construction in progress | <u>97,133</u> | <u>327,775</u> | <u>424,908</u> |
| TOTAL NONCURRENT ASSETS | <u>6,949,482</u> | <u>16,352,061</u> | <u>23,301,543</u> |
| TOTAL ASSETS | <u>\$ 17,685,875</u> | <u>\$ 27,767,141</u> | <u>\$ 45,453,016</u> |
| <u>LIABILITIES</u> | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable | \$ 351,678 | \$ 230,630 | \$ 582,308 |
| Accrued payroll | 32,292 | 3,046 | 35,338 |
| Escrowed deferred payable | 77,996 | 663,552 | 741,548 |
| Current portion of long-term debt | <u>125,442</u> | <u>317,398</u> | <u>442,840</u> |
| TOTAL CURRENT LIABILITIES | <u>587,408</u> | <u>1,214,626</u> | <u>1,802,034</u> |
| NONCURRENT LIABILITIES | | | |
| Long-term debt | 4,691,658 | 6,525,622 | 11,217,280 |
| Non-current compensated absences | <u>77,277</u> | <u>-</u> | <u>77,277</u> |
| TOTAL NONCURRENT LIABILITIES | <u>4,768,935</u> | <u>6,525,622</u> | <u>11,294,557</u> |
| TOTAL LIABILITIES | <u>5,356,343</u> | <u>7,740,248</u> | <u>13,096,591</u> |
| <u>NET ASSETS</u> | | | |
| Invested in capital assets, net of related debt | 4,869,200 | 13,839,065 | 18,708,265 |
| Restricted for fund purposes | 4,043,736 | - | 4,043,736 |
| Unrestricted | <u>3,416,596</u> | <u>6,187,828</u> | <u>9,604,424</u> |
| TOTAL NET ASSETS | <u>12,329,532</u> | <u>20,026,893</u> | <u>32,356,425</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 17,685,875</u> | <u>\$ 27,767,141</u> | <u>\$ 45,453,016</u> |

The Notes to Financial Statements
are an Integral Part of this Statement

TOWN OF CENTREVILLE, MARYLAND

STATEMENT OF NET ASSETS

June 30, 2006

| <u>ASSETS</u> | PRIMARY GOVERNMENT | | <u>TOTAL</u> |
|--|------------------------------------|-------------------------------------|----------------------|
| | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | \$ 2,255,568 | \$ 4,433,529 | \$ 6,689,097 |
| Investments | 3,740,641 | 120,387 | 3,861,028 |
| Receivables: | | | |
| Taxes | 77,813 | 6,621 | 84,434 |
| Grants | - | 1,716,877 | 1,716,877 |
| Accounts, less allowance for losses (\$9,404) | 222,056 | 1,261,413 | 1,483,469 |
| Interest | 63,543 | - | 63,543 |
| Notes receivable | 40,000 | - | 40,000 |
| Due from other funds | 652,442 | (652,442) | - |
| TOTAL CURRENT ASSETS | 7,052,063 | 6,886,385 | 13,938,448 |
| NONCURRENT ASSETS | | | |
| Capital assets, net | 3,388,790 | 12,224,914 | 15,613,704 |
| Construction in progress | - | 429,807 | 429,807 |
| TOTAL NONCURRENT ASSETS | 3,388,790 | 12,654,721 | 16,043,511 |
| TOTAL ASSETS | \$ 10,440,853 | \$ 19,541,106 | \$ 29,981,959 |
| <u>LIABILITIES</u> | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable | \$ 128,439 | \$ 430,835 | \$ 559,274 |
| Accrued payroll | 33,793 | 5,176 | 38,969 |
| Escrowed deferred payable | - | 1,058,462 | 1,058,462 |
| Current portion of long-term debt | - | 191,733 | 191,733 |
| TOTAL CURRENT LIABILITIES | 162,232 | 1,686,206 | 1,848,438 |
| NONCURRENT LIABILITIES | | | |
| Long term debt | - | 2,382,644 | 2,382,644 |
| Non-current compensated absences | 34,346 | - | 34,346 |
| TOTAL NONCURRENT LIABILITIES | 34,346 | 2,382,644 | 2,416,990 |
| TOTAL LIABILITIES | 196,578 | 4,068,850 | 4,265,428 |
| <u>NET ASSETS</u> | | | |
| Invested in capital assets, net of related debt | 3,388,790 | 10,080,344 | 13,469,134 |
| Restricted for fund purposes | 4,050,757 | - | 4,050,757 |
| Unrestricted | 2,804,728 | 5,391,912 | 8,196,640 |
| TOTAL NET ASSETS | 10,244,275 | 15,472,256 | 25,716,531 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 10,440,853 | \$ 19,541,106 | \$ 29,981,959 |

The Notes to Financial Statements
are an Integral Part of this Statement

TOWN OF CENTREVILLE MARYLAND

STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

| <u>FUNCTIONS/PROGRAMS</u> | <u>EXPENSES</u> | <u>PROGRAM REVENUES</u> | | |
|-----------------------------------|---------------------|-----------------------------|---|---|
| | | <u>CHARGES FOR SERVICES</u> | <u>OPERATING GRANTS AND CONTRIBUTIONS</u> | <u>CAPITAL GRANTS AND CONTRIBUTIONS</u> |
| GOVERNMENTAL ACTIVITIES: | | | | |
| General government administration | \$ 671,295 | \$ 379,635 | \$ 341,696 | \$ - |
| Public safety | 830,803 | 1,110 | 62,124 | - |
| Public works | 899,615 | 216,208 | - | 1,506,398 |
| Parks and recreation | 93,311 | - | - | - |
| Cemetery | 94,009 | 52,100 | - | - |
| Watershed preservation | 85,989 | - | - | - |
| Total governmental activities | <u>2,675,022</u> | <u>649,053</u> | <u>403,820</u> | <u>1,506,398</u> |
| BUSINESS-TYPE ACTIVITIES: | | | | |
| Sewer | 806,322 | 1,369,266 | - | 1,571,200 |
| Water | 329,484 | 980,708 | - | 1,645,755 |
| Farm | 12,307 | 24,108 | 95 | - |
| Total business-type activities | <u>1,148,113</u> | <u>2,374,082</u> | <u>95</u> | <u>3,216,955</u> |
| TOTAL PRIMARY GOVERNMENT | <u>\$ 3,823,135</u> | <u>\$ 3,023,135</u> | <u>\$ 403,915</u> | <u>\$ 4,723,353</u> |

General Revenues:

Real property taxes
 Public utility taxes
 Local income taxes
 Gains, losses, change in fair market value
 CDA bond interest
 Investment earnings
 Miscellaneous

Total general revenues

Change in net assets

NET ASSETS – BEGINNING

NET ASSETS – ENDING

| NET (EXPENSES) REVENUE AND CHANGES IN NET ASSETS | | |
|---|-------------------------------------|----------------------|
| PRIMARY GOVERNMENT | | |
| GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL |
| \$ 50,036 | \$ - | \$ 50,036 |
| (767,569) | - | (767,569) |
| 822,990 | - | 822,990 |
| (93,311) | - | (93,311) |
| (41,909) | - | (41,909) |
| <u>(85,989)</u> | <u>-</u> | <u>(85,989)</u> |
| <u>(115,752)</u> | <u>-</u> | <u>(115,752)</u> |
| - | 2,134,144 | 2,134,144 |
| - | 2,296,979 | 2,296,979 |
| - | 11,896 | 11,896 |
| <u>-</u> | <u>4,443,019</u> | <u>4,443,019</u> |
| <u>(115,751)</u> | <u>4,443,019</u> | <u>4,327,268</u> |
| 1,611,632 | - | 1,611,632 |
| 46,121 | - | 46,121 |
| 254,021 | - | 254,021 |
| 32,508 | - | 32,508 |
| 11,233 | 17,773 | 29,006 |
| 226,978 | 93,845 | 320,823 |
| <u>18,515</u> | <u>-</u> | <u>18,515</u> |
| <u>2,201,008</u> | <u>111,618</u> | <u>2,312,626</u> |
| 2,085,257 | 4,554,637 | 6,639,894 |
| <u>10,244,275</u> | <u>15,472,256</u> | <u>25,716,531</u> |
| <u>\$ 12,329,532</u> | <u>\$ 20,026,893</u> | <u>\$ 32,356,425</u> |

The Notes to the Financial Statements
are an Integral Part of this Statement

TOWN OF CENTREVILLE MARYLAND

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

| <u>FUNCTIONS/PROGRAMS</u> | <u>EXPENSES</u> | <u>PROGRAM REVENUES</u> | | |
|-----------------------------------|----------------------------|-----------------------------|---|--|
| | | <u>CHARGES FOR SERVICES</u> | <u>OPERATING GRANTS AND CONTRIBUTIONS</u> | <u>CAPITAL GRANTS AND CONTRIBUTION</u> |
| GOVERNMENTAL ACTIVITIES: | | | | |
| General government administration | \$ 661,060 | \$ 380,620 | \$ 433,165 | \$ - |
| Public safety | 631,019 | 1,534 | 58,723 | - |
| Public works | 660,169 | 208,150 | - | 1,832,804 |
| Parks and recreation | 69,348 | - | - | - |
| Cemetery | 58,422 | 33,908 | - | - |
| Total governmental activities | <u>2,080,018</u> | <u>624,212</u> | <u>491,888</u> | <u>1,832,804</u> |
| BUSINESS-TYPE ACTIVITIES: | | | | |
| Sewer | 1,207,287 | 2,429,031 | - | 1,716,877 |
| Water | 361,388 | 1,711,873 | - | - |
| Farm | 103,289 | 62,675 | 66,263 | - |
| Total business-type activities | <u>1,671,964</u> | <u>4,203,579</u> | <u>66,263</u> | <u>1,716,877</u> |
| TOTAL PRIMARY GOVERNMENT | <u>\$ 3,751,982</u> | <u>\$ 4,827,791</u> | <u>\$ 558,151</u> | <u>\$ 3,549,681</u> |

General Revenues:

- Real property taxes
- Public utility tax
- Local income taxes
- Losses on disposal of assets
- Net unrealized loss on investments
- Investment earnings
- Miscellaneous

Total general revenues

Change in net assets

NET ASSETS - BEGINNING OF YEAR

NET ASSETS - END OF YEAR

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS

| PRIMARY GOVERNMENT | | |
|------------------------------------|-------------------------------------|----------------------|
| GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL |
| \$ 152,725 | \$ - | \$ 152,725 |
| (570,762) | - | (570,762) |
| 1,380,785 | - | 1,380,785 |
| (69,348) | - | (69,348) |
| (24,514) | - | (24,514) |
| <u>868,886</u> | <u>-</u> | <u>868,886</u> |
| - | 2,938,621 | 2,938,621 |
| - | 1,350,485 | 1,350,485 |
| - | 25,649 | 25,649 |
| <u>-</u> | <u>4,314,755</u> | <u>4,314,755</u> |
| <u>868,886</u> | <u>4,314,755</u> | <u>5,183,641</u> |
| 1,219,546 | - | 1,219,546 |
| 44,686 | - | 44,686 |
| 224,905 | - | 224,905 |
| (104,216) | - | (104,216) |
| - | (360,009) | (360,009) |
| 197,069 | 23,435 | 220,504 |
| 6,293 | 506 | 6,799 |
| <u>1,588,283</u> | <u>(336,068)</u> | <u>1,252,215</u> |
| 2,457,169 | 3,978,687 | 6,435,856 |
| <u>7,787,106</u> | <u>11,493,569</u> | <u>19,280,675</u> |
| <u>\$ 10,244,275</u> | <u>\$ 15,472,256</u> | <u>\$ 25,716,531</u> |

The Notes to the Financial Statements
are an Integral Part of this Statement

TOWN OF CENTREVILLE, MARYLAND
BALANCE SHEET – GOVERNMENTAL FUNDS

June 30, 2007

| | GENERAL FUND | CAPITAL PROJECT FUND | INVESTMENT FUND | TOTALS MEMORANDUM ONLY |
|--|-------------------------|-------------------------------------|----------------------------|---------------------------------------|
| <u>ASSETS</u> | | | | |
| Cash and cash equivalents | \$ 2,907,110 | \$ - | \$ 109,357 | \$ 3,016,467 |
| Cash in trust | - | 2,736,818 | - | 2,736,818 |
| Investments | 89,702 | - | 3,728,468 | 3,818,170 |
| Receivables: | | | | |
| Taxes, net | 76,242 | - | - | 76,242 |
| Accounts, net | 432,178 | - | - | 432,178 |
| Interest | - | 11,233 | 38,879 | 50,112 |
| Prepays and other assets | 13,112 | - | - | 13,112 |
| Notes receivable | 40,000 | - | - | 40,000 |
| Due from other funds | 778,149 | - | - | 778,149 |
| TOTAL ASSETS | \$ 4,336,493 | \$ 2,748,051 | \$ 3,876,704 | \$ 10,961,248 |
| <u>LIABILITIES</u> | | | | |
| Accounts payable | \$ 342,005 | \$ - | \$ - | \$ 342,005 |
| Accrued payroll | 32,292 | - | - | 32,292 |
| Escrow deferred payable | 77,996 | - | - | 77,996 |
| Due to other funds | - | 78,111 | 146,744 | 224,855 |
| TOTAL LIABILITIES | 452,293 | 78,111 | 146,744 | 677,148 |
| <u>FUNDEQUITY</u> | | | | |
| Fund balances: | | | | |
| Reserved for fund purposes | 390,328 | 2,669,940 | 3,729,960 | 6,790,228 |
| Unreserved | 3,493,872 | - | - | 3,493,872 |
| TOTAL FUND EQUITY | 3,884,200 | 2,669,940 | 3,729,960 | 10,284,100 |
| TOTAL LIABILITIES AND FUND EQUITY | \$ 4,336,493 | \$ 2,748,051 | \$ 3,876,704 | \$ 10,961,248 |

The Notes to the Financial Statements
are an Integral Part of this Statement

TOWN OF CENTREVILLE, MARYLAND
BALANCE SHEET – GOVERNMENTAL FUNDS

June 30, 2006

| | <u>GENERAL FUND</u> | <u>INVESTMENT FUND</u> | <u>TOTALS MEMORANDUM ONLY</u> |
|--|-------------------------|----------------------------|---------------------------------------|
| <u>ASSETS</u> | | | |
| Cash and cash equivalents | \$ 2,156,008 | \$ 99,560 | \$ 2,255,568 |
| Investments | 89,702 | 3,650,939 | 3,740,641 |
| Receivables: | | | |
| Taxes | 77,813 | - | 77,813 |
| Accounts, less allowance for losses (\$9,404) | 222,056 | - | 222,056 |
| Interest | - | 63,543 | 63,543 |
| Notes receivable | 40,000 | - | 40,000 |
| Due from other funds | <u>793,023</u> | <u>-</u> | <u>793,023</u> |
| TOTAL ASSETS | <u>\$ 3,378,602</u> | <u>\$ 3,814,042</u> | <u>\$ 7,192,644</u> |
| <u>LIABILITIES</u> | | | |
| Accounts payable | \$ 128,439 | \$ - | \$ 128,439 |
| Accrued payroll | 33,793 | - | 33,793 |
| Due to other funds | <u>-</u> | <u>140,581</u> | <u>140,581</u> |
| TOTAL LIABILITIES | <u>162,232</u> | <u>140,581</u> | <u>302,813</u> |
| <u>FUND EQUITY</u> | | | |
| Fund balances: | | | |
| Reserved for fund purposes | 377,296 | 3,673,461 | 4,050,757 |
| Unreserved | <u>2,839,074</u> | <u>-</u> | <u>2,839,074</u> |
| TOTAL FUND EQUITY | <u>3,216,370</u> | <u>3,673,461</u> | <u>6,889,831</u> |
| TOTAL LIABILITIES AND FUND EQUITY | <u>\$ 3,378,602</u> | <u>\$ 3,814,042</u> | <u>\$ 7,192,644</u> |

The Notes to Financial Statements
are an Integral Part of this Statement

TOWN OF CENTREVILLE, MARYLAND
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

Year Ended June 30, 2007

| | |
|----------------------------------|---------------|
| TOTAL GOVERNMENTAL FUND BALANCES | \$ 10,284,100 |
|----------------------------------|---------------|

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

Capital assets used in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds:

| | |
|--------------------------------|-------------|
| Cost of assets | 9,759,257 |
| Less: Accumulated depreciation | (2,890,057) |

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

| | |
|--|---------------|
| Interest payable on bond, reported in accounts payable | 9,673 |
| Bond payable, net of issuance costs of \$80,282 | 2,736,818 |
| Mortgage payable | 2,000,000 |
| Compensated absences | <u>77,277</u> |

| | |
|-----------------------------|--------------------|
| Total long-term liabilities | <u>(4,823,768)</u> |
|-----------------------------|--------------------|

| | |
|---------------------------------------|----------------------|
| NET ASSETS OF GOVERNMENTAL ACTIVITIES | <u>\$ 12,329,532</u> |
|---------------------------------------|----------------------|

TOWN OF CENTREVILLE, MARYLAND
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

Year Ended June 30, 2006

| | |
|----------------------------------|--------------|
| TOTAL GOVERNMENTAL FUND BALANCES | \$ 6,889,831 |
|----------------------------------|--------------|

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

Capital assets used in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds:

| | |
|--------------------------------|-------------|
| Cost of assets | 6,024,030 |
| Less: accumulated depreciation | (2,635,240) |

Non-current liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Non-current liabilities at year end consists of non-current compensated absences.

(34,346)

| | |
|---------------------------------------|----------------------|
| NET ASSETS OF GOVERNMENTAL ACTIVITIES | <u>\$ 10,244,275</u> |
|---------------------------------------|----------------------|

TOWN OF CENTREVILLE, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

Year Ended June 30, 2007

| | <u>GENERAL FUND</u> | <u>CAPITAL PROJECT FUND</u> | <u>INVESTMENT FUND</u> | <u>TOTALS MEMORANDUM ONLY</u> |
|---|-------------------------|-------------------------------------|----------------------------|---------------------------------------|
| REVENUES | | | | |
| General property taxes | \$ 1,657,796 | \$ - | \$ - | \$ 1,657,796 |
| Other local taxes | 253,977 | - | - | 253,977 |
| Permits and licenses | 176,092 | - | - | 176,092 |
| Charges for services | 419,987 | - | - | 419,987 |
| Intergovernmental | 403,820 | - | - | 403,820 |
| Miscellaneous | | | | |
| Other miscellaneous revenue | 75,607 | - | - | 75,607 |
| Investment earnings | 88,868 | 11,233 | 140,214 | 240,315 |
| Gains, losses and changes in fair market value | - | - | 32,508 | 32,508 |
| Fees and charges | - | - | (6,224) | (6,224) |
| TOTAL REVENUES | <u>3,076,147</u> | <u>11,233</u> | <u>166,498</u> | <u>3,253,878</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government administration | 625,288 | - | - | 625,288 |
| Public safety | 780,810 | - | - | 780,810 |
| Public works | 699,659 | - | - | 699,659 |
| Parks and recreation | 81,756 | - | - | 81,756 |
| Cemetery | 92,445 | - | - | 92,445 |
| Watershed preservations | 85,988 | - | - | 85,988 |
| Capital outlay | 2,152,372 | 78,111 | - | 2,230,483 |
| TOTAL EXPENDITURES | <u>4,518,318</u> | <u>78,111</u> | <u>-</u> | <u>4,596,429</u> |
| EXCESS OF REVENUES OVER (UNDER) | | | | |
| EXPENDITURES BEFORE OTHER | | | | |
| FINANCING SOURCES (USES) | | | | |
| | <u>(1,442,171)</u> | <u>(66,878)</u> | <u>166,498</u> | <u>(1,342,551)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Long-term debt issued | 2,000,000 | 2,817,000 | - | 4,817,000 |
| Long-term debt issuance costs | - | (80,282) | - | (80,282) |
| Operating transfers | 110,000 | - | (110,000) | - |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>2,110,000</u> | <u>2,736,818</u> | <u>(110,000)</u> | <u>4,736,818</u> |
| EXCESS OF REVENUES AND | | | | |
| OTHER FINANCING SOURCES | | | | |
| OVER EXPENDITURES AND | | | | |
| OTHER FINANCING USES | | | | |
| | 667,829 | 2,669,940 | 56,498 | 3,394,267 |
| FUND BALANCES, BEGINNING OF YEAR | <u>3,216,371</u> | <u>-</u> | <u>3,673,462</u> | <u>6,889,833</u> |
| FUND BALANCES, END OF YEAR | <u>\$ 3,884,200</u> | <u>\$ 2,669,940</u> | <u>\$ 3,729,960</u> | <u>\$ 10,284,100</u> |

The Notes to Financial Statements
are an Integral Part of this Statement

TOWN OF CENTREVILLE, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

Year Ended June 30, 2006

| | <u>GENERAL FUND</u> | <u>INVESTMENT FUND</u> | <u>TOTALS MEMORANDUM ONLY</u> |
|---|-------------------------|----------------------------|---------------------------------------|
| REVENUES | | | |
| General property taxes | \$ 1,264,233 | \$ - | \$ 1,264,233 |
| Other local taxes | 224,905 | - | 224,905 |
| Permits and licenses | 246,160 | - | 246,160 |
| Charges for services | 343,135 | - | 343,135 |
| Intergovernmental | 491,888 | - | 491,888 |
| Miscellaneous | | | |
| Other miscellaneous revenue | 50,190 | - | 50,190 |
| Investment earnings | 24,749 | 165,016 | 189,765 |
| Net unrealized loss on investments | - | (104,216) | (104,216) |
| TOTAL REVENUES | <u>2,645,260</u> | <u>60,800</u> | <u>2,706,060</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General government administration | 626,233 | - | 626,233 |
| Public safety | 598,578 | - | 598,578 |
| Public works | 565,100 | - | 565,100 |
| Parks and recreation | 54,445 | - | 54,445 |
| Cemetery | 55,439 | - | 55,439 |
| Capital outlay | 346,585 | - | 346,585 |
| Debt service: | | | |
| Principal | 46,226 | - | 46,226 |
| Interest | 1,745 | - | 1,745 |
| TOTAL EXPENDITURES | <u>2,294,351</u> | <u>-</u> | <u>2,294,351</u> |
| EXCESS OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES) | | | |
| | 350,909 | 60,800 | 411,709 |
| OTHER FINANCING SOURCES (USES) | | | |
| Operating transfers | <u>112,067</u> | <u>(112,067)</u> | <u>-</u> |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | | | |
| | 462,976 | (51,267) | 411,709 |
| FUND BALANCES, BEGINNING OF YEAR | <u>2,753,394</u> | <u>3,724,728</u> | <u>6,478,122</u> |
| FUND BALANCES, END OF YEAR | <u>\$ 3,216,370</u> | <u>\$ 3,673,461</u> | <u>\$ 6,889,831</u> |

The Notes to Financial Statements
are an Integral Part of this Statement

TOWN OF CENTREVILLE, MARYLAND
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2007

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS \$ 3,394,267

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets (\$2,228,831) is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation (\$254,817) in the current period. 1,974,014

Donated assets recorded in government-wide statements but not governmental funds 1,506,398

The issuance of long-term debt 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. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. (4,736,818)

Some expenses, representing the change in long-term liabilities or assets, reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Accrued interest payable (9,675)
Accrued compensated absences (42,929)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 2,085,257

TOWN OF CENTREVILLE, MARYLAND
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS \$ 411,709

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

| | |
|---|---------------|
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets (\$2,173,019) is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation (\$154,957) in the current period. | 2,018,062 |
| Governmental activities report capital asset disposal losses as expenditures | (1,678) |
| The issuance of long-term debt 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. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. | <u>29,076</u> |

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 2,457,169

TOWN OF CENTREVILLE, MARYLAND
STATEMENTS OF NET ASSETS
PROPRIETARY FUNDS
BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUND
June 30, 2007 and 2006

| <u>ASSETS</u> | <u>2007</u> | <u>2006</u> |
|---|-----------------------------|-----------------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 6,691,490 | \$ 4,433,529 |
| Cash in trust | 4,330,024 | - |
| Investments | 106,970 | 120,387 |
| Receivables: | | |
| Grants | - | 1,716,877 |
| Accrued interest | 17,773 | - |
| Taxes | 6,771 | 6,621 |
| Accounts (net) | <u>815,345</u> | <u>1,261,413</u> |
| TOTAL CURRENT ASSETS | <u>11,968,373</u> | <u>7,538,827</u> |
| NONCURRENT ASSETS | | |
| Unamortized bond issuance costs | 130,351 | - |
| Capital assets, net | 15,893,935 | 12,224,914 |
| Construction in progress | <u>327,775</u> | <u>429,807</u> |
| TOTAL NONCURRENT ASSETS | <u>16,352,061</u> | <u>12,654,721</u> |
| TOTAL ASSETS | <u>\$ 28,320,434</u> | <u>\$ 20,193,548</u> |
| <u>LIABILITIES</u> | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 230,630 | \$ 430,835 |
| Accrued payroll | 3,046 | 5,175 |
| Due to other funds | 553,293 | 652,443 |
| Escrow deferred payable | 663,552 | 1,058,462 |
| Current portion of long-term debt | <u>317,398</u> | <u>191,733</u> |
| TOTAL CURRENT LIABILITIES | 1,767,919 | 2,338,648 |
| NONCURRENT LIABILITIES | | |
| Long-term debt | <u>6,525,622</u> | <u>2,382,644</u> |
| TOTAL LIABILITIES | <u>8,293,541</u> | <u>4,721,292</u> |
| <u>NET ASSETS</u> | | |
| Invested in capital assets, net of related debt | 13,839,065 | 10,080,344 |
| Unrestricted | <u>6,187,828</u> | <u>5,391,912</u> |
| TOTAL NET ASSETS | <u>20,026,893</u> | <u>15,472,256</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 28,320,434</u> | <u>\$ 20,193,548</u> |

The Notes to Financial Statements
are an Integral Part of this Statement

TOWN OF CENTREVILLE, MARYLAND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUND
Years Ended June 30, 2007 and 2006

| | <u>2007</u> | <u>2006</u> |
|-------------------------------------|----------------------|----------------------|
| OPERATING REVENUES | \$ 2,374,177 | \$ 4,270,346 |
| OPERATING EXPENSES | <u>1,135,895</u> | <u>1,596,802</u> |
| OPERATING INCOME | <u>1,238,282</u> | <u>2,672,704</u> |
| NON-OPERATING REVENUES AND EXPENSES | | |
| Revenue | 55,618 | 1,740,314 |
| Expenses | <u>12,218</u> | <u>435,171</u> |
| NET NON-OPERATING REVENUES | <u>43,400</u> | <u>1,305,983</u> |
| CAPITAL CONTRIBUTIONS | <u>3,272,955</u> | <u>-</u> |
| CHANGE IN NET ASSETS | 4,554,637 | 3,978,687 |
| NET ASSETS, BEGINNING OF YEAR | <u>15,472,256</u> | <u>11,493,569</u> |
| NET ASSETS, END OF YEAR | <u>\$ 20,026,893</u> | <u>\$ 15,472,256</u> |

The Notes to Financial Statements
are an Integral Part of this Statement

TOWN OF CENTREVILLE, MARYLAND
STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS
BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUND
Years Ended June 30, 2007 and 2006

| | <u>2007</u> | <u>2006</u> |
|---|----------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers | \$ 1,155,880 | \$ 1,347,130 |
| Cash received from grantors | 1,716,972 | 66,262 |
| Cash received from allocations and planning | 1,230,017 | 2,883,148 |
| Miscellaneous receipts | 51,132 | 2,639 |
| Cash paid for supplies, services, etc. | (582,822) | (1,621,316) |
| Cash paid for employees | <u>(154,836)</u> | <u>(183,489)</u> |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | <u>3,416,343</u> | <u>2,494,374</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest on cash deposits and investments | <u>107,261</u> | <u>21,162</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Purchases/construction of capital assets | (901,998) | (566,604) |
| Interest paid on long-term debt | (72,764) | (75,161) |
| Principal paid on long-term debt | (191,732) | (189,129) |
| Proceeds from long-term debt | <u>4,330,024</u> | <u>-</u> |
| NET CASH FLOWS FROM FINANCING ACTIVITIES | <u>3,163,530</u> | <u>(830,894)</u> |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | | |
| Transfers from other funds | <u>(99,149)</u> | <u>509,561</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 6,587,985 | 2,194,203 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>4,433,529</u> | <u>2,239,326</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 11,021,514</u> | <u>\$ 4,433,529</u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Operating income | \$ 1,238,282 | \$ 2,672,703 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | 337,871 | 282,326 |
| Changes in operating assets and liabilities: | | |
| Receivables, net | 2,162,795 | (1,025,110) |
| Payables and accrued expenses | <u>(322,605)</u> | <u>564,455</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 3,416,343</u> | <u>\$ 2,494,374</u> |

The Notes to Financial Statements
are an Integral Part of this Statement

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies

The Town of Centreville, Maryland (the "Town") operates under a Council-Manager form of government. The Town's major operations include public safety, parks and recreation, public works, public cemetery, watershed preservation and general administrative services. In addition, the Town owns and operates a water and sewer system including a farm for spray irrigation. The Town's financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB") as well as Financial Accounting Standards Board (FASB) pronouncements unless the FASB pronouncements conflict with or contradict GASB pronouncements. The significant accounting policies of the Town are summarized as follows:

Reporting entity - The financial statements of the Town include all funds, account groups, agencies, boards, commissions, etc. that are controlled by, or dependent on, the elected Council. Control and dependence are determined by considering budget adoption, taxing authority, funding, guarantee of debt, ownership of assets and appointment of the respective governing board.

Government-wide and fund financial statements - The government-wide financial statements report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for the governmental funds and proprietary funds. The major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement preparation - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds 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.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies – continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. 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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Exceptions to the general rule include principal and interest on general long-term debt which are recognized when due.

Property taxes, other local taxes, shared expenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

The Town's reporting entity applied all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary fund, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 have been applied, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The government reported three major governmental funds in 2007: the General Fund, Investment Fund and the Capital Project Fund. The General Fund is the government's primary operating fund and accounts for all financial resources of the general government, except those required to be accounted for in another fund. The Investment Fund is a permanent fund in that only the fund's investment earnings may be used to support the government's programs. The Investment Fund's principal is legally restricted from being used unless approved by the citizens of the government. The Capital Project Fund is to be used to account for capital outlays financed by general obligation debt for the acquisition of construction of major capital facilities.

The government has only one Proprietary Fund in 2007: the Water and Sewer Enterprise Fund. This fund accounts for the Town's water and sewer operations.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer fund are charges to customers for services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies – continued

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, liabilities and net assets or equity

Deposits and investments – The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the Town are reported at fair value.

Receivables and payables – Receivables are stated at cost with an allowance for doubtful accounts when in the opinion of the Town's management collection is doubtful. Due from other funds and governments are stated at cost.

Development fees receivable include amounts due from third parties for subdivision review fees, allocation fees, contract services, and other related fees. Tower rental receivables include amounts due from wireless carriers and internet service providers. These are shown net of an allowance for uncollectible accounts. The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance for uncollectible revenue amounted to \$15,968 at June 30, 2007 for the General Fund.

Interfund receivables and payables – Generally, outstanding balances between funds, reported as "due to/from other funds," include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end, and other miscellaneous receivables/payables between funds. Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are described as due to/from other funds.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "due to/from other funds."

The following schedule reports receivables and payables within the reporting entity at fiscal year-end:

| | <u>DUE FROM OTHER FUNDS</u> | <u>DUE TO OTHER FUNDS</u> | <u>NET BALANCES</u> |
|--------------------------|--|--------------------------------------|----------------------------|
| Governmental Activities: | | | |
| General Fund 1 | \$ 706,790 | \$ - | \$ 706,790 |
| Capital Asset Fund | - | 78,111 | 78,111 |
| Revolving Housing Fund | 49,905 | - | 49,905 |
| Perpetual Care Fund | 21,454 | - | 21,454 |
| Investment Fund | <u>-</u> | <u>146,745</u> | <u>(146,745)</u> |
| Total | <u>\$ 778,149</u> | <u>\$ 224,856</u> | <u>\$ 553,293</u> |
| Business-Type Activities | <u>\$ -</u> | <u>\$ 553,293</u> | <u>\$ 553,293</u> |

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies – continued

Capital assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g.: roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

The Town's capital assets are depreciated using the straight-line method over the following estimated lives:

| | |
|----------------|----------------|
| Buildings | 20 to 50 Years |
| Improvements | 10 to 20 Years |
| Infrastructure | 10 to 20 Years |
| Equipment | 5 to 15 Years |
| Vehicles | 5 to 10 Years |

The Enterprise Fund records depreciation using the straight-line method over the following estimated useful lives of the assets:

| | |
|-------------------------|----------------|
| Infrastructure | 25 to 50 Years |
| Machinery and Equipment | 5 to 15 Years |
| Water and Sewer System | 5 to 50 Years |
| Vehicles | 5 to 10 Years |

Compensated absences – Permanent full-time employees are granted vacation benefits in varying amounts up to specified maximums depending on tenure with the Town. The estimated current portion of the liability for vested vacation benefits attributable to the Town's governmental funds is recorded as an expenditure and liability in the respective funds. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements.

Net assets – Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations placed on their use through external restrictions imposed by grantors or laws or regulations of other governments.

Fund equity – In the fund financial statements, governmental 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 CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies – continued

Property tax calendar – In accordance with Maryland law the Town operates on a fiscal year of July 1 – June 30. At least 32 days prior to July 1 of each year the Council adopts a budget 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 the taxes remain unpaid on the following January 1 is sold at public auction by Queen Anne’s County in the manner prescribed by State Law.

Budgetary control – Prior to the beginning of each fiscal year the Council considers and adopts an annual budget. The budget provides a complete financial plan in that it contains estimated revenues and proposed expenditures adopted on a basis consistent with generally accepted accounting principles. The estimated revenues must equal or exceed the proposed expenditures and actual expenditures cannot exceed those contained in the budget. Unexpended appropriations lapse at each fiscal year end. The budget is amended if needed during a fiscal year to reflect additional spending approved by the Council. The budget amounts shown in the financial statements are from the original and revised budget that was adopted by the Town Council.

(2) Stewardship, compliance, and accountability

Budgets and budgetary accounting – Formal budgetary integration is employed as a management control device during the year for the General Fund and Capital Projects Fund. Annual operating budgets are adopted by ordinances and resolutions passed by the Town Council for those funds. Special revenue funds do not have an annual operating budget adopted by the Town Council. Budgets are prepared on the same basis of accounting used for financial reporting purposes. The Town does not integrate the use of encumbrance accounting in any of its funds. The original budgets and revisions are authorized at the department level by the Town Council.

The Department Manager has the authority to apply amounts within the departments, so long as the total appropriation for a department is not adjusted. Budget amounts reflected in the financial statements include the original and final adopted budget. All appropriations, which are non-capital in nature, lapse at year-end to the extent that they have not been fully expended.

**TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS**

(3) Deposits and investments

Deposits – The Town’s authority to invest surplus cash is derived directly from State law. That law restricts investment to:

- Deposits in financial institutions insured by the Federal Deposit Insurance Corporation,
- U.S. Treasury and Agency securities,
- Collateralized repurchase agreements,
- Guaranteed bankers acceptances, and
- The Maryland Local Government Investment Pool.

Custodial credit risk – As of June 30, 2007, the Town’s bank balance of cash deposits with financial institutions totaled \$9,868,317, of which \$100,000 was covered by Federal Deposit Insurance Corporation. The remaining \$9,768,317 was collateralized in accordance with state regulations, with \$10,359,806 of securities held by Centreville National Bank, pledged to secure the Town’s deposits. All certificates of deposit are investments. Custodial credit risk is the risk that, in the event of a bank failure, the government’s deposits may not be returned to it.

All highly liquid investments with an original maturity of three months or less are considered to be equivalent to cash.

Cash In trust – Bond proceeds received during the May 2007 issuance shall be held and invested as cash in trust by the Division of Development Finance of the Department of Housing and Community Development, a principal department of the government of the State of Maryland in connection with the Local Government Infrastructure Financing Program.

Investments – At year-end, the deposits and investments were reported in the basic financial statements in the following categories:

| | <u>GOVERNMENTAL ACTIVITIES</u> | <u>BUSINESS-TYPE ACTIVITIES</u> | <u>TOTAL PRIMARY GOVERNMENT</u> |
|----------------------|------------------------------------|-------------------------------------|-------------------------------------|
| Cash and Investments | <u>\$ 9,571,455</u> | <u>\$ 11,128,484</u> | <u>\$ 20,669,939</u> |

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(3) Deposits and investments – continued

The breakdown between deposits and investments for the Town is as follows:

| | |
|--|----------------------|
| Bank deposits (checking accounts, savings accounts, and certificates of deposit) | \$ 10,358,293 |
| Cash in trust - CDA Bond | 7,066,842 |
| Sallie Mae Corp. | 83,133 |
| Federal Home Loan Mortgage Corp. | 535,545 |
| Federal National Mortgage Assn. | 681,376 |
| U.S. Treasury Notes | 392,000 |
| Federal Home Loan Bank | 889,812 |
| Federal Farm Credit Bank | <u>692,938</u> |
| TOTAL | <u>\$ 20,699,939</u> |

The U.S. government securities are categorized as insured, registered, or held by the Town or its agent in the Town's name in order to reduce the custodial credit risk to a minimum.

Interest Rate Risk – The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk – Town Charter provisions restrict fund investments to:

- 1) Direct obligations of, or obligations insured or guaranteed by, the United States of America.
- 2) Bonds, debentures, notes or other evidences of indebtedness issued by Bank of Cooperatives, Federal Intermediate Credit Banks, Federal Home Loan Bank System, Export-Import Bank of the United States, Federal Land Banks, Government National Mortgage Association, Tennessee Valley Authority, and Washington Metropolitan Area Transit Authority
- 3) Time deposits or certificates of deposit secured by obligations described in (1) or (2) above.

Custodial credit risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty, the system will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the \$3,338,364 investments held by National Financial Services, LLC (NFS), a Fidelity Investments company, up to \$500,000 is protected with the Securities Investor Protection Corporation (SIPC). NFS provides supplemental coverage for total account net equity in excess of the SIPC coverage. Neither coverage protects against a decline in the market value of securities. As of June 30, 2007, the Town was not exposed to custodial credit risk.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(3) Deposits and investments – continued

Foreign currency risk – The investment policy does not permit investments in foreign investments.

(4) Due from other governments

At June 30, 2007, due from other governments, a component of taxes receivable, is summarized as follows:

| | |
|---|-------------------------|
| General Fund: | |
| State of Maryland | |
| Highway user tax | \$ 40,862 |
| Income tax | 22,374 |
| Admissions tax | <u>1,384</u> |
| TOTAL DUE FROM OTHER GOVERNMENTS | <u>\$ 64,620</u> |

(5) Risk management

The Town has identified various areas where it is at risk of loss during the normal course of business. Those areas include property damage or destruction, general liability, employee dishonesty, worker's compensation, etc. It is the Town's policy to eliminate the risk of loss in those areas through the purchase of commercial insurance.

There were no significant reductions in insurance coverage during fiscal year 2007. Settlement amounts have not exceeded insurance coverage for the current or five prior years.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(6) Capital assets

Capital asset activity for the year ended June 30, 2007 was as follows:

| | <u>BEGINNING BALANCES</u> | <u>INCREASES</u> | <u>DECREASES</u> | <u>ENDING BALANCES</u> |
|---|-------------------------------|----------------------------|--------------------------|-----------------------------|
| <u>GOVERNMENTAL ACTIVITIES</u> | | | | |
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 139,425 | \$ 2,040,148 | \$ - | \$ 2,179,573 |
| Construction in progress | <u>-</u> | <u>97,133</u> | <u>-</u> | <u>97,133</u> |
| Total Capital Assets Not Being Depreciated | <u>139,425</u> | <u>2,137,281</u> | <u>-</u> | <u>2,276,706</u> |
| Capital Assets Being Depreciated: | | | | |
| Buildings and improvements | 5,139,874 | 1,506,399 | - | 6,646,273 |
| Equipment | <u>744,731</u> | <u>91,549</u> | <u>-</u> | <u>836,280</u> |
| Total Capital Assets Being Depreciated | <u>5,884,605</u> | <u>1,597,948</u> | <u>-</u> | <u>7,482,553</u> |
| Less Accumulated Depreciation for: | | | | |
| Buildings and improvements | 2,292,606 | 178,075 | - | 2,470,681 |
| Equipment | <u>342,634</u> | <u>76,742</u> | <u>-</u> | <u>419,376</u> |
| Total Accumulated Depreciation | <u>2,635,240</u> | <u>254,817</u> | <u>-</u> | <u>2,890,057</u> |
| Total Capital Assets Being Depreciated, Net | <u>3,249,365</u> | <u>1,343,131</u> | <u>-</u> | <u>4,592,496</u> |
| GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET | <u>\$ 3,388,790</u> | <u>\$ 3,480,412</u> | <u>\$ -</u> | <u>\$ 6,869,202</u> |
| <u>BUSINESS-TYPE ACTIVITIES</u> | | | | |
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 1,160,863 | \$ - | \$ - | \$ 1,160,863 |
| Construction in progress | <u>429,807</u> | <u>302,712</u> | <u>404,744</u> | <u>327,775</u> |
| Total Capital Assets Not Being Depreciated | <u>1,590,670</u> | <u>302,712</u> | <u>404,744</u> | <u>1,488,638</u> |
| Capital Assets Being Depreciated: | | | | |
| Land improvements, buildings and improvements | 12,655,828 | 4,006,892 | - | 16,662,720 |
| Equipment and other | <u>192,876</u> | <u>-</u> | <u>-</u> | <u>192,876</u> |
| Total Capital Assets Being Depreciated | <u>12,848,704</u> | <u>4,006,892</u> | <u>-</u> | <u>16,855,596</u> |
| Less Accumulated Depreciation for: | | | | |
| Land improvements, buildings and improvements | 1,633,042 | 330,533 | - | 1,963,575 |
| Equipment and other | <u>151,611</u> | <u>7,338</u> | <u>-</u> | <u>158,949</u> |
| Total Accumulated Depreciation | <u>1,784,653</u> | <u>337,871</u> | <u>-</u> | <u>2,122,524</u> |
| Total Capital Assets Being Depreciated, Net | <u>11,064,051</u> | <u>3,669,021</u> | <u>-</u> | <u>14,733,072</u> |
| BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET | <u>\$12,654,721</u> | <u>\$ 3,971,733</u> | <u>\$ 404,744</u> | <u>\$ 16,221,710</u> |

**TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS**

(6) Capital assets – continued

Depreciation expense was charged to functions/programs of the primary government as follows:

| | |
|---|-------------------|
| Governmental activities: | |
| General government | \$ 11,860 |
| Public safety | 30,722 |
| Public works | 201,888 |
| Parks and recreation | <u>10,347</u> |
| Total Depreciation Expense – Governmental Activities | <u>\$ 254,817</u> |
| Business-type activities: | |
| Sewer | \$ 271,303 |
| Water | <u>66,568</u> |
| Total Depreciation Expense – Business-Type Activities | <u>\$ 337,871</u> |

(7) Contingent liabilities

The Town is the recipient of several state-shared taxes, specifically Highway User. These programs are subject to audit and retroactive adjustment which could result in reimbursement to the State.

(8) Long-term liabilities

The Town has incurred debt to provide funds for the acquisition, construction and improvement of its infrastructure and water and sewer systems. The debt takes the form of bonds, notes and mortgages payable. General obligation debt is backed by the full faith and credit of the Town.

GOVERNMENTAL ACTIVITIES

| | |
|--|------------------|
| Bond payable; Community Development Administration Local Government Infrastructure Bonds 2007 Series A (Ambac insured); payable in annual installments beginning May 1, 2008; interest at 4.225%; interest paid on the unpaid principal installment amounts due and payable in semiannual payments commencing November 1, 2007; thereafter due first day of May and November each year thereafter until maturity; the term for this obligation is 20 years | \$ 2,817,100 |
| Note payable to Centreville National Bank; payable in monthly installments of \$10,567, including principal and interest at 4.79%; final payment due June 7, 2037 | <u>2,000,000</u> |
| Total Governmental Activities | <u>4,817,100</u> |

**TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS**

(8) Long-term liabilities – continued

BUSINESS-TYPE ACTIVITIES

| | |
|---|----------------------|
| Bond payable; Community Development Administration Local Government Infrastructure Bonds 2007 Series A (Ambac insured); payable in annual installments beginning May 1, 2008; interest at 4.225%; interest paid on the unpaid principal installment amounts due and payable in semiannual payments commencing November 1, 2007; thereafter due first day of May and November each year thereafter until maturity; the term for this obligation is 20 years | 2,560,375 |
| Bond payable; Community Development Administration Local Government Infrastructure Bonds 2007 Series A-1 (Ambac insured); payable in annual installments beginning May 1, 2008; interest at 4.35%; interest paid on the unpaid principal installment amounts due and payable in semiannual payments commencing November 1, 2007; thereafter due first day of May and November each year thereafter until maturity; the term for this obligation is 30 years | 1,900,000 |
| Bond payable; Water Quality Bond, Series 2002; payable in annual installments beginning February 1, 2003; interest at 1.2%; interest paid on the unpaid principal amounts advanced under the loan agreement started on February 1, 2003 and semiannually thereafter on the first day of August and February each year through February, 2023; maximum amount of loan commitment is \$3,900,000; an annual fee of \$11,048 is paid by the town to MDE for administering the loan | 1,358,188 |
| Loan payable; United States Department of Agriculture; rural development loan; interest at 4.25%; payable on a quarterly basis beginning December 27, 2003; due September 29, 2043; unsecured | <u>1,024,457</u> |
| Total Business-Type Activities | <u>6,843,020</u> |
| TOTAL | <u>\$ 11,660,120</u> |

The Town of Centreville also maintains a revolving line of credit in the amount of \$250,000 from the Centreville National Bank of Maryland. The interest rate on the line of credit is variable. The interest rate to be applied to any unpaid principal balance during the note will be at a rate of 2.89 percentage points under the then current Index and rounded to the nearest .125 percent. There are currently no amounts outstanding on the line of credit.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(8) Long-term liabilities – continued

Long-term debt service requirements to maturity are summarized as follows:

| <u>YEAR ENDED</u> <u>JUNE 30,</u> | <u>GOVERNMENTAL ACTIVITIES</u> | |
|--------------------------------------|--------------------------------|---------------------|
| | <u>PRINCIPAL</u> | <u>INTEREST</u> |
| 2008 | 125,442 | 211,010 |
| 2009 | 130,777 | 205,291 |
| 2010 | 139,907 | 199,900 |
| 2011 | 144,117 | 194,141 |
| 2012 | 148,209 | 188,448 |
| 2013 - 2037 | <u>4,128,648</u> | <u>3,970,390</u> |
| | <u>\$ 4,817,100</u> | <u>\$ 4,969,180</u> |

| <u>YEAR ENDED</u> <u>JUNE 30,</u> | <u>BUSINESS-TYPE ACTIVITIES</u> | |
|--------------------------------------|---------------------------------|--------------------|
| | <u>PRINCIPAL</u> | <u>INTEREST</u> |
| 2008 | 317,398 | 245,631 |
| 2009 | 324,613 | 235,377 |
| 2010 | 331,875 | 227,707 |
| 2011 | 339,688 | 219,813 |
| 2012 | 347,053 | 211,673 |
| 2013 - 2043 | <u>5,182,393</u> | <u>2,643,916</u> |
| | <u>\$ 6,843,020</u> | <u>\$3,784,117</u> |

The following is a summary of changes in long-term liabilities and compensated absences of the Town for the year ended June 30, 2007:

| | <u>WATER AND</u> <u>SEWER FUND</u> | <u>CAPITAL</u> <u>PROJECT</u> <u>FUND</u> | <u>GENERAL</u> <u>LONG-TERM</u> <u>DEBT</u> | <u>COMPENSATED</u> <u>ABSENCES</u> | <u>TOTAL</u> |
|----------------------------|---------------------------------------|---|---|---------------------------------------|----------------------|
| Balance, beginning of year | \$ 2,574,377 | \$ - | \$ - | \$ 34,346 | \$ 2,608,723 |
| Increases | 4,460,375 | 2,817,100 | 2,000,000 | 42,931 | 9,320,406 |
| Decreases | <u>(191,732)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(191,732)</u> |
| Balance, end of year | <u>\$ 6,843,020</u> | <u>\$ 2,817,100</u> | <u>\$ 2,000,000</u> | <u>\$ 77,277</u> | <u>\$ 11,737,397</u> |

Interest expense was \$63,580 for the Business-Type and the Governmental Activities for 2007.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(9) Commitments and contingencies

Construction projects – During fiscal year 2003, the Town awarded bids for three construction projects. Together the projects expanded and renovated the Wastewater Treatment Plant (WWTP) and related facilities. Total project costs are now estimated to be approximately \$10,250,000. Financing has been provided by a \$3.9 million dollar bond of which \$2,065,583 has been drawn, a Maryland Department of the Environment Grant of approximately \$4,229,858, a USDA Grant of \$900,000, a USDA Loan of \$1,066,308, and local resources including allocation fees charged to residential developers. As of May 2007 the Town indicated to MDE they would not be submitting any further claims against the \$3.9 million bond. MDE has since closed out the bond with the Town of Centreville. The Force Main was finished in fiscal year 2005. The Spray Irrigation and WWTP were near completion at the end of fiscal year 2007.

The State of Maryland grant includes provisions that require the Town to upgrade its Wastewater Treatment Plant with equipment designed to remove nitrogen from its effluent.

During May 2007 the Town received bond proceeds from a bond issuance from Community Development Administration, an agency in the Division of Development Finance of the Department of Housing and Community Development, a principal department of the government of the State of Maryland (the "Administration"), in connection with the Local Government Infrastructure Financing Program. The general obligation bonds are to be used to finance infrastructure projects undertaken by the Town of Centreville. The bond issuance consists of an aggregate principal amount not to exceed \$7,500,000 for the purpose of street improvements, wastewater collection system improvements, water distribution system improvements, and water treatment system construction (collectively the "Project"). The proceeds of the Bonds shall be held and invested by the Administration in its sole discretion and shall be administered and disbursed by the Administration pursuant to a Repayment Agreement. Proceeds of the bonds shall be used when, and as required, to pay Project costs.

The Town awarded a bid in April 2007 for the construction of a Water Treatment Plant to be located within the Centreville Business Park. Total project costs are estimated to be \$1,814,795. Construction of the Water Treatment Plant will allow the Town to achieve compliance with the new arsenic regulations implemented by the Maryland Department of the Environment. The construction is anticipated to be substantially completed by November 2007.

During May 2007 the Town also awarded a bid for the reconstruction and subsurface sewer and water rehabilitation of Little Kidwell Avenue. The contract included an alternate bid for the partial renovation of Holton and Spring Streets. Project costs are estimated to be approximately \$850,100. The contract outlines a completion date of September 2007.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(9) Commitments and contingencies – continued

Public works agreements – The Town of Centreville has entered into several Public Works Agreements (PWA's) with developers for projects within the Town. Approximately 850 residential and commercial units in various locations are allocated sewer and water services. These allocations are granted from existing wastewater treatment facilities. In each case, developers have paid fees to reserve capacity.

To ensure that the developers associated with the PWA's satisfy their obligations under their respective agreements, the Town required the issuance of letters of credit for various amounts. These letters of credit remain unused and total \$5,135,858 as of June 30, 2007.

Employment contracts – The Town has an employment agreement with its Town Manager dated April 2006. The contract is for a term of three years. The Town also has a contract with the Chief of Police that was effective January 2006 for a two year term. Both contracts may be terminated by either the Town or the employee.

Contractual agreements – The Town has a renewable annual agreement with MES (Maryland Environmental Service) to provide operation of Centreville's water and wastewater treatment system. The total estimated cost of services and supplies is \$275,000. MES also provides services for solid waste disposal at the plant.

Bandurski is under contract for the pickup and disposal of trash. The total estimated cost of the services is \$94,000.

URS is under contract to provide engineering consulting to the Town. Services are billed based upon time and materials. Hourly rates are set on December 1 of each year.

Borrowing unit – In connection with the issuance of the \$3,900,000 Water Quality Bond, Series 2002, dated June 28, 2002, the Town of Centreville, by Charter Amendment, agreed to limit the amount of money it can borrow to an amount not to exceed twenty percent (20%) of its assessable tax base of \$376,840,094. Currently, the borrowing limit is \$75,368,018.

Legal issues – There is no pending litigation against the Town. There is one pending claim or assessment against the Town arising from a citation received from a State agency with regards to the Town failing to provide a storm water management plan with respect to the construction of sidewalks.

The Town has two potential unasserted claims. One potential claim involves the Town and a County agency relating to the actions taken in serving a citizen with official documents. This claim has been sent to the Town's liability insurance carrier. The second potential claim relates to a citizen that allegedly tripped over a curb. This claim has been sent to the Town's liability insurance carrier; there has been no demand for monetary compensation.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(10) Pension plan

Defined contribution plan – The Town sponsors a defined contribution plan administered by Wealth Asset Management (previously called Oxford Capital Management) and is required to contribute 5% of earned income for eligible employees. Employees must be 21 years of age, employed for one year, and credited with at least 1,000 hours before they are eligible for the plan. During the fiscal year ended June 30, 2007, 18 employees participated in the plan. Participants are 100 percent vested after three years' participation in the plan. The Town's pension expense was \$31,754 in 2007.

(11) Post retirement benefits

The Town provides health insurance and a prescription health reimbursement expense account to two retirees with twenty-five years of service. The health insurance benefit to the two employees was \$7,100 for fiscal year 2007. The prescription benefit was \$1,000 per year per employee. The prescription plan is administered by a third party and is accounted for on a "pay as you go" basis.

(12) Subsequent events

Employment contracts – On December 31, 2007 the Town executed a new employment contract with the Chief of Police. The new contract shall remain in full force until December 31, 2008.

Purchase – The Town settled on the Maryland Transit Administration's excess freight rail property in December 2007. Under Maryland law, the property was to be sold at its current fair market value, based on the higher of two independent fee appraisers. The higher appraisal was \$336,000.

REQUIRED SUPPLEMENTAL INFORMATION

TOWN OF CENTREVILLE, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND – FUND 1 ONLY
Year Ended June 30, 2007

| | <u>ORIGINAL BUDGET</u> | <u>FINAL BUDGET</u> | <u>ACTUAL</u> |
|---|----------------------------|-------------------------|---------------------|
| REVENUES | | | |
| Revenue From Local Sources | | | |
| General property taxes: | | | |
| Real property taxes | \$ 1,300,553 | \$ 1,625,553 | \$ 1,611,631 |
| Personal property taxes | 45,000 | 45,000 | 46,121 |
| Penalties and interest – delinquent taxes | - | - | 44 |
| Total general property taxes | <u>\$ 1,345,553</u> | <u>\$ 1,670,553</u> | <u>\$ 1,657,796</u> |
| Local income taxes | <u>150,000</u> | <u>150,000</u> | <u>253,977</u> |
| Total taxes | <u>1,495,553</u> | <u>1,820,553</u> | <u>1,911,773</u> |
| Permits and licenses: | | | |
| Amusement | 4,000 | 4,000 | 4,236 |
| License distribution | 2,000 | 2,000 | 7,912 |
| Permit fees | 200,000 | 200,000 | 121,729 |
| Franchise fees | 25,000 | 25,000 | 34,634 |
| Other licenses and fees | - | - | 7,581 |
| Total permits and licenses | <u>231,000</u> | <u>231,000</u> | <u>176,092</u> |
| Charges for services: | | | |
| General government | 115,850 | 115,850 | 159,734 |
| Public safety | 44,600 | 44,600 | 44,046 |
| Sanitation and waste removal | 165,900 | 165,900 | 216,207 |
| Total charges for services | <u>326,350</u> | <u>326,350</u> | <u>419,987</u> |
| Miscellaneous revenue | <u>1,387,895</u> | <u>1,402,395</u> | <u>151,442</u> |
| Total revenue from local sources | <u>3,440,798</u> | <u>3,780,298</u> | <u>2,659,294</u> |
| Revenue from intergovernmental | | | |
| State: | | | |
| Police protection | 56,000 | 56,000 | 55,874 |
| Highway user taxes | 350,000 | 225,000 | 229,447 |
| Grants | 325,000 | 163,000 | 1,000 |
| Total state | <u>731,000</u> | <u>444,000</u> | <u>286,321</u> |

TOWN OF CENTREVILLE, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND – FUND 1 ONLY
Year Ended June 30, 2007

| | <u>ORIGINAL BUDGET</u> | <u>FINAL BUDGET</u> | <u>ACTUAL</u> |
|--|----------------------------|-------------------------|----------------------|
| County: | | | |
| Payments in lieu of taxes | 112,000 | 112,000 | 111,249 |
| Other | | | 6,250 |
| Total county | <u>112,000</u> | <u>112,000</u> | <u>117,499</u> |
| Total revenue from intergovernmental | <u>843,000</u> | <u>556,000</u> | <u>403,820</u> |
| TOTAL REVENUES | <u>4,283,798</u> | <u>4,336,298</u> | <u>3,063,114</u> |
| EXPENDITURES | | | |
| General government administration | | | |
| Legislative | 32,633 | 32,633 | 30,462 |
| Elected executive | 68,149 | 68,149 | 45,242 |
| Elections | 715 | 715 | 402 |
| Legal | 45,650 | 45,650 | 39,025 |
| Planning and zoning | 241,241 | 218,241 | 280,799 |
| General services | <u>307,621</u> | <u>297,621</u> | <u>229,361</u> |
| Total general government administration | <u>696,009</u> | <u>663,009</u> | <u>625,291</u> |
| Public safety | | | |
| Police | 762,779 | 762,779 | 748,736 |
| Volunteer fire and rescue services | <u>25,000</u> | <u>25,000</u> | <u>32,074</u> |
| Total public safety | <u>787,779</u> | <u>787,779</u> | <u>780,810</u> |
| Public works | | | |
| Landfill | 343,924 | 343,924 | 286,253 |
| Highways and streets | <u>431,318</u> | <u>464,318</u> | <u>413,409</u> |
| Total public works | <u>775,242</u> | <u>808,242</u> | <u>699,662</u> |
| Parks and recreation | <u>136,425</u> | <u>136,425</u> | <u>81,756</u> |
| Cemetery | <u>78,642</u> | <u>93,142</u> | <u>92,446</u> |
| Watershed preservation | <u>300,500</u> | <u>338,500</u> | <u>85,988</u> |
| Capital outlay | <u>1,649,200</u> | <u>1,649,200</u> | <u>2,152,363</u> |
| TOTAL EXPENDITURES | <u>4,423,797</u> | <u>4,476,297</u> | <u>4,518,316</u> |

TOWN OF CENTREVILLE, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – Continued
GENERAL FUND – FUND 1 ONLY
Year Ended June 30, 2007

| | <u>ORIGINAL BUDGET</u> | <u>FINAL BUDGET</u> | <u>ACTUAL</u> |
|---|----------------------------|-------------------------|---------------------|
| EXCESS OF EXPENDITURES OVER REVENUES BEFORE OTHER FINANCING SOURCES | (139,999) | (139,999) | (1,455,202) |
| OTHER FINANCING SOURCES | | | |
| Long term debt issued | - | - | 2,000,000 |
| Operating transfers in | <u>120,000</u> | <u>120,000</u> | <u>110,000</u> |
| TOTAL OTHER FINANCING SOURCES | 120,000 | 120,000 | 2,110,000 |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES | (19,999) | (19,999) | 654,798 |
| UNAPPROPRIATED FUND BALANCE, BEGINNING OF YEAR | <u>1,855,574</u> | <u>1,855,574</u> | <u>2,839,074</u> |
| UNAPPROPRIATED FUND BALANCE, END OF YEAR | <u>\$ 1,835,575</u> | <u>\$1,835,575</u> | <u>\$ 3,493,872</u> |

OTHER FINANCIAL INFORMATION

TOWN OF CENTREVILLE, MARYLAND
COMBINING BALANCE SHEET – GENERAL FUND

June 30, 2007

| | <u>GENERAL FUND 1</u> | <u>REVOLVING HOUSING FUND</u> | <u>PERPETUAL CARE FUND</u> | <u>TOTAL GENERAL FUND</u> |
|---|---------------------------|---------------------------------------|--------------------------------|-----------------------------------|
| <u>ASSETS</u> | | | | |
| Cash and cash equivalents | \$ 2,825,342 | \$ 27,629 | \$ 54,139 | \$ 2,907,110 |
| Investments | - | - | 89,702 | 89,702 |
| Receivables: | | | | |
| Taxes, net | 76,242 | - | - | 76,242 |
| Accounts, less allowance for losses (\$15,968) | 324,678 | 102,736 | 4,764 | 432,178 |
| Prepaid and other assets | 13,112 | - | - | 13,112 |
| Notes receivable | - | 40,000 | - | 40,000 |
| Due from other funds | <u>706,790</u> | <u>49,905</u> | <u>21,454</u> | <u>778,149</u> |
| TOTAL ASSETS | <u>\$ 3,946,164</u> | <u>\$ 220,270</u> | <u>\$ 170,059</u> | <u>\$ 4,336,493</u> |
| <u>LIABILITIES</u> | | | | |
| Accounts payable | \$ 342,004 | \$ - | \$ - | \$ 342,004 |
| Accrued payroll | 32,292 | - | - | 32,292 |
| Escrow deferred payable | <u>77,996</u> | <u>-</u> | <u>-</u> | <u>77,996</u> |
| TOTAL LIABILITIES | <u>452,292</u> | <u>-</u> | <u>-</u> | <u>452,292</u> |
| <u>FUND EQUITY</u> | | | | |
| Fund Balances: | | | | |
| Reserved for fund purposes | - | 220,270 | 170,059 | 390,329 |
| Unreserved | <u>3,493,872</u> | <u>-</u> | <u>-</u> | <u>3,493,872</u> |
| TOTAL FUND EQUITY | <u>3,493,872</u> | <u>220,270</u> | <u>170,059</u> | <u>3,884,201</u> |
| TOTAL LIABILITIES AND FUND EQUITY | <u>\$ 3,946,164</u> | <u>\$ 220,270</u> | <u>\$ 170,059</u> | <u>\$ 4,336,493</u> |

TOWN OF CENTREVILLE, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES – GENERAL FUND

Year Ended June 30, 2007

| | GENERAL FUND 1 | REVOLVING HOUSING FUND | PERPETUAL CARE FUND | TOTAL GENERAL FUND |
|---|---------------------------|-----------------------------------|--------------------------------|-----------------------------------|
| REVENUES | | | | |
| General property taxes | \$ 1,657,796 | \$ - | \$ - | \$ 1,657,796 |
| Other local taxes | 253,977 | - | - | 253,977 |
| Permits and licenses | 176,091 | - | - | 176,091 |
| Charges for services | 419,988 | - | - | 419,988 |
| Intergovernmental | 403,820 | - | - | 403,820 |
| Miscellaneous | <u>151,442</u> | <u>408</u> | <u>12,625</u> | <u>164,475</u> |
| TOTAL REVENUES | <u>3,063,114</u> | <u>408</u> | <u>12,625</u> | <u>3,076,147</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government and administration | 625,291 | - | - | 625,291 |
| Public safety | 780,810 | - | - | 780,810 |
| Public works | 699,662 | - | - | 699,662 |
| Parks and recreation | 81,756 | - | - | 81,756 |
| Cemetery | 92,446 | - | - | 92,446 |
| Watershed preservation | 85,988 | - | - | 85,988 |
| Capital outlay | <u>2,152,363</u> | <u>-</u> | <u>-</u> | <u>2,152,363</u> |
| TOTAL EXPENDITURES | <u>4,518,316</u> | <u>-</u> | <u>-</u> | <u>4,518,316</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING SOURCES | <u>(1,455,202)</u> | <u>408</u> | <u>12,625</u> | <u>(1,442,169)</u> |
| OTHER FINANCING SOURCES | | | | |
| Long term debt issued | 2,000,000 | - | - | 2,000,000 |
| Operating transfers | <u>110,000</u> | <u>-</u> | <u>-</u> | <u>110,000</u> |
| TOTAL OTHER FINANCING SOURCES | <u>2,110,000</u> | <u>-</u> | <u>-</u> | <u>2,110,000</u> |
| EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES | 654,798 | 408 | 12,625 | 667,831 |
| FUND BALANCES, BEGINNING OF YEAR | <u>2,839,074</u> | <u>219,862</u> | <u>157,434</u> | <u>3,216,370</u> |
| FUND BALANCES, END OF YEAR | <u>\$ 3,493,872</u> | <u>\$ 220,270</u> | <u>\$ 170,059</u> | <u>\$ 3,884,201</u> |

TOWN OF CENTREVILLE, MARYLAND
SCHEDULE OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS - ENTERPRISE FUND

Year Ended June 30, 2007

REVENUES

| | |
|--------------------------------|-------------------------|
| Revenue from intergovernmental | |
| State grants | \$ <u> 95</u> |
| Charges for services: | |
| Sewer allocation fees | 760,803 |
| Water allocation fees | 421,644 |
| Sewer charges | 571,213 |
| Water charges | 388,165 |
| Water penalty | 13,455 |
| Sewer vacant lots | 34,749 |
| Other sewer charges | 24,418 |
| Meter equipment | 29,928 |
| Sewer connection charge | 19,184 |
| I&I study charge | 26,867 |
| Other fines and forfeitures | <u> 3,549</u> |
| Total charges for services | <u>2,293,975</u> |
| Miscellaneous revenue | |
| Bond interest income | 17,772 |
| Investment earnings | 93,845 |
| Sale of crops | <u> 24,108</u> |
| Total miscellaneous | <u>135,725</u> |
| TOTAL REVENUES | <u>2,429,795</u> |

EXPENDITURES

| | |
|---------------------------|-------------------------|
| Public works | |
| Sewer | 733,556 |
| Water | 329,484 |
| Farm | <u> 12,307</u> |
| Total public works | <u>1,075,348</u> |
| Debt service | |
| Interest | 63,581 |
| Administrative fee | <u> 9,184</u> |
| Total debt service | <u>72,765</u> |
| TOTAL EXPENDITURES | <u>1,148,113</u> |

| | |
|--|------------------|
| EXCESS OF REVENUES OVER EXPENDITURES BEFORE CONTRIBUTIONS | <u>1,281,682</u> |
|--|------------------|

CAPITAL CONTRIBUTIONS

| | |
|------------------------------|-------------------------|
| Infrastructure contributions | 3,216,955 |
| Improvement contributions | <u> 56,000</u> |
| Total capital contributions | 3,272,955 |
| CHANGE IN NET ASSETS | 4,554,637 |

| | |
|--|-------------------|
| UNAPPROPRIATED FUND BALANCE, BEGINNING | <u>15,472,256</u> |
|--|-------------------|

| | |
|-------------------------------------|-----------------------------|
| UNAPPROPRIATED FUND BALANCE, ENDING | <u>\$ 20,026,893</u> |
|-------------------------------------|-----------------------------|