

TOWN OF CENTREVILLE, MARYLAND

**Financial Statements Together with
Report of Independent Public Accountants**

For the Year Ended June 30, 2010



JUNE 30, 2010

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Town Council of Centreville
Centreville, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund, which collectively comprise the Town's basic financial statements as listed in the table of contents, of the Town of Centreville, Maryland (the Town), as of and for the year ended June 30, 2010. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts, and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, as of June 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual – General Fund as listed in table of contents 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.



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Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Town's basic financial statements. The Supplemental Balance Sheet – General Fund, Supplemental Statement of Revenue, Expenditures, and Change in Fund Balances - General Fund and the Schedule of Revenue, Expenses and Change in Net Assets – Enterprise Fund are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has 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.



Hunt Valley, MD
February 10, 2011

TOWN OF CENTREVILLE, MARYLAND

Management's Discussion and Analysis June 30, 2010

This section of the Town of Centreville's (the Town) annual financial report presents our discussion and analysis of the Town's financial performance during the fiscal year ended June 30, 2010. Readers are encouraged to consider the information presented here in conjunction with the financial statements and notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$36.6 million (*net assets*). Of this amount, \$8.9 million (*unrestricted net assets*) may be used to meet the Town's ongoing obligations to citizens and creditors for governmental and business-type activities.
- The Town's total net assets decreased by \$205 thousand. Governmental activities saw an increase of \$314 thousand. The Business-type activities decreased \$519 thousand, this was largely due to a reduction in the collection of water and sewer allocation fees.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$8.3 million.
- At the end of the current fiscal year, the unreserved undesignated fund balance for the general fund was \$4.7 million or 126 percent of total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts- management's discussion and analysis (this section), the basic financial statements, required supplementary 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's 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 are financed in the short term as well as what remains for future spending.
 - Proprietary fund 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 supplementary 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, each of which is 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 contents of each of the statements.

TOWN OF CENTREVILLE, MARYLAND

Management's Discussion and Analysis June 30, 2010

OVERVIEW OF THE FINANCIAL STATEMENTS *(continued)*

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 revenues 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) are 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.

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 the police, fire, public works, parks and recreation, cemetery 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.

TOWN OF CENTREVILLE, MARYLAND

Management's Discussion and Analysis June 30, 2010

OVERVIEW OF THE FINANCIAL STATEMENTS *(continued)*

The Town has two kinds 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 in the form of reconciliation statements that explains the relationship (or differences) between them. In addition, the Town has a permanent fund that is restricted by the Town Council and Town 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

Table A-1
Condensed Statements of Net Assets
As of June 30, 2010 and 2009
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total Government	
	2010	2009	2010	2009	2010	2009
Assets						
Current and other assets	\$ 8,686	\$ 8,677	\$ 6,969	\$ 8,106	\$ 15,655	\$ 16,783
Capital assets, net	10,495	10,339	21,324	20,892	31,819	31,231
Total Assets	<u>19,181</u>	<u>19,016</u>	<u>28,293</u>	<u>28,998</u>	<u>47,474</u>	<u>48,014</u>
Liabilities						
Current liabilities	445	470	1,980	1,765	2,425	2,235
Noncurrent liabilities	3,702	3,827	4,750	5,151	8,452	8,978
Total Liabilities	<u>4,147</u>	<u>4,297</u>	<u>6,730</u>	<u>6,916</u>	<u>10,877</u>	<u>11,213</u>
Net Assets						
Invested in capital assets, net of related debt	6,679	6,376	16,022	15,298	22,701	21,674
Restricted	5,022	4,926	-	-	5,022	4,926
Unrestricted	3,333	3,418	5,541	6,784	8,874	10,202
Total Net Assets	<u>\$ 15,034</u>	<u>\$ 14,720</u>	<u>\$ 21,563</u>	<u>\$ 22,082</u>	<u>\$ 36,597</u>	<u>\$ 36,802</u>

Restricted net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the Town's ongoing obligations to citizens and creditors.

TOWN OF CENTREVILLE, MARYLAND

Management's Discussion and Analysis June 30, 2010

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE *(continued)*

At the end of the current fiscal year, the Town is able to report positive balances in all three categories of net assets for the government as a whole as well as for its separate governmental activities and business-type activities. The same situation held true for the prior fiscal year.

Table A-2
Condensed Statements of Activities
For the Years Ended June 30, 2010 and 2009
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total Government	
	2010	2009	2010	2009	2010	2009
Revenue						
Program revenue						
Charges for services	\$ 531	\$ 515	\$ 1,349	\$ 1,966	\$ 1,880	\$ 2,481
Operating grants and contributions	827	614	-	-	827	614
Capital grants and contributions	-	1,261	31	990	31	2,251
General Revenue						
Real property taxes	2,118	1,961	-	-	2,118	1,961
Other income taxes	295	292	-	-	295	292
Other	230	186	74	97	304	283
Total Revenue	4,001	4,829	1,454	3,053	5,455	7,882
Program Expenses						
General government	643	586	-	-	643	586
Public safety	926	935	-	-	926	935
Public works	1,402	1,176	-	-	1,402	1,176
Parks, recreation, and culture	110	79	-	-	110	79
Cemetery	103	89	-	-	103	89
Watershed preservation	301	115	-	-	301	115
Centreville wharf	1	2	-	-	1	2
Interest on long-term debt	201	188	-	-	201	188
Enterprise expenses						
Water services	-	-	813	800	813	800
Sewer services	-	-	1,158	1,165	1,158	1,165
Farm services	-	-	2	1	2	1
Total Program Expenses	3,687	3,170	1,973	1,966	5,660	5,136
Change in net assets	314	1,659	(519)	1,087	(205)	2,746
Net assets, beginning of year	14,720	13,061	22,082	20,995	36,802	34,056
Net Assets, End of Year	\$ 15,034	\$ 14,720	\$ 21,563	\$ 22,082	\$ 36,597	\$ 36,802

TOWN OF CENTREVILLE, MARYLAND

**Management’s Discussion and Analysis
June 30, 2010**

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE (continued)

Governmental Activities

Revenue from the Town’s governmental activities was \$4 million, while total expenses were \$3.7 million. Table A-3 presents the cost of each of the Town’s seven largest services - general government, public safety, public works, parks and recreation, cemetery, watershed preservation, and Centreville wharf, 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 \$3.7 million. Some of that cost was financed by:
 - Those who directly benefited from the programs (\$0.5 million), or
 - Other governments and organizations that subsidized certain programs with grants and contributions (\$0.8 million).
- The Town financed the remaining \$2.4 million “public benefit” portion of governmental activities with taxes.

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

	Total Cost of Services		Net Cost (Surplus) of Services	
	2010	2009	2010	2009
General government	\$ 643	\$ 586	\$ 58	\$ (1,049)
Public safety	926	935	822	866
Public works	1,402	1,176	1,158	739
Parks and recreation	110	79	(48)	79
Cemetery	103	89	76	65
Watershed preservation	301	115	60	(111)
Centreville wharf	1	2	1	2
Total	\$ 3,486	\$ 2,982	\$ 2,127	\$ 591

Business-type Activities

Revenue from the Town’s business-type activities was \$1.5 million and expenses were \$2.0 million (Refer to Table A-2.) Factors contributing to these results included:

- Allocation fee revenue decreased significantly due to the decline in residential and business real estate development.
- The cost of sewer, water, and farm activities were within the budgets established for 2010.
- Surplus funds from prior years will be consumed for principal repayment and interest expenses on the debt incurred to finance the plant as well as infrastructure depreciation.

TOWN OF CENTREVILLE, MARYLAND

**Management's Discussion and Analysis
June 30, 2010**

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE (continued)

**Table A-4
Revenue Classified by Source
General Fund
For the Years Ended June 30, 2010 and 2009**

	<u>2010</u>	<u>Percent of Total</u>	<u>2009</u>	<u>Percent of Total</u>
Revenue and Other Financing Sources				
General property taxes	\$ 2,155,400	60.2%	\$ 2,002,666	36.6%
Local income taxes	257,385	7.2	250,148	4.6
Permits and licenses	133,509	3.7	130,988	2.4
Charges for services	406,650	11.4	377,876	6.9
Intergovernmental	732,573	20.5	573,182	10.5
Loan proceeds	--	--	1,981,707	36.2
Miscellaneous	29,793	0.8	41,813	0.8
Operating transfers	(135,874)	(3.8)	120,000	2.2
Total Revenue and Other Financing Sources	<u>\$ 3,579,436</u>	100.0%	<u>\$ 5,478,380</u>	100.0%

**Table A-5
Expenditures by Function
General Fund
For the Years Ended June 30, 2010 and 2009**

	<u>2010</u>	<u>Percent of Total</u>	<u>2009</u>	<u>Percent of Total</u>
Expenditures				
Current operations:				
General government administration	\$ 634,404	17.2%	\$ 573,162	18.8%
Public safety	899,830	24.1	899,478	29.4
Public works	951,507	25.4	807,082	26.4
Parks and recreation	106,165	2.8	78,628	2.6
Cemetery	103,814	2.8	88,989	2.9
Watershed preservation	317,619	8.5	114,995	3.8
Centreville wharf	869	0.0	2,120	0.1
Capital outlay	385,542	10.3	152,817	5.0
Debt service:				
Principal	139,907	3.7	130,777	4.3
Interest	201,334	5.4	206,724	6.7
Total Expenditures	<u>\$ 3,740,991</u>	100.0%	<u>\$ 3,054,772</u>	100.0%

TOWN OF CENTREVILLE, MARYLAND

Management's Discussion and Analysis June 30, 2010

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE *(continued)*

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 and/or decreases to appropriations to prevent budget overruns or shortfalls.

Reappropriation of fiscal 2010 budgeted funds included decreases to several areas of the budget including various capital projects and improvements. Grant revenues were decreased based on project and/or improvement completion timelines.

CAPITAL ASSET 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 \$31.7 million and \$31.1 million, as of June 30, 2010 and June 30, 2009, respectively (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, equipment, utility facilities, as well as other typical capital items.

This year's major capital additions included:

- Sewer and water improvements on Railroad Avenue and Liberty, Commerce and Water Streets
- Land improvements to the Wharf North and South Side Pocket Parks and the Symphony Village Stormwater Management Ponds
- Stormwater Retrofit for Gravel Run South
- Replacement of a police vehicle
- Purchase of Rotary Cutter Flex Wing and Ditch Bank/Boom Mower
- Purchase of 7 Mobile Data Terminals and several office computer systems

TOWN OF CENTREVILLE, MARYLAND

Management's Discussion and Analysis June 30, 2010

CAPITAL ASSET AND DEBT ADMINISTRATION *(continued)*

Capital Assets *(continued)*

Table A-6
Town of Centreville's Capital Assets
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 2,518	\$ 2,518	\$ 1,161	\$ 1,161	\$ 3,679	\$ 3,679
Buildings and improvements	7,208	7,171	18,800	19,115	26,008	26,286
Equipment	501	408	119	114	620	522
Construction in progress	208	175	1,141	390	1,349	565
Total	\$ 10,435	\$ 10,272	\$ 21,221	\$ 20,780	\$ 31,656	\$ 31,052

Long-term Debt

As of June 30, 2010, the Town had \$9.0 million in loans and bond commitments outstanding as shown in Table A-7. More detailed information about the Town's long-term liabilities is presented in Note 8 to the financial statements.

Table A-7
Town of Centreville's Outstanding Debt
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Mortgage loans	\$ 1,905	\$ 1,938	\$ -	\$ -	\$ 1,905	\$ 1,938
Loans from USDA	-	-	986	1,000	986	1,000
Loans from MD DOE	-	-	854	992	854	992
CDA LGIF bond	2,517	2,623	4,078	4,210	6,595	6,833
Subtotal	4,422	4,561	5,918	6,202	10,340	10,763
Less undrawn proceeds	665	665	718	718	1,383	1,383
Total	\$ 3,757	\$ 3,896	\$ 5,200	\$ 5,484	\$ 8,957	\$ 9,380

TOWN OF CENTREVILLE, MARYLAND

Management's Discussion and Analysis June 30, 2010

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 grows 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 (Plan) was updated in 2009 as part of the planning process and amended in 2010 to include the required Water Resources and Municipal Growth Elements. The Plan addresses the geographic extent of the Town's future growth by identifying specific growth areas, and prospective population density likely within those areas. More challenging is to predict the pacing of such prospective growth, which is influenced by market forces, government regulation, and specific legislative action.

During 2010 and 2009, consistent with the Plan, the Town annexed two parcels totaling nearly 200 acres along Route 304 east of Town. These parcels include farmland, a historic house, the Queen Anne's County High School, and Centreville Middle School. The farmland is proposed to house a future County office complex and a recreational facility. Such new development will likely require infrastructure investments by the developers for roads or utilities that may be dedicated to the Town. Since 2000, the Town has been the fastest growing in the State of Maryland, and this pace may continue. The Plan also addresses 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 the Town, 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. In addition, State Highway User Revenue transfers to municipalities were cut 90% in 2009 and are not likely to be restored to the state budget in the anticipated future. For Centreville, this cut reduced annual revenue by more than \$150,000.

TOWN OF CENTREVILLE, MARYLAND

Management's Discussion and Analysis

June 30, 2010

SUBSEQUENT ITEMS FOR FUTURE FINANCIAL STATEMENTS *(continued)*

Roads *(continued)*

During 2008 and 2009, the Town bid and completed a major reconstruction of Chesterfield Avenue (Route 304), Draper Lane, and portions of Water Street and Homewood Avenue. The sidewalk connection along Chesterfield Avenue and certain sewer main and lateral replacements were completed first. Subsequently, the local water mains were evaluated, water lateral connections replaced, and the roadway, curb, gutter, and storm water systems were replaced. In addition, the roadways on portions of Broadway, Glendale Avenue, and Watson Road were also restored by the mill and overlay process. Planning and engineering design were recently completed for a similar reconstruction project for the rest of Route 304 in town (Railroad Avenue and Water Street east of Liberty Street). This project should be put out to bid and construction commenced in the spring of 2011. Road maintenance and integration of major roads projects with utility upgrades must continue to be 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 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. Long-term financing for utility infrastructure has been obtained from and continues to be sought through the Maryland Department of the Environment's (MDE) Water Quality Financing Administration.

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.

TOWN OF CENTREVILLE, MARYLAND

Management's Discussion and Analysis June 30, 2010

SUBSEQUENT ITEMS FOR FUTURE FINANCIAL STATEMENTS *(continued)*

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

Since 2006, the Town has added advanced treatment systems to the two wells now supplying drinking water to the Town. The Well 6 Water Treatment Facility (WTF) on Wexford Drive was completed in 2007 and a second and similar WTF at Well 5 in the Centreville Business Park was completed in 2008. These two facilities have sufficient capacity to meet treatment needs well into the future. Debt service for the Well 5 WTF will continue for the next 30 years.

Water System: Storage

The Town's 200,000 gallon Powell Street elevated water storage tank is over 35 years old. 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 two structures as part of the ongoing process to maintain utility infrastructure. The Comet Drive elevated tank has a 300,000 gallon capacity. It was repainted in 2009 and is in very good condition. The draft report on the Water Distribution System provided by the Town engineers in 2007 indicates that approximately 600,000 gallons of additional elevated water storage is desirable in the near term to maintain an adequate supply and pressure of water for drinking and fire control; even larger volumes will be needed as the Town grows. During 2010 the Town contracted with the County to obtain a one (1) acre site at the eastern edge of Town for construction of this additional storage capacity. These needs warrant the Town's additional financial appropriations and will impact future capital expenditures.

Water System: Distribution

In addition to distribution system upgrades integrated with the roads projects as described previously, engineering and design for lateral replacements on Liberty Street and the balance of Route 304 in town (Railroad Avenue and Water Street east of Liberty Street), were completed in 2010. They should be put out to bid and construction commenced in the spring of 2011. The draft report on the Water Distribution System also called for additional water line looping along Route 304 on the east side of Town to increase flow for fire control and service redundancy. Designs for this loop are completed in anticipation of growth to the east of town, and additional piping and meter replacements should also be considered for older parts of the system. These needs warrant additional appropriations for construction and debt service and will impact future capital expenditures.

TOWN OF CENTREVILLE, MARYLAND

Management's Discussion and Analysis June 30, 2010

SUBSEQUENT ITEMS FOR FUTURE FINANCIAL STATEMENTS *(continued)*

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. Four of the Town's five pump stations are new or recently upgraded, but additional improvements are needed for the Wharf Pump Station and older 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 sources (infiltration). These flows directly impact the Town's capacity to treat and dispose of wastewater by adding unnecessary volume. Eliminating these undesirable flows from the wastewater system provides additional net capacity for the Town's customers.

The Town 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 provide a prioritized methodology for upgrading the sewer collection system and provide a cost effective means by which to add wastewater capacity. 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, thereby enhancing the system's capacity. During 2010 sewer mains and laterals were televised and lined – and cleanouts installed – on Railroad Avenue and Liberty Street. Manholes were also upgraded on these roadways as well as on Commerce Street. These needs warrant additional appropriations for construction and debt service and will impact future capital expenditures.

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. During 2008 the Town concluded a lengthy process to increase the rating of the WWTF from 500,000 gpd to 542,000 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. During 2010 the Town designed and has recently received bids for upgrades to the WWTF electrical systems and tanks to install dissolved oxygen sensors, which are intended to enhance biological processes and reduce operational costs.

TOWN OF CENTREVILLE, MARYLAND

Management's Discussion and Analysis June 30, 2010

SUBSEQUENT ITEMS FOR FUTURE FINANCIAL STATEMENTS *(continued)*

Wastewater System: Discharge

A limiting factor in providing additional wastewater 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 (at the Centreville Water Reuse Area, a farm also known as the Sprayfield). However, the ground water discharge permit is dependent on suitable weather and farming conditions. Moderate additional capacity remains in the existing Sprayfield 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. During 2010 the Town obtained funding from Queen Anne's County, during the annexation process, for a study outlining next steps to increase effluent discharge capacity.

Stormwater Management

In recent years, the Town has completed several major stormwater management projects, constructing conveyances such as bioswales and replacing stormwater piping, as well as installing stormwater treatment facilities to improve stormwater quality. These facilities include biofilters, rain gardens, a coastal plains outfall, and a wooded wetland. While these installations have been largely grant-funded, long-term capital planning will need to include the cost of maintaining and replacing these facilities. A changing regulatory environment may also require enhancements to such systems or new infrastructure to reduce pollutant loads and prevent flooding. Consideration should be given to the equity of funding these systems based on the amount of stormwater generated rather than on property value.

Municipal Facilities

The Town's employees are scattered among four municipal buildings plus a rented office. Further growth will require hiring additional employees who will need a suitable workplace. The Town acquired two new properties during 2007 and the Council has discussed construction of a new municipal building, shared space with other government entities, 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, 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
As of June 30, 2010**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 2,922,896	\$ 6,013,465	\$ 8,936,361
Investments	4,064,752	113,414	4,178,166
Receivables:			
Taxes, net	52,048	660	52,708
Accounts, net	556,308	1,719,124	2,275,432
Interest	34,933	24	34,957
Prepaid and other assets	53,403	--	53,403
Notes receivable	123,650	--	123,650
Internal balances	878,150	(878,150)	--
Total Current Assets	8,686,140	6,968,537	15,654,677
Non-current Assets			
Unamortized bond issuance costs	60,068	102,588	162,656
Capital assets, net	10,226,896	20,080,415	30,307,311
Construction in progress	208,475	1,141,292	1,349,767
Total Non-current Assets	10,495,439	21,324,295	31,819,734
TOTAL ASSETS	19,181,579	28,292,832	47,474,411
LIABILITIES			
Current Liabilities			
Accounts payable	259,000	234,176	493,176
Accrued payroll	41,900	12,422	54,322
Deferred revenue	--	1,282,972	1,282,972
Long term debt, current portion	144,117	450,159	594,276
Total Current Liabilities	445,017	1,979,729	2,424,746
Non-current Liabilities			
Long term debt, net of current portion	3,612,634	4,749,669	8,362,303
Compensated absences, net of current portion	89,559	--	89,559
Total Non-current Liabilities	3,702,193	4,749,669	8,451,862
Total Liabilities	4,147,210	6,729,398	10,876,608
NET ASSETS			
Invested in capital assets, net of related debt	6,678,620	16,021,879	22,700,499
Restricted	5,022,269	--	5,022,269
Unrestricted	3,333,480	5,541,555	8,875,035
Total Net Assets	\$ 15,034,369	\$ 21,563,434	\$ 36,597,803

The accompanying notes are an integral part of this financial statement.

TOWN OF CENTREVILLE, MARYLAND

**Statement of Activities
For the Year Ended June 30, 2010**

<u>Functions/Programs</u>	<u>Program Revenue</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
General government	\$ 642,245	\$ 259,209	\$ 325,123	\$ --
Public safety	925,870	298	103,636	--
Public works	1,402,166	244,625	--	--
Parks and recreation	109,950	--	157,541	--
Cemetery	103,028	26,725	--	--
Watershed preservation	301,119	--	241,022	--
Centreville wharf	869	--	--	--
Interest	201,334	--	--	--
Total governmental activities	3,686,581	530,857	827,322	--
Business-type Activities:				
Sewer	1,158,463	770,501	--	24,411
Water	812,734	576,409	--	7,000
Farm	2,038	1,863	--	--
Total business-type activities	1,973,235	1,348,773	--	31,411
Total primary government	<u>\$ 5,659,816</u>	<u>\$ 1,879,630</u>	<u>\$ 827,322</u>	<u>\$ 31,411</u>

General Revenue:

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

Total general revenue

Change in net assets

Net assets, beginning of year

Net Assets, End of Year

The accompanying notes are an integral part of this financial statement.

TOWN OF CENTREVILLE, MARYLAND

**Statement of Activities
For the Year Ended June 30, 2010**

Governmental Activities	Business-type Activities	Total
\$ (57,914)	\$ --	\$ (57,914)
(821,936)	--	(821,936)
(1,157,541)	--	(1,157,541)
47,591	--	47,591
(76,303)	--	(76,303)
(60,095)	--	(60,095)
(869)	--	(869)
(201,334)	--	(201,334)
(2,328,401)	--	(2,328,401)
--	(363,551)	(363,551)
--	(229,325)	(229,325)
--	(175)	(175)
--	(593,051)	(593,051)
(2,328,401)	(593,051)	(2,921,452)
2,117,516	--	2,117,516
37,884	--	37,884
257,385	--	257,385
(2,526)	--	(2,526)
198,913	73,839	272,752
33,646	--	33,646
2,642,818	73,839	2,716,657
314,417	(519,212)	(204,795)
14,719,952	22,082,646	36,802,598
<u>\$ 15,034,369</u>	<u>\$ 21,563,434</u>	<u>\$ 36,597,803</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF CENTREVILLE, MARYLAND

**Balance Sheet – Governmental Funds
As of June 30, 2010**

ASSETS	General Fund	Capital Project Fund	Permanent Fund	Total
Cash and cash equivalents	\$ 2,792,510	\$	\$ 130,386	\$ 2,922,896
Investments	89,702		3,975,050	4,064,752
Receivables				
Taxes, net	52,048			52,048
Accounts, net	556,307			556,307
Interest	--	22	34,911	34,933
Prepaid and other assets	53,403			53,403
Notes receivable	123,650			123,650
Due from other funds	1,914,549			1,914,549
Total Assets	\$ 5,582,169	\$ 22	\$ 4,140,347	\$ 9,722,538
 LIABILITIES				
Accounts payable	\$ 241,426	\$	\$	\$ 241,426
Accrued payroll	41,900			41,900
Deferred revenue	146,832			146,832
Due to other funds	--	860,534	175,865	1,036,399
Total Liabilities	430,158	860,534	175,865	1,466,557
 FUND BALANCES				
Reserved for:				
Prepaid	53,403	--	--	53,403
Notes receivables	123,650	--	--	123,650
Fund purposes	269,301	--	3,964,482	4,233,783
Unreserved	4,705,657	(860,512)	--	3,845,145
Total Fund Balances	5,152,011	(860,512)	3,964,482	8,255,981
Total Liabilities and Fund Balances	\$ 5,582,169	\$ 22	\$ 4,140,347	\$ 9,722,538

The accompanying notes are an integral part of this balance sheet.

TOWN OF CENTREVILLE, MARYLAND

**Reconciliation of Balance Sheet of Governmental Funds to Statement of Net Assets
As of June 30, 2010**

Total Governmental Fund Balances		\$	8,255,981
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			
			10,435,371
Other assets are not available to pay for current period expenditures and, therefore are deferred in the funds:			
Deferred revenue			146,832
Unamortized bond costs			60,068
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 consists of:			
Interest payable on bond	\$	(17,573)	
Bond payable net of issuance costs		(3,756,751)	
Compensated absences		(89,559)	
			<u>(3,863,883)</u>
Net Assets of Governmental Activities		\$	<u>15,034,369</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF CENTREVILLE, MARYLAND

Statement of Revenue, Expenditures, and Changes in Fund Balance of Governmental Funds For the Year Ended June 30, 2010

	General Fund	Capital Project Fund	Permanent Fund	Total
Revenue				
General property taxes	\$ 2,155,400	\$ --	\$ --	\$ 2,155,400
Local income taxes	257,385	--	--	257,385
Permits and licenses	133,509	--	--	133,509
Charges for services	406,650	--	--	406,650
Intergovernmental	732,573	--	--	732,573
Miscellaneous				
Other	9,658	--	--	9,658
Investment earnings	20,135	--	178,778	198,913
Gains, losses and changes in fair market value	--	--	33,646	33,646
Fees and charges	--	--	(12,176)	(12,176)
Total Revenue	<u>3,715,310</u>	<u>--</u>	<u>200,248</u>	<u>3,915,558</u>
Expenditures				
Current:				
General government administration	634,404	--	--	634,404
Public safety	899,830	--	--	899,830
Public works	951,507	--	--	951,507
Parks and recreation	106,165	--	--	106,165
Cemetery	103,814	--	--	103,814
Watershed preservation	317,619	--	--	317,619
Centreville wharf	869	--	--	869
Capital outlay	385,542	246,045	--	631,587
Debt service:				
Principal	139,907	--	--	139,907
Interest	201,334	--	--	201,334
Total Expenditures	<u>3,740,991</u>	<u>246,045</u>	<u>--</u>	<u>3,987,036</u>
Excess (deficiency) of revenue over expenditures before other financing sources (uses)	(25,681)	(246,045)	200,248	(71,478)
Other Financing Sources (Uses)				
Proceeds of bond borrowings	--	--	--	--
Operating Transfers	(135,874)	245,874	(110,000)	--
Total Other Financing Sources (Uses)	<u>(135,874)</u>	<u>245,874</u>	<u>(110,000)</u>	<u>--</u>
Excess (deficiency) of revenue and other financing sources over expenditures	(161,555)	(171)	90,248	(71,478)
Fund balances, beginning of year	<u>5,313,567</u>	<u>(860,341)</u>	<u>3,874,233</u>	<u>8,327,459</u>
Fund Balances, End of Year	<u>\$ 5,152,012</u>	<u>\$ (860,512)</u>	<u>\$ 3,964,481</u>	<u>\$ 8,255,981</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF CENTREVILLE, MARYLAND

**Reconciliation of Statement of Revenue, Expenditures, and Changes in Fund Balance of
Governmental Funds to the Statements of Activities
For the Year Ended June 30, 2010**

Net Change in Fund Balances – Total Government Fund \$ (71,478)

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 (\$631,587) is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation (\$502,578) in the current period. 129,009

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. 139,907

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	18,347
Amortization of bond costs	(6,311)
Change in deferred revenue	124,446
Accrued compensated absences	(19,503)
	<hr/>

Change in Net Assets of Governmental Activities **\$ 314,417**

The accompanying notes are an integral part of this financial statement.

TOWN OF CENTREVILLE, MARYLAND

**Statement of Net Assets – Proprietary Funds
As of June 30, 2010**

	<u>Enterprise Fund</u>
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 6,013,465
Investments	113,414
Receivables:	
Interest	24
Accounts, net	1,719,124
Taxes, net	660
Total Current Assets	<u>7,846,687</u>
Non-current Assets	
Unamortized bond issuance costs	102,588
Capital assets, net	20,080,415
Construction in progress	1,141,292
Total Non-current Assets	<u>21,324,295</u>
Total Assets	<u>29,170,982</u>
LIABILITIES	
Current Liabilities	
Accounts payable	234,176
Accrued payroll	12,422
Due to other funds	878,150
Deferred revenue	1,282,972
Long term debt, current portion	450,159
Total Current Liabilities	<u>2,857,879</u>
Non-current Liabilities	
Long term debt, net of current portion	<u>4,749,669</u>
Total Liabilities	<u>7,607,548</u>
NET ASSETS	
Invested in capital assets, net of related debt	16,021,879
Unrestricted	5,541,555
Total Net Assets	<u>\$ 21,563,434</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF CENTREVILLE, MARYLAND

Statement of Revenue, Expenses, and Changes in Fund Net Assets – Proprietary Fund For the Year Ended June 30, 2010

Operating Revenue	\$ 1,348,773
Operating Expenses	
Salaries and benefits	409,455
Contracted services	394,984
Depreciation	541,624
Utilities	294,513
Repairs and maintenance	55,434
Other operating expenses	39,651
Total Operating Expenses	<u>1,735,661</u>
Operating Loss	(386,888)
Non-Operating Revenue (Expense)	
Capital contributions	31,411
Interest expense	(237,574)
Investment earnings	73,839
Total Non-Operating Revenue (Expense)	<u>(132,324)</u>
Change in net assets	(519,212)
Net assets, beginning of year	<u>22,082,646</u>
Net Assets, End of Year	<u><u>\$ 21,563,434</u></u>

The accompanying notes are an integral part of this financial statement.

TOWN OF CENTREVILLE, MARYLAND

**Statement of Cash Flows – Proprietary Fund
For the Year Ended June 30, 2010**

Cash Flows from Operating Activities:

Cash received from customers	\$ 1,098,201
Cash received from allocations and planning	231,354
Cash paid for supplies, services, etc.	(1,004,865)
Cash paid for employees	(405,309)

Net cash from operating activities (80,619)

Cash Flows from Investing Activities:

Interest on cash deposits and investments	73,804
---	--------

Cash Flows from Capital and Related Financing Activities:

Purchases/construction of capital assets	(950,863)
Interest paid on debt	(229,788)
Principal paid on debt	(332,875)
Proceeds from loans	50,000

Net cash from financing activities (1,463,526)

Cash Flows from Non-capital Financing Activities:

Transfers from other funds	(1,608,662)
----------------------------	-------------

Net decrease in cash and cash equivalents (3,079,003)

Cash and cash equivalents, beginning of year 9,092,468

Cash and Cash Equivalents, End of Year \$ 6,013,465

Reconciliation of Operating Income to Net Cash from Operating Activities:

Operating loss \$ (386,888)

Adjustments to reconcile operating loss to net cash from operating activities

Depreciation 541,624

Effect of changes in non-cash operating assets and liabilities:

Receivables, net (331,646)

Payables and accrued expenses (216,137)

Deferred revenue 312,428

Net Cash from Operating Activities \$ (80,619)

The accompanying notes are an integral part of this financial statement.

TOWN OF CENTREVILLE, MARYLAND

Notes to the Financial Statements

June 30, 2010

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 in the United States of America (GAAP). 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, and guarantee of debt, ownership of assets, and appointment of the respective governing board. The Town does not have any component units as defined by GAAP. A component unit is defined as a separate legal entity that a primary government must include as part of its financial reporting entity for fair presentation inconformity with GAAP.

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 revenue, 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 revenue. Direct expenses are those that are clearly identifiable with a specific function. Taxes and other items not properly included among program revenue are reported instead as general revenue.

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. Revenue is 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 revenue 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 the Financial Statements

June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Measurement Focus, Basis of Accounting, and Financial Statement Preparation *(continued)*

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is 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 Town considers revenue 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 revenue 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, the Town has elected under GASB No. 20 to not implement Financial Accounting Standards Board (FASB) pronouncements issued on or after November 30, 1989.

The government reported three major governmental funds in 2010: the General Fund, Permanent 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 Permanent Fund is an investment fund in that only the fund's investment earnings may be used to support the government's programs. The Permanent 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 2010: the Water and Sewer Enterprise Fund. This fund accounts for the Town's water and sewer operations.

Program revenue 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.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue 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 revenue of the water and sewer fund are charges to customers for services. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

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.

TOWN OF CENTREVILLE, MARYLAND

Notes to the Financial Statements June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Assets, Liabilities and Net Assets or Fund Balances

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

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.

Accounts 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 \$17,716 at June 30, 2010 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 "*internal balances.*"

TOWN OF CENTREVILLE, MARYLAND

**Notes to the Financial Statements
June 30, 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Assets, Liabilities and Net Assets or Fund Balances *(continued)*

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	\$ 1,914,549	\$ --	\$ 1,914,549
Capital Project Fund	--	860,534	(860,534)
Permanent Fund	--	175,865	(175,865)
	<u>\$ 1,914,549</u>	<u>\$ 1,036,399</u>	<u>\$ 878,150</u>
Business-type Activities	<u>\$ -</u>	<u>\$ 878,150</u>	<u>\$ (878,150)</u>

Prepaid Assets

Prepaid assets consist of insurance premiums and other prepaid expenditures and are valued at cost using the consumption method.

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

TOWN OF CENTREVILLE, MARYLAND

Notes to the Financial Statements June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Assets, Liabilities and Net Assets or Fund Balances *(continued)*

Capital Assets (continued)

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 Balances

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 the Financial Statements

June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Assets, Liabilities and Net Assets or Fund Balances (continued)

Property Tax Calendar

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

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 is presented with a proposed budget. Prior to the beginning of each fiscal year, the Council considers and adopts an annual budget which establishes the property tax levy for the coming year. The budget provides a complete financial plan in that it contains estimated revenue and proposed expenditures adopted on a basis consistent with accounting principles generally accepted in the United States of America. The estimated revenue 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 Town Council. The budget amounts shown in the financial statements are from the original and revised budgets that were 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 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 department, 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 the Financial Statements June 30, 2010

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.

As of June 30, 2010 the Town's bank balance of cash deposits with financial institutions totaled \$8,936,361, of which \$250,000 was covered by Federal Deposit Insurance Corporation. The remaining \$8,686,361 are collateralized in accordance with state regulations. Centreville National Bank and/or designated custodian have issued an irrevocable letter of credit for \$10 million, balances maintained above the letter of credit limit are covered by 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. The deposits of the Town are not exposed to custodial credit risk as of June 30, 2010.

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

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	\$ 6,987,648	\$ 6,126,879	\$ 13,114,527

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

Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 9,691,843
Federal Home Loan Mortgage Corp.	714,088
Federal National Mortgage Assn.	509,062
Federal Home Loan Bank	1,188,158
Federal Farm Credit Bank	<u>1,011,376</u>
Total	<u>\$ 13,114,527</u>

TOWN OF CENTREVILLE, MARYLAND

Notes to the Financial Statements

June 30, 2010

3. DEPOSITS AND INVESTMENTS *(continued)*

Investments *(continued)*

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 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; and
- 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 Town 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 \$4,178,166 of investments \$3,566,446 is held by National Financial Services, LLC (NFS), a Fidelity Investments company, up to \$500,000 are protected with the Securities Investor Protection Corporation (SIPC). NFS provides supplemental coverage for total account net equity in excess of the SIPC coverage. The remaining investment balance of \$611,720 is collateralized with the Centreville National Bank as mentioned in the Deposits footnote above. As of June 30, 2010, the Town was not exposed to custodial credit risk.

Foreign Currency Risk

The investment policy does not permit investments in foreign investments.

TOWN OF CENTREVILLE, MARYLAND

**Notes to the Financial Statements
June 30, 2010**

4. DUE FROM OTHER GOVERNMENTS

As of June 30, 2010, due from other governments, a component of taxes receivable, is summarized as follows:

General Fund:		
State of Maryland		
Highway User Tax	\$	9,126
Income Tax		16,687
Admissions Tax		3,725
Total Due From Other Governments	\$	<u>29,538</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 2010. Settlement amounts have not exceeded insurance coverage for the past three years.

6. CAPITAL ASSETS

Capital asset activities for the year ended June 30, 2010, were as follows:

Governmental Activities

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital Assets Not Being Depreciated:				
Land	\$ 2,517,892	\$ --	\$ --	\$ 2,517,892
Construction in Progress	174,885	105,074	71,484	208,475
Total Capital Assets Not Being Depreciated	<u>2,692,777</u>	<u>105,074</u>	<u>71,484</u>	<u>2,726,367</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	10,186,707	446,317	2,625	10,630,399
Equipment	992,923	185,271	31,338	1,146,856
Total Capital Assets Being Depreciated	<u>11,179,630</u>	<u>631,588</u>	<u>33,963</u>	<u>11,777,255</u>
Less: Accumulated Depreciation for:				
Buildings and Improvements	3,015,710	409,417	2,625	3,422,502
Equipment	583,926	93,161	31,338	645,749
Total Accumulated Depreciation	<u>3,599,636</u>	<u>502,578</u>	<u>33,963</u>	<u>4,068,251</u>
Total Capital Assets Being Depreciated, Net	<u>7,579,994</u>	<u>129,010</u>	<u>--</u>	<u>7,709,004</u>
Capital Assets, Net	<u>\$ 10,272,771</u>	<u>\$ 234,084</u>	<u>\$ 71,484</u>	<u>\$ 10,435,371</u>

TOWN OF CENTREVILLE, MARYLAND

**Notes to the Financial Statements
June 30, 2010**

6. CAPITAL ASSETS (continued)

Business-type Activities

	Beginning Balances	Increases	Decreases	Ending Balances
Capital Assets Not Being Depreciated:				
Land	\$ 1,160,863	\$ --	\$ --	\$ 1,160,863
Construction in Progress	390,342	917,282	166,332	1,141,292
Total Capital Assets Not Being Depreciated	<u>1,551,205</u>	<u>917,282</u>	<u>166,332</u>	<u>2,302,155</u>
Capital Assets Being Depreciated:				
Land Improvements, Buildings and Improvements	22,011,403	209,238	--	22,220,641
Equipment and Other	296,113	22,085	--	318,198
Total Capital Assets Being Depreciated	22,307,516	231,323	--	22,538,839
Less Accumulated Depreciation for:				
Land Improvements, Buildings and Improvements	2,894,950	525,378	--	3,420,328
Equipment and Other	182,713	16,246	--	198,959
Total Accumulated Depreciation	<u>3,077,663</u>	<u>541,624</u>	<u>--</u>	<u>3,619,287</u>
Total Capital Assets Being Depreciated, Net	<u>19,229,853</u>	<u>(310,301)</u>	<u>--</u>	<u>18,919,552</u>
Capital Assets, Net	<u>\$ 20,781,058</u>	<u>\$ 606,981</u>	<u>\$ 166,332</u>	<u>\$ 21,221,707</u>

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

Governmental Activities:

General Government	\$ 10,937
Public Safety	33,155
Public Works	454,033
Parks and Recreation	<u>4,453</u>

Total Depreciation Expense, Governmental Activities \$ 502,578

Business-type Activities:

Sewer	\$ 363,273
Water	<u>178,351</u>

Total Depreciation Expense, Business-type Activities \$ 541,624

TOWN OF CENTREVILLE, MARYLAND

**Notes to the Financial Statements
June 30, 2010**

7. CONTINGENT LIABILITIES

The Town is the recipient of several state-shared taxes and grants. These programs are subject to audit and retroactive adjustments, which could result in reimbursement. Management does not believe any material liability will result from such audits.

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	\$ 2,516,850
Note payable, Centreville National Bank; Payable in Monthly Installments of \$10,566.65, including Principal and Interest at 4.79%; Final Payment Due June 7, 2037	<u>1,904,726</u>
Total	4,421,576
Less: undrawn proceeds	<u>664,825</u>
Total Governmental Activities	<u>3,756,751</u>

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	2,285,875
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	1,792,000

TOWN OF CENTREVILLE, MARYLAND

**Notes to the Financial Statements
June 30, 2010**

8. LONG TERM LIABILITIES *(continued)*

Business-type Activities *(continued)*

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 Feb. 1, 2003 and Semi-Annually Thereafter on the First Day of August and February Each Year Through February, 2015; Maximum Amount of Loan Commitment is \$3,900,000; Final Principal Amount Advanced \$2,065,583 An Annual Fee of \$9,184 is Paid by the Town to MDE for Administering the Loan	\$ 805,045
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	986,213
Bond Payable, Drinking Water Bond, Series 2010, Payable in Annual Installments Beginning February 1, 2011; Interest at 1%; Interest Paid on the Unpaid Principal Amounts Advanced Under the Loan Agreement Started on August 1, 2010 and Semi-Annually Thereafter on the First Day of August and February Each Year Through February, 2029; Maximum Principal Amount of Loan Commitment is \$2,300,000. An Annual Fee of \$6,660.67 is Paid by the Town to MDE for Administering the Loan	<u>49,000</u>
Total	5,918,133
Less: undrawn proceeds	<u>718,305</u>
Total Business-type Activities	<u>5,199,828</u>
Total	<u><u>\$ 8,956,579</u></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 0.125 percent. There are currently no amounts outstanding on the line of credit.

TOWN OF CENTREVILLE, MARYLAND

**Notes to the Financial Statements
June 30, 2010**

8. LONG TERM LIABILITIES (continued)

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

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 144,117	\$ 194,141
2012	148,209	188,448
2013	152,774	182,088
2014	163,596	177,207
2015	166,005	169,023
2016 – 2037	3,646,875	1,638,080
	<u>\$ 4,421,577</u>	<u>\$ 2,548,987</u>

<u>Year Ending June 30</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 450,159	\$ 244,167
2012	458,629	233,000
2013	468,163	223,514
2014	477,260	215,902
2015	325,420	203,725
2016- 2043	3,738,502	2,186,149
	<u>\$ 5,918,133</u>	<u>\$ 3,306,457</u>

The following is a summary of changes in long term liabilities and compensated absences of the Town for the year ended June 30, 2010:

	<u>Water and Sewer Fund</u>	<u>Capital Project Fund</u>	<u>General Long-Term Debt</u>	<u>Compensated Absences</u>	<u>Total</u>
Balance, Beginning of Year	\$ 6,201,008	\$ 2,623,350	\$ 1,938,134	\$ 70,056	\$ 10,832,548
Increases	50,000	--	--	48,680	98,680
Decreases	<u>(332,875)</u>	<u>(106,500)</u>	<u>(33,407)</u>	<u>(29,177)</u>	<u>(501,959)</u>
Balance, End of Year	5,918,133	2,516,850	1,904,727	89,559	10,429,269
Less: Undrawn Bond Proceeds	<u>718,305</u>	<u>664,826</u>	<u>--</u>	<u>--</u>	<u>1,383,131</u>
Total Long-term Debt, Governmental		<u>\$ 1,852,024</u>	<u>\$ 1,904,727</u>	<u>\$ 89,559</u>	<u>\$ 3,846,310</u>
Total Long-term Debt, Business-type	<u>\$ 5,199,828</u>				<u>\$ 5,199,828</u>

General funds have been historically used to liquidate non-debt long term liability.

Interest expense was \$237,574 and \$201,334 for the business-type and the governmental activities, respectively, for the year ended June 30, 2010.

TOWN OF CENTREVILLE, MARYLAND

Notes to the Financial Statements

June 30, 2010

9. COMMITMENTS AND CONTINGENCIES

Construction Projects

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. 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 received bond financing in December 2009 in accordance with the American Recovery and Reinvestment Act of 2009 (ARRA) from the Maryland Department of the Environment, Maryland Water Quality Financing Administration in the aggregate of \$2,281,000 for the purpose of financing Sanitary Sewer Upgrade Projects identified as Route 213 (Liberty/Commerce Streets) and MD 304 (Railroad Avenue).

In March of 2010, the Town received bond financing from the Maryland Department of the Environment, Maryland Water Quality Financing Administration in the amount of \$2,300,000. The proceeds of the bond shall be used to refinance the costs associated with the construction of the Water Treatment Plant located within the Centreville Business Park.

The Town awarded a bid in April 2007 for the construction of a Water Treatment Plant to be located within the Centreville Business Park. 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. Total project costs amounted to \$2,379,163. The Water Treatment Plant was placed into service during the spring of 2008. Construction was finalized September 2009.

During November 2009, the Town awarded two contracts to Pleasants Construction Inc for the sanitary sewer rehabilitation projects identified as Route 213 (Liberty/Commerce Streets) and MD Route 304 (Railroad Avenue) for \$1,075,080 and \$877,080, respectively. Construction of these projects began December 2009. The rehabilitation of the Town's wastewater collection system will consist of repair and/or replacement of defective sewer lines and manholes. The upgrades are intended to remove major sources of infiltration and inflow in the Town's wastewater collection system. Both of the sewer rehabilitation projects are considered to be substantially complete as of December 2010.

TOWN OF CENTREVILLE, MARYLAND

Notes to the Financial Statements June 30, 2010

9. COMMITMENTS AND CONTINGENCIES *(continued)*

Public Works Agreements

The Town has entered into several Public Works Agreements (PWA's) with developers for projects within the Town. Approximately 941 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 remained unused and totaled \$4,563,610 as of June 30, 2010.

Employment Contracts

The Town has employment agreements with its Town Manager commencing April 2009 and its Chief of Police commencing April 2010 each for a one year term. In accordance with Section 601 and Section 701 of the Charter, which provides that the Town Manager and/or Chief of Police shall serve for an indefinite period at the pleasure of the Council, these agreements shall automatically renew for another one-year term until terminated. Both contracts may be terminated by either the Town or the employee.

Contractual Agreements

Previously, the Town had an annual renewable agreement with Maryland Environmental Service (MES) to provide operation of the Town's water and wastewater treatment system. As of March 2010 the Town terminated its contract with MES with regard to operations personnel. MES is currently only providing monitoring, laboratory, and reporting services to the Town.

As of June 2010 the Town awarded a contract to Bates Trucking and Trash Removal, Inc. to provide curbside garbage collection and single stream recycling to eligible residents and businesses of the Town. The new contractor begins collection services September 2010. The contract is for a two year period and provides the Town the ability to extend the contract for three additional one year terms. The total estimated cost of the service is \$132,120.

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 debt acquired in aggregate of \$10,339,709, the Town, 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 \$488,792,109. Currently, the borrowing limit is \$97,758,422.

TOWN OF CENTREVILLE, MARYLAND

**Notes to the Financial Statements
June 30, 2010**

9. COMMITMENTS AND CONTINGENCIES *(continued)*

Legal Issues

The Town is party to legal proceedings that normally occur in governmental operations. The legal proceedings are not likely to have a material adverse impact on the financial position of the Town.

Fund Deficit

The Town plans to fund the fund deficit in the capital projects through additional draws on available debt.

10. PENSION PLAN

The Town sponsors a defined contribution plan administered by Wealth Management Associates, LLC and is required to contribute 5% of earned income for eligible employees. Employees must be 21 years of age, employed for one year of continuous service, and credited with at least 1,000 hours of service for the plan year. During the fiscal year ended June 30, 2010, 22 employees participated in the plan. Participants are 100 percent vested upon entry into the plan. The Town's pension expense was \$55,143 in 2010.

11. OTHER POST EMPLOYMENT BENEFITS

The Town provides a post-employment medical insurance benefit and a prescription health reimbursement expense account to employees who retire from employment with twenty-five years of service. These post-employment benefits are subject to change at any time. The Town has not yet established a formal policy nor has it restricted any funds for the plan. Currently, the employer's contributions are financed on a pay-as-you-go basis, and the future payment of these benefits is contingent upon the annual approval of the operating budget.

The medical benefits paid by the Town on behalf of the retiree's were \$10,803 for the year ended June 30, 2010.

Membership in the plan consisted of the following as of December 2010 actuarial valuation:

<u>Plan Participants</u>	
Retirees currently receiving benefits	
Retirees (Medicare Age)	2
Active employees	<u>28</u>
Total	<u>30</u>

TOWN OF CENTREVILLE, MARYLAND

**Notes to the Financial Statements
June 30, 2010**

11. OTHER POST EMPLOYMENT BENEFITS (continued)

The Town of Centreville is considered a small single-employer plan with regards to implementing GASB 45 standards. The Town is able to prepare the estimate of the AAL and ARC using simplified methods and assumptions known as the Alternative Measurement Method. The standards allow the smallest single-employer plans – those with fewer than 100 members – to estimate the AAL and the ARC using simplified methods and assumptions. The Town’s OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount that was determined using the Alternative Measurement Method. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Town’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town’s net OPEB obligation:

Annual Required Contribution	\$ 29,177
Contributions Made	--
Increase in Net OPEB Obligation	--
Net OPEB Obligation – Beginning of Year	<u> </u>
Net OPEB Obligation – End of Year	<u><u>\$ 29,177</u></u>

The Town is not required by law or contractual agreement to provide funding for retiree benefits other than the pay-as-you-go amount necessary to provide current benefits to retirees. The Town may contribute those amounts that the Town Council of Centreville appropriates. The net OPEB obligation is included in compensated absences on the accompanying statement of net assets.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC of the Town are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, shown as required supplementary information, presents the results of OPEB valuations as of June 30, 2010; going forward, the schedule will eventually provide multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Projected Unit Credit	(3) Percentage Funded (1)/(2)	(4) Unfunded AAL (UAAL) (2) – (1)	(5) Covered Payroll	(6) UAAL as a Percentage of Covered Payroll ((2 -1)/5)
12/2010	\$ --	\$ 163,905	0%	\$ 163,905	\$ 1,405,475	11.66%

TOWN OF CENTREVILLE, MARYLAND

Notes to the Financial Statements

June 30, 2010

11. OTHER POST EMPLOYMENT BENEFITS *(continued)*

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The annual required contribution for the current year was determined as part of the December 2010 alternative measurement method using the entry age cost method; it is being amortized over a period of 30 years. The actuarial assumptions include a 6 percent investment rate of return. The funding method is level percentage of projected payroll. Payroll is assumed to increase at 2 percent per annum. This assumption is used to determine the level percentage of payroll amortization factor.

12. SUBSEQUENT EVENTS

During August 2010 the Town awarded a contract to Dissen & Juhn for the Centreville Wharf Landing Project in the amount of \$448,102. This project includes replacement of approximately 460 linear feet of existing bulkhead, five finger piers with pilings for ten slips, a pervious waterfront walking path, sidewalk, driveway entrances, and living shoreline enhancements.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF CENTREVILLE, MARYLAND

**Combing Statement of Revenue, Expenditures, and Changes in Fund Balances – General Fund
For the Year Ended June 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget- Positive (Negative)</u>
Revenue				
Revenue from Local Sources				
General property taxes:				
Real property taxes	\$ 2,060,711	\$ 2,050,711	\$ 2,117,516	\$ 66,805
Personal property taxes	48,051	48,051	37,884	(10,167)
Penalties and interest – delinquent taxes				
Total General Property Taxes	<u>2,108,762</u>	<u>2,098,762</u>	<u>2,155,400</u>	<u>56,638</u>
Local income taxes	<u>262,329</u>	<u>262,329</u>	<u>257,385</u>	<u>(4,944)</u>
Total Taxes	2,371,091	2,361,091	2,412,785	51,694
Permits and licenses:				
Amusement	4,800	4,800	5,937	1,137
License distribution	8,200	8,200	8,845	645
Permit fees	80,000	80,000	64,779	(15,221)
Franchise fees	42,000	42,000	45,713	3,713
Other licenses and fees	<u>12,500</u>	<u>12,500</u>	<u>8,235</u>	<u>(4,265)</u>
Total Permits And Licenses	147,500	147,500	133,509	(13,991)
Charges for services:				
General government	262,800	262,800	129,742	(133,058)
Public safety	51,200	51,200	32,508	(18,692)
Sanitation and waste removal	<u>250,900</u>	<u>250,900</u>	<u>244,400</u>	<u>(6,500)</u>
Total Charges for Services	564,900	564,900	406,650	(158,250)
Miscellaneous revenue	<u>30,950</u>	<u>30,950</u>	<u>29,793</u>	<u>(1,157)</u>
Total Revenue from Local Sources	3,114,441	3,104,441	2,982,737	(121,704)

TOWN OF CENTREVILLE, MARYLAND

**Schedule of Revenue, Expenditures, and Change in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget- Positive (Negative)</u>
Revenue (continued)				
Revenue from Intergovernmental				
State:				
Police protection	\$ 70,200	\$ 44,078	\$ 41,000	\$ (3,078)
Highway user taxes	183,532	18,353	27,994	9,641
Grants	1,123,500	882,644	527,211	(355,433)
Total State	1,377,232	945,075	596,205	(348,870)
County:				
Payments in lieu of taxes	118,049	118,049	136,368	18,319
Total Revenue from Intergovernmental	1,495,281	1,063,124	732,573	(330,551)
Total Revenue	<u>4,609,722</u>	<u>4,167,565</u>	<u>3,715,310</u>	<u>(452,255)</u>
Expenditures				
General Government Administration				
Legislative	108,731	108,732	92,973	15,759
Planning and zoning	418,020	296,019	252,007	44,012
General services	303,402	303,402	289,424	13,978
Total General Government Administration	830,153	708,153	634,404	73,749
Public Safety				
Police	983,103	973,104	854,830	118,274
Volunteer fire and rescue services	45,000	45,000	45,000	--
Total Public Safety	1,028,103	1,018,104	899,830	118,274

TOWN OF CENTREVILLE, MARYLAND

**Schedule of Revenue, Expenditures, and Change in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget- Positive (Negative)</u>
Expenditures (continued)				
Public Works				
Landfill	\$ 368,975	\$ 368,975	\$ 359,182	\$ 9,793
Highways and streets	525,308	647,310	592,325	54,985
Total Public Works	894,283	1,016,285	951,507	64,778
Parks and Recreation	107,458	107,458	106,165	1,293
Cemetery	119,938	119,939	103,814	16,125
Watershed Preservation	298,591	348,592	317,619	30,973
Centreville Wharf	30,000	30,000	869	29,131
Capital Outlay	2,747,824	1,435,068	385,542	1,049,526
Debt Service	341,241	341,241	341,241	--
Total Expenditures	6,397,591	5,124,840	3,740,991	1,383,849
Excess (Deficiency) of Revenue over Expenditures before other Financing Sources (Uses)	(1,787,869)	(957,275)	(25,681)	931,594
Other Financing Sources (Uses)				
Bondholder proceeds	427,000	427,000	--	(427,000)
Commercial financing	1,240,869	410,275	--	(410,275)
Operating transfers	120,000	120,000	(135,874)	(255,874)
Total other Financing Sources (Uses)	1,787,869	957,275	(135,874)	(1,093,149)
Excess (Deficiency) of Revenue and Other Financing Sources over Expenditures	\$ --	\$ --	\$ (161,555)	\$ (161,555)

OTHER FINANCIAL INFORMATION

TOWN OF CENTREVILLE, MARYLAND

**Supplemental Balance Sheet - General Fund
For the Year Ended June 30, 2010**

	<u>General Fund</u>	<u>Revolving Housing Fund</u>	<u>Perpetual Care Fund</u>	<u>Total General Fund</u>
ASSETS				
Cash and cash equivalents	\$ 2,710,292	\$ 26,971	\$ 55,247	\$ 2,792,510
Investments			89,702	89,702
Receivables:				
Taxes (net)	52,048			52,048
Accounts (net)	548,414		7,893	556,307
Interest				
Prepaid and other assets	53,403			53,403
Notes receivable		123,650		123,650
Due from other funds	1,825,061	50,176	39,312	1,914,549
	<u>1,825,061</u>	<u>50,176</u>	<u>39,312</u>	<u>1,914,549</u>
Total Assets	<u>\$ 5,189,218</u>	<u>\$ 200,797</u>	<u>\$ 192,154</u>	<u>\$ 5,582,169</u>
LIABILITIES				
Accounts payable	\$ 241,426	\$ --	\$ --	\$ 241,426
Accrued payroll	41,900	--	--	41,900
Escrow deferred payable	146,832	--	--	146,832
Due to other funds	--	--	--	--
	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total Liabilities	<u>430,158</u>	<u>--</u>	<u>--</u>	<u>430,158</u>
FUND BALANCES				
Fund Balances:				
Prepaid	53,403	--	--	53,403
Notes receivables	--	123,650	--	123,650
Reserved for fund purposes	--	77,147	192,154	269,301
Unreserved	4,705,657	--	--	4,705,657
	<u>4,705,657</u>	<u>--</u>	<u>--</u>	<u>4,705,657</u>
Total Fund Balances	<u>4,759,060</u>	<u>200,797</u>	<u>192,154</u>	<u>5,152,011</u>
Total Liabilities and Fund Balances	<u>\$ 5,189,218</u>	<u>\$ 200,797</u>	<u>\$ 192,154</u>	<u>\$ 5,582,169</u>

TOWN OF CENTREVILLE, MARYLAND

**Supplemental Statement of Revenue, Expenditures, and Change in Fund Balances –
General Fund
For the Year Ended June 30, 2010**

	<u>General Fund</u>	<u>Revolving Housing Fund</u>	<u>Perpetual Care Fund</u>	<u>Total General Fund</u>
Revenue				
General property taxes	\$ 2,155,400	\$ --	\$ --	\$ 2,155,400
Other local taxes	257,385	--	--	257,385
Permits and licenses	133,509	--	--	133,509
Charges for services	400,600	--	6,050	406,650
Intergovernmental	732,573	--	--	732,573
Miscellaneous	29,655	--	138	29,793
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenue	3,709,122	--	6,188	3,715,310
Expenditures				
Current:				
General government and administration	634,404	--	--	634,404
Public safety	899,830	--	--	899,830
Public works	951,507	--	--	951,507
Parks and recreation	106,165	--	--	106,165
Public cemetery	103,814	--	--	103,814
Watershed preservation	317,619	--	--	317,619
Centreville wharf	869	--	--	869
Capital outlay	385,542	--	--	385,542
Debt Service:				
Principal	139,907	--	--	139,907
Interest	201,334	--	--	201,334
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	3,740,991	--	--	3,740,991
Excess (Deficiency) of Revenue over Expenditures	(31,869)	--	6,188	(25,681)
Other Financing Sources (Uses)				
Operating transfers	(135,874)	--	--	(135,874)
	<hr/>	<hr/>	<hr/>	<hr/>
Net change in fund balance	(167,743)	--	6,188	(161,555)
Fund balances, beginning of year	4,926,803	200,797	185,967	5,313,567
Fund Balances, End of Year	<u>\$ 4,759,060</u>	<u>\$ 200,797</u>	<u>\$ 192,155</u>	<u>\$ 5,152,012</u>

TOWN OF CENTREVILLE, MARYLAND

**Supplemental Schedule of Revenue, Expenses and Change in Net Assets – Enterprise Fund
For the Year Ended June 30, 2010**

Revenue

Charges for Services:

Sewer allocation fees	\$ 132,177
Water allocation fees	77,644
Sewer	626,906
Water	430,438
Water penalty	18,483
Sewer vacant lots	36,018
Meter equipment	5,912
Connection charges	3,725
I&I study charge	5,168
Sale of crops	1,863
Other fines and forfeitures	10,439
Total Charges for Services	<u>1,348,773</u>

Miscellaneous Revenue

Investment earnings	73,839
Capital grant revenue	24,411
Total Miscellaneous Revenue	<u>98,250</u>

Total Revenue 1,447,023

Expenditures

Public Works

Sewer	1,053,714
Water	679,908
Farm	2,039
Total Public Works	<u>1,735,661</u>

Debt service

Interest	221,729
Administrative fee	15,845
Total Debt Service	<u>237,574</u>
Total Expenditures	<u>1,973,235</u>

Deficiency of Expenditures Over Revenues
Before Contributions (526,212)

Capital Contributions

7,000

Change in net assets \$ (519,212)