

TOWN OF CENTREVILLE, MARYLAND

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

For the Year Ended June 30, 2011



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

June 30, 2011

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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 of the Town of Centreville, Maryland (the Town), as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund, of the Town, as of June 30, 2011, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual - General Fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.



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Our audit was conducted for the purpose of forming opinions 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 Changes in Fund Balances - General Fund and the Supplemental Statement 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Hunt Valley, Maryland
March 30, 2012

SB & Company, LLC

TOWN OF CENTREVILLE

Management's Discussion and Analysis June 30, 2011

This section of the annual financial statements of the Town of Centreville, Maryland (the Town) presents a narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2011. Readers are encouraged to consider the information presented here in conjunction with the basic financial statements and the accompanying notes.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of fiscal year June 30, 2011 by approximately \$37 million (*net assets*). Approximately 57.8% of this amount is attributable to the business-type activities. Of the total net assets approximately \$9.3 million (*unrestricted net assets*) may be used to meet the Town's ongoing obligations to citizens and creditors (58.9% is attributable to the business-type activities). Of the remaining total net assets, approximately \$4.6 million is restricted for specific purposes (*restricted net assets*), and approximately \$23.1 million is invested in capital assets, net of related debt.
- The Town's overall financial position has improved with total net assets increasing by approximately \$352 thousand during the fiscal year. Governmental activities saw an increase of approximately \$569 thousand. The Business-type activities decreased approximately \$217 thousand, this was largely due to a continued reduction in the collection of water and sewer allocation fees and the slow growth in the housing market.
- As of June 30, 2011, the Town's governmental funds reported combined ending fund balances of approximately \$8.4 million.
- As of the close of the current fiscal year, the unassigned fund balance for the general fund was approximately \$4.9 million or 127% of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

TOWN OF CENTREVILLE

Management's Discussion and Analysis June 30, 2011

Overview of the Financial Statements (continued)

Government-wide financial statements (continued)

The *statement of activities* presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, public works, sanitation, parks and recreation, cemetery and watershed and stormwater management. The business-type activities of the Town include water and sewer operations.

The government-wide financial statements can be found on pages 19 and 20 of this report.

Fund financial statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

Governmental funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By so doing, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenue, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

TOWN OF CENTREVILLE

Management's Discussion and Analysis June 30, 2011

Overview of the Financial Statements (continued)

Government-wide financial statements (continued)

Governmental funds (continued)

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 21-23 of this report.

Proprietary funds

The Town maintains one proprietary-type fund: an enterprise fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the governmental-wide financial statements. The Town uses enterprise funds to account for its water and sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations, of which is considered to be a major fund of the Town.

The basic proprietary fund financial statements can be found on pages 25-27 of this report.

Notes to financial statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements are part of the basic financial statements and can be found on pages 28-47 of this report.

Other supplementary information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This information can be found on pages 51-53.

TOWN OF CENTREVILLE

Management's Discussion and Analysis June 30, 2011

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by approximately \$37 million as of June 30, 2011. The Town of Centreville's net assets are divided into three categories: invested in capital assets (net of related debt), restricted net assets, and unrestricted net assets. The largest portion of the Town's net assets (62.4%) reflects its investment in capital assets, net of depreciation (e.g., buildings, land, improvements, equipment, vehicles, infrastructure, and sewer and water utility systems), less any unmatured debt used to acquire those assets and accumulated depreciation. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the Town's net assets (12.4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (25.2%) may be used to meet the government's ongoing obligations to citizens and creditors.

Table A-1
CONDENSED STATEMENTS OF NET ASSETS
As of June 30, 2011 and 2010
(in thousands of dollars)

	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>		<u>Government</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Assets						
Current and other assets	\$ 8,929	\$ 8,686	\$ 9,089	\$ 6,969	\$ 18,018	\$ 15,655
Capital assets, net	11,279	10,495	22,369	21,324	33,648	31,819
Total Assets	20,208	19,181	31,458	28,293	51,666	47,474
Liabilities						
Other liabilities	629	445	3,464	1,980	4,093	2,425
Long-term liabilities	3,976	3,702	6,647	4,750	10,623	8,452
Total Liabilities	4,605	4,147	10,111	6,730	14,716	10,877
Net Assets						
Invested in capital assets, net of related debt	7,201	6,679	15,865	16,022	23,066	22,701
Restricted	4,576	5,022	-	-	4,576	5,022
Unrestricted	3,827	3,333	5,481	5,541	9,308	8,874
Total Net Assets	\$ 15,604	\$15,034	\$ 21,346	\$21,563	\$ 36,950	\$ 36,597

TOWN OF CENTREVILLE

**Management's Discussion and Analysis
June 30, 2011**

Government-wide Financial Analysis (continued)

**Table A-2
CONDENSED STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2011 and 2010
(in thousands of dollars)**

	Governmental Activities		Business-type Activities		Total Government	
	2011	2010	2011	2010	2011	2010
Revenue						
Program revenue:						
Charges for services	\$ 442	\$ 531	\$ 1,453	\$ 1,349	\$ 1,895	\$ 1,880
Operating grants/ contributions	936	827	200	-	1,136	827
Capital grants/ contributions	406	-	-	31	406	31
General revenue:						
Property taxes	1,914	2,118	-	-	1,914	2,118
Other income taxes	301	295	-	-	301	295
Other	113	230	62	74	175	304
Total revenue	4,112	4,001	1,715	1,454	5,827	5,455
Program Expenses						
General government	557	643	-	-	557	643
Public safety	978	926	-	-	978	926
Public works	1,379	1,402	-	-	1,379	1,402
Parks, recreation and culture	88	110	-	-	88	110
Cemetery	102	103	-	-	102	103
Stormwater/Watershed	184	301	-	-	184	301
Centreville wharf	58	1	-	-	58	1
Interest on long-term debt	196	201	-	-	196	201
Enterprise expenses						
Water services	-	-	799	813	799	813
Sewer services	-	-	1,133	1,158	1,133	1,158
Farm services	-	-	-	2	-	2
Total Program Expenses	3,542	3,687	1,932	1,973	5,474	5,660
Change in net assets	570	314	(217)	(519)	353	(205)
Net assets, beginning of year	15,034	14,720	21,563	22,082	36,597	36,802
Net Assets, End of Year	\$ 15,604	\$15,034	\$ 21,346	\$ 21,563	\$ 36,950	\$36,597

TOWN OF CENTREVILLE

Management's Discussion and Analysis June 30, 2011

Government-wide Financial Analysis (continued)

For the fiscal year ended June 30, 2011, the Town reported positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Governmental Activities

Revenue from the Town's governmental activities was approximately \$4.1 million, while total expenses were approximately \$3.5 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, stormwater/watershed management 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, excluding interest, was approximately \$3.3 million. Some of that cost was financed by:
 - Those who directly benefited from the programs (\$0.4 million), or
 - Other governments and organizations that subsidized certain programs with grants and contributions (\$1.3 million).
- The Town financed the remaining \$1.8 million “public benefit” portion of governmental activities with taxes.

TABLE A-3
NET COST OF CENTREVILLE'S GOVERNMENT ACTIVITIES
For the Years Ended June 30, 2011 and 2010
(in thousands of dollars)

	Total Cost of Services		Net Cost (Surplus) of Services	
	2011	2010	2011	2010
General government	\$ 557	\$ 643	\$ 104	\$ 58
Public safety	978	926	927	822
Public works	1,379	1,402	707	1,158
Parks and recreation	88	110	70	(48)
Cemetery	102	103	70	76
Watershed/Stormwater	184	301	(49)	60
Centreville wharf	58	1	(267)	1
Total	\$ 3,346	\$ 3,486	\$ 1,562	\$ 2,127

TOWN OF CENTREVILLE

**Management’s Discussion and Analysis
June 30, 2011**

Government-wide Financial Analysis (continued)

Business-type Activities

Revenue from the Town’s business-type activities was approximately \$1.7 million and expenses were \$2 million (Refer to Table A-2.) Factors contributing to these results included:

- Allocation fee revenue decreased significantly due to the decline in residential and commercial real estate development.
- The cost of sewer, water and farm activities were within the budgets established for 2011.
- 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.

**Table A-4
REVENUE CLASSIFIED BY SOURCE
GENERAL FUND
For the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>Percent of Total</u>	<u>2010</u>	<u>Percent of Total</u>
Revenue and Other Financing Sources				
General property taxes	\$ 1,949,591	48.2 %	\$ 2,155,400	60.2 %
Local income taxes	265,475	6.6	257,385	7.2
Permits and licenses	128,818	3.2	133,509	3.7
Charges for services	321,209	7.9	406,650	11.4
Intergovernmental	785,370	19.4	732,573	20.5
Loan proceeds	411,527	10.2	-	0.0
Miscellaneous	85,917	2.1	29,793	0.8
Operating transfers	96,331	2.4	(135,874)	(3.8)
Total Revenue and Other Financing Sources	<u>\$ 4,044,238</u>	<u>100.0 %</u>	<u>\$ 3,579,436</u>	<u>100.0 %</u>

TOWN OF CENTREVILLE

**Management's Discussion and Analysis
June 30, 2011**

Government-wide Financial Analysis (continued)

**Table A-5
EXPENDITURE BY FUNCTION
GENERAL FUND
For the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>Percent of Total</u>		<u>2010</u>	<u>Percent of Total</u>
Expenditures					
Current operations:					
General government administration	\$ 548,057	14.2 %	\$	634,404	17.0 %
Public safety	937,126	24.4		899,830	24.1
Public works	821,375	21.5		951,507	25.4
Parks and recreation	74,678	2.0		106,165	2.8
Cemetery	101,918	2.7		103,814	2.8
Watershed/Stormwater	166,508	4.4		317,619	8.5
Centreville wharf	21,091	0.6		869	0.0
Capital outlay	815,951	21.3		385,542	10.3
Debt service:					
Principal	144,119	3.8		139,907	3.7
Interest	195,572	5.1		201,334	5.4
Total Expenditures	<u>\$ 3,826,395</u>	<u>100.0 %</u>	\$	<u>3,740,991</u>	<u>100.0 %</u>

General Fund Budgetary Highlights

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

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

Reappropriation of fiscal 2011, budgeted funds included decreases to several areas of the budget including various capital projects and improvements. Stormwater/Watershed Management expenditures were increased in relation to the increase recognized in grant revenue and particularly relating to project and/or improvement completion timelines.

TOWN OF CENTREVILLE

Management's Discussion and Analysis June 30, 2011

Capital Assets and Debt Administration

Capital assets

The Town's total investment in capital assets, including construction in progress, for its governmental and business-type activities amounts to approximately \$33.5 million and approximately \$31.7 million, as of June 30, 2011 and June 30, 2010, respectively (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, equipment, furniture, fixtures, vehicles, infrastructure, and utility facilities.

This year's major capital additions included:

- Sewer and water improvements on Railroad Avenue (Route 304) and Liberty, Commerce and Water Streets (Route 213).
- Donated infrastructure consisting of road, sewer and water improvements by developer within Phase III of Providence Farm development.
- Construction and improvements of bulkhead, pier, boat slips and other amenities at the Centreville Wharf Landing.
- The addition of a gazebo and pavilion at the North and South Pocket Parks adjacent to the Centreville Wharf Landing and Queen Anne's County public landing.
- Purchase of a vehicle for the utility department.
- Purchase of 31HP Lawn Tractor.

The following table of the Town's capital assets is listed below. Additional information can be found in Note 6 on pages 38 and 39 of this report.

Table A-6
CAPITAL ASSETS
As of June 30, 2011 and 2010
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 2,713	\$ 2,518	\$ 1,161	\$ 1,161	\$ 3,874	\$ 3,679
Buildings and improvements	7,864	7,208	20,679	18,800	28,543	26,008
Equipment	397	501	148	119	545	620
Construction in progress	251	208	287	1,141	538	1,349
Total	\$ 11,225	\$ 10,435	\$ 22,275	\$ 21,221	\$ 33,500	\$ 31,656

TOWN OF CENTREVILLE

Management's Discussion and Analysis June 30, 2011

Capital Assets and Debt Administration (continued)

Debt administration

As of June 30, 2011, the Town had approximately \$11.2 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
OUTSTANDING DEBT
As of June 30, 2011 and 2010
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Mortgage loans	\$ 1,870	\$ 1,905	\$ -	\$ -	\$ 1,870	\$ 1,905
Loans from USDA	-	-	972	986	972	986
Loans from MD DOE	-	-	2,775	854	2,775	854
Bonds payable	2,408	2,517	3,941	4,078	6,349	6,595
Subtotal	4,278	4,422	7,688	5,918	11,966	10,340
Less undrawn proceeds	253	665	477	718	730	1,383
Total	\$ 4,025	\$ 3,757	\$ 7,211	\$ 5,200	\$ 11,236	\$ 8,957

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 2009 and 2010, 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 Queen Anne's County owned farmland was initially proposed to house a future County office complex and a recreational facility. However, the current County government may not develop this parcel.

TOWN OF CENTREVILLE

Management's Discussion and Analysis June 30, 2011

Subsequent Items for Future Financial Statements (continued)

Growth (continued)

New development there or elsewhere 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 revenue by more than \$150,000. 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 stormwater 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 have been 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 2012. Road maintenance and integration of major roads projects with utility upgrades must continue to be part of the Town's long-term capital planning but is likely contingent upon pending financing proposals.

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. The 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 Environment's (MDE) Water Quality Financing Administration.

TOWN OF CENTREVILLE

Management's Discussion and Analysis June 30, 2011

Subsequent Items for Future Financial Statements (continued)

Water System: Overview

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

Water System: Availability

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

Water System: Treatment

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 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 20 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 and an assessment is underway to prioritize the needs. 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 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.

TOWN OF CENTREVILLE

Management's Discussion and Analysis June 30, 2011

Subsequent Items for Future Financial Statements (continued)

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 2012. 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.

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 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 current and future 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 while providing a cost effective means by which to add wastewater capacity. These upgrades have been initiated in the order of priority established in the study. 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. Those upgrades already completed have had quantifiable success in reducing inflow and infiltration by nearly 100,000 gallons per day (gpd), thereby increasing the system's net capacity. These needs warrant additional appropriations for construction and debt service and will impact future capital expenditures.

TOWN OF CENTREVILLE

Management's Discussion and Analysis June 30, 2011

Subsequent Items for Future Financial Statements (continued)

Wastewater System: Treatment

The Town's engineers believe the wastewater treatment facility (WWTF) is able to treat up to 750,000 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 2011, the Town upgraded the WWTF electrical systems and tanks to install dissolved oxygen sensors, which are intended to enhance biological processes and reduce operational costs.

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 2011, the Town completed 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, coastal plains outfalls, 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. Again this year, State legislation may mandate regulation to make this a utility function, and to 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 vacant parcels in 2007, and the Council has discussed construction of a new municipal building, shared space with other government entities, and expansion or acquisition of an existing building to accommodate new staff.

TOWN OF CENTREVILLE

Management's Discussion and Analysis June 30, 2011

Contacting the Town's Financial Management

This financial report is designed to provide the Town's 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 or visit our website: www.TownofCentreville.org.

FINANCIAL STATEMENTS

TOWN OF CENTREVILLE, MARYLAND

Statement of Net Assets As of June 30, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 5,134,900	\$ 5,426,546	\$ 10,561,446
Investments	4,001,989	113,894	4,115,883
Receivables:			
Taxes, net	29,011	-	29,011
Accounts, net	380,402	2,743,066	3,123,468
Interest	16,366	24	16,390
Prepaid and other assets	48,816	-	48,816
Notes receivable	123,605	-	123,605
Internal balances	(805,508)	805,508	-
Total Current Assets	8,929,581	9,089,038	18,018,619
Non-Current Assets			
Unamortized bond issuance costs	54,008	94,153	148,161
Capital assets, net	10,974,406	21,987,517	32,961,923
Construction in progress	250,553	286,975	537,528
Total Non-Current Assets	11,278,967	22,368,645	33,647,612
TOTAL ASSETS	20,208,548	31,457,683	51,666,231
LIABILITIES			
Current Liabilities			
Accounts payable	427,323	475,839	903,162
Accrued payroll	53,050	16,078	69,128
Deferred revenue	-	2,408,649	2,408,649
Long term debt, current portion	148,209	563,294	711,503
Total Current Liabilities	628,582	3,463,860	4,092,442
Non-Current Liabilities			
Long term debt, net of current portion	3,875,949	6,647,431	10,523,380
Compensated absences, net of current portion	100,305	-	100,305
Total Non-Current Liabilities	3,976,254	6,647,431	10,623,685
TOTAL LIABILITIES	4,604,836	10,111,291	14,716,127
NET ASSETS			
Invested in capital assets, net of related debt	7,200,801	15,865,166	23,065,967
Restricted	4,576,186	-	4,576,186
Unrestricted	3,826,725	5,481,264	9,307,989
TOTAL NET ASSETS	\$ 15,603,712	\$ 21,346,430	\$ 36,950,142

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

TOWN OF CENTREVILLE, MARYLAND

**Statement of Activities
For the Year Ended June 30, 2011**

Functions/Programs	Program Revenue			Net (Expense) Revenue and Change in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General governmental administration	\$ 557,408	\$ 223,281	\$ 229,778	\$ -	\$ (104,349)	\$ -	\$ (104,349)
Public safety	977,715	340	50,000	-	(927,375)	-	(927,375)
Public works	1,378,606	186,180	79,329	405,655	(707,443)	-	(707,443)
Parks and recreation	88,348	-	18,208	-	(70,140)	-	(70,140)
Cemetery	101,921	32,150	-	-	(69,771)	-	(69,771)
Watershed/Stormwater	184,140	-	233,571	-	49,431	-	49,431
Centreville wharf	58,136	-	325,479	-	267,343	-	267,343
Interest expense	195,572	-	-	-	(195,572)	-	(195,572)
Total Governmental Activities	3,541,846	441,951	936,365	405,655	(1,757,876)	-	(1,757,876)
Business-type Activities:							
Sewer	1,132,918	857,745	100,000	-	-	(175,173)	(175,173)
Water	798,616	593,735	99,976	-	-	(104,905)	(104,905)
Farm	407	1,939	-	-	-	1,532	1,532
Total Business-type Activities	1,931,941	1,453,419	199,976	-	-	(278,546)	(278,546)
Total Primary Government	\$ 5,473,787	\$ 1,895,370	\$ 1,136,341	\$ 405,655	(1,757,876)	(278,546)	(2,036,422)
General Revenue:							
Taxes							
Real property taxes					1,913,904	-	1,913,904
Public utility taxes					35,687	-	35,687
Local income taxes					265,475	-	265,475
Miscellaneous					61,457	-	61,457
Investment earnings					142,137	61,542	203,679
Gains, losses, change in fair market value					(91,441)	-	(91,441)
Total General Revenue					2,327,219	61,542	2,388,761
Change in Net Assets					569,343	(217,004)	352,339
Net assets, beginning of year					15,034,369	21,563,434	36,597,803
Net Assets, End of Year					\$ 15,603,712	\$ 21,346,430	\$ 36,950,142

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

TOWN OF CENTREVILLE, MARYLAND

**Balance Sheet - Governmental Funds
As of June 30, 2011**

	<u>General Fund</u>	<u>Capital Project Fund</u>	<u>Permanent Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 5,002,227	\$ -	\$ 132,673	\$ 5,134,900
Investments	89,702	-	3,912,287	4,001,989
Receivables				
Taxes, net	29,011	-	-	29,011
Accounts, net	380,402	-	-	380,402
Interest	-	13	16,353	16,366
Prepaid and other assets	48,816	-	-	48,816
Notes receivable	123,605	-	-	123,605
Due from other funds	509,291	-	-	509,291
Total Assets	<u>\$ 6,183,054</u>	<u>\$ 13</u>	<u>\$ 4,061,313</u>	<u>\$ 10,244,380</u>
LIABILITIES				
Accounts payable	\$ 410,511	\$ -	\$ -	\$ 410,511
Accrued payroll	53,050	-	-	53,050
Deferred revenue	83,930	-	-	83,930
Due to other funds	265,709	860,525	188,565	1,314,799
Total Liabilities	<u>813,200</u>	<u>860,525</u>	<u>188,565</u>	<u>1,862,290</u>
FUND BALANCES				
Fund balances:				
Committed	277,717	-	3,872,748	4,150,465
Assigned	194,208	-	-	194,208
Unassigned	4,897,929	(860,512)	-	4,037,417
Total Fund Balances	<u>5,369,854</u>	<u>(860,512)</u>	<u>3,872,748</u>	<u>8,382,090</u>
Total Liabilities and Fund Balances	<u>\$ 6,183,054</u>	<u>\$ 13</u>	<u>\$ 4,061,313</u>	<u>\$ 10,244,380</u>

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

TOWN OF CENTREVILLE, MARYLAND

**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
As of June 30, 2011**

Total Governmental Fund Balances (page 20)		\$ 8,382,090
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		11,224,959
Other assets are not available to pay for current period expenditures and, therefore are deferred in the funds:		
Deferred revenue		83,930
Unamortized bond costs		54,008
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	(16,812)	
Bond payable net of issuance costs	(4,024,158)	
Compensated absences	<u>(100,305)</u>	<u>(4,141,275)</u>
Total Net Assets of Governmental Activites (page 19)		<u>\$ 15,603,712</u>

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

TOWN OF CENTREVILLE, MARYLAND

**Statement of Revenue, Expenditures and Changes in Fund Balance - Governmental Funds
For the Year Ended June 30, 2011**

	General Fund	Capital Project Fund	Permanent Fund	Total Governmental Funds
Revenue				
General property taxes	\$ 1,949,591	\$ -	\$ -	\$ 1,949,591
Local income taxes	265,475	-	-	265,475
Permits and licenses	128,818	-	-	128,818
Charges for services	321,209	-	-	321,209
Intergovernmental	785,370	-	-	785,370
Miscellaneous				
Other	66,124	-	-	66,124
Investment earnings	19,793	-	122,407	142,200
Gains, losses and changes in fair market value	-	-	(91,441)	(91,441)
Fees and charges	-	-	(12,700)	(12,700)
Total revenue	<u>3,536,380</u>	<u>-</u>	<u>18,266</u>	<u>3,554,646</u>
Expenditures				
General government administration	548,057	-	-	548,057
Public safety	937,126	-	-	937,126
Public works	821,375	-	-	821,375
Parks and recreation	74,678	-	-	74,678
Cemetery	101,918	-	-	101,918
Watershed/Stormwater	166,508	-	-	166,508
Centreville wharf	21,091	-	-	21,091
Capital outlay	815,951	85,334	-	901,285
Debt service:				
Principal	144,119	-	-	144,119
Interest	195,572	-	-	195,572
Total expenditures	<u>3,826,395</u>	<u>85,334</u>	<u>-</u>	<u>3,911,729</u>
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	<u>(290,015)</u>	<u>(85,334)</u>	<u>18,266</u>	<u>(357,083)</u>
Other Financing Sources (Uses)				
Proceeds of bond borrowings	411,527	-	-	411,527
Operating transfers	96,331	85,334	(110,000)	71,665
Total other financing sources (uses)	<u>507,858</u>	<u>85,334</u>	<u>(110,000)</u>	<u>483,192</u>
Excess (deficiency) of revenue and other financing sources over expenditures	217,843	-	(91,734)	126,109
Fund Balances, beginning of year	<u>5,152,012</u>	<u>(860,512)</u>	<u>3,964,481</u>	<u>8,255,981</u>
Fund Balances, End of Year	<u>\$ 5,369,855</u>	<u>\$ (860,512)</u>	<u>\$ 3,872,747</u>	<u>\$ 8,382,090</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 – Governmental Funds to the Statement of Activities For the Year Ended June 30, 2011

Total Net Change in Fund Balances - Governmental Funds (page 23) \$ 126,109

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

Capital outlays are reported in governmental funds as expenditures. However, in the
statement of activities, the cost of those assets (\$901,285) is allocated over their estimated
useful lives as depreciation expense. This is the amount by which capital outlays
exceeded depreciation expense (\$531,399) in the current period. 369,886

Donated assets recorded in government-wide statements 405,655

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. 137,511

The issuance of long-term debt provides current financial resources to governmental funds. (411,527)

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	21,418
Amortization of bond costs	(6,061)
Change in deferred revenue	(62,902)
Accrued compensated absences	(10,746)

Change in Net Assets of Governmental Activities (page 20) \$ 569,343

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

TOWN OF CENTREVILLE, MARYLAND

**Statement of Net Assets – Proprietary Fund
As of June 30, 2011**

	<u>Enterprise Fund</u>
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 5,426,546
Investments	113,894
Due from other funds	805,508
Receivables:	
Interest	24
Accounts, net	<u>2,743,066</u>
Total Current Assets	<u>9,089,038</u>
Non-Current Assets	
Unamortized bond issuance costs	94,153
Capital assets, net	21,987,517
Construction in progress	<u>286,975</u>
Total noncurrent assets	<u>22,368,645</u>
Total Assets	<u>31,457,683</u>
LIABILITIES	
Current Liabilities	
Accounts payable	475,839
Accrued payroll	16,078
Deferred revenue	2,408,649
Long term debt, current portion	<u>563,294</u>
Total Current Liabilities	<u>3,463,860</u>
Non-Current Liabilities	
Long term debt, net of current portion	<u>6,647,431</u>
Total Liabilities	<u>10,111,291</u>
NET ASSETS	
Invested in capital assets, net of related debt	15,865,166
Unrestricted	<u>5,481,264</u>
Total Net Assets	<u>\$ 21,346,430</u>

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

TOWN OF CENTREVILLE, MARYLAND

**Statement of Revenue, Expenses and Change In Net Assets - Proprietary Fund
For the Year Ended June 30, 2011**

	<u>Enterprise Fund</u>
Operating Revenue	<u>\$ 1,453,420</u>
Operating Expenses	
Salaries and benefits	525,677
Contractual services	177,518
Chemicals, lab and operating supplies	98,830
Depreciation	569,096
Utilities	218,968
Repairs and maintenance	72,639
Other operating expenses	<u>7,863</u>
Total operating expenses	<u>1,670,591</u>
Operating Loss	<u>(217,171)</u>
Non-Operating Revenue (Expense)	
Capital contributions	199,976
Interest expense	(261,349)
Investment earnings	<u>61,540</u>
Total Non-Operating Revenue	<u>167</u>
Change in net assets	(217,004)
Net Assets, beginning of year	<u>21,563,434</u>
Net Assets, End of Year	<u><u>\$21,346,430</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, 2011**

Cash flows from Operating Activities:

Cash received from customers	\$ 856,223
Cash received from allocations and planning	699,759
Cash paid for supplies, services, etc.	(334,155)
Cash paid for employees	(522,021)
Net cash from operating activities	<u>699,806</u>

Cash Flows from Investing Activities:

Interest on cash deposits and investments	<u>60,893</u>
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Cash Flows from Capital and Related Financing Activities:

Purchases/construction of capital assets	(1,621,881)
Interest paid on debt	(261,349)
Principal paid on debt	(553,787)
Proceeds from loans	<u>2,323,539</u>
Net cash from financing activities	<u>(113,478)</u>

Cash Flows from Non-Capital Financing Activities:

Transfers to other funds	<u>(1,683,658)</u>
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Net decrease in cash and cash equivalents	(586,919)
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Cash and cash equivalents, beginning of year	<u>6,013,465</u>
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Cash and Cash Equivalents, End of Year	<u><u>\$ 5,426,546</u></u>
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Reconciliation of Operating Income to Net Cash from Operating Activities:

Operating loss	\$ (217,004)
Adjustments to reconcile operating loss to net cash from operating activities	
Depreciation	569,096
Effect of changes in non-cash operating assets and liabilities:	
Receivables, net	(1,023,282)
Payables and accrued expenses	245,319
Deferred revenue	<u>1,125,677</u>
Net Cash from Operating Activities	<u><u>\$ 699,806</u></u>

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

TOWN OF CENTREVILLE, MARYLAND

Notes to the Financial Statements June 30, 2011

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, stormwater and watershed management, 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 accounting principles generally accepted in the United States of America (GAAP). The significant accounting policies of the Town are summarized below:

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 in conformity with GAAP.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue include: 1) charges to customers or applicants who purchase, use or directly benefit from a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenue that are not classified as program revenue, such as taxes, are reported 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.

TOWN OF CENTREVILLE, MARYLAND

Notes to the Financial Statements June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as they are both measurable and available. Revenue is considered to be available when they are collectible within the current period or soon 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 year. 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 Town reports the following major governmental funds: 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 funds' 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 Town reports only one Proprietary Fund: The Water and Sewer Enterprise Fund. This fund accounts for the Town's water and sewer operations.

TOWN OF CENTREVILLE, MARYLAND

Notes to the Financial Statements June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 \$25,716, at June 30, 2011 for the general fund.

TOWN OF CENTREVILLE, MARYLAND

**Notes to the Financial Statements
June 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 as 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”.

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

	Due From Other Funds	Due to Other Funds	Net Balances
Governmental Activities:			
General fund	\$ 509,291	\$ 265,709	\$ 243,582
Capital project fund	-	860,525	(860,525)
Permanent fund	-	188,565	(188,565)
Total Governmental Activities	\$ 509,291	\$ 1,314,799	\$ (805,508)
Business-type Activities	\$ 805,508	\$ -	\$ 805,508

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 activity columns in the government-wide financial statements. The government defines capital assets, as those with an initial cost of \$5,000. Such assets are recorded at historical or estimated historical cost if actual historical cost is not available. Donated 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.

TOWN OF CENTREVILLE, MARYLAND

Notes to the Financial Statements

June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets (continued)

Expenditures for major assets and improvements are capitalized as projects are constructed. Interest on debt during the construction period is capitalized. The amount of interest to be capitalized is offset by interest income earned on investment proceeds over the same period. Exhaustible capital assets of the General Fund and Proprietary Funds are depreciated, which is charged as an expense against operations. Depreciation has been provided over the estimated useful lives using the straight-line method. Estimated useful lives are generally as follows:

<u>Category</u>	<u>Years</u>
Infrastructure	10 – 50
Land improvements	10 – 30
Buildings	20 – 50
Building improvements	10 – 40
Machinery and equipment	5 – 15
Water and sewer system	5 – 50
Vehicles	5 – 10

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/Fund Equity

Net assets represent the differences 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 and laws or regulations of other governments.

Fund Balances

In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the Town is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balance is reported in five components – nonspendable, restricted, committed, assigned and unassigned.

TOWN OF CENTREVILLE, MARYLAND

Notes to the Financial Statements

June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Balances (continued)

Nonspendable

This component includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted

This component consists of amounts that have constraints placed on them either externally by third-parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the Town to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement (compelled by external parties) that those resources be used only for the specific purposes stipulated in the legislation.

Committed

This component consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision making authority which includes the Town code, ordinances and resolutions. Those committed amounts cannot be used for any other purpose unless the Town removes or changes the specified use by taking the same type of action (Town code, ordinance, and resolution) it employed previously to commit those amounts.

Assigned

This component consists of amounts that are constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed. The authority for assigning fund balance is expressed by a Town designee.

Unassigned

This classification represent amounts that have not been restricted committed or assigned to specific purposes within the general fund.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use it is the Town's policy to use committed resources first, then assigned, and then the unassigned as they are needed.

TOWN OF CENTREVILLE, MARYLAND

Notes to the Financial Statements June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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.

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 annual appropriations, lapse at year-end.

TOWN OF CENTREVILLE, MARYLAND

Notes to the Financial Statements

June 30, 2011

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, 2011 the Town's bank balance of cash deposits with financial institutions totaled \$10,619,311, of which \$250,000 was covered by Federal Deposit Insurance Corporation. The remaining \$10,369,311 are collateralized in accordance with State regulations. CNB 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 CNB, 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, 2011.

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

Investments

As of year-end, the deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Cash and investments	<u>\$ 9,136,889</u>	<u>\$ 5,540,440</u>	<u>\$ 14,677,329</u>

TOWN OF CENTREVILLE, MARYLAND

Notes to the Financial Statements

June 30, 2011

3. DEPOSITS AND INVESTMENTS (continued)

Investments (continued)

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

Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 11,501,088
Federal Home Loan Mortgage Corp.	977,832
Federal National Mortgage Assn.	797,836
Federal Home Loan Bank	1,207,333
Federal Farm Credit Bank	96,443
United States Treasury Notes	96,797
Total	<u><u>\$ 14,677,329</u></u>

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

TOWN OF CENTREVILLE, MARYLAND

Notes to the Financial Statements

June 30, 2011

3. DEPOSITS AND INVESTMENTS (continued)

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the Town will not be able to recover all or a portion of the value of its investments or collateral securities that are in the possession of an outside party. Of the \$4,115,883 of investments \$3,501,400 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 \$614,483 is collateralized with the CNB as mentioned in the Deposits footnote above. As of June 30, 2011, the Town was not exposed to custodial credit risk.

Foreign Currency Risk

The investment policy does not permit investments in foreign investments.

4. DUE FROM OTHER GOVERNMENTS

As of June 30, 2011, due from other governments, a component of taxes receivable, is summarized as follows:

General Fund:		
State of Maryland		
Highway User Tax	\$	1,303
Income Tax		22,835
Admissions Tax		<u>1,449</u>
Total due from other governments	\$	<u><u>25,587</u></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 2011. Settlement amounts have not exceeded insurance coverage for the past three years.

TOWN OF CENTREVILLE, MARYLAND

**Notes to the Financial Statements
June 30, 2011**

6. CAPITAL ASSETS

Capital asset activities for the year ended June 30, 2011, were as follows:

Governmental Activities

	Beginning Balances	Additions	Disposals	Ending Balances
Capital Assets Not Being Depreciated:				
Land	\$ 2,517,892	\$ 194,999	\$ -	\$ 2,712,891
Construction in progress	208,475	90,457	48,379	250,553
Total capital assets not being depreciated	<u>2,726,367</u>	<u>285,456</u>	<u>48,379</u>	<u>2,963,444</u>
Capital Assets Being Depreciated				
Buildings and improvements	10,630,399	1,083,910	-	11,714,309
Equipment	1,146,856	-	-	1,146,856
Total capital assets being depreciated	11,777,255	1,083,910	-	12,861,165
Less: Accumulated Depreciation for:				
Buildings and improvements	3,422,502	427,474	-	3,849,976
Equipment	645,749	103,925	-	749,674
Total accumulated depreciation	4,068,251	531,399	-	4,599,650
Total capital assets being depreciated, net	7,709,004	552,511	-	8,261,515
Capital Assets, Net	<u>\$10,435,371</u>	<u>\$ 837,967</u>	<u>\$ 48,379</u>	<u>\$ 11,224,959</u>

Business-Type Activities

	Beginning Balances	Additions	Disposals	Ending Balances
Capital Assets Not Being Depreciated:				
Land	\$ 1,160,863	\$ -	\$ -	\$ 1,160,863
Construction in progress	1,141,292	19,219	873,536	286,975
Total Capital Assets Not Being Depreciated	<u>2,302,155</u>	<u>19,219</u>	<u>873,536</u>	<u>1,447,838</u>
Capital Assets Being Depreciated				
Buildings and improvements	22,220,641	2,432,509	-	24,653,150
Equipment	318,198	43,689	-	361,887
Total Capital Assets Being Depreciated	22,538,839	2,476,198	-	25,015,037
Less: Accumulated Depreciation for:				
Buildings and improvements	3,420,328	554,102	-	3,974,430
Equipment	198,959	14,994	-	213,953
Total Accumulated Depreciation	3,619,287	569,096	-	4,188,383
Total Capital Assets Being Depreciated,	18,919,552	1,907,102	-	20,826,654
Capital Assets, Net	<u>\$21,221,707</u>	<u>\$ 1,926,321</u>	<u>\$ 873,536</u>	<u>\$ 22,274,492</u>

TOWN OF CENTREVILLE, MARYLAND

Notes to the Financial Statements June 30, 2011

6. CAPITAL ASSETS (continued)

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

Governmental Activities	
General government	\$ 26,981
Public safety	40,589
Public works	448,182
Parks and recreation	15,647
Total Depreciation Expense – Governmental Activities	<u>\$ 531,399</u>
Business-type Activities	
Sewer	\$ 393,868
Water	175,228
Total Depreciation Expense – Business-Type Activities	<u>\$ 569,096</u>

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.

TOWN OF CENTREVILLE, MARYLAND

Notes to the Financial Statements

June 30, 2011

8. LONG TERM LIABILITIES (continued)

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 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.	\$ 2,407,800
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>1,869,657</u>
Total	4,277,457
Less: Undrawn proceeds	<u>253,299</u>
Total Governmental Activities	<u><u>\$ 4,024,158</u></u>

TOWN OF CENTREVILLE, MARYLAND

Notes to the Financial Statements June 30, 2011

8. LONG TERM LIABILITIES (continued)

Business-type Activities

Bond payable, Community Development Administration Local Government Infrastructure Bonds 2007 Series A (Ambac Insured); payable in annual installments beginning May 1, 2008; interest at 4.225%; interest paid on 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. \$ 2,187,375

Bond payable, Community Development Administration Local Government Infrastructure Bonds 2007 Series A-1 (Ambac Insured); payable in annual installments beginning May 1, 2008; interest at 4.35%; interest paid on 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. 1,753,500

Bond payable, Water Quality Bond, Series 2002; payable in annual installments beginning February 1, 2003; interest at 1.2%; interest paid on unpaid principal installment amounts advanced under the loan agreement started on February 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. 616,222

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 972,349

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. 801,399

Bond payable, Water Quality State Revolving Fund Bond, Series 2009 American Recovery and Reinvestment Act (ARRA), 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, 2030; maximum principal amount of loan commitment is \$2,281,000. An annual fee of \$6,317.27 is paid by the town to MDE for Administering the loan. 1,357,040

Total	7,687,885
Less: Undrawn proceeds	477,160
Total Business-Type Activities	<u><u>\$ 7,210,725</u></u>

TOWN OF CENTREVILLE, MARYLAND

Notes to the Financial Statements

June 30, 2011

8. LONG TERM LIABILITIES (continued)

The Town of Centreville also maintains a revolving line of credit in the amount of \$250,000 from CNB. 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.

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

Fiscal Year	Governmental Activities	
	Principal	Interest
2012	\$ 148,209	\$ 188,448
2013	152,774	182,088
2014	163,596	177,207
2015	166,005	169,023
2016	172,142	162,384
2017 – 2037	3,474,731	1,475,696
Total	\$ 4,277,457	\$ 2,354,846

Fiscal Year	Business-type Activities	
	Principal	Interest
2012	\$ 563,294	\$ 241,702
2013	573,874	230,941
2014	584,029	220,125
2015	433,257	209,038
2016	406,148	199,588
2017 – 2043	5,127,283	3,929,860
Total	\$ 7,687,885	\$ 5,031,254

TOWN OF CENTREVILLE, MARYLAND

Notes to the Financial Statements June 30, 2011

8. LONG TERM LIABILITIES (continued)

The following is a summary of changes in long term liabilities and compensated absences of the Town for the year ended June 30, 2011:

	<u>Water and Sewer Fund</u>	<u>Capital Project Fund</u>	<u>General Long-Term Debt</u>	<u>Compensated Absences/ OPEB</u>	<u>Total</u>
Balance, beginning of year	\$ 5,918,133	\$2,516,850	\$ 1,904,727	\$ 89,559	\$10,429,269
Increases	2,323,539	-	-	36,548	2,360,087
Decreases	<u>(553,787)</u>	<u>(109,050)</u>	<u>(35,069)</u>	<u>25,802</u>	<u>(672,104)</u>
Balance, end of year	7,687,885	2,407,800	1,869,658	100,305	12,065,648
Less: Undrawn bond proceeds	<u>477,160</u>	<u>253,299</u>	<u>-</u>	<u>-</u>	<u>730,459</u>
Total Long-Term Debt, Governmental		<u>\$2,154,501</u>	<u>\$ 1,869,658</u>	<u>\$ 100,305</u>	<u>\$11,335,189</u>
Total Long-Term Debt, Business-Type	<u>\$ 7,210,725</u>				

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

Interest expense was \$261,349 and \$195,572, for the business-type and the governmental activities, respectively, for the year ended June 30, 2011.

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.

TOWN OF CENTREVILLE, MARYLAND

Notes to the Financial Statements

June 30, 2011

9. COMMITMENTS AND CONTINGENCIES (continued)

Construction Projects (continued)

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). The upgrades are intended to remove major sources of infiltration and inflow in the Town's wastewater collection system. These projects were substantially completed as of December 2010.

The Town awarded a bid August 2010 to Dissen & Juhn for the Centreville Wharf Landing Project. 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. Total contract costs amounted to \$632,368. The Town obtained grants from State and Federal agencies to offset the cost of the projects construction, improvements and enhancements.

Public Works Agreements

The Town has entered into several Public Works Agreements (PWA's) with developers for projects within the Town. Approximately 926 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 \$4,133,464, as of June 30, 2011.

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.

TOWN OF CENTREVILLE, MARYLAND

Notes to the Financial Statements

June 30, 2011

9. COMMITMENTS AND CONTINGENCIES (continued)

Contractual Agreements

The Town has an annual renewable agreement with Maryland Environmental Service (MES) to provide 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 began 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 \$134,460.

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 \$11,965,343, 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 \$502,697,876. Currently, the borrowing limit is \$100,539,575.

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, 2011, 25 employees participated in the plan. Participants are 100% vested upon entry into the Plan. The Town's pension expense was \$60,489, in 2011.

TOWN OF CENTREVILLE, MARYLAND

Notes to the Financial Statements June 30, 2011

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 \$6,545, for the year ended June 30, 2011.

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><u>30</u></u>

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	<u>-</u>
Increase in net OPEB Obligation	29,177
Net OPEB Obligation, Beginning of Year	<u>29,177</u>
Net OPEB Obligation, End of Year	<u><u>\$ 58,354</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.

TOWN OF CENTREVILLE, MARYLAND

**Notes to the Financial Statements
June 30, 2011**

11. OTHER POST EMPLOYMENT BENEFITS (continued)

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, 2011; 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	Actuarial Value of Assets (1)	Accrued Liability (AAL) Projected Unit Credit (2)	Percentage Funded (1)/(2)	Unfunded AAL (UAAL) (2) - (1)	Covered Payroll (5)	UAAL as a Percentage of Covered Payroll ((2-1)/5)
12/2010	\$ -	\$ 163,905	0%	\$ 163,905	\$ 1,405,475	11.66%

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.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF CENTREVILLE, MARYLAND

**Combining Statement of Revenue, Expenditures and Changes in Fund Balances –
Budget and Actual - General Fund
For the Year Ended June 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenue				
Revenue from Local Sources				
Real property	\$ 1,857,410	\$ 1,857,410	\$ 1,913,904	\$ 56,494
Personal property	48,051	48,051	35,687	(12,364)
Penalties and interest	-	-	-	-
Local income taxes	<u>255,000</u>	<u>255,000</u>	<u>265,475</u>	<u>10,475</u>
Total taxes	2,160,461	2,160,461	2,215,066	54,605
Permits and Licenses				
Amusement	4,800	4,800	6,390	1,590
License distribution	8,200	8,200	8,435	235
Permit fees	80,000	80,000	54,850	(25,150)
Franchise fees	42,000	42,000	47,983	5,983
Other licenses and fees	<u>12,500</u>	<u>12,500</u>	<u>11,160</u>	<u>(1,340)</u>
Total permits and licenses	147,500	147,500	128,818	(18,682)
Charges for Services				
General government administration	196,700	196,700	106,049	(90,651)
Public safety	38,100	38,100	28,980	(9,120)
Sanitation and waste removal	<u>250,900</u>	<u>250,900</u>	<u>186,180</u>	<u>(64,720)</u>
Total charges for services	485,700	485,700	321,209	(164,491)
Miscellaneous Revenue	<u>47,050</u>	<u>47,050</u>	<u>85,917</u>	<u>38,867</u>
Total revenue from local sources	<u>2,840,711</u>	<u>2,840,711</u>	<u>2,751,010</u>	<u>(89,701)</u>
Revenue from Intergovernmental				
<u>State</u>				
Police protection	44,078	44,078	41,000	(3,078)
Highway user taxes	7,112	7,112	14,993	7,881
Grants	<u>915,000</u>	<u>958,960</u>	<u>593,959</u>	<u>(365,001)</u>
Total state revenues	966,190	1,010,150	649,952	(360,198)
<u>County</u>				
Payments in lieu of taxes	<u>134,468</u>	<u>134,468</u>	<u>135,418</u>	<u>950</u>
Total revenue from intergovernmental	<u>1,100,658</u>	<u>1,144,618</u>	<u>785,370</u>	<u>(359,248)</u>
Total Revenue	<u>\$ 3,941,369</u>	<u>\$ 3,985,329</u>	<u>\$ 3,536,380</u>	<u>\$ (448,949)</u>

TOWN OF CENTREVILLE, MARYLAND

**Schedule of Revenue, Expenditures and Change in Fund Balance – Budget and Actual –
General Fund
For the Year Ended June 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures				
General government administration				
Legislative	\$ 109,942	\$ 109,942	\$ 83,281	\$ 26,661
Planning and zoning	339,326	339,326	195,584	143,742
General services	270,495	270,495	269,192	1,303
Total general government administration	<u>719,763</u>	<u>719,763</u>	<u>548,057</u>	<u>171,706</u>
Public safety				
Police	974,416	950,916	892,126	58,790
Volunteer fire and rescue services	45,000	45,000	45,000	-
Total public safety	<u>1,019,416</u>	<u>995,916</u>	<u>937,126</u>	<u>58,790</u>
Public works				
Waste collection	412,635	412,635	362,186	50,449
Highways and streets	523,519	523,519	459,189	64,330
Total public works	<u>936,154</u>	<u>936,154</u>	<u>821,375</u>	<u>114,779</u>
Parks and recreation	100,537	100,537	74,678	25,859
Cemetery	121,333	121,333	101,918	19,415
Stormwater/Watershed	354,674	354,674	166,508	188,166
Centreville wharf	30,000	30,000	21,091	8,909
Capital outlay	2,303,324	1,588,926	815,951	772,975
Debt service	<u>339,691</u>	<u>339,691</u>	<u>339,691</u>	<u>-</u>
Total Expenditures	<u>5,924,892</u>	<u>5,186,994</u>	<u>3,826,395</u>	<u>1,360,599</u>
Excess deficiency of revenue over expenditures before other financing sources	(1,983,523)	(1,201,665)	(290,015)	(1,809,548)
Other Financing Sources				
Bondholder proceeds	427,000	664,826	411,527	(253,299)
Commercial financing	1,436,523	167,697	-	(167,697)
Operating transfers	120,000	369,142	96,331	272,811
Total other financing sources	<u>1,983,523</u>	<u>1,201,665</u>	<u>507,858</u>	<u>(148,185)</u>
Excess of revenue and other financing sources over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 217,843</u>	<u>217,843</u>
Summary				
Total Revenue	\$ 3,941,369	\$ 3,985,329	\$ 3,536,380	\$ (448,949)
Total Expenditures	<u>5,924,892</u>	<u>5,186,994</u>	<u>3,826,395</u>	<u>1,360,599</u>
(Deficiency of Revenue) Over Expenditures	<u>\$(1,983,523)</u>	<u>\$(1,201,665)</u>	<u>\$ (290,015)</u>	<u>\$ 911,650</u>

TOWN OF CENTREVILLE, MARYLAND

**Supplemental Balance Sheet – General Fund
Year Ended June 30, 2011**

	General Fund	Revolving Housing Fund	Perpetual Care Fund	Total General Funds
ASSETS				
Cash and cash equivalents	\$ 4,919,888	\$ 26,971	\$ 55,368	\$ 5,002,227
Investments	-	-	89,702	89,702
Receivables:				
Taxes (net)	29,011	-	-	29,011
Accounts (net)	372,451	-	7,951	380,402
Prepaid and other assets	48,817	-	-	48,817
Notes receivable	-	123,605	-	123,605
Due from other funds	411,566	50,221	47,504	509,291
Total Assets	<u><u>\$ 5,781,733</u></u>	<u><u>\$ 200,797</u></u>	<u><u>\$ 200,525</u></u>	<u><u>\$ 6,183,055</u></u>
LIABILITIES				
Accounts payable	\$ 410,511	\$ -	\$ -	\$ 410,511
Accrued payroll	53,050	-	-	53,050
Escrow deferred payable	83,930	-	-	83,930
Due to other funds	265,709	-	-	265,709
Total Liabilities	<u><u>813,200</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>813,200</u></u>
FUND BALANCES				
Assigned	70,603	123,605	-	194,208
Committed	-	77,192	200,525	277,717
Unassigned	4,897,930	-	-	4,897,930
Total Fund Balances	<u><u>4,968,533</u></u>	<u><u>200,797</u></u>	<u><u>200,525</u></u>	<u><u>5,369,855</u></u>
Total Liabilities and Fund Balances	<u><u>\$ 5,781,733</u></u>	<u><u>\$ 200,797</u></u>	<u><u>\$ 200,525</u></u>	<u><u>\$ 6,183,055</u></u>

TOWN OF CENTREVILLE, MARYLAND

**Supplemental Statement of Revenue, Expenditures and Changes in Fund Balances –
General Fund
For the Year Ended June 30, 2011**

	General Fund	Revolving Housing Fund	Perpetual Care Fund	Total General Funds
REVENUE				
General property taxes	\$ 1,949,591	\$ -	\$ -	\$ 1,949,591
Other local taxes	265,475	-	-	265,475
Permits and licenses	128,818	-	-	128,818
Charges for services	312,959	-	8,250	321,209
Intergovernmental	785,370	-	-	785,370
Miscellaneous	85,797	-	120	85,917
Total revenue	<u>3,528,010</u>	<u>-</u>	<u>8,370</u>	<u>3,536,380</u>
EXPENDITURES				
General government administration	548,057	-	-	548,057
Public safety	937,126	-	-	937,126
Public works	821,375	-	-	821,375
Parks and recreation	74,678	-	-	74,678
Cemetery	101,918	-	-	101,918
Watershed/Stormwater	166,508	-	-	166,508
Centreville wharf	21,091	-	-	21,091
Capital outlay	815,951	-	-	815,951
Debt service:				
Principal	144,119	-	-	144,119
Interest	195,572	-	-	195,572
Total expenditures	<u>3,826,395</u>	<u>-</u>	<u>-</u>	<u>3,826,395</u>
Excess (deficiency) of revenue over expenditures	<u>(298,385)</u>	<u>-</u>	<u>8,370</u>	<u>(290,015)</u>
OTHER FINANCING SOURCES				
Proceeds of bond borrowings	411,527	-	-	411,527
Operating transfers	96,331	-	-	96,331
Total other financing sources	<u>507,858</u>	<u>-</u>	<u>-</u>	<u>507,858</u>
Net change in fund balance	209,473	-	8,370	217,843
Fund Balances, beginning of year	<u>4,759,060</u>	<u>200,797</u>	<u>192,155</u>	<u>5,152,012</u>
Fund Balances, End of Year	<u><u>\$4,968,533</u></u>	<u><u>\$ 200,797</u></u>	<u><u>\$ 200,525</u></u>	<u><u>\$5,369,855</u></u>

TOWN OF CENTREVILLE, MARYLAND

**Supplemental Statement of Revenue, Expenses and Changes in Net Assets –
Enterprise Fund
For the Year Ended June 30, 2011**

REVENUE

Charges for Service:

Sewer allocation fees	373,516
Water allocation fees	224,508
Sewer	447,136
Water	307,939
Water penalty	14,970
Sewer vacant lots	24,030
Meter equipment	9,697
Connection charges	6,780
I & I study charge	8,934
Sale of crops	1,939
Other fines and forfeitures	33,971

Total charges for services 1,453,420

Miscellaneous Revenue

Investment earnings	61,540
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Total revenue 1,514,960

EXPENSES

Operating Expenses

Sewer	993,870
Water	676,314
Farm	407

Total operating expenses 1,670,591

Debt Service

Interest	233,618
Administrative fees	27,731

Total debt service 261,349

Total expenses 1,931,940

Deficiency of expenditures over revenue
before contributions (416,980)

Capital Contributions 199,976

Change in Net Assets \$ (217,004)