

**TOWN OF CENTREVILLE, MARYLAND
FINANCIAL STATEMENTS
JUNE 30, 2013**

TOWN OF CENTREVILLE

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Independent Auditor's Report

Members of the Town Council
Town of Centreville, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Town of Centreville, Maryland, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the Town of Centreville, Maryland, as of June 30, 2013, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Town adopted new accounting guidance, GASB No. 65, *Items Previously Reported as Assets and Liabilities* as of July 1, 2012. As a result, the Town restated beginning net position of governmental activities by \$108,389 and the enterprise fund by \$85,988. The Town also restated beginning net position of governmental activities by \$87,531 for prior year OPEB liabilities not reported. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis, the budgetary comparison information, other post-employment benefits – schedule of funding progress, and other post-employment benefits – schedule of employer contributions on pages 4 through 20 and 54 through 57 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 sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Centreville, Maryland's financial statements as a whole. The supplemental balance sheet – general fund, supplemental statement of revenues, expenditures and changes in fund balance and supplemental statement of revenues, expenses and changes in net position – proprietary funds (“supplemental schedules”) on pages 58 through 60 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules are the responsibility of management and were derived from and relate 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 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2014, on our consideration of the Town of Centreville, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Centreville, Maryland's internal control over financial reporting and compliance.

March 18, 2014

Hindley & Associates, LLC

**TOWN OF CENTREVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

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, 2013. 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, 2013 by \$37.4 million (*net position*). Approximately 58% of this amount is attributable to the business-type activities. Of the total net position, approximately \$9.3 million (*unrestricted net position*) may be used to meet the Town's ongoing obligations to citizens and creditors (58.7% is attributable to the business-type activities). Of the remaining total net position, approximately \$3.9 million is restricted for specific purposes (*restricted net position*), and approximately \$24.2 million is invested in capital assets, net of related debt.
- As of June 30, 2013, the Town's governmental funds reported combined ending fund balances of approximately \$8 million.
- The Town's total net debt decreased by \$1,475,187 through principal payments to a year-end balance of \$13,336,505, which is well below our legal debt limit. The governmental activities obligations decreased by \$901,314 and the Enterprise Fund's net decrease was \$222,061. The decrease of \$573,873 in Enterprise debt was offset by an additional draw of loan proceeds amounting to \$351,812.
- As of the close of the current fiscal year, the unassigned fund balance for the general fund was approximately \$3.9 million or 96% 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 government-wide statements are on a full accrual accounting basis, including the elimination and/or reclassification of internal activities.

**TOWN OF CENTREVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Overview of the Financial Statements (continued)

Government-wide financial statements (continued)

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

The *statement of activities* presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position 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 stormwater and watershed management. The business-type activities of the Town include water and sewer operations.

The government-wide financial statements can be found on pages 21 and 22 of this report.

Fund financial statements

A *fund* is a group 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.

**TOWN OF CENTREVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Overview of the Financial Statements (continued)

Government-wide financial statements (continued)

Governmental funds (continued)

Since the government-wide focus includes the long-term view and the fund focus includes the short-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. By doing so, 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*.

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. A budgetary comparison statement can be found on pages 54-55 of this report.

Proprietary funds

The Town maintains one proprietary fund: an enterprise fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses an enterprise fund to account for its water and sewer infrastructure and 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 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 28-53 of this report.

Other supplementary information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* budgetary comparison concerning and the Town's progress in funding its obligations to provide other post-employment benefits (OPEB) to its employees. Required supplementary information is located on pages 54-57 of this report.

**TOWN OF CENTREVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Overview of the Financial Statements (continued)

Government-wide Financial Analysis

Over time, changes in net position serve as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$37.4 million as of June 30, 2013.

The largest portion of the Town's net position (64.6%) 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 or construct those assets. 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 position (\$3.9 million or 10.4%) represents resources that are restricted by enabling legislation on how they may be used. The remaining balance of unrestricted net position (25%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town reports positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental activities. Business-type activities reports positive balances in all net position categories.

STATEMENT OF NET POSITION

A summary of government-wide assets, liabilities and net position is as follows:

**CONDENSED STATEMENTS OF NET ASSETS
As of June 30, 2013 and 2012
(in thousand of dollars)**

	Governmental Activities		Business-type Activities		Total Government	
	2013	2012	2013	2012	2013	2012
Assets						
Current and other assets	\$ 8,341	\$ 9,074	\$ 7,945	\$ 8,242	\$ 16,286	\$ 17,316
Capital assets, net	11,782	11,704	22,843	21,933	34,625	33,637
Total Assets	20,123	20,778	30,788	30,175	50,911	50,953
Liabilities						
Other liabilities	557	1,040	3,049	3,076	3,606	4,116
Long-term liabilities	3,836	4,014	6,058	6,189	9,894	10,203
Total Liabilities	4,393	5,054	9,107	9,265	13,500	14,319
Net Position						
Net investment in capital assets	7,969	7,579	16,201	15,774	24,170	23,353
Restricted	3,900	7,081	-	-	3,900	7,081
Unrestricted	3,861	1,064	5,480	5,136	9,341	6,200
Total Net Position	\$ 15,730	\$ 15,724	\$ 21,681	\$ 20,910	\$ 37,411	\$ 36,634

**TOWN OF CENTREVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Overview of the Financial Statements (continued)

Government-wide Financial Analysis (continued)

The Town's net position increased approximately \$1 million as of June 30, 2013. This increase a result of a \$202 thousand increase in governmental activities and an \$857 thousand increase in business-type activities.

The governmental activities increased the Town's net position by \$202 thousand. Key elements are as follows:

- Charges for services decreased slightly due to a decline in building permit issuance, engineering and inspection and site plan fees.
- Operating grants and contributions decreased by \$375 thousand from prior year due to a reduction in funding sources with State agencies. The decrease was largely due to timing associated with the next cycle of bid awards for new capital related projects and current projects being nearly completed.
- Capital grants and contributions increased due to capital contributions of streets related infrastructure of \$819 thousand.
- General revenues associated with the governmental activities decreased approximately \$339 thousand due to changes in fair market values of investments.

Business-type activities increased the Town's net position by \$857 thousand. The components of the change in the business-type activities are as follows:

- Water and sewer service expenses increased \$168 thousand.
- Charges for services for water and sewer fees remained constant as the Town's utility rates have remained unchanged for the past 10 years.
- The revenue associated with farm services decreased due to changes in crop production.
- Capital grants and contributions increased approximately \$1.5 million due to capital contributions of water and sewer infrastructure.

**TOWN OF CENTREVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Overview of the Financial Statements (continued)

Government-wide Financial Analysis (continued)

STATEMENT OF ACTIVITIES

The following table summarizes changes in net position for governmental and business-type activities during the year:

**CONDENSED STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2013 and 2012
(in thousands of dollars)**

	Governmental Activities		Business-type Activities		Total Government	
	2013	2012	2013	2012	2013	2012
Revenues						
Program revenues:						
Charges for services	\$ 470	\$ 483	\$ 1,331	\$ 1,352	\$ 1,801	\$ 1,835
Operating grants/ contributions	327	702	3	16	330	718
Capital grants/ contributions	819	-	1,494	-	2,313	-
General revenues:						
Property taxes	2,004	1,947	-	-	2,004	1,947
Other income taxes	321	322	-	-	321	322
Other	(164)	261	44	43	(120)	304
Total Revenues	<u>3,777</u>	<u>3,715</u>	<u>2,872</u>	<u>1,411</u>	<u>6,649</u>	<u>5,126</u>
Program Expenses						
General government	574	498	-	-	574	498
Public safety	1,057	1,007	-	-	1,057	1,007
Public works	1,272	1,410	-	-	1,272	1,410
Parks and recreation	101	99	-	-	101	99
Cemetery	84	105	-	-	84	105
Stormwater/Watershed	154	217	-	-	154	217
Centreville wharf	94	69	-	-	94	69
Interest on long-term debt	239	190	-	-	239	190
Enterprise expenses						
Water services	-	-	869	799	869	799
Sewer services	-	-	1,138	1,046	1,138	1,046
Farm services	-	-	8	2	8	2
Total Program Expenses	<u>3,575</u>	<u>3,595</u>	<u>2,015</u>	<u>1,847</u>	<u>5,590</u>	<u>5,442</u>
Change in net position	202	120	857	(436)	1,059	(316)
Net position, beginning, as previously reported	15,724	15,604	20,910	21,346	36,634	36,950
Adjustment to beginning net position	(196)	-	(86)	-	(282)	-
Net position, beginning, as restated	15,528	-	20,824	-	36,352	-
Net Position, End	<u>\$ 15,730</u>	<u>\$ 15,724</u>	<u>\$ 21,681</u>	<u>\$ 20,910</u>	<u>\$ 37,411</u>	<u>\$ 36,634</u>

**TOWN OF CENTREVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Overview of the Financial Statements (continued)

Government-wide Financial Analysis (continued)

Business-type Activities

Revenue from the Town's business-type activities was approximately \$2.9 million and expenses were \$2.0 million. The Enterprise Fund costs of operation are shared equally by the users. As with most municipalities throughout the United States these costs will continue to provide many challenges in the coming years due to aging infrastructure. The Town Council continues with its philosophy of having new development pay for any infrastructure improvements required to accommodate the demands placed on the Town's infrastructure by the new development. With the continued slow growth, building activity has been at a minimum resulting in a slight decrease of residential and commercial allocation fee revenue.

Governmental Activities

Revenues from the Town's governmental activities was approximately \$3.8 million, while total expenses were approximately \$3.6 million. The table below 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).

**NET COST OF CENTREVILLE'S GOVERNMENT ACTIVITIES
For the Years Ended June 30, 2013 and 2012
(in thousand of dollars)**

	<u>Total Cost of Services</u>		<u>Net Cost (Surplus) of Services</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
General government	\$ 574	\$ 498	\$ 263	\$ 92
Public safety	1,057	1,007	1,002	957
Public works	1,272	1,410	314	1,072
Parks and recreation	101	99	96	100
Cemetery	84	105	49	74
Stormwater/Watershed	154	217	70	(114)
Centreville wharf	95	69	166	39
Total	<u>\$ 3,337</u>	<u>\$ 3,405</u>	<u>\$ 1,960</u>	<u>\$ 2,220</u>

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 (\$470 thousand), or
 - Other governments and organizations that subsidized certain programs with grants and contributions (\$1.1 million).

**TOWN OF CENTREVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Overview of the Financial Statements (continued)

Government-wide Financial Analysis (continued)

Governmental Activities (Continued)

- The Town financed the remaining \$1.7 million “public benefit” portion of governmental activities with taxes.

**REVENUE CLASSIFIED BY SOURCE
GENERAL FUND
For the Years Ended June 30, 2013 and 2012**

	2013	Percent of Total	2012	Percent of Total
Revenue and Other Financing Sources				
General property taxes	\$ 2,013,885	58.9%	\$ 1,982,272	48.2%
Local income taxes	274,892	8.0%	286,699	7.0%
Licenses and permits	120,093	3.6%	119,930	2.9%
Charges for services	344,156	10.1%	362,265	8.7%
Intergovernmental	326,196	9.5%	612,609	14.9%
Loan proceeds	46,907	1.4%	1,496,414	36.4%
Miscellaneous	181,143	5.3%	53,117	1.3%
Operating transfers	110,000	3.2%	(799,326)	-19.4%
Total Revenue and Other Financing Sources	<u>\$ 3,417,272</u>	<u>100.0%</u>	<u>\$ 4,113,980</u>	<u>100.0%</u>

General property taxes comprise the largest source of Town revenue, totaling \$2 million (58.9%) of total revenues for governmental activities for fiscal year 2013. Each municipality sets its own property tax rates, within parameters established by the State. For fiscal year 2013, the Town’s property tax rate remained constant at \$.38 per \$100 of assessed value of real property.

Charges for Services, totaling \$344 thousand (10.1%), reflect fees charged to Town citizens. These primarily support public works, sanitation and waste removal, cemetery maintenance and upkeep, and various general government administrative services such as permit review, subdivision and site fees.

Local income taxes, totaling \$274 thousand or approximately 8% of total governmental revenues. This revenue source fluctuates with changes in personal income levels, the ups and downs of the economy and also has some association with unemployment rates during the fiscal year. Considering all of these factors were wavering during fiscal year 2013 this revenue was slightly down from the prior year’s total.

**TOWN OF CENTREVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Overview of the Financial Statements (continued)

Government-wide Financial Analysis (continued)

**EXPENDITURE BY FUNCTION
GENERAL FUND
For the Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>Percent of Total</u>	<u>2012</u>	<u>Percent of Total</u>
Expenditures				
Current operations:				
General government	\$ 523,558	13.0%	\$ 489,134	10.7%
Public safety	1,007,511	25.1%	966,668	20.9%
Public works	797,313	19.9%	879,351	19.0%
Parks and recreation	81,259	2.0%	79,885	1.7%
Cemetery	83,291	2.1%	105,017	2.3%
Stormwater/Watershed	132,805	3.3%	198,320	4.3%
Centreville wharf	68,244	1.7%	6,511	0.1%
Capital outlay	154,707	3.9%	1,554,455	33.7%
Debt service:				
Principal	901,314	22.4%	148,209	3.2%
Interest	265,476	6.6%	189,882	4.1%
Total Expenditures	<u>\$ 4,015,478</u>	<u>100.0%</u>	<u>\$ 4,617,432</u>	<u>100.0%</u>

General Fund Budgetary Highlights

The Town adopts an operating budget as of July 1 each year and amends that budget throughout the year in response to actual events. The Schedule of Revenues and Expenditures - Budget and Actual can be found as part of the Required Supplemental Information, which is located after the Notes on pages 54 and 55. The schedule reports original and final budgets, as well as the variance between actual events and final budgets.

Re-appropriation of fiscal 2013, budgeted funds included decreases to several areas of the budget including capital projects and improvements, bond/commercial financing, grant funding, various user charges to include permits, licenses and various other general government fees. The budget revisions did include increases to real property and local income tax revenues with some offsetting increases in Stormwater/Watershed Management and Centreville wharf expenditures.

**TOWN OF CENTREVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Overview of the Financial Statements (continued)

Capital Assets and Debt Administration

**CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION
As of June 30, 2013 and 2012
(in thousands of dollars)**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land	\$ 2,723	\$ 2,918	\$ 1,161	\$ 1,161	\$ 3,884	\$ 4,079
Buildings and improvements	8,281	7,954	21,120	20,192	29,401	28,146
Equipment	391	443	155	155	546	598
Construction in progress	386	280	407	339	793	619
Total	\$ 11,781	\$ 11,595	\$ 22,843	\$ 21,847	\$ 34,624	\$ 33,442

The Town's total investment in capital assets, including construction in progress, for its governmental and business-type activities amounts to approximately \$34.6 million and \$33.4 million, as of June 30, 2013 and June 30, 2012, respectively (net of accumulated depreciation). This investment in capital assets includes land and land improvements, construction in progress, buildings, improvements, equipment, furniture, fixtures, park amenities, vehicles, roads, and water and sewer infrastructure.

The Town's total investment in capital assets for the current fiscal year, net of depreciation, increased by 3.5%, or approximately \$1.2 million. Of this amount, governmental investment in capital assets increased by \$186 thousand, while business-type investment in capital assets increased by \$996 thousand.

This year's major capital additions included:

- Communication system upgrades to the wastewater pump stations and treatment facility.
- Railroad Avenue sewer and road infrastructure improvements.
- Purchase of a police vehicle.
- A kayak launch for the Centreville wharf waterfront.
- Donated infrastructure consisting of road, sewer and water improvements by developer within Northbrook Subdivision.
- Purchase of Gravely Pro44 Lawn Tractor.
- Installation of a solar panel array at the Hope Road sprayfield.

Additional information can be found in Note 7 on pages 39 and 40 of this report.

**TOWN OF CENTREVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Overview of the Financial Statements (continued)

Capital Assets and Debt Administration (continued)

Debt administration

At the end of the current fiscal year, the Town had total long-term debt outstanding of \$10.4 million in loans and bond commitments.

**OUTSTANDING DEBT
As of June 30, 2013 and 2012
(in thousands of dollars)**

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Mortgage loans	\$ 1,794	\$ 1,833	\$ -	\$ -	\$ 1,794	\$ 1,833
Note payable	-	651	-	-	-	651
Loans from USDA	-	-	943	958	943	958
Loans from MD DOE	-	-	2,307	2,367	2,307	2,367
Bonds payable	4,640	4,852	3,652	3,799	8,292	8,651
Subtotal	6,434	7,336	6,902	7,124	13,336	14,460
Less undrawn proceeds	2,621	2,668	260	362	2,881	3,030
Total	\$ 3,813	\$ 4,668	\$ 6,642	\$ 6,762	\$ 10,455	\$ 11,430

The Town's total long-term debt decreased 8.5% during the current fiscal year. The major factor in this decrease was the \$650 thousand principal payment for the note to Mid-Shore Community Foundation in association with the purchase of the Wharf building.

Additional information on the Town's long-term debt is located in Note 8 starting on page 44 of this report.

**TOWN OF CENTREVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

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, as well as the environmental impacts of such prospective future 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. The County recently approved the development of the recreational facility. 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 among the fastest growing in the State of Maryland, and this pace may continue.

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 have not been fully restored to the State budget. For Centreville, this cut reduced revenue by more than \$150,000. The Town recently bid and completed a major reconstruction of Railroad Avenue (Route 304), Newnam Avenue, and portions of Water and Green Streets. The sidewalk connection and certain water main and lateral replacements were completed first. Subsequently, the roadway, curb, gutter, and stormwater systems were replaced. Bond financing for this project was obtained in 2012. In the North Brook subdivision Phase II roadways and utilities were dedicated to the Town in fiscal year 2013.

**TOWN OF CENTREVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Subsequent Items for Future Financial Statements (continued)

Roads (continued)

Future roads projects are being evaluated and consideration of costs for future engineering and reconstruction are being considered as a five to ten year capital budget is being updated. Road maintenance and integration of major road projects with utility upgrades must continue to be part of the Town's long-term capital planning but is likely contingent upon 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. 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 various sources including Maryland Department of Environment's (MDE) Water Quality Financing, Community Development Administration and the United States Department of Agriculture. The Town continues to seek low interest rate loans to assist in funding future infrastructure improvements.

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.

**TOWN OF CENTREVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Subsequent Items for Future Financial Statements (continued)

Water System: Storage

The Town owns three elevated water storage tanks. The 200,000 gallon Powell Street tank is more than 35 years old. In 2007, the Town also took ownership of an aging and relocated 100,000 gallon tank located on Wexford Drive. An assessment has been completed to prioritize the upgrades to these tanks and the Town intends to rehabilitate these two structures in FY2014 and FY2015. The Comet Drive 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.

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 were completed in 2010 but were not funded, given the cost of resurfacing the State Highway (Rte 213). 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 areas 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.

**TOWN OF CENTREVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Subsequent Items for Future Financial Statements (continued)

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. During FY2013 upgrades to the communication systems at the Town's North, South and Symphony Village Pump Stations was completed. Also included in this upgrade was installation of new communications systems equipment at the Wharf and Cypress Street Pump Stations and at the wastewater treatment facility. The Mission communications system tracks actual flow through the various pump stations and remotely monitors data. This system is critical to state mandated capacity management plan directives. 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.

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 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. The Town also installed solar panels at the plant to offset the costs of electricity consumption.

**TOWN OF CENTREVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Subsequent Items for Future Financial Statements (continued)

Wastewater System: Discharge

A limiting factor in providing additional wastewater allocations lies in the ability to discharge treated wastewater. The Town is permitted to discharge 500,000 gpd to surface water (Gravel Run) during four months of the year, and is permitted year-round discharge of 542,000 gpd to ground water (at the Centreville Water Reuse Area, a farm also known as the Sprayfield). However, the ground water discharge permit is dependent on suitable weather and farming conditions. Moderate additional capacity remains in the existing Sprayfield facility with the addition of infrastructure, but long-term needs will generally depend upon the availability of additional land for spray disposal, expansion of the stream discharge pipe further into the Corsica River, or other technologies. During 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. In 2012, State legislation mandated 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 implementing such an enterprise to generate funding for these systems based on the amount of stormwater generated rather than on property value. During FY2013 the Town awarded bids to several area engineering firms to assist the Town in designing storm water quality retrofits at various locations reducing the stormwater runoff and striving to meet the goals of the Corsica River Watershed Restoration Action Strategy (WRAS). Construction for these projects will span FY2014 and FY2015.

Municipal Facilities

The Town's employees are scattered among five municipal buildings. 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. In 2012, the Town purchased the Centreville Wharf building to implement the Plan's vision of the Wharf as an economic development engine and recreational area. The cost of maintenance of this facility and the income from rental tenants will vary with market conditions. The Wharf building was purchased outright through reserves, but debt service for the Town's previous acquisition of the adjacent Wharf parcel will continue for the next 24 years.

**TOWN OF CENTREVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

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.

TOWN OF CENTREVILLE, MARYLAND
STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents - unrestricted	\$ 3,620,279	\$ 5,702,235	\$ 9,322,514
Investments	3,860,893	114,363	3,975,256
Accounts receivable - taxes	11,294	-	11,294
Accounts receivable - accounts - net	171,397	2,588,589	2,759,986
Accounts receivable - grants	77,616	-	77,616
Accounts receivable - interest	33,561	60	33,621
Note receivable	105,959	-	105,959
Due from/(to) other funds	460,377	(460,377)	-
Total Current Assets	<u>8,341,376</u>	<u>7,944,870</u>	<u>16,286,246</u>
Noncurrent Assets			
Construction in progress	386,409	407,304	793,713
Capital assets, net	11,395,448	22,435,343	33,830,791
Total Noncurrent Assets	<u>11,781,857</u>	<u>22,842,647</u>	<u>34,624,504</u>
TOTAL ASSETS	<u>20,123,233</u>	<u>30,787,517</u>	<u>50,910,750</u>
DEFERRED OUTFLOWS OF RESOURCES			
	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 20,123,233</u>	<u>\$ 30,787,517</u>	<u>\$ 50,910,750</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 228,673	\$ 190,721	\$ 419,394
Accrued payroll expense	49,094	18,391	67,485
Unearned revenue	-	2,255,299	2,255,299
Current portion of long-term debt	265,692	584,029	849,721
Current portion of compensated absences	13,071	-	13,071
Total Current Liabilities	<u>556,530</u>	<u>3,048,440</u>	<u>3,604,970</u>
Noncurrent Liabilities			
Compensated absences, net of current portion	172,191	-	172,191
OPEB liability	116,708	-	116,708
Long-term debt, net of current portion and unamortized discount of \$2,214	3,547,224	6,058,093	9,605,317
Total Noncurrent Liabilities	<u>3,836,123</u>	<u>6,058,093</u>	<u>9,894,216</u>
TOTAL LIABILITIES	<u>4,392,653</u>	<u>9,106,533</u>	<u>13,499,186</u>
DEFERRED INFLOWS OF RESOURCES			
	-	-	-
NET POSITION			
Net investment in capital assets	7,968,941	16,200,525	24,169,466
Restricted	3,900,192	-	3,900,192
Unrestricted	3,861,447	5,480,459	9,341,906
TOTAL NET POSITION	<u>15,730,580</u>	<u>21,680,984</u>	<u>37,411,564</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 20,123,233</u>	<u>\$ 30,787,517</u>	<u>\$ 50,910,750</u>

See accompanying notes to financial statements.

**TOWN OF CENTREVILLE, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

Functions/Programs	Direct Expenses	Indirect Expense Allocation	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
						Governmental Activities	Business-type Activities	
Primary Government								
Governmental Activities:								
General government	\$ 574,161	\$ -	\$ 173,791	\$ 137,538	\$ -	\$ (262,832)	\$ -	\$ (262,832)
Public safety	1,057,319	-	1,910	53,034	-	(1,002,375)	-	(1,002,375)
Public works	1,272,342	150,792	259,513	30,130	819,426	(314,065)	-	(314,065)
Parks and recreation	100,919	-	-	5,265	-	(95,654)	-	(95,654)
Cemetery	83,948	-	35,035	-	-	(48,913)	-	(48,913)
Stormwater/watershed	154,559	-	-	84,283	-	(70,276)	-	(70,276)
Centreville wharf	94,724	88,176	-	17,096	-	(165,804)	-	(165,804)
Interest	238,968	(238,968)	-	-	-	-	-	-
Total Governmental Activities	3,576,940	-	470,249	327,346	819,426	(1,959,919)	-	(1,959,919)
Business-type Activities								
Sewer	1,138,317	-	770,645	3,420	896,171	-	531,919	531,919
Water	868,681	-	558,075	-	597,448	-	286,842	286,842
Farm	7,714	-	1,984	-	-	-	(5,730)	(5,730)
Total Business-Type Activities	2,014,712	-	1,330,704	3,420	1,493,619	-	813,031	813,031
Total Primary Government	\$ 5,591,652	\$ -	\$ 1,800,953	\$ 330,766	\$ 2,313,045	\$ (1,959,919)	\$ 813,031	\$ (1,146,888)
General revenues:								
Taxes								
Property taxes						2,004,105	-	2,004,105
Public utility taxes						46,669	-	46,669
Income taxes						274,892	-	274,892
Interest and investment earnings						134,980	44,332	179,312
Gains (losses) change in fair market value						(253,706)	-	(253,706)
Miscellaneous						19,847	-	19,847
Loss on sale of assets						(64,413)	-	(64,413)
Total General Revenues						2,162,374	44,332	2,206,706
Transfers in (out)						-	-	-
Change in Net Position						202,455	857,363	1,059,818
Net Position, beginning of year - restated						15,528,125	20,823,621	36,351,746
Net Position, end of year						\$ 15,730,580	\$ 21,680,984	\$ 37,411,564

See accompanying notes to financial statements.

**TOWN OF CENTREVILLE, MARYLAND
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2013**

	General Fund	Capital Projects Fund	Permanent Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents - unrestricted	\$ 3,484,629	\$ -	\$ 135,650	\$ 3,620,279
Investments	89,702	-	3,771,191	3,860,893
Accounts receivable - taxes	11,294	-	-	11,294
Accounts receivable - accounts - net	171,397	-	-	171,397
Accounts receivable - grants	77,616	-	-	77,616
Accounts receivable - interest	-	52	33,509	33,561
Notes receivable	105,959	-	-	105,959
Due from other funds	805,019	-	-	805,019
TOTAL ASSETS	<u>4,745,616</u>	<u>52</u>	<u>3,940,350</u>	<u>8,686,018</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 4,745,616</u>	<u>\$ 52</u>	<u>\$ 3,940,350</u>	<u>\$ 8,686,018</u>
LIABILITIES				
Accounts payable	\$ 228,673	\$ -	\$ -	\$ 228,673
Accrued payroll	49,094	-	-	49,094
Due to other funds	129,653	-	214,989	344,642
Current portion of compensated absences	13,071	-	-	13,071
TOTAL LIABILITIES	<u>420,491</u>	<u>-</u>	<u>214,989</u>	<u>635,480</u>
DEFERRED INFLOWS OF RESOURCES	<u>56,925</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Non-spendable	105,959	-	3,725,361	3,831,320
Restricted	215,117	-	-	215,117
Committed	94,838	52	-	94,890
Unassigned	3,852,286	-	-	3,852,286
TOTAL FUND BALANCES	<u>4,268,200</u>	<u>52</u>	<u>3,725,361</u>	<u>7,993,613</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 4,745,616</u>	<u>\$ 52</u>	<u>\$ 3,940,350</u>	<u>\$ 8,686,018</u>

**RECONCILIATION OF TOTAL GOVERNMENTAL
FUND BALANCE TO NET POSITION OF
GOVERNMENTAL ACTIVITIES
JUNE 30, 2013**

<i>Total Governmental Fund Balances</i>	\$ 7,993,613
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	11,781,857
Receivables pertaining to revenues that are not available in accordance with modified accrual accounting are reported as deferred inflows of resources in the funds.	56,925
Long-term liabilities, including bonds and notes not due and payable in the current period and payable, OPEB, and compensated absences are therefore are not reported in the funds.	(4,101,815)
<i>Net Position of Governmental Activities</i>	<u>\$ 15,730,580</u>

See accompanying notes to financial statements.

TOWN OF CENTREVILLE, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Capital Projects Fund	Permanent Fund	Total Governmental Funds	
REVENUES					
Property taxes	\$ 2,013,885	\$ -	\$ -	\$ 2,013,885	<i>Net Change in Fund Balances - Total Governmental Funds</i> \$ (850,491)
Local income taxes	274,892	-	-	274,892	
Intergovernmental revenue	326,196	-	-	326,196	Governmental funds report capital outlays as expenditures.
Licenses and permits	120,093	-	-	120,093	However, in the Statement of Activities, the cost of those
Charges for services	344,156	-	-	344,156	assets is allocated over their estimated useful lives as
Miscellaneous revenue					depreciation expense. This is the amount by which
Other	169,972	-	-	169,972	capital outlays exceeded depreciation in the current period. 381,207
Investment earnings	11,171	-	124,812	135,983	Governmental funds report property taxes receivable less the
Gains, losses and changes in fair market value	-	-	(253,706)	(253,706)	amount not collected within the sixty-day post-year end
Fees	-	-	(13,391)	(13,391)	period. However, in the Statement of Activities the full
Total Revenues	3,260,365	-	(142,285)	3,118,080	property taxes receivable is reported. 36,889
EXPENDITURES					
General government	523,558	-	-	523,558	Governmental funds report proceeds from sale of assets.
Public safety	1,007,511	-	-	1,007,511	However, in the Statement of Activities, those proceeds are
Public works	797,313	-	-	797,313	reduced by the net book value of those assets. This is the
Parks and recreation	81,259	-	-	81,259	net book value of assets sold. (195,000)
Cemetery	83,291	-	-	83,291	Differences in accounting for accrued interest. 26,508
Stormwater/watershed	132,805	-	-	132,805	
Centreville wharf	68,244	-	-	68,244	Some expenses, representing the change in long-term liabilities
Capital outlays	154,707	-	-	154,707	or assets reported in the Statement of Activities, including
Debt service					compensated absences and OPEB expenses, do not use
Principal	901,314	-	-	901,314	current financial resources and are not reported as
Interest	265,476	-	-	265,476	expenditures in the governmental funds. (51,065)
Total Expenditures	4,015,478	-	-	4,015,478	Repayment of debt principal is an expenditure in the
Excess of revenues over (under)					governmental funds, but the repayment reduces
expenditures and other financing uses	(755,113)	-	(142,285)	(897,398)	long-term liabilities in the Statement of Net Position. 901,314
Other financing sources (uses)					
Proceeds from long term debt	46,907	-	-	46,907	Proceeds from debt issuances are an other financing source
Transfers in (out)	110,000	-	(110,000)	-	in the funds, but a debt issuance increases long-term
Total other financing sources (uses)	156,907	-	(110,000)	46,907	liabilities in the Statement of Net Position. (46,907)
Excess of revenue and other financing					<i>Change in Net Position of Governmental Activities</i> \$ 202,455
sources over (under) expenditures					
and other financing uses	(598,206)	-	(252,285)	(850,491)	
Fund balance, beginning of year	4,866,406	52	3,977,646	8,844,104	
Fund balance, end of year	\$ 4,268,200	\$ 52	\$ 3,725,361	\$ 7,993,613	

See accompanying notes to financial statements.

TOWN OF CENTREVILLE, MARYLAND
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2013

	Enterprise Fund	Total
ASSETS		
Current Assets		
Cash and cash equivalents - unrestricted	\$ 5,702,235	\$ 5,702,235
Investments	114,363	114,363
Accounts receivable - accounts	2,588,589	2,588,589
Accounts receivable - interest	60	60
Total Current Assets	8,405,247	8,405,247
Noncurrent Assets		
Construction in progress	407,304	407,304
Capital assets, net	22,435,343	22,435,343
Total Noncurrent Assets	22,842,647	22,842,647
TOTAL ASSETS	31,247,894	31,247,894
DEFERRED OUTFLOWS OF RESOURCES		
	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 31,247,894	\$ 31,247,894
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 190,721	\$ 190,721
Accrued payroll expense	18,391	18,391
Unearned revenue	2,255,299	2,255,299
Due to other funds	460,377	460,377
Current portion of long-term debt	584,029	584,029
Total Current Liabilities	3,508,817	3,508,817
Noncurrent Liabilities		
Long-term debt, net of current liabilities	6,058,093	6,058,093
Total Noncurrent Liabilities	6,058,093	6,058,093
TOTAL LIABILITIES	9,566,910	9,566,910
DEFERRED INFLOWS OF RESOURCES		
	-	-
NET POSITION		
Net investment in capital assets	16,200,525	16,200,525
Unrestricted	5,480,459	5,480,459
TOTAL NET POSITION	21,680,984	21,680,984
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 31,247,894	\$ 31,247,894

See accompanying notes to financial statements.

TOWN OF CENTREVILLE, MARYLAND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Enterprise Fund	Total
Operating Revenues		
Charges for services	\$ 1,330,704	\$ 1,330,704
Total Operating Revenues	1,330,704	1,330,704
Operating Expenses		
Salaries and benefits	554,436	554,436
Contractual services	202,846	202,846
Chemicals, labs and operating supplies	76,111	76,111
Utilities	202,185	202,185
Repairs and maintenance	76,518	76,518
Other operating	42,544	42,544
Depreciation	619,291	619,291
Total Operating Expenses	1,773,931	1,773,931
Operating Loss	(443,227)	(443,227)
Non-operating Revenues (Expenses)		
Grant income	3,420	3,420
Investment earnings	44,332	44,332
Interest expense	(240,781)	(240,781)
Net Non-operating Revenues (Expenses)	(193,029)	(193,029)
Loss Before Contributions and Transfers	(636,256)	(636,256)
Capital contributions	1,493,619	1,493,619
Transfers (to) from other funds	-	-
	1,493,619	1,493,619
Change in Net Position	857,363	857,363
Total net position at beginning of year - restated	20,823,621	20,823,621
Total net position at end of year	\$ 21,680,984	\$ 21,680,984

See accompanying notes to financial statements.

TOWN OF CENTREVILLE, MARYLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Enterprise Fund	Total
Cash flows from operating activities		
Cash received from customers	\$ 1,423,605	\$ 1,423,605
Cash paid to suppliers, services etc.	(591,985)	(591,985)
Cash paid to employees	(553,975)	(553,975)
Net cash provided by operating activities	277,645	277,645
Cash flows from capital and related financing activities		
Purchases of capital assets	(121,284)	(121,284)
Proceeds of new debt	351,812	351,812
Principal paid on debt	(573,873)	(573,873)
Interest paid on capital debt	(240,781)	(240,781)
Net cash (used) for capital and related financing activities	(584,126)	(584,126)
Cash flows from non-capital financing activities		
Transfers (to) from other funds	411,556	411,556
Net cash provided for non-capital financing activities	411,556	411,556
Cash flows from investing activities		
Interest and dividends	44,332	44,332
Net cash provided by investing activities	44,332	44,332
Net increase in cash and cash equivalents	149,407	149,407
Cash and cash equivalents at beginning of year	5,552,828	5,552,828
Cash and cash equivalents at end of year	\$ 5,702,235	\$ 5,702,235
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (443,227)	\$ (443,227)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	619,291	619,291
Changes in assets and liabilities:		
Decrease in accounts receivable	154,079	154,079
Decrease in other receivables	64	64
Increase in accounts payable	8,219	8,219
Decrease in unearned revenue	(61,242)	(61,242)
Increase in accrued expenses	461	461
Cash provided by operating activities	\$ 277,645	\$ 277,645

See accompanying notes to financial statements.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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 accounting policies of the Town conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

In November 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 61 – *The Financial Reporting Entity: Omnibus*. The Town has implemented this standard beginning July 1, 2012.

In evaluating how to define the Town of Centreville, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set by the Governmental Accounting Standards Board. Component units are legally separate organizations for which the elected officials of the Town are financially accountable and a financial benefit or burden relationship exists. In addition, component units can be other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the Town’s financial statements to be misleading. Based upon the application of criteria set by the Governmental Accounting Standards Board, there are no separate component units of the Town.

Basis of Presentation – Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The Town’s funds are grouped into two broad fund categories.

Governmental funds include the General Fund, Permanent Fund, and Capital Projects Fund. The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund. The Permanent Fund is an investment fund in that only the fund’s investment earnings may be used to support the government’s programs. The Permanent Fund’s principal is legally restricted from being used unless approved by the citizens of the government.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

The Capital Project Fund is to be used to account for capital outlays financed by general obligation debt for the acquisition or construction of major capital facilities.

The Proprietary Fund includes the Enterprise Fund. The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The Town operates one Enterprise Fund, the Water and Sewer Fund.

Basis of Accounting

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the Town, the primary government, as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting, including the reclassification or elimination of internal activity (between funds). This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses and program revenues, for each segment of the business-type activities of the Town, and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Indirect costs are allocated to programs. When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as needed. Program revenues include charges paid by the recipients of the goods or services offered by the programs, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the Town. Net position should be reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Fund Financial Statements

Fund financial statements report detailed information about the Town. The focus of governmental and enterprise financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds, if any, are aggregated and presented in a single column.

Governmental Funds

Town activities pertaining to general government, public safety, public works, recreation, and culture are reported in the governmental funds. All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e. collectible within the current year or within two months of year-end and available to pay obligations of the current period). These include property taxes, franchise taxes, investment earnings, charges for services and intergovernmental revenues.

Some revenues, though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, some revenues are recorded as receivables and deferred inflows of resources.

Other revenues, including licenses and permits, certain charges for services, and miscellaneous revenues, are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid.

Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Proprietary Funds

In December 2010, GASB issued statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into GASB’s authoritative literature certain accounting and financial reporting guidance that is included in FASB pronouncements issued on or before November 30, 1989 which does not conflict with or contradict GASB pronouncements. The Town has implemented this standard beginning July 1, 2012.

The Town’s water and sewer activities are reported in the proprietary fund. The proprietary fund is accounted for using the accrual basis of accounting. This fund accounts for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds. Operating revenues are comprised primarily of charges for services, and non-operating revenues are comprised primarily of interest and investment earnings.

Cash and Cash Equivalents

The Town’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

Investments held at June 30, 2013 with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

Receivables

Receivables are stated at costs with an allowance for doubtful accounts when, in the opinion of Town management, collection is doubtful.

Receivables at June 30, 2013 consist of taxes, grants, accounts (billings for user charged services, including utility services), special assessments, and accrued interest on investments. The Town calculates its allowance for uncollectible accounts using historical collection data, and in certain cases, specific account analysis. The allowance for uncollectible accounts in the general fund amounted to \$25,716 as of June 30, 2013.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Inventory of Supplies

Inventories, if any, are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental type funds, and expenses in the proprietary type funds when used.

Capital Assets and Depreciation

Capital assets, which include property, plant, equipment and infrastructure assets including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, and similar items are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Town defines capital assets as assets with an initial individual cost of \$5,000 or more, and an estimated useful life in excess of one year. The valuation basis for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated. The Town recognizes intangible assets if identifiable, and are amortized over their useful lives if they do not have indefinite useful lives.

The costs of normal maintenance and repairs that do not add value to the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Property and equipment are not reported in governmental funds. In the fund financial statements, the cost of assets acquired in the governmental funds is charged to the capital outlay expenditures of the department financing the acquisition. Depreciation is not reported in governmental funds.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Infrastructure	10 – 50 years
Land improvements	10 – 30 years
Buildings	20 – 50 years
Building improvements	10 – 40 years
Machinery and equipment	5 – 15 years
Water and sewer system	5 – 50 years
Vehicles	5 – 10 years

Restricted Reserves

The Town uses restricted resources first when an expense is incurred, for purposes for which both restricted and unrestricted net position is available.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Deferred Outflows and Inflows of Resources

In June 2011, GASB issued Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This statement provides guidance on reporting deferred inflows and outflows of resources and redefines net assets as net position. The Town has implemented this standard beginning July 1, 2012.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Town has implemented this standard as of July 1, 2012.

A *deferred outflow of resources* represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. Likewise, a *deferred inflow of resources* represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

Interest Expense

Interest is expensed as incurred except when interest is incurred during the construction period, and is capitalized as part of the cost of the asset.

Compensated Absences

Permanent full-time employees are granted vacation benefits in varying amounts up to specified maximums, depending on tenure with the Town. Sick leave balances can be accumulated up to the maximum allowable per calendar year of 480 hours. An employee is entitled to receive payment for all unused vacation and 50% of the sick leave upon termination. The estimated current portion of the liability for vested vacation and sick leave 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.

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues, expenditures, and expenses. Actual results could vary from the estimates that were used.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Equity Classifications

Equity is classified as net position and is displayed in three components:

Net investment in capital assets – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings, and reduced or increased by deferred inflows and outflows attributable to the acquisition, construction or improvement of those assets.

Restricted net position – Consists of net position with constraints placed on their use either by 1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation and are reduced by liabilities and deferred inflows of resources related to those constraints.

Unrestricted net position – the remaining net position that does not meet the definition of “restricted” or “net investment in capital assets.”

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

Governmental Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

1. Non-Spendable Fund Balance – amounts that cannot be spent either because they are in a non-spendable form or because they are legally or contractually required to be maintained intact.
2. Restricted Fund Balance – amounts that can be spent only for specific purposes because of restrictions imposed externally by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by the Town Charter, Town Code or enabling legislation.
3. Committed Fund Balance – amounts that can be used only for specific purposes determined by a formal action by Town Council, the Town’s highest level of decision-making authority, ordinance or resolution.
4. Assigned Fund Balance – amounts that are constrained by the Town’s intent that they will be used for specific purposes but are neither restricted nor committed. Pursuant to the Town Charter, the Town Manager and the Town Council are authorized to assign amounts for specific purposes.
5. Unassigned Fund Balance – all amounts not included in other spendable classifications.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

The Town considers restricted fund balances to be spent for governmental expenditures first when both restricted and unrestricted resources are available. The Town also considers committed fund balances to spend first when other unrestricted fund balance classifications are available for use.

Restatement of Beginning Net Position

In accordance with the adoption of GASB Statement 65, the Town restated beginning net position of governmental activities by (\$108,389) from \$15,724,045 to \$15,615,656 and the enterprise fund by (\$85,988) from \$20,909,609 to \$20,823,621 for previously capitalized bond issuance costs. The Town has also restated beginning net position of governmental activities by (\$87,531) from \$15,615,656 to \$15,528,125 to account for prior year OPEB liabilities not previously reported on the statement of net position. The following is a summary of adjustments to net position:

	Governmental Activities	Business-type Activities
Beginning net position	\$ 15,724,045	\$ 20,909,609
Prior year bond issue costs	(108,389)	(85,988)
Prior year OPEB obligations	(87,531)	-
Beginning net position - restated	\$ 15,528,125	\$ 20,823,621

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

Budget Requirements, Accounting, and Reporting

Requirements for all funds:

Annual budgets are adopted for the Town’s General and Capital Projects funds. At least 32 days prior to July 1 of each year, the Council is presented with a proposed budget. The Town Council may subsequently amend the budget, and the budget was amended during fiscal year 2013. For day-to-day management control, expenditures may not exceed budget at the department level. The department manager has the authority to apply amounts within the department, so long as the total appropriation for a department is not adjusted. All annual appropriations lapse at year-end. The Town prepares an annual operating budget on a basis consistent with generally accepted accounting principles.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposit Policies

The Town's authority to invest surplus cash is derived directly from State law. That law restricts investments 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.

The Town's deposits are insured or collateralized with securities held by the Town, its agent, or by the pledging financial institution's trust department, or agent in the name of the Town.

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Town's deposits may not be returned, or the Town will not be able to recover collateral securities in the possession of an outside party. The Town's policy requires deposits to be insured by FDIC, and balances exceeding FDIC limits be secured by collateral. Collateral is to be held by the Town, its agent, or by the pledging financial institution's trust department or agent, in the name of the Town.

At year-end, the carrying amounts of the Town's deposits were \$9,940,043 and the bank balances totaled \$9,961,963. Of the bank balances, \$250,000 was insured by Federal Depository Insurance Corporation (FDIC). CNB has 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 deposits are investments. At year end, the Town's bank balances were not exposed to any custodial credit risk because all deposits were fully insured or collateralized.

Investment Policies

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Town does not have a policy relating to interest rate risk.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the Town's investment in a single issuer. The Town's policy requires deposits to be insured by FDIC, and balances exceeding FDIC limits be secured by collateral. Collateral is to be held by the Town, its agent, or by the pledging financial institution's trust department or agent, in the name of the Town.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 3 – DEPOSITS AND INVESTMENTS – continued

For investments, **custodial credit risk** is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities in the possession of an outside party. Town policy provides that investment collateral is held by a third party custodian with whom the Town has a current custodial agreement in the Town’s name. Of the \$3,975,256 of investments, \$3,357,727 is held by National Financing Services, LLC (NFS), a Fidelity Investments company. Up to \$500,000 is protected with the Securities Investor Protection Corporation (SIPC). NFS provides supplemental coverage for total account net equity in excess of the SIPC coverage. The remaining investment balance of \$617,529 is collateralized with CNB as described in the fourth paragraph of the previous page.

Generally, the Town’s investing activities are managed by the Clerk-Treasurer and the Town Council. Investing is performed in accordance with investment policies adopted by the Town Council complying with State Statutes and the Town Charter. Town funds may be invested in: 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.

Investments

Cash and investments reported in the financial statements comprised of the following as of June 30, 2013:

	Fair Value/ Carrying Amount	Cost	Average Credit Quality/ Rating
Bank deposits (checking accounts, saving accounts and certificates of deposit)	\$ 10,055,551	\$ 10,055,551	N/A
Federal Home Loan Mortgage Corp.	288,169	304,199	AAAm
Federal National Mortgage Assn.	1,021,605	1,097,010	AAAm
Federal Home Loan Bank	1,062,168	1,109,452	AAAm
Federal Farm Credit Bank	563,491	600,374	AAAm
Tennessee Valley Authority	306,786	324,625	AAAm
	<u>\$ 13,297,770</u>	<u>\$ 13,491,211</u>	

Note: Ratings are provided where applicable to indicate associated Credit Risk.
N/A indicates not applicable.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 – DUE FROM OTHER GOVERNMENTS

At June 30, 2013, due from other governments, a component of taxes receivable was comprised of the following:

General Fund	
State of Maryland	
Highway user tax	\$ 6,993
Admissions tax	1,477
	<u>\$ 8,470</u>

NOTE 5 - INTERFUND TRANSFERS AND BALANCES

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 of 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 Balance
Governmental Activities			
General fund	\$ 805,019	\$ 129,653	\$ 675,366
Capital projects	-	-	-
Permanent fund	-	214,989	(214,989)
Total Governmental Activities	<u>\$ 805,019</u>	<u>\$ 344,642</u>	<u>\$ 460,377</u>
Business-type Activities	<u>\$ -</u>	<u>\$ 460,377</u>	<u>\$ (460,377)</u>

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 6 – PROPERTY TAX

Real estate and personal property taxes are levied based on the State of Maryland assessments. Property taxes include amounts levied against all real and public utility property located in the Town. Real property taxes are levied on the first day of July on the assessed value. When taxes are overdue a lien is placed against the property. Taxes are due and payable on the first day of July in the year for which they are levied and become overdue and in arrears on the first day of the following October. Penalties and interest are charged on any unpaid taxes. The property tax rate for fiscal year 2013 is \$.38 per \$100 of assessed value for real property, and \$1.20 per \$100 of assessed value for personal property.

NOTE 7 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Not being depreciated:				
Land	\$ 2,918,143	\$ -	\$ 195,000	\$ 2,723,143
Construction in progress	279,764	106,645	-	386,409
Subtotal	<u>3,197,907</u>	<u>106,645</u>	<u>195,000</u>	<u>3,109,552</u>
Depreciable capital assets:				
Buildings and improvements	12,266,429	819,426	-	13,085,855
Equipment	1,294,340	48,062	-	1,342,402
Subtotal	<u>13,560,769</u>	<u>867,488</u>	<u>-</u>	<u>14,428,257</u>
Total capital assets	<u>16,758,676</u>	<u>974,133</u>	<u>195,000</u>	<u>17,537,809</u>
Accumulated depreciation:				
Buildings and improvements	4,312,143	493,060	-	4,805,203
Equipment	850,883	99,866	-	950,749
Subtotal, accumulated depreciation	<u>5,163,026</u>	<u>592,926</u>	<u>-</u>	<u>5,755,952</u>
Net capital assets	<u>\$ 11,595,650</u>	<u>\$ 381,207</u>	<u>\$ 195,000</u>	<u>\$ 11,781,857</u>

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 7 – CAPITAL ASSETS AND DEPRECIATION – continued

Depreciation was charged to functions as follows:

Government activities:	
General government	\$ 14,253
Public safety	40,941
Public works	472,749
Parks and recreation	18,968
Stormwater/watershed	19,535
Centreville Wharf	26,480
Total government activities depreciation expense	<u>\$ 592,926</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Not being depreciated:				
Land	\$ 1,160,863	\$ -	\$ -	\$ 1,160,863
Construction in progress	339,220	68,084	-	407,304
Subtotal	<u>1,500,083</u>	<u>68,084</u>	<u>-</u>	<u>1,568,167</u>
Depreciable capital assets:				
Buildings and improvements	24,749,082	1,526,819	-	26,275,901
Equipment	389,892	20,000	-	409,892
Subtotal	<u>25,138,974</u>	<u>1,546,819</u>	<u>-</u>	<u>26,685,793</u>
Total capital assets	<u>26,639,057</u>	<u>1,614,903</u>	<u>-</u>	<u>28,253,960</u>
Accumulated depreciation:				
Buildings and improvements	4,557,579	598,722	-	5,156,301
Equipment	234,443	20,569	-	255,012
Subtotal accumulated depreciation	<u>4,792,022</u>	<u>619,291</u>	<u>-</u>	<u>5,411,313</u>
Net capital assets	<u>\$ 21,847,035</u>	<u>\$ 995,612</u>	<u>\$ -</u>	<u>\$ 22,842,647</u>

Depreciation was charged as follows:

Business-type activities:	
Sewer	\$ 436,157
Water	183,134
Total business-type activities depreciation expense	<u>\$ 619,291</u>

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 7 – CAPITAL ASSETS AND DEPRECIATION - continued

Construction Commitments

During May 2012, 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 bond is to be used to finance or refinance infrastructure projects undertaken by the Town. The bond issuance consists of the principal amount of \$2,555,540, for the purpose of street infrastructure improvements, water distribution system improvements, or refinancing previously issued debt. The proceeds of the bond 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 bond shall be used when and as required to pay project costs.

The Town of Centreville had participated in a prior bond issuance during May 2007 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 Town has used these general obligation bonds to finance various infrastructure projects undertaken by the Town. The bond issuance consisted 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 are held and invested by the Administration in its sole discretion and administered and disbursed by the Administration pursuant to a Repayment Agreement. The remaining proceeds shall be used to pay Project costs associated with the continued infrastructure improvements.

In April 2013 the Town of Centreville awarded a bid for the reconstruction of Railroad Avenue to include mill and overlay, new and/or replacement curbs, sidewalks and ADA sidewalk ramps and new or replacement drainage piping and inlets. The bid award also included two alternate bids; the first alternate to include replacement of water service laterals and select valves and hydrants on Railroad Avenue from South Commerce Street to Kidwell Avenue. Project costs for the base bid and two alternate bids were estimated to be \$2,262,674. The proceeds from 2007 and 2012 bonds will be used to fund the costs of this bid award.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 7 – CAPITAL ASSETS AND DEPRECIATION - continued

Construction Commitments - continued

The Town of Centreville negotiated a contract for the purchase of the Centreville Wharf building located at Water Way and Watson Road just prior to fiscal year end 2012. A note was secured with Mid-Shore Community Foundation, Inc. for \$650,500 that was paid in full in July 2012. The Town has several prospective uses identified for the property under contract for purchase. The Town plans to lease office space to interested businesses to encourage economic development along the Wharf area hoping to encourage a thriving urban development to the surrounding community. The Town also is in need of suitable work space and has considered this property as a temporary solution for additional employee office space.

The Town of Centreville has continued to make improvements to the infrastructure, as part of the Town's stormwater management effort to reduce stormwater runoff and to meet the goals of the Corsica River Watershed Restoration Action Strategy (WRAS). These projects are examples of the Town's ongoing efforts to improve its infrastructure and environment using external funding sources.

The Town awarded a bid in July 2012 to a local engineering firm to provide services for the preparation of a storm water quality retrofit design for the Centreville Heights project located at the south end of Chestnut Street. The goal of this project is to design a plan to intercept existing flows from the terminus of Chestnut Street, treat it for water quality in a bio retention area and discharge it safely through a residential lot which fronts Route 305 and into SHA yard inlet. The proposed retrofit will treat approximately 3 acres, 1 acre which is impervious and will ultimately drain to Gravel Run.

The Town also issued a bid to provide engineering services for the preparation of a stormwater quality retrofit design for Newnam Avenue, located at the intersection of Windsor Avenue. This project will intercept existing flows from inlets which drain directly to non-tidal wetlands of Millstream. The proposed project will treat approximately 3 acres, 1 acre of which is impervious. This is the first retrofit project for the Millstream sub-watershed.

Another bid was awarded in July 2012 to provide engineering services for Phase 2 of the Centreville Wastewater Treatment Plant Stream Restoration. The goal of the project is to design a plan that will improve approximately 300 linear feet of impaired stream, assess degree of erosion and propose as natural as possible restoration.

Bids were awarded in November 2012 to provide engineering services for the preparation of a stormwater quality retrofit for the Powell Street parking lot and Pennsylvania Avenue. Both of these areas are highly impervious and currently provide no stormwater management.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 7 – CAPITAL ASSETS AND DEPRECIATION - continued

Construction Commitments - continued

The Powell Street parking lot retrofit is proposed to treat approximately 2 acres. This project will provide a water quality system to treat runoff from the Powell Street and public parking areas located behind the Goodwill Fire Department and Nielson Center.

The parking lot is proposed to drain to an inlet which is piped directly to the newly improved outfall at the Wastewater Treatment Plant.

The Pennsylvania Avenue retrofit is proposed to treat approximately 3 acres for water quality and correct a drainage problem. The Pennsylvania Avenue project is located in a revitalized retail/apartment area in the heart of the Town providing on-street parallel parking. The goal of the project is to alleviate the ponding conditions on Pennsylvania Avenue near the intersection of Kidwell Avenue.

Construction Improvements Impacting Environment Concerns

The Town of Centreville previously partnered with American Rivers for a grant to perform a feasibility study in the Spring of 2012 for the removal of the dam at Gravel Run. The Town has since obtained several additional grants to assist with the design and removal/demolition of the dam. The Centreville Dam is ranked in the top 10% of all dams (nearly 4,000 blockages) in the Bay Watershed. The long term goal is to remove the dam and restore fish passage in Gravel Run to include approximately thirteen miles of stream habitat.

The Town Council of Centreville entered into a contract with Solar City Corporation December 2012 for the installation of solar arrays at the Town's Water Reuse Facility or sprayfield located on Hope Road. The initial term of the agreement is 20 years. This contract provides for the purchase and sale of solar generated electric energy.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 8 – LONG-TERM DEBT

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. The principal balance outstanding as of June 30, 2013 was \$2,182,000 and the balance of undrawn proceeds was \$121,058.

Bond payable, Community Development Administration Local Government Infrastructure Bonds 2012 Series A (Ambac Insured); payable in annual installments beginning May 1, 2013; interest at 3.562%; interest paid on unpaid principal installment amounts due and payable in semiannual payments commencing November 1, 2012; thereafter due first day of May and November each year; thereafter until maturity; the term for this obligation is 20 years. The principal balance outstanding as of June 30, 2013 was \$2,457,500 and the balance of undrawn proceeds was \$2,500,000.

Note payable, Centreville National Bank; payable in monthly installments of \$10,567, including principal and interest at 4.79%; final payment due June 7, 2037. The principal balance outstanding as of June 30, 2013 was \$1,794,474.

Note payable, Mid-Shore Community Foundation, Inc.; payable in one lump sum payment of \$650,500, without interest on July 3, 2012; due in full July 2, 2012. Borrower agrees to pay to lender interest on the unpaid balance of the note at the rate of 10% per annum until paid in full. The principal balance outstanding as of June 30, 2013 was \$0.

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. The principal balance outstanding as of June 30, 2013 was \$1,980,375.

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. The principal balance outstanding as of June 30, 2013 was \$1,672,000.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 8 – LONG-TERM DEBT – continued

Business-Type Activities - continued

The balance of undrawn proceeds as of June 30, 2013 for the Bond Payable, Community Development Administration Local Government Bonds 2007 Series A and Series A-1 (Ambac Insured) is \$260,409.

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. The principal balance outstanding as of June 30, 2013 was \$231,750

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. The principal balance outstanding as of June 30, 2013 was \$942,798.

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, 2018; maximum principal amount of loan commitment is \$2,300,000. Final principal amount advanced was \$912,870. An annual fee of \$6,661 is paid by the Town to MDE for administering the loan. The principal balance outstanding as of June 30, 2013 was \$577,132.

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, 2027; maximum principal amount of loan commitment is \$2,281,000. Final principal amount advanced was \$1,812,481. An annual fee of \$6,318 is paid by the town to MDE for administering the loan. The principal balance outstanding as of June 30, 2013 was \$1,498,476.

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.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 8 – LONG-TERM DEBT – continued

The changes in long-term debt during the year ended June 30, 2013 follows:

	Water and Sewer Fund	Capital Projects Fund	General Long-term Debt	Compensated Absences	OPEB	Total
Beginning balance, July 1, 2012	\$ 7,124,592	\$ 4,851,690	\$ 2,483,598	\$ 163,374	\$ 87,531	\$ 14,710,785
Increase	351,812	-	-	21,888	29,177	402,877
Decrease	(573,873)	(212,190)	(689,124)	-	-	(1,475,187)
Ending balance, June 30, 2013	<u>\$ 6,902,531</u>	<u>\$ 4,639,500</u>	<u>\$ 1,794,474</u>	<u>\$ 185,262</u>	<u>\$ 116,708</u>	<u>\$ 13,638,475</u>
Less: undrawn proceeds	(260,409)	(2,621,058)	-	-	-	(2,881,467)
Total long-term debt, governmental	<u>\$ 2,018,442</u>	<u>\$ 2,018,442</u>	<u>\$ 1,794,474</u>	<u>\$ 185,262</u>	<u>\$ 116,708</u>	<u>\$ 10,757,008</u>
Total long-term debt, business-type	<u>\$ 6,642,122</u>					
Amount due in one year	<u>\$ 584,029</u>	<u>\$ 225,150</u>	<u>\$ 40,542</u>	<u>\$ 13,071</u>		

Long term debt service requirements are as follows:

<u>Governmental Activities</u>			
Year(s) Ended	Principal	Interest	Total
June 30			
2014	\$ 265,692	\$ 253,335	\$ 519,027
2015	270,005	245,145	515,150
2016	278,142	237,039	515,181
2017	286,675	227,738	514,413
2018	297,303	218,115	515,418
2019-2023	1,659,356	921,347	2,580,703
2024-2028	1,801,497	569,689	2,371,186
2029-2033	1,115,186	252,826	1,368,012
2034-2038	460,118	47,103	507,221
	<u>\$ 6,433,974</u>	<u>\$ 2,972,337</u>	<u>\$ 9,406,311</u>

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 8 – LONG-TERM DEBT – continued

Business-type Activities			
Year(s) Ended	Principal	Interest	Total
June 30			
2014	\$ 584,029	\$ 230,358	\$ 814,387
2015	433,257	219,271	652,528
2016	406,151	200,636	606,787
2017	415,513	190,922	606,435
2018	421,225	180,894	602,119
2019-2023	1,665,394	754,708	2,420,102
2024-2028	1,536,872	474,663	2,011,535
2029-2033	576,753	259,895	836,648
2034-2038	604,858	122,857	727,715
2039-2043	258,479	31,146	289,625
	\$ 6,902,531	\$ 2,665,350	\$ 9,567,881

The above payment schedules assume all remaining undrawn proceeds are drawn down. Interest expense was \$265,476 and \$240,781, for the governmental activities and the business-type activities, respectively, for the year ended June 30, 2013.

NOTE 9 – PENSION PLAN

The Town sponsors a defined contribution plan administered by Wagner Bowman Management Corp and ICMA-RC 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, 2013, 23 employees participated in the plan. Participants are 100% vested upon entry into the Plan. The Town's pension expense was \$66,464, in 2013. The Town discontinued participation in the Town's pension plan upon entering the Maryland State Retirement Pension System. Council directed no further employer contributions be made to the defined contribution plan after reconciling amounts due through June 30, 2013.

NOTE 10 – 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.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 10 – OTHER POST EMPLOYMENT BENEFITS – continued

The medical benefits paid by the Town on behalf of the retirees were \$8,654, for the year ended June 30, 2013.

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 (normal cost)	\$ 29,177
Contributions made	<u>-</u>
Increase in net OPEB obligation	29,177
Net OPEB obligation - beginning of year	<u>87,531</u>
Net OPEB obligation - end of year	<u><u>\$ 116,708</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 accrued liability for benefits and unfunded actuarial accrued liability (UAAL) was \$163,905 and the actuarial value of assets was \$0 at June 30, 2013. The covered payroll (annual payroll of active employees covered by the Program) was \$1,405,475. The ratio of the unfunded actuarial liability to the covered payroll was 11.66%. The Program does not issue a publicly available financial report.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 10 – 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, 2013; 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.

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.

NOTE 11 – CONCENTRATIONS

The Town derives most of its revenues, except grants, from its citizens. The Town provides various services to its residents. The Town is located in Queen Anne's County, Maryland. Credit is granted to its residents for back taxes and water bills. The Town may place a lien on any property associated with taxes and water services.

NOTE 12 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to workers; and natural disasters. It is the Town's policy to eliminate the risk of loss in those areas through the purchase of commercial insurance. There have been no assessments during the year ended June 30, 2013, and the amount of settlements has not exceeded coverage for each of the past three years.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Grants

The Town receives grants from time-to-time. Expenditures from certain grants are subject to audit by the grantor, and the Town is contingently liable to refund amounts received in excess of allowable expenditures. In the opinion of the Town's management, no material refunds will be required as a result of disallowed expenditures.

Public Works Agreements

The Town has entered into several Public Works Agreements (PWA's) with developers for projects within the Town. Water and sewer allocations have been reserved under PWA agreements from the existing wastewater treatment facilities for either residential or commercial development. 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 \$3,588,872, as of June 30, 2013.

Employment Contracts

The Town has employment agreements with its Town Manager commencing March 2013 which provides that the Town Manager shall serve for an indefinite period at the pleasure of the Council, this employment contract remaining in effect until terminated by the Town or the Town Manager. The Town also has an employment contract with its Chief of Police commencing April 2010. The Chief of Police's contract shall automatically renew for another one-year term until terminated. Both contracts may be terminated by either the Town or the employee.

Contractual Agreements

The Town has an annual renewable agreement with Maryland Environmental Service (MES) to provide monitoring, laboratory, and reporting services to the Town.

The Town of Centreville has committed to a contract with MES to provide support services. This contract provides supervision to the Town's Water and Wastewater plant operators. This contract continues month-to-month until terminated.

The Town hired a consultant, David Dammeyer of Centreville, effective April 1, 2013 to provide project inspection support services as required during construction of Railroad Avenue/Newnam Avenue. Mr. Dammeyer is to serve as liaison between the Town of Centreville and various contractors. Mr. Dammeyer will inspect construction improvements, keep logs and attend progress meetings keeping the Town staff apprised of activities and issues. Mr. Dammeyer may also assist with other projects that may be requested and assigned.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 13 – COMMITMENTS AND CONTINGENCIES - continued

Contractual Agreements - continued

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 contract term beginning September 2010 is for a two year period and provides the Town the ability to extend the contract for three additional one year terms. The Town has renewed the contract for each additional year through September 2014. The total estimated cost of the service is \$152,640.

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 Limit

In connection with the debt acquired in aggregate of \$13,336,505, 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 \$466,768,282. Currently, the borrowing limit is \$93,353,656.

Litigation

In the normal course of business, the Town is a defendant in several lawsuits which management is vigorously defending. No contingency has been established because neither the outcome of the cases nor the amount of an award, if any, can be determined. The Town's attorney and the insurance carrier are defending these matters.

NOTE 14 – FUND BALANCE REPORTING

Fund balances for the Town's governmental funds consisted of the following as of June 30, 2013:

Non-spendable Fund Balance

At June 30, 2013, non-spendable fund balance was \$105,959 pertaining to notes receivable in the general fund and \$3,725,361 pertaining to principal in the permanent fund.

Committed Fund Balance

At June 30, 2013, committed fund balance was \$94,890 pertaining to revolving housing funds of \$94,838 and \$52 for future capital projects in the capital projects fund.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 14 – FUND BALANCE REPORTING - continued

Restricted Fund Balance

At June 30, 2013, restricted fund balance was \$215,117 to perpetual care in the general fund.

Unassigned Fund Balance

Unassigned fund balance totals \$3,852,286 in the general fund.

NOTE 15 – NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following statements:

Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, issued March 2012, effective for financial statements for periods beginning after December 15, 2012.

Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, issued June 2012, effective for financial statements for fiscal years beginning after June 15, 2013.

Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, issued June 2012, effective for fiscal years beginning after June 15, 2014.

Statement No. 69, *Government Combinations and Disposals of Government Operations*, issued January 2013, effective for fiscal years beginning after December 15, 2013.

Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, issued April 2013, effective for fiscal years beginning after June 15, 2013.

The Town will implement these statements as necessary as of their effective dates. While the Town is still in the process of determining the effect of implementing these GASB statements, they are not expected to have a material effect on the financial position of the Town.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 16 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 18, 2014, the date that the financial statements were available to be issued.

The Town Council of Centreville approved participation by the employees' of Centreville in the Employee's Pension System with the Maryland State Retirement and Pension System. The new entrant date of July 1, 2013 will provide employees' of the Town the ability to participate in a defined benefit pension plan. With the Town's election to join the State Pension System, State law provides that the Town fund 100% of the service credit for employment with the Town prior to the July 1, 2013 entrant date for eligible employees.

The Town decided to have a rate study completed in order to review and analyze the water and sewer allocations rated and have a thorough analysis of costs of services to provide water and sewer to the Town's customers. This bid was awarded to Municipal and Financial Services Group for costs not to exceed \$28,000.

The Town Council of Centreville awarded the bid for Water Storage Tank improvements in the amount of \$325,400 to address compliance and maintenance issues with two water towers located within Town limits. Various items will be addressed in the bid awarded to include painting and other defined work.

A bid was awarded to David A Bramble not to exceed \$208,500 for several additional projects located on Newnam and Windsor Avenues. This award consists of 3 alternate bids as follows: (1) The stormwater retrofit component that will construct three new inlets at the intersection of Windsor and Newnam Avenues, (2) Upgrades to the sewer for Newnam extended, and (3) Paving of Newnam extended.

The Town of Centreville decided to terminate the defined contribution plan previously administered by Wagner Bowman Management Corp and ICMA-RC effective November 21, 2013 and distribute the accounts maintained pursuant to both the ICMA-RC and Fidelity contracts to plan participants. No further Town and/or employee elected contributions and/or deferrals are permitted to be deposited with the plan after November 21, 2013.

The Town amended employment agreements with its Town Manager and Chief of Police effective January 2, 2014. 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. Both contracts may be terminated by either the Town or the employee. Contract revisions addressed changes as per the termination of the Town's pension plan.

**TOWN OF CENTREVILLE, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (BUDGETARY BASIS) - General Fund
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Revenues from local sources				
Taxes				
Real property	\$ 1,925,214	\$ 1,955,714	\$ 1,967,216	\$ 11,502
Personal property	39,021	39,021	46,669	7,648
Local income taxes	273,439	331,439	274,892	(56,547)
Total taxes	<u>2,237,674</u>	<u>2,326,174</u>	<u>2,288,777</u>	<u>(37,397)</u>
Licenses and permits				
Amusement	7,422	7,422	5,004	(2,418)
License distribution	8,700	8,700	8,977	277
Permits fees	70,000	65,000	59,431	(5,569)
Franchise fees	48,000	48,000	44,041	(3,959)
Other licenses and permits	12,500	7,500	2,640	(4,860)
Total licenses and permits	<u>146,622</u>	<u>136,622</u>	<u>120,093</u>	<u>(16,529)</u>
Charges for services				
General government	120,800	100,800	48,234	(52,566)
Public safety	40,400	40,400	36,409	(3,991)
Sanitation and waste removal	250,500	250,500	259,513	9,013
Total charges for services	<u>411,700</u>	<u>391,700</u>	<u>344,156</u>	<u>(47,544)</u>
Miscellaneous	<u>824,550</u>	<u>817,050</u>	<u>181,143</u>	<u>(635,907)</u>
Total revenues from local sources	<u>3,620,546</u>	<u>3,671,546</u>	<u>2,934,169</u>	<u>(737,377)</u>
Revenue from intergovernmental				
State				
Police protection	41,000	41,000	41,000	-
Highway user	30,291	30,291	30,130	(161)
Other state grants	707,758	263,872	119,648	(144,224)
Total state revenue	<u>779,049</u>	<u>335,163</u>	<u>190,778</u>	<u>(144,385)</u>
County				
Payments in lieu of taxes	<u>134,468</u>	<u>134,468</u>	<u>135,418</u>	<u>950</u>
Total county revenue	<u>134,468</u>	<u>134,468</u>	<u>135,418</u>	<u>950</u>
Total intergovernmental revenue	<u>913,517</u>	<u>469,631</u>	<u>326,196</u>	<u>(143,435)</u>
Total revenue	<u><u>\$ 4,534,063</u></u>	<u><u>\$ 4,141,177</u></u>	<u><u>\$ 3,260,365</u></u>	<u><u>\$ (880,812)</u></u>

TOWN OF CENTREVILLE, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND EXPENDITURES (continued)
BUDGET AND ACTUAL (BUDGETARY BASIS) - General Fund
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Expenditures				
General government administration				
Legislative	\$ 105,088	\$ 107,588	\$ 105,236	\$ 2,352
Planning and zoning	211,804	196,804	178,874	17,930
General services	277,673	259,573	239,448	20,125
Total general government administration	<u>594,565</u>	<u>563,965</u>	<u>523,558</u>	<u>40,407</u>
Public safety				
Police	998,327	1,002,327	962,511	39,816
Volunteer fire and rescue services	45,000	45,000	45,000	-
Total public safety	<u>1,043,327</u>	<u>1,047,327</u>	<u>1,007,511</u>	<u>39,816</u>
Public works				
Waste collection	401,899	401,899	359,303	42,596
Highways and streets	506,684	506,684	438,010	68,674
Total public works	<u>908,583</u>	<u>908,583</u>	<u>797,313</u>	<u>111,270</u>
Parks and recreation	96,157	96,157	81,259	14,898
Cemetery	109,225	109,225	83,291	25,934
Stormwater/watershed	141,227	151,227	132,805	18,422
Centreville wharf	58,685	75,885	68,244	7,641
Capital outlay	3,223,485	508,733	154,707	354,026
Debt service	1,143,809	1,166,290	1,166,790	(500)
Total expenditures	<u>7,319,063</u>	<u>4,627,392</u>	<u>4,015,478</u>	<u>611,914</u>
Excess (deficiency) of revenue over expenditures before other financing sources	(2,785,000)	(486,215)	(755,113)	268,898
Other financing sources				
Bond/commercial financing	2,665,000	366,215	46,907	319,308
Operating transfers	120,000	120,000	110,000	10,000
Total other financing sources	<u>2,785,000</u>	<u>486,215</u>	<u>156,907</u>	<u>329,308</u>
Excess (deficiency) of revenue and other financing sources over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (598,206)</u>	<u>\$ 598,206</u>
Summary				
Total revenue	\$ 4,534,063	\$ 4,141,177	\$ 3,260,365	\$ (880,812)
Total expenditures	7,319,063	4,627,392	4,015,478	611,914
Deficiency of revenue over expenditures	<u>\$ (2,785,000)</u>	<u>\$ (486,215)</u>	<u>\$ (755,113)</u>	<u>\$ (268,898)</u>

**TOWN OF CENTREVILLE, MARYLAND
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 OTHER POST-EMPLOYMENT BENEFITS PLAN
 FOR THE YEAR ENDED JUNE 30, 2013**

<u>Valuation Date</u>	<u>Value of Assets</u>	<u>Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/2010	\$ -	\$ 163,905	\$ 163,905	0.00%	\$ 1,405,475	11.66%

Information for prior years not available

**TOWN OF CENTREVILLE, MARYLAND
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 OTHER POST-EMPLOYMENT BENEFITS PLAN
 FOR THE YEAR ENDED JUNE 30, 2013**

Fiscal Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 29,177	0%	\$ 116,708
2012	29,177	0%	87,531
2011	29,177	0%	58,354
2010	29,177	0%	29,177

SUPPLEMENTAL SCHEDULES

TOWN OF CENTREVILLE, MARYLAND
SUPPLEMENTAL BALANCE SHEET - GENERAL FUND
JUNE 30, 2013

	General Fund	Revolving Housing Fund	Perpetual Care Fund	Total General Funds
ASSETS				
Cash and cash equivalents - unrestricted	\$ 3,402,074	\$ 26,971	\$ 55,584	\$ 3,484,629
Investments	-	-	89,702	89,702
Accounts receivable - taxes	11,294	-	-	11,294
Accounts receivable - other - net	163,352	-	8,045	171,397
Accounts receivable - grants	77,616	-	-	77,616
Notes receivable	-	105,959	-	105,959
Due from other funds	675,366	67,867	61,786	805,019
TOTAL ASSETS	<u>4,329,702</u>	<u>200,797</u>	<u>215,117</u>	<u>4,745,616</u>
DEFERRED OUTFLOWS OF RESOURCES				
	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
	<u>\$ 4,329,702</u>	<u>\$ 200,797</u>	<u>\$ 215,117</u>	<u>\$ 4,745,616</u>
LIABILITIES				
Accounts payable	\$ 228,673	\$ -	\$ -	\$ 228,673
Accrued payroll	49,094	-	-	49,094
Due to other funds	129,653	-	-	129,653
Current portion of compensated absences	13,071	-	-	13,071
TOTAL LIABILITIES	<u>420,491</u>	<u>-</u>	<u>-</u>	<u>420,491</u>
DEFERRED INFLOWS OF RESOURCES				
	<u>56,925</u>	<u>-</u>	<u>-</u>	<u>56,925</u>
FUND BALANCES				
Non-spendable	-	105,959	-	105,959
Restricted	-	-	215,117	215,117
Committed	-	94,838	-	94,838
Unassigned	3,852,286	-	-	3,852,286
TOTAL FUND BALANCES	<u>3,852,286</u>	<u>200,797</u>	<u>215,117</u>	<u>4,268,200</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
	<u>\$ 4,329,702</u>	<u>\$ 200,797</u>	<u>\$ 215,117</u>	<u>\$ 4,745,616</u>

TOWN OF CENTREVILLE, MARYLAND
SUPPLEMENTAL STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Revolving Housing Fund	Perpetual Care Fund	Total General Funds
REVENUES				
Property taxes	\$ 2,013,885	\$ -	\$ -	\$ 2,013,885
Local income taxes	274,892	-	-	274,892
Intergovernmental revenue	326,196	-	-	326,196
Licenses and permits	120,093	-	-	120,093
Charges for services	341,231	-	2,925	344,156
Miscellaneous revenue	181,037	-	106	181,143
Total revenues	<u>3,257,334</u>	<u>-</u>	<u>3,031</u>	<u>3,260,365</u>
EXPENDITURES				
General government administration	523,558	-	-	523,558
Public safety	1,007,511	-	-	1,007,511
Public works	797,313	-	-	797,313
Parks and recreation	81,259	-	-	81,259
Cemetery	83,291	-	-	83,291
Stormwater/watershed	132,805	-	-	132,805
Centreville wharf	68,244	-	-	68,244
Capital outlay	154,707	-	-	154,707
Debt service				
Principal	901,314	-	-	901,314
Interest	265,476	-	-	265,476
Total expenditures	<u>4,015,478</u>	<u>-</u>	<u>-</u>	<u>4,015,478</u>
Excess (deficiency) of revenues over expenditures	<u>(758,144)</u>	<u>-</u>	<u>3,031</u>	<u>(755,113)</u>
Other financing sources (uses)				
Proceeds of bond borrowings	46,907	-	-	46,907
Transfers in (out)	110,000	-	-	110,000
Total other financing sources (uses)	<u>156,907</u>	<u>-</u>	<u>-</u>	<u>156,907</u>
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	<u>(601,237)</u>	<u>-</u>	<u>3,031</u>	<u>(598,206)</u>
Fund balance, beginning of year	<u>4,453,523</u>	<u>200,797</u>	<u>212,086</u>	<u>4,866,406</u>
Fund balance, end of year	<u>\$ 3,852,286</u>	<u>\$ 200,797</u>	<u>\$ 215,117</u>	<u>\$ 4,268,200</u>

**TOWN OF CENTREVILLE, MARYLAND
SUPPLEMENTAL STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	Enterprise Fund	Total
Revenue		
Charges for services		
Sewer allocation fees	\$ 141,490	\$ 141,490
Water allocation fees	74,631	74,631
Sewer	601,536	601,536
Water	417,853	417,853
Water penalty	20,685	20,685
Sewer vacant lots	25,380	25,380
Meter equipment	10,519	10,519
Connection charges	4,624	4,624
I&I study charges	5,390	5,390
Sale of crops	1,984	1,984
Other fines and forfeitures	26,612	26,612
Total charges for services	<u>1,330,704</u>	<u>1,330,704</u>
Miscellaneous revenue		
Grant revenue	3,420	3,420
Investment earnings	44,332	44,332
Total miscellaneous revenue	<u>47,752</u>	<u>47,752</u>
Capital contributions	1,493,619	1,493,619
Total revenue	2,872,075	2,872,075
Operating Expenses		
Sewer	1,010,856	1,010,856
Water	755,361	755,361
Farm	7,714	7,714
Total operating expenses	<u>1,773,931</u>	<u>1,773,931</u>
Debt Service		
Interest	219,944	219,944
Admin fees	20,837	20,837
Total debt service	<u>240,781</u>	<u>240,781</u>
Total expenses	2,014,712	2,014,712
Change in net position	<u>\$ 857,363</u>	<u>\$ 857,363</u>

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Members of the Town Council
Town of Centreville, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the 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, 2013, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements, and have issued our report thereon dated March 18, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Town’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect, and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Town’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

March 18, 2014

Hinday & Associates, LLC