

**TOWN OF CENTREVILLE, MARYLAND
FINANCIAL STATEMENTS
JUNE 30, 2014**

TOWN OF CENTREVILLE

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OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

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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, 2014, 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, 2014, 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.

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 21 and 55 through 58 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 59 through 61 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 November 17, 2015, 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.

November 17, 2015

**TOWN OF CENTREVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

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, 2014. 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, 2014 by \$36 million (*net position*). Approximately 58% of this amount is attributable to the business-type activities. Of the total net position approximately \$7.6 million (*unrestricted net position*) may be used to meet the Town's ongoing obligations to citizens and creditors (61.3% is attributable to the business-type activities). Of the remaining total net assets, approximately \$3.9 million is restricted for specific purposes (*restricted net position*), and approximately \$24.6 million is invested in capital assets, net of related debt.
- As of June 30, 2014, the Town's governmental funds reported combined ending fund balances of approximately \$7.2 million.
- The Town's total net debt decreased by \$849,601 through principal payments to a year-end balance of \$12,486,608 which is well below our legal debt limit per the Town Charter, as discussed in Note 14, Borrowing Limit.
- As of the close of the current fiscal year, the unassigned fund balance for the general fund was approximately \$3.1 million or 74% 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, 2014**

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 22 and 23 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, 2014**

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 55-56 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 26-28 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 29-54 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 55-58 of this report.

**TOWN OF CENTREVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

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 \$36 million as of June 30, 2014.

The largest portion of the Town's net position (68.2%) 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 10.7%) represents resources that are restricted by enabling legislation on how they may be used. The remaining balance of unrestricted net position (21%) 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, 2014 and 2013
(in thousands of dollars)**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Government</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Assets						
Current and other assets	\$ 7,656	\$ 8,341	\$ 7,258	\$ 7,945	\$ 14,914	\$ 16,286
Capital assets, net	<u>13,126</u>	<u>11,782</u>	<u>22,530</u>	<u>22,843</u>	<u>35,656</u>	<u>34,625</u>
Total Assets	<u>20,782</u>	<u>20,123</u>	<u>29,788</u>	<u>30,788</u>	<u>50,570</u>	<u>50,911</u>
Liabilities						
Other liabilities	681	557	3,054	3,049	3,735	3,606
Long-term liabilities	<u>5,012</u>	<u>3,836</u>	<u>5,770</u>	<u>6,058</u>	<u>10,782</u>	<u>9,894</u>
Total Liabilities	<u>5,693</u>	<u>4,393</u>	<u>8,824</u>	<u>9,107</u>	<u>14,517</u>	<u>13,500</u>
Net Position						
Net investment in capital assets	8,251	7,969	16,327	16,201	24,578	24,170
Restricted	3,861	3,900	-	-	3,861	3,900
Unrestricted	<u>2,977</u>	<u>3,861</u>	<u>4,637</u>	<u>5,480</u>	<u>7,614</u>	<u>9,341</u>
Total Net Position	<u>\$ 15,089</u>	<u>\$ 15,730</u>	<u>\$ 20,964</u>	<u>\$ 21,681</u>	<u>\$ 36,053</u>	<u>\$ 37,411</u>

**TOWN OF CENTREVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Overview of the Financial Statements (continued)

Government-wide Financial Analysis (continued)

The Town's net position decreased approximately \$1.4 million as of June 30, 2014. This decrease is a result of a \$642 thousand decrease in governmental activities and a \$717 thousand decrease in business-type activities.

The governmental activities decreased the Town's net position by \$642 thousand. Key elements are as follows:

- Charges for services increased due to the slight economic upturn and the resurgence of building permit applications and associated costs. Additionally, speed monitoring cameras were installed which substantially increased the Public Safety revenues.
- Operating and Capital Grants and Contributions increased significantly this fiscal year.
- Between FY13 and FY14, there was a drastic change in the way the Town recorded Governmental personnel expenditures. The bulk of the administrative staff's expenditures had previously been allocated throughout the Town's departments. In FY14, those costs remained associated with "General Government" other than those that were allocated to the Proprietary Fund.
- There was substantial construction completed in the Public Works department, which was paid for primarily with bond proceeds.
- The Town chose to buy into the Maryland State Retirement and Pension System in FY14. This substantially increased expenditures between FY13 and FY14 across all departments.

Business-type activities decreased the Town's net position by \$717 thousand. The components of the change in the business-type activities are as follows:

- Water and sewer service expenses increased approximately \$500 thousand to include some capital expenditures paid for with bond proceeds.
- Charges for services for water and sewer fees remained constant as the Town's utility rates have remained unchanged for the past 10 years and yet the cost to operate the utility has continually increased. However, revenues increased for water and sewer allocations as the Town saw growth in FY14.
- The revenue associated with farm services increased due to the farm rental.

**TOWN OF CENTREVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Overview of the Financial Statements (continued)

Government-wide Financial Analysis (continued)

- The Statement Retirement and Pension System buy-in also increased personnel expenditures in the business-type activities.

STATEMENT OF ACTIVITIES

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

**TOWN OF CENTREVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

**CONDENSED STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2014 and 2013
(in thousands of dollars)**

	Governmental Activities		Business-type Activities		Total Government	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues:						
Charges for services	\$ 651	\$ 470	\$ 1,722	\$ 1,331	\$ 2,373	\$ 1,801
Operating grants/ contributions	667	327	20	3	687	330
Capital grants/ contributions	-	819	-	1,494	-	2,313
General revenues:						
Property taxes	1,934	2,004	-	-	1,934	2,004
Other income taxes	429	321	-	-	429	321
Other	120	(164)	39	44	159	(120)
Total Revenues	<u>3,801</u>	<u>3,777</u>	<u>1,781</u>	<u>2,872</u>	<u>5,582</u>	<u>6,649</u>
Program Expenses						
General government	1,031	574	-	-	1,031	574
Public safety	1,423	1,057	-	-	1,423	1,057
Public works	1,467	1,272	-	-	1,467	1,272
Parks and recreation	79	101	-	-	79	101
Cemetery	26	84	-	-	26	84
Stormwater/Watershed	134	154	-	-	134	154
Centreville wharf	28	94	-	-	28	94
Interest on long-term debt	255	239	-	-	255	239
Enterprise expenses						
Water services	-	-	1,202	869	1,202	869
Sewer services	-	-	1,279	1,138	1,279	1,138
Farm services	-	-	17	8	17	8
Total Program Expenses	<u>4,443</u>	<u>3,575</u>	<u>2,498</u>	<u>2,015</u>	<u>6,941</u>	<u>5,590</u>
Change in net position	(642)	202	(717)	857	(1,359)	1,059
Net position, beginning	15,730	15,528	21,681	20,824	37,411	36,352
Net Position, End	<u>\$ 15,088</u>	<u>\$ 15,730</u>	<u>\$ 20,964</u>	<u>\$ 21,681</u>	<u>\$ 36,052</u>	<u>\$ 37,411</u>

**TOWN OF CENTREVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Overview of the Financial Statements (continued)

Government-wide Financial Analysis (continued)

Business-type Activities

Revenue from the Town's business-type activities was approximately \$1.8 million and expenses were \$2.5 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 were approximately \$3.8 million, while total expenses were approximately \$4.4 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, 2014 and 2013
(in thousand of dollars)**

	<u>Total Cost of Services</u>		<u>Net Cost (Surplus) of Services</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
General government	\$ 1,031	\$ 574	\$ 588	\$ 263
Public safety	1,424	1,057	1,261	1,002
Public works	1,467	1,272	1,265	314
Parks and recreation	79	101	78	96
Cemetery	26	84	(22)	49
Stormwater/Watershed	135	154	(176)	70
Centreville wharf	28	95	130	166
Total	<u>\$ 4,190</u>	<u>\$ 3,337</u>	<u>\$ 3,124</u>	<u>\$ 1,960</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 \$4.2 million. Some of that cost was financed by:
 - Those who directly benefited from the programs (\$651 thousand), or
 - Other governments and organizations that subsidized certain programs with grants and contributions (\$667 thousand).

**TOWN OF CENTREVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Overview of the Financial Statements (continued)

Government-wide Financial Analysis (continued)

Governmental Activities (Continued)

- The Town financed the remaining \$2.435 million “public benefit” portion of governmental activities with taxes.

**REVENUE CLASSIFIED BY SOURCE
GENERAL FUND
For the Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>Percent of Total</u>	<u>2013</u>	<u>Percent of Total</u>
Revenue and Other Financing Sources				
General property taxes	\$ 1,872,042	48.5%	\$ 2,013,885	58.9%
Local income taxes	354,786	9.2%	274,892	8.0%
Licenses and permits	138,948	3.6%	120,093	3.6%
Charges for services	504,623	13.1%	344,156	10.1%
Intergovernmental	805,223	20.9%	326,196	9.5%
Loan proceeds	-	0.0%	46,907	1.4%
Miscellaneous	60,259	1.6%	181,143	5.3%
Operating transfers	120,000	3.1%	110,000	3.2%
Total Revenue and Other Financing Sources	<u>\$ 3,855,881</u>	<u>100.0%</u>	<u>\$ 3,417,272</u>	<u>100.0%</u>

General property taxes comprise the largest source of Town revenue, totaling \$1.9 million (48.6%) of total revenues for governmental activities for fiscal year 2014. Each municipality sets its own property tax rates, within parameters established by the State. For fiscal year 2014, the Town’s property tax rate remained constant at \$.38 per \$100 of assessed value of real property.

Charges for Services, totaling \$505 thousand (13.1%), 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, total \$355 thousand or approximately 9.2% 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 2014 this revenue slightly increased from the prior years’ total.

**TOWN OF CENTREVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Overview of the Financial Statements (continued)

Government-wide Financial Analysis (continued)

**EXPENDITURE BY FUNCTION
GENERAL FUND
For the Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>Percent of Total</u>	<u>2013</u>	<u>Percent of Total</u>
Expenditures				
Current operations:				
General government	\$ 795,747	19.2%	\$ 523,558	13.0%
Public safety	1,121,884	27.0%	1,007,511	25.1%
Public works	884,348	21.3%	797,313	19.9%
Parks and recreation	57,938	1.4%	81,259	2.0%
Cemetery	25,244	0.6%	83,291	2.1%
Stormwater/Watershed	99,678	2.4%	132,805	3.3%
Centreville wharf	1,509	0.0%	68,244	1.7%
Capital outlay	642,062	15.5%	154,707	3.9%
Debt service:				
Principal	265,692	6.4%	901,314	22.4%
Interest	254,768	6.2%	265,476	6.6%
Total Expenditures	<u><u>\$ 4,148,870</u></u>	<u><u>100.0%</u></u>	<u><u>\$ 4,015,478</u></u>	<u><u>100.0%</u></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 55 and 56. The schedule reports original and final budgets, as well as the variance between actual events and final budgets.

Reappropriation of budgeted amounts for fiscal year 2014 included increases to several areas of the budget including stormwater capital projects grant funding and projects, capital vehicle purchases, a capital land purchase, reallocation of cemetery administration expenditures, and speed monitoring camera fee revenue.

**TOWN OF CENTREVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Overview of the Financial Statements (continued)

Capital Assets and Debt Administration

**CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION
As of June 30, 2014 and 2013
(in thousands of dollars)**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land	\$ 2,877	\$ 2,723	\$ 1,161	\$ 1,161	\$ 4,038	\$ 3,884
Buildings and improvements	9,224	8,281	21,012	21,120	30,236	29,401
Equipment	352	391	135	155	487	546
Construction in progress	672	386	325	407	997	793
Total	\$ 13,125	\$ 11,781	\$ 22,633	\$ 22,843	\$ 35,758	\$ 34,624

The Town's total investment in capital assets, including construction in progress, for its governmental and business-type activities amounts to approximately \$35.8 million and \$34.6 million, as of June 30, 2014 and June 30, 2013, 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 approximately \$1.13 million. Of this amount, governmental investment in capital assets increased by \$1.53 million, while business-type investment in capital assets decreased by \$395 thousand.

This year's major capital additions included:

- Major upgrades of Railroad Avenue, to include street, water and sewer infrastructure.
- Several stormwater retrofits.
- Land acquisition for the general government.
- Vehicles for the police department and proprietary fund.

Additional information can be found in Note 7 on pages 40 and 41 of this report.

**TOWN OF CENTREVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

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 \$11.4 million in loans and bond commitments.

**OUTSTANDING DEBT
As of June 30, 2014 and 2013
(in thousands of dollars)**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Mortgage loans	\$ 1,754	\$ 1,794	\$ -	\$ -	\$ 1,754	\$ 1,794
Note payable	-	-	-	-	-	-
Loans from USDA	-	-	927	943	927	943
Loans from MD DOE	-	-	-	2,307	-	2,307
Bonds payable	4,414	4,640	5,391	3,652	9,805	8,292
Subtotal	6,168	6,434	6,318	6,902	12,486	13,336
Less undrawn proceeds	1,086	2,621	-	260	1,086	2,881
Total	<u>\$ 5,082</u>	<u>\$ 3,813</u>	<u>\$ 6,318</u>	<u>\$ 6,642</u>	<u>\$ 11,400</u>	<u>\$ 10,455</u>

The Town's total long-term debt decreased 9% during the current fiscal year. The major factor in this decrease was drawing down bond proceeds.

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, 2014**

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, 2014**

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, 2014**

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, 2014**

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, 2014**

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, 2014**

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, 2014

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and cash equivalents - unrestricted	\$ 3,227,273	\$ 4,549,716	\$ 7,776,989
Investments	3,832,209	114,569	3,946,778
Accounts receivable - taxes	64,657	-	64,657
Accounts receivable - accounts - net	204,298	2,727,214	2,931,512
Accounts receivable - grants	64,894	-	64,894
Accounts receivable - interest	23,441	-	23,441
Note receivable	105,959	-	105,959
Due from/(to) other funds	<u>133,429</u>	<u>(133,429)</u>	<u>-</u>
Total Current Assets	<u>7,656,160</u>	<u>7,258,070</u>	<u>14,914,230</u>
Noncurrent Assets			
Construction in progress	672,119	325,992	998,111
Capital assets, net	<u>12,453,457</u>	<u>22,307,888</u>	<u>34,761,345</u>
Total Noncurrent Assets	<u>13,125,576</u>	<u>22,633,880</u>	<u>35,759,456</u>
TOTAL ASSETS	<u>20,781,736</u>	<u>29,891,950</u>	<u>50,673,686</u>
DEFERRED OUTFLOWS OF RESOURCES			
	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 20,781,736</u>	<u>\$ 29,891,950</u>	<u>\$ 50,673,686</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 389,096	\$ 332,227	\$ 721,323
Accrued payroll expense	6,608	-	6,608
Unearned revenue	-	2,288,885	2,288,885
Current portion of long-term debt	270,005	433,257	703,262
Current portion of compensated absences	<u>14,915</u>	<u>-</u>	<u>14,915</u>
Total Current Liabilities	<u>680,624</u>	<u>3,054,369</u>	<u>3,734,993</u>
Noncurrent Liabilities			
Compensated absences, net of current portion	221,576	-	221,576
OPEB liability	185,893	-	185,893
Long-term debt, net of current portion and unamortized discount of \$2,214	<u>4,604,899</u>	<u>5,873,173</u>	<u>10,478,072</u>
Total Noncurrent Liabilities	<u>5,012,368</u>	<u>5,873,173</u>	<u>10,885,541</u>
TOTAL LIABILITIES	<u>5,692,992</u>	<u>8,927,542</u>	<u>14,620,534</u>
DEFERRED INFLOWS OF RESOURCES			
	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION			
Net investment in capital assets	8,250,672	16,327,450	24,578,122
Restricted	3,861,281	-	3,861,281
Unrestricted	<u>2,976,791</u>	<u>4,636,958</u>	<u>7,613,749</u>
TOTAL NET POSITION	<u>15,088,744</u>	<u>20,964,408</u>	<u>36,053,152</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 20,781,736</u>	<u>\$ 29,891,950</u>	<u>\$ 50,673,686</u>

See accompanying notes to financial statements.

**TOWN OF CENTREVILLE, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

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	\$ 1,030,924	\$ -	\$ 258,209	\$ 184,808	\$ -	\$ (587,907)	\$ -	\$ (587,907)
Public safety	1,423,572	-	79,294	83,442	-	(1,260,836)	-	(1,260,836)
Public works	1,466,616	168,510	265,808	103,578	-	(1,265,740)	-	(1,265,740)
Parks and recreation	78,680	-	-	825	-	(77,855)	-	(77,855)
Cemetery	25,901	-	47,960	-	-	22,059	-	22,059
Stormwater/watershed	134,569	-	-	310,716	-	176,147	-	176,147
Centreville wharf	27,990	86,258	-	(16,241)	-	(130,489)	-	(130,489)
Interest	254,768	(254,768)	-	-	-	-	-	-
Total Governmental Activities	4,443,020	-	651,271	667,128	-	(3,124,621)	-	(3,124,621)
Business-type Activities								
Sewer	1,163,813	-	1,004,318	20,000	-	-	(139,495)	(139,495)
Water	1,316,862	-	715,721	-	-	-	(601,141)	(601,141)
Farm	16,998	-	1,782	-	-	-	(15,216)	(15,216)
Total Business-Type Activities	2,497,673	-	1,721,821	20,000	-	-	(755,852)	(755,852)
Total Primary Government	\$ 6,940,693	\$ -	\$ 2,373,092	\$ 687,128	\$ -	\$ (3,124,621)	\$ (755,852)	\$ (3,880,473)
General revenues:								
Taxes								
Property taxes						1,934,450	-	1,934,450
Public utility taxes						35,493	-	35,493
Income taxes						394,117	-	394,117
Interest and investment earnings						101,742	39,276	141,018
Gains (losses) change in fair market value						(14,116)	-	(14,116)
Miscellaneous						31,099	-	31,099
Loss on sale of assets						-	-	-
Total General Revenues						2,482,785	39,276	2,522,061
Transfers in (out)						-	-	-
Change in Net Position						(641,836)	(716,576)	(1,358,412)
Net Position, beginning of year						15,730,580	21,680,984	37,411,564
Net Position, end of year						\$ 15,088,744	\$ 20,964,408	\$ 36,053,152

See accompanying notes to financial statements.

**TOWN OF CENTREVILLE, MARYLAND
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014**

	General Fund	Capital Projects Fund	Permanent Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents - unrestricted	\$ 3,090,519	\$ -	\$ 136,754	\$ 3,227,273
Investments	89,702	-	3,742,507	3,832,209
Accounts receivable - taxes	64,657	-	-	64,657
Accounts receivable - accounts - net	204,298	-	-	204,298
Accounts receivable - grants	64,894	-	-	64,894
Accounts receivable - interest	-	52	23,389	23,441
Notes receivable	105,959	-	-	105,959
Due from other funds	494,930	-	-	494,930
TOTAL ASSETS	<u>4,114,959</u>	<u>52</u>	<u>3,902,650</u>	<u>8,017,661</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 4,114,959</u>	<u>\$ 52</u>	<u>\$ 3,902,650</u>	<u>\$ 8,017,661</u>
LIABILITIES				
Accounts payable	\$ 389,096	\$ -	\$ -	\$ 389,096
Accrued payroll	6,608	-	-	6,608
Due to other funds	136,468	-	225,033	361,501
Current portion of compensated absences	14,915	-	-	14,915
TOTAL LIABILITIES	<u>547,087</u>	<u>-</u>	<u>225,033</u>	<u>772,120</u>
DEFERRED INFLOWS OF RESOURCES	<u>48,128</u>	<u>-</u>	<u>-</u>	<u>48,128</u>
FUND BALANCES				
Non-spendable	105,959	-	3,677,617	3,783,576
Restricted	223,950	-	-	223,950
Committed	94,838	52	-	94,890
Unassigned	3,094,997	-	-	3,094,997
TOTAL FUND BALANCES	<u>3,519,744</u>	<u>52</u>	<u>3,677,617</u>	<u>7,197,413</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 4,114,959</u>	<u>\$ 52</u>	<u>\$ 3,902,650</u>	<u>\$ 8,017,661</u>

**RECONCILIATION OF TOTAL GOVERNMENTAL
FUND BALANCE TO NET POSITION OF
GOVERNMENTAL ACTIVITIES
JUNE 30, 2014**

<i>Total Governmental Fund Balances</i>	\$ 7,197,413
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	13,125,576
Receivables pertaining to revenues that are not available in accordance with modified accrual accounting are reported as deferred inflows of resources in the funds.	48,128
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.	<u>(5,282,373)</u>
<i>Net Position of Governmental Activities</i>	<u>\$ 15,088,744</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, 2014

	General Fund	Capital Projects Fund	Permanent Fund	Total Governmental Funds
REVENUES				
Property taxes	\$ 1,872,042	\$ -	\$ -	\$ 1,872,042
Local income taxes	354,786	-	-	354,786
Intergovernmental revenue	805,223	-	-	805,223
Licenses and permits	138,948	-	-	138,948
Charges for services	504,623	-	-	504,623
Miscellaneous revenue				
Other	54,467	-	-	54,467
Investment earnings	5,792	-	96,215	102,007
Gains, losses and changes in fair market value	-	-	(14,116)	(14,116)
Fees	-	-	(9,843)	(9,843)
Total Revenues	<u>3,735,881</u>	<u>-</u>	<u>72,256</u>	<u>3,808,137</u>
EXPENDITURES				
General government	795,747	-	-	795,747
Public safety	1,121,884	-	-	1,121,884
Public works	884,348	-	-	884,348
Parks and recreation	57,938	-	-	57,938
Cemetery	25,244	-	-	25,244
Stormwater/watershed	99,678	-	-	99,678
Centreville wharf	1,509	-	-	1,509
Capital outlays	642,062	1,327,680	-	1,969,742
Debt service				
Principal	265,692	-	-	265,692
Interest	254,768	-	-	254,768
Total Expenditures	<u>4,148,870</u>	<u>1,327,680</u>	<u>-</u>	<u>5,476,550</u>
Excess of revenues over (under) expenditures and other financing uses	<u>(412,989)</u>	<u>(1,327,680)</u>	<u>72,256</u>	<u>(1,668,413)</u>
Other financing sources (uses)				
Proceeds from long term debt	-	1,327,680	-	1,327,680
Transfers in (out)	120,000	-	(120,000)	-
Total other financing sources (uses)	<u>120,000</u>	<u>1,327,680</u>	<u>(120,000)</u>	<u>1,327,680</u>
Excess of revenue and other financing sources over (under) expenditures and other financing uses	(292,989)	-	(47,744)	(340,733)
Special item				
Pension plan buy-in	(455,467)	-	-	(455,467)
Net change in fund balances	(748,456)	-	(47,744)	(796,200)
Fund balance, beginning of year	<u>4,268,200</u>	<u>52</u>	<u>3,725,361</u>	<u>7,993,613</u>
Fund balance, end of year	<u>\$ 3,519,744</u>	<u>\$ 52</u>	<u>\$ 3,677,617</u>	<u>\$ 7,197,413</u>

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, 2014

<i>Net Change in Fund Balances - Total Governmental Funds</i>	\$ (796,200)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	1,343,719
Governmental funds report property taxes receivable less the amount not collected within the sixty-day post-year end period. However, in the Statement of Activities the full property taxes receivable is reported.	1,844
Decreases in deferred inflows of resources relating to state income taxes do not provide current financial resources and are not reported as revenue in the funds.	(8,797)
Some expenses, representing the change in long-term liabilities or assets reported in the Statement of Activities, including compensated absences and OPEB expenses, do not use current financial resources and are not reported as expenditures in the governmental funds.	(120,414)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	265,692
Proceeds from debt issuances are an other financing source in the funds, but a debt issuance increases long-term liabilities in the Statement of Net Position.	<u>(1,327,680)</u>
<i>Change in Net Position of Governmental Activities</i>	<u>\$ (641,836)</u>

See accompanying notes to financial statements.

TOWN OF CENTREVILLE, MARYLAND
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2014

	Enterprise Fund	Total
ASSETS		
Current Assets		
Cash and cash equivalents - unrestricted	\$ 4,549,716	\$ 4,549,716
Investments	114,569	114,569
Accounts receivable - accounts	2,727,214	2,727,214
Total Current Assets	7,391,499	7,391,499
Noncurrent Assets		
Construction in progress	325,992	325,992
Capital assets, net	22,307,888	22,307,888
Total Noncurrent Assets	22,633,880	22,633,880
TOTAL ASSETS	30,025,379	30,025,379
DEFERRED OUTFLOWS OF RESOURCES	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 30,025,379	\$ 30,025,379
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 332,227	\$ 332,227
Unearned revenue	2,288,885	2,288,885
Due to other funds	133,429	133,429
Current portion of long-term debt	433,257	433,257
Total Current Liabilities	3,187,798	3,187,798
Noncurrent Liabilities		
Long-term debt, net of current liabilities	5,873,173	5,873,173
Total Noncurrent Liabilities	5,873,173	5,873,173
TOTAL LIABILITIES	9,060,971	9,060,971
DEFERRED INFLOWS OF RESOURCES	-	-
NET POSITION		
Net investment in capital assets	16,327,450	16,327,450
Unrestricted	4,636,958	4,636,958
TOTAL NET POSITION	20,964,408	20,964,408
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 30,025,379	\$ 30,025,379

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, 2014

	Enterprise Fund	Total
Operating Revenues		
Charges for services	\$ 1,721,821	\$ 1,721,821
Total Operating Revenues	1,721,821	1,721,821
Operating Expenses		
Salaries and benefits	648,878	648,878
Contractual services	484,610	484,610
Chemicals, labs and operating supplies	120,738	120,738
Utilities	198,350	198,350
Repairs and maintenance	53,569	53,569
Other operating	6,364	6,364
Depreciation	643,242	643,242
Total Operating Expenses	2,155,751	2,155,751
Operating Loss	(433,930)	(433,930)
Non-operating Revenues (Expenses)		
Grant income	20,000	20,000
Investment earnings	39,276	39,276
Administrative fees	(20,837)	(20,837)
Interest expense	(63,352)	(63,352)
Net Non-operating Revenues (Expenses)	(24,913)	(24,913)
Loss Before Contributions and Transfers	(458,843)	(458,843)
Transfers (to) from other funds	-	-
Special item		
Pension plan buy-in	(257,733)	(257,733)
Change in Net Position	(716,576)	(716,576)
Total net position at beginning of year	21,680,984	21,680,984
Total net position at end of year	\$ 20,964,408	\$ 20,964,408

See accompanying notes to financial statements.

TOWN OF CENTREVILLE, MARYLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Enterprise Fund</u>	<u>Total</u>
Cash flows from operating activities		
Cash received from customers	\$ 1,628,891	\$ 1,628,891
Cash paid to suppliers	(740,516)	(740,516)
Cash paid to employees	(906,611)	(906,611)
Net cash provided by operating activities	<u>(18,236)</u>	<u>(18,236)</u>
Cash flows from capital and related financing activities		
Purchases of capital assets	(520,665)	(520,665)
Principal paid on debt	(596,101)	(596,101)
Interest paid on capital debt	(63,352)	(63,352)
Net cash (used) for capital and related financing activities	<u>(1,180,118)</u>	<u>(1,180,118)</u>
Cash flows from non-capital financing activities		
Transfers (to) from other funds	<u>6,559</u>	<u>6,559</u>
Net cash provided by non-capital financing activities	<u>6,559</u>	<u>6,559</u>
Cash flows from investing activities		
Interest and dividends	<u>39,276</u>	<u>39,276</u>
Net cash provided by investing activities	<u>39,276</u>	<u>39,276</u>
Net decrease in cash and cash equivalents	(1,152,519)	(1,152,519)
Cash and cash equivalents at beginning of year	<u>5,702,235</u>	<u>5,702,235</u>
Cash and cash equivalents at end of year	<u>\$ 4,549,716</u>	<u>\$ 4,549,716</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (691,663)	\$ (691,663)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	643,242	643,242
Changes in assets and liabilities:		
Decrease in accounts receivable	(126,576)	(126,576)
Decrease in other receivables	60	60
Increase in accounts payable	123,115	123,115
Decrease in unearned revenue	33,586	33,586
Cash provided by operating activities	<u>\$ (18,236)</u>	<u>\$ (18,236)</u>

See accompanying notes to financial statements.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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 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, 2014

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, 2014

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, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Proprietary Funds

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, 2014 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, 2014 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, 2014.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Deferred Outflows and Inflows of Resources

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, 2014

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, 2014

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.

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 2014. 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.

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.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 – DEPOSITS AND INVESTMENTS – continued

At year-end, the carrying amounts of the Town's deposits were \$8,395,633 and the bank balances totaled \$8,496,757. 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.

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 \$3,946,778 of investments, \$3,328,134 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 \$618,644 is collateralized with CNB as described above.

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.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 – DEPOSITS AND INVESTMENTS – continued

Investments

Cash and investments reported in the financial statements comprised of the following as of June 30, 2014:

	Fair Value/ Carrying Amount	Cost	Average Credit Quality/ Rating
Bank deposits (checking accounts, saving accounts and certificates of deposit)	\$ 8,595,631	\$ 8,511,141	N/A
Federal Home Loan Mortgage Corp.	247,293	304,199	AAAm
Federal National Mortgage Assn.	1,010,527	1,097,010	AAAm
Federal Home Loan Bank	849,007	1,109,452	AAAm
Federal Farm Credit Bank	812,013	600,374	AAAm
Tennessee Valley Authority	209,296	324,625	AAAm
	<u>\$ 11,723,767</u>	<u>\$ 11,946,801</u>	

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

NOTE 4 – DUE FROM OTHER GOVERNMENTS

At June 30, 2014, due from other governments, a component of taxes receivable was comprised of the following:

General Fund	
State of Maryland	
Highway user tax	\$ 10,302
Admissions tax	1,281
	<u>\$ 11,583</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.

**TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 5 - INTERFUND TRANSFERS AND BALANCES – continued

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	\$ 494,930	\$ 136,468	\$ 358,462
Capital projects	-	-	-
Permanent fund	-	225,033	(225,033)
Total Governmental Activities	<u>\$ 494,930</u>	<u>\$ 361,501</u>	<u>\$ 133,429</u>
Business-type Activities	<u>\$ -</u>	<u>\$ 133,429</u>	<u>\$ (133,429)</u>

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 2014 is \$.38 per \$100 of assessed value for real property and the Town has no personal property taxes.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Not being depreciated:				
Land	\$ 2,723,143	\$ 154,162	\$ -	\$ 2,877,305
Construction in progress	386,409	285,710	-	672,119
Subtotal	<u>3,109,552</u>	<u>439,872</u>	<u>-</u>	<u>3,549,424</u>
Depreciable capital assets:				
Buildings and improvements	13,085,855	1,479,201	-	14,565,056
Equipment	1,342,402	50,669	-	1,393,071
Subtotal	<u>14,428,257</u>	<u>1,529,870</u>	<u>-</u>	<u>15,958,127</u>
Total capital assets	<u>17,537,809</u>	<u>1,969,742</u>	<u>-</u>	<u>19,507,551</u>
Accumulated depreciation:				
Buildings and improvements	4,805,203	\$ 535,368	-	5,340,571
Equipment	950,749	90,655	-	1,041,404
Subtotal, accumulated depreciation	<u>5,755,952</u>	<u>626,023</u>	<u>-</u>	<u>6,381,975</u>
Net capital assets	<u>\$ 11,781,857</u>	<u>\$ 1,343,719</u>	<u>\$ -</u>	<u>\$ 13,125,576</u>

Depreciation was charged to functions as follows:

Government activities:	
General government	\$ 12,536
Public safety	34,924
Public works	499,360
Parks and recreation	20,050
Stormwater/watershed	32,672
Centreville Wharf	26,481
Total government activities depreciation expense	<u>\$ 626,023</u>

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7 – CAPITAL ASSETS AND DEPRECIATION – continued

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Not being depreciated:				
Land	\$ 1,160,863	\$ -	\$ -	\$ 1,160,863
Construction in progress	407,304	4,827	86,139	325,992
Subtotal	<u>1,568,167</u>	<u>4,827</u>	<u>86,139</u>	<u>1,486,855</u>
Depreciable capital assets:				
Buildings and improvements	26,275,901	515,838	-	26,791,739
Equipment	409,892	-	-	409,892
Subtotal	<u>26,685,793</u>	<u>515,838</u>	<u>-</u>	<u>27,201,631</u>
Total capital assets	<u>28,253,960</u>	<u>520,665</u>	<u>86,139</u>	<u>28,688,486</u>
Accumulated depreciation:				
Buildings and improvements	5,156,301	623,341	-	5,779,642
Equipment	255,012	19,952	-	274,964
Subtotal accumulated depreciation	<u>5,411,313</u>	<u>643,293</u>	<u>-</u>	<u>6,054,606</u>
Net capital assets	<u>\$ 22,842,647</u>	<u>\$ (122,628)</u>	<u>\$ 86,139</u>	<u>\$ 22,633,880</u>

Depreciation was charged as follows:

Business-type activities:	
Sewer	\$ 446,032
Water	197,261
Total business-type activities depreciation expense	<u>\$ 643,293</u>

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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. A substantial portion of the project was completed in fiscal year '14. The next street renovation will be Broadway Avenue in fiscal year '15. Additional streets to be reviewed for reconstruction are Commerce, Kidwell and Liberty.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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. The Town leases office space to 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 is planning to use this property as a temporary solution for additional employee office space in fiscal year 2015. The Town was awarded a community legacy grant to upgrade the interior of the building to make the leasable space more appealing to current and future lessees.

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.

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.

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

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.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014 was \$2,058,950 and the balance of undrawn proceeds was \$0.

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, 2014 was \$2,355,400 and the balance of undrawn proceeds was \$1,293,378.

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, 2014 was \$1,753,932.

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, 2014 was \$1,871,375.

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, 2014 was \$1,629,000.

The balance of undrawn proceeds as of June 30, 2014 for the Bond Payable, Community Development Administration Local Government Bonds 2007 Series A and Series A-1 (Ambac Insured) is \$0.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 8 – LONG-TERM DEBT – continued

Business-Type Activities - continued

Bond payable, Water Quality Bond, Series 2002; payable in annual installments beginning February 1, 2003; interest at 1.2%; interest paid on 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, 2014 was \$36,047.

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, 2014 was \$927,037.

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, 2014 was \$463,313.

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, 2014 was \$1,391,707.

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, 2014

NOTE 8 – LONG-TERM DEBT – continued

The changes in long-term debt during the year ended June 30, 2014 follows:

	Water and Sewer Fund	Capital Projects Fund	General Long-term Debt	Compensated Absences	OPEB	Total
Beginning balance, July 1, 2013	\$ 6,902,531	\$ 4,639,500	\$ 1,794,474	\$ 185,262	\$ 116,708	\$ 13,638,475
Increase	-	-	-	-	84,100	84,100
Decrease	(596,101)	(225,150)	(40,542)	36,314	-	(825,479)
Ending balance, June 30, 2014	<u>\$ 6,306,430</u>	<u>\$ 4,414,350</u>	<u>\$ 1,753,932</u>	<u>\$ 221,576</u>	<u>\$ 200,808</u>	<u>\$ 12,897,096</u>
Less: undrawn proceeds	-	(1,293,378)	-	-	-	(1,293,378)
Total long-term debt, governmental		<u>\$ 3,120,972</u>	<u>\$ 1,753,932</u>	<u>\$ 221,576</u>	<u>\$ 200,808</u>	<u>\$ 11,603,718</u>
Total long-term debt, business-type	<u>\$ 6,306,430</u>					
Amount due in one year	<u>\$ 433,257</u>	<u>\$ 227,450</u>	<u>\$ 42,555</u>	<u>\$ 14,915</u>		

Long term debt service requirements are as follows:

<u>Governmental Activities</u>			
Year(s) Ended	Principal	Interest	Total
June 30			
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	309,647	207,978	517,625
2020-2024	1,722,840	858,799	2,581,639
2025-2029	1,665,191	495,932	2,161,123
2030-2034	985,168	201,146	1,186,314
2035-2039	353,311	27,110	380,421
	<u>\$ 6,168,282</u>	<u>\$ 2,719,002</u>	<u>\$ 8,887,284</u>

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 8 – LONG-TERM DEBT – continued

Business-type Activities			
Year(s) Ended	Principal	Interest	Total
June 30			
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	314,658	170,592	485,250
2020-2024	1,716,195	703,939	2,420,134
2025-2029	1,276,087	416,412	1,692,499
2030-2034	603,739	234,858	838,597
2035-2039	518,456	96,610	615,066
2040-2044	201,149	20,858	222,007
	\$ 6,306,430	\$ 2,434,992	\$ 8,741,422

The above payment schedules assume all remaining undrawn proceeds are drawn down. Interest expense was \$254,768 and \$63,352, for the governmental activities and the business-type activities, respectively, for the year ended June 30, 2014.

NOTE 9 – DEFINED CONTRIBUTION PLAN

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The Town has implemented this statement as of July 1, 2013.

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, 2014, 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.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 10 – RETIREMENT PLAN

The Town of Centreville entered into the Employees Contributory Pension System of the State Retirement and Pension Systems of Maryland as of July 1, 2013. The Town's actuarial accrued liability to enter into the system was calculated based on the current employees at June 30, 2013 for 100% of past service. The Town's actuarial accrued liability to enter into the system was \$713,200 of which \$455,467 was allocated to the General Fund and \$257,733 was allocated to the Enterprise Fund. This was to be amortized over the next 25 years with level payments or paid in full. The Town elected to pay in full.

Under the terms of the Contributory Pension System, there are two types of service retirement: normal and early. Normal service retirement provides full benefits, while early service retirement provides a reduced benefit. Eligibility for either type of service retirement depends on two factors: service credit and age. Normal is having at least 90 years of combined age and years of eligibility service. Active members with at least 10 years of service become eligible for normal service retirement at age 65. Early: Age 60 with at least 15 years of eligibility service. If a member should leave employment once they have accrued at least 10 years of eligibility of service, they are vested and have earned the right to receive a future benefit based on their service at termination. If they withdraw any of their contributions at termination, they will forfeit the right to a future benefit. If a member is not vested at the time of termination and they do not anticipate returning to membership, they can contact the agency to receive a refund of any contributions with interest that they may have made.

On retirement from service, a member of the plan shall be able to choose from a number of payment options. These options range from the Basic Allowance, which provides the highest monthly allowance for the member alone, to options that reduce their monthly payment but provide varying degrees of protection to their beneficiaries upon their death.

Benefits under the plan are established under the State Personnel and Pensions Article of the Annotated Code of Maryland.

The State Retirement and Pension Systems of Maryland issue a comprehensive annual financial report that includes disclosures regarding: actuarial value of assets; total actuarial accrued liability; unfunded actuarial accrued liability, if any; and funded liability ratio. This report can be obtained from the agency's office as follows:

State Retirement and Pension Systems of Maryland
120 E. Baltimore Street, Suite 1601
Baltimore Maryland, 21202-1600

Funding Policy

Obligations to contribute to the plan are under the Annotated Code of Maryland. Members of the plan contribute a percentage of their gross employee compensation.

**TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 10 – RETIREMENT PLAN - continued

Required contributions not funded by employee contributions are funded by the Town. The contributions by the Town to the State Plan for the current fiscal year takes place before December 31 and are based on the annualized gross base hourly rate in effect on June 30 of the preceding fiscal year. The Town contribution for the year ending June 30, 2014 was based on the annualized gross hourly rate in effect on June 30, 2013. Required employee contribution under the plan was 5% of the employee’s gross base salary, excluding holiday, overtime and shift differential pay for fiscal year 2011 and is 7 percent for each fiscal year thereafter. The contribution requirements of plan members of the reporting entity are established and may be amended by the Maryland State Pension System Board of Trustees.

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS

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

The medical benefits paid by the Town on behalf of the retirees were \$9,068, for the year ended June 30, 2014.

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.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS – continued

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)	\$	93,000
Adjustment to annual required contribution		(5,000)
Interest on net OPEB Obligation		5,000
Annual OPEB cost		93,000
Contributions made		<u>(8,900)</u>
Increase in net OPEB obligation		84,100
Net OPEB obligation - beginning of year		<u>116,708</u>
Net OPEB obligation - end of year	\$	<u><u>200,808</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 \$850,000 and the actuarial value of assets was \$0 at June 30, 2014. The covered payroll (annual payroll of active employees covered by the Program) was \$1,247,730. The ratio of the unfunded actuarial liability to the covered payroll was 68%. The Program does not issue a publicly available financial report.

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, 2014; 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.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS – continued

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The annual required contribution for the current year was determined as part of the December 2010 alternative measurement method using the entry age cost method; it is being amortized over a period of 30 years. The actuarial assumptions include a 4 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 12 – 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 13 – 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, 2014, and the amount of settlements has not exceeded coverage for each of the past three years.

NOTE 14 – 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.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 14 – COMMITMENTS AND CONTINGENCIES - continued

Public Works Agreements

The Town has entered into several Public Works Agreements (PWA's) with developers for projects within the Town. 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, 2014.

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.

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.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 14 – COMMITMENTS AND CONTINGENCIES - continued

Borrowing Limit

In connection with the debt acquired in aggregate of \$12,474,712, 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 \$490,837,222. Currently, the borrowing limit is \$98,167,444.

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 15 – FUND BALANCE REPORTING

Fund balances for the Town's governmental funds consisted of the following as of June 30, 2014:

Non-spendable Fund Balance

At June 30, 2014, non-spendable fund balance was \$105,959 pertaining to notes receivable in the general fund and \$3,677,617 pertaining to principal in the permanent fund.

Restricted Fund Balance

At June 30, 2014, restricted fund balance was \$223,950 to perpetual care in the general fund.

Committed Fund Balance

At June 30, 2014, 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.

Unassigned Fund Balance

Unassigned fund balance totals \$3,094,997 in the general fund.

TOWN OF CENTREVILLE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 16 – NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following statements:

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. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, issued November 2013, effective for fiscal years beginning after June 15, 2014.

The Town will implement these statements as necessary as of their effective dates. The Town is still in the process of determining the effect of implementing these GASB statements on the financial position of the Town.

NOTE 17 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 17, 2015, the date that the financial statements were available to be issued.

The Town awarded a contract for Solid Waste in November 2015 to be effective January 2016.

No additional subsequent events have been identified that would require adjustment of or disclosure in the accompanying financial statements.

**TOWN OF CENTREVILLE, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (BUDGETARY BASIS) - General Fund and Capital Projects Fund
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Revenues from local sources				
Taxes				
Real property	\$ 1,815,846	\$ 1,815,846	\$ 1,836,549	\$ 20,703
Personal property	47,000	47,000	35,493	(11,507)
Local income taxes	331,439	331,439	354,786	23,347
Total taxes	<u>2,194,285</u>	<u>2,194,285</u>	<u>2,226,828</u>	<u>32,543</u>
Licenses and permits				
Amusement	7,422	7,422	5,215	(2,207)
License distribution	8,700	8,700	8,557	(143)
Permits fees	65,000	65,000	76,226	11,226
Franchise fees	48,000	48,000	44,078	(3,922)
Other licenses and permits	7,500	7,500	4,872	(2,628)
Total licenses and permits	<u>136,622</u>	<u>136,622</u>	<u>138,948</u>	<u>2,326</u>
Charges for services				
General government	89,250	89,250	126,693	37,443
Public safety	114,608	114,608	112,122	(2,486)
Sanitation and waste removal	260,300	260,300	265,808	5,508
Total charges for services	<u>464,158</u>	<u>464,158</u>	<u>504,623</u>	<u>40,465</u>
Miscellaneous	<u>365,362</u>	<u>365,362</u>	<u>60,259</u>	<u>(305,103)</u>
Total revenues from local sources	<u>3,160,427</u>	<u>3,160,427</u>	<u>2,930,658</u>	<u>(229,769)</u>
Revenue from intergovernmental				
State				
Police protection	67,431	67,431	71,442	4,011
Highway user	104,878	104,878	103,578	(1,300)
Other state grants	92,625	92,625	495,735	403,110
Total state revenue	<u>264,934</u>	<u>264,934</u>	<u>670,755</u>	<u>405,821</u>
County				
Payments in lieu of taxes	134,468	134,468	134,468	-
Total county revenue	<u>134,468</u>	<u>134,468</u>	<u>134,468</u>	<u>-</u>
Total intergovernmental revenue	<u>399,402</u>	<u>399,402</u>	<u>805,223</u>	<u>405,821</u>
Total revenue	<u><u>\$ 3,559,829</u></u>	<u><u>\$ 3,559,829</u></u>	<u><u>\$ 3,735,881</u></u>	<u><u>\$ 176,052</u></u>

TOWN OF CENTREVILLE, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND EXPENDITURES (continued)
BUDGET AND ACTUAL (BUDGETARY BASIS) - General Fund and Capital Projects Fund
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Expenditures				
General government administration				
Legislative	\$ 42,645	\$ 45,145	\$ 50,370	\$ (5,225)
Planning and zoning	89,526	89,526	111,175	(21,649)
General services	<u>606,048</u>	<u>603,548</u>	<u>634,202</u>	<u>(30,654)</u>
Total general government administration	738,219	738,219	795,747	(57,528)
Public safety				
Police	1,076,539	1,076,539	1,076,884	(345)
Volunteer fire and rescue services	<u>45,000</u>	<u>45,000</u>	<u>45,000</u>	<u>-</u>
Total public safety	1,121,539	1,121,539	1,121,884	(345)
Public works				
Waste collection	269,722	269,722	239,372	30,350
Highways and streets	<u>628,155</u>	<u>628,155</u>	<u>644,976</u>	<u>(16,821)</u>
Total public works	897,877	897,877	884,348	13,529
Parks and recreation	53,066	53,066	57,938	(4,872)
Cemetery	34,943	34,943	25,244	9,699
Stormwater/watershed	67,921	67,921	99,678	(31,757)
Centreville wharf	-	-	1,509	(1,509)
Capital outlay	5,710,414	508,733	1,969,742	(1,461,009)
Debt service	<u>520,460</u>	<u>542,941</u>	<u>520,460</u>	<u>22,481</u>
Total expenditures	<u>9,144,439</u>	<u>3,965,239</u>	<u>5,476,550</u>	<u>(1,511,311)</u>
Excess (deficiency) of revenue over expenditures before other financing sources	(5,584,610)	(405,410)	(1,740,669)	1,335,259
Other financing sources (uses)				
Bond/commercial financing	2,254,843	2,254,843	-	2,254,843
Special item - pension plan buy-in	-	-	(455,467)	455,467
Operating transfers	<u>120,000</u>	<u>120,000</u>	<u>120,000</u>	<u>-</u>
Total other financing sources	<u>2,374,843</u>	<u>2,374,843</u>	<u>(335,467)</u>	<u>2,710,310</u>
Excess (deficiency) of revenue and other financing sources over expenditures	<u>\$ (3,209,767)</u>	<u>\$ 1,969,433</u>	<u>\$ (2,076,136)</u>	<u>\$ 4,045,569</u>
Summary				
Total revenue	\$ 3,559,829	\$ 3,559,829	\$ 3,735,881	\$ 176,052
Total expenditures	<u>9,144,439</u>	<u>3,965,239</u>	<u>5,932,017</u>	<u>(1,511,311)</u>
Deficiency of revenue over expenditures	<u>\$ (5,584,610)</u>	<u>\$ (405,410)</u>	<u>\$ (2,196,136)</u>	<u>\$ (1,335,259)</u>

**TOWN OF CENTREVILLE, MARYLAND
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 OTHER POST-EMPLOYMENT BENEFITS PLAN
 FOR THE YEAR ENDED JUNE 30, 2014**

<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>
7/2013	\$ -	\$ 850,000	\$ 850,000	0%	\$ 1,247,730	68%
12/2010	-	163,905	163,905	0%	1,405,475	12%

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, 2014**

Fiscal Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 93,000	10%	\$ 200,808
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, 2014

	General Fund	Revolving Housing Fund	Perpetual Care Fund	Total General Funds
ASSETS				
Cash and cash equivalents - unrestricted	\$ 3,007,881	\$ 26,971	\$ 55,667	\$ 3,090,519
Investments	-	-	89,702	89,702
Accounts receivable - taxes	64,657	-	-	64,657
Accounts receivable - other - net	194,318	-	9,980	204,298
Accounts receivable - grants	64,894	-	-	64,894
Notes receivable	-	105,959	-	105,959
Due from other funds	358,462	67,867	68,601	494,930
TOTAL ASSETS	3,690,212	200,797	223,950	4,114,959
DEFERRED OUTFLOWS OF RESOURCES				
	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
	\$ 3,690,212	\$ 200,797	\$ 223,950	\$ 4,114,959
LIABILITIES				
Accounts payable	\$ 389,096	\$ -	\$ -	\$ 389,096
Accrued payroll	6,608	-	-	6,608
Due to other funds	136,468	-	-	136,468
Current portion of compensated absences	14,915	-	-	14,915
Long Term Debt	1,327,680	-	-	1,327,680
TOTAL LIABILITIES	1,874,767	-	-	1,874,767
DEFERRED INFLOWS OF RESOURCES				
	48,128	-	-	48,128
FUND BALANCES				
Non-spendable	-	105,959	-	105,959
Restricted	-	-	223,950	223,950
Committed	-	94,838	-	94,838
Unassigned	1,767,317	-	-	1,767,317
TOTAL FUND BALANCES	1,767,317	200,797	223,950	2,192,064
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
	\$ 3,690,212	\$ 200,797	\$ 223,950	\$ 4,114,959

TOWN OF CENTREVILLE, MARYLAND
SUPPLEMENTAL STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GENERAL FUND AND CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2014

	General Fund	Revolving Housing Fund	Perpetual Care Fund	Total General Funds
REVENUES				
Property taxes	\$ 1,872,042	\$ -	\$ -	\$ 1,872,042
Local income taxes	354,786	-	-	354,786
Intergovernmental revenue	805,223	-	-	805,223
Licenses and permits	138,948	-	-	138,948
Charges for services	495,873	-	8,750	504,623
Miscellaneous revenue	60,176	-	83	60,259
Total revenues	<u>3,727,048</u>	<u>-</u>	<u>8,833</u>	<u>3,735,881</u>
EXPENDITURES				
General government administration	795,747	-	-	795,747
Public safety	1,121,884	-	-	1,121,884
Public works	884,348	-	-	884,348
Parks and recreation	57,938	-	-	57,938
Cemetery	25,244	-	-	25,244
Stormwater/watershed	99,678	-	-	99,678
Centreville wharf	1,509	-	-	1,509
Capital outlay	1,969,742	-	-	1,969,742
Debt service				
Principal	265,692	-	-	265,692
Interest	254,768	-	-	254,768
Total expenditures	<u>5,476,550</u>	<u>-</u>	<u>-</u>	<u>5,476,550</u>
Excess (deficiency) of revenues over expenditures	<u>(1,749,502)</u>	<u>-</u>	<u>8,833</u>	<u>(1,740,669)</u>
Other financing sources (uses)				
Proceeds of bond borrowings	-	-	-	-
Transfers in (out)	120,000	-	-	120,000
Total other financing sources (uses)	<u>120,000</u>	<u>-</u>	<u>-</u>	<u>120,000</u>
Special item				
Pension plan buy-in	455,467	-	-	455,467
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	<u>(2,084,969)</u>	<u>-</u>	<u>8,833</u>	<u>(1,620,669)</u>
Fund balance, beginning of year	<u>3,852,286</u>	<u>200,797</u>	<u>215,117</u>	<u>4,268,200</u>
Fund balance, end of year	<u>\$ 1,767,317</u>	<u>\$ 200,797</u>	<u>\$ 223,950</u>	<u>\$ 2,647,531</u>

**TOWN OF CENTREVILLE, MARYLAND
SUPPLEMENTAL STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Enterprise Fund</u>	<u>Total</u>
Revenue		
Charges for services		
Sewer allocation fees	\$ 386,125	\$ 386,125
Water allocation fees	227,837	227,837
Sewer	603,753	603,753
Water	419,045	419,045
Water penalty	19,979	19,979
Sewer vacant lots	21,816	21,816
Meter equipment	15,094	15,094
Connection charges	10,304	10,304
I&I study charges	6,230	6,230
Sale of crops	1,782	1,782
Other fines and forfeitures	9,856	9,856
Total charges for services	<u>1,721,821</u>	<u>1,721,821</u>
Miscellaneous revenue		
Grant revenue	20,000	20,000
Investment earnings	39,276	39,276
Total miscellaneous revenue	<u>59,276</u>	<u>59,276</u>
Capital contributions	-	-
Total revenue	1,781,097	1,781,097
Operating Expenses		
Sewer	968,972	968,972
Water	1,169,781	1,169,781
Farm	16,998	16,998
Total operating expenses	<u>2,155,751</u>	<u>2,155,751</u>
Debt Service		
Interest	63,352	63,352
Admin fees	20,837	20,837
Total debt service	<u>84,189</u>	<u>84,189</u>
Special item		
Pension plan buy-in	257,733	257,733
Total expenses	2,497,673	2,497,673
Change in net position	<u>\$ (716,576)</u>	<u>\$ (716,576)</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, 2014, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements, and have issued our report thereon dated November 17, 2015.

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.

November 17, 2015

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November 17, 2015

To the Mayor and Town Council
Town of Centreville, Maryland

We audited the financial statements of the governmental activities and each major fund of the Town of Centreville, Maryland (the “Town”) for the year ended June 30, 2014, and have issued our report thereon dated November 17, 2015. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U. S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U. S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the Town’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Town’s financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grants, 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. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Town’s compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Town are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2014 except as may be explained in Note 1 to the financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit

The audit was delayed because schedules and documents needed for the audit were not immediately available.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such adjustments. We proposed adjustments to the following areas:

- Accounts payable and prepaid expenses
- Amounts held in escrow

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representation from management that is included in the management representation letter dated November 17, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationships and our responses were not a condition to our retention.

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

Very truly yours,