



Robert B. Lank, C.P.A.
Terrence Johnson, C.P.A.
Richard L. Tull, C.P.A.

Gary W. Tuttle, C.P.A.
John E. Cullen, Jr., C.P.A.
Robert B. Lank, Jr., C.P.A.

LANK, JOHNSON & TULL

Certified Public Accountants

P.O. Box 418 • 521 N. Market St. Ext. • Seaford, Delaware 19973
P.O. Box 253 • 268 Milford-Harrington Highway • Milford, Delaware 19963
1475 S. Governors Avenue • Dover, Delaware 19904

Seaford Office
(302) 629-9543
Fax (302) 629-3501

Milford Office
(302) 422-3308
Fax (302) 422-4782

Dover Office
(302) 736-2618
Fax (302) 736-5522

INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Town of St. Michaels, 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 Commissioners of St. Michaels (the Town), as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Commissioners of St. Michaels, as of June 30, 2013 and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance 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 management's discussion and analysis 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 inquires 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 Commissioners of St. Michaels' basic financial statements. The Analysis of Revenue and Expenditures/Expenses - Budget and Actual - All Fund Types (Schedules A and B), and the Statement of Revenues, Expenses and Changes in Fund Net Position-Budget and Actual - Proprietary Fund (Schedule C), are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules referred to in the previous paragraph are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, those schedules are fairly stated in all material respects in relation to the basic 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 8, 2013, on our consideration of the Commissioners of St. Michaels' 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 Commissioners of St. Michaels' internal control over financial reporting and compliance.

Lank, Johnson + Tull

Seaford, Delaware
November 8, 2013

Commissioners of St. Michaels
Management's Discussion and Analysis
June 30, 2013

This section of The Commissioners of St. Michaels' annual financial report presents the discussion and analysis of the Town's financial performance during the fiscal year that ended on June 30, 2013. Please read it in conjunction with the Town's financial statements, which follow this section.

BASIC FINANCIAL STATEMENTS

This report provides both long-term and short-term information about the Town's overall financial status. The fund financial statements focus on the individual parts of the Town government, reporting the operations of the Town in more detail than the government-wide statements. Both perspectives (government-wide and individual fund) allow the user to address relevant questions, broaden the basis for comparison (year to year or government to government) and enhance the Town's accountability.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements report information about the Town as a whole. The statement of net position includes all of the government's assets and liabilities, reported using the full accrual basis of accounting. The statement of activities accounts for all of the current year's revenues and expenses, regardless of when cash is received or paid.

The two government-wide statements report the Town's net position and how it has changed. Net position, the difference between the Town's assets, deferred outflows, liabilities and deferred inflows are one way to measure the financial health of the Town. Over time, increases or decreases in the Town's net position are an indicator of whether its financial health is improving or deteriorating. To assess the overall health of the Town, one needs to consider other non-financial factors such as changes in the Town's property tax base and condition of the Town's infrastructure.

The government-wide financial statements of the Town are divided into two categories:

Governmental Activities—Most of the Town's basic services are included here, such as police and other public safety services, parks and recreation, public works, planning and zoning, and general administration. Property and state-shared taxes, charges for services, and state grants finance most of these activities.

Business-type Activities—The Town's water operations are reported here. Fees are charged to water customers to help cover the costs of providing the services.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Town's most significant funds. The focus is on major funds rather than fund types.

The Town has two types of funds:

Governmental Fund - The General Fund is the Town's only governmental fund, which focuses on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided on the governmental fund statements, or schedules immediately following the governmental fund statements, that explain the relationship (or differences) between them.

Commissioners of St. Michaels
Management's Discussion and Analysis
June 30, 2013

Proprietary Funds - Services for which the Town charges customers a fee are generally reported in proprietary funds. These funds, like the government-wide statements, provide both long-term and short-term financial information. The Town's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but the fund financial statements provide more detail and additional information, such as cash flows. The Town utilizes enterprise funds to account for its water operations.

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

The Town's combined net position increased by 2.02% from 2012 to 2013. (See table below) General fund net position increased by 1.88%, while the business-type fund increased by 3.95%. The changes are primarily the result of the Town being able to meet operational costs as well as to fund capital improvements with current revenues, prior year reserves and investment earnings, without incurring any substantial, new debt.

Commissioners of St. Michaels
Net Position
(in millions)

	Governmental		Business-Type		Total		Total Percentage Change
	2013	2012 (Restated)	2013	2012	2013	2012 (Restated)	
Current and Other Assets	12.73	12.63	0.21	0.19	12.94	12.82	1%
Capital Assets	9.11	8.75	3.09	3.16	12.20	11.91	2.43%
Total Assets	21.84	21.38	3.30	3.35	25.14	24.73	1.66%
Long Term Debt	-	-	1.72	1.81	1.72	1.81	(4.97%)
Other Liabilities	0.21	0.15	-	0.02	0.21	0.17	23.53%
Total Liabilities	0.21	0.15	1.72	1.83	1.93	1.98	(2.53%)
Net Position							
Capital Assets Net of Debt	9.11	8.75	1.37	1.35	10.48	10.10	3.76%
Restricted	10.30	10.33	0.06	0.03	10.36	10.36	0.00%
Unrestricted	2.22	2.15	0.15	0.14	2.37	2.29	3.49%
Total Net Position	21.63	21.23	1.58	1.52	23.21	22.75	2.02%

The Town's total revenues (excluding transfers) decreased by 10.20% to \$2.73 million (See table on next page). Revenue from business-type activities changed very little from FY2012. General Governmental revenues decreased by 12.45% to \$2.18 million, which is attributable in part to a property tax rate reduction approved by the Commissioners.

The total cost of all programs and services decreased by 3.81%, to \$2.27 million. Costs of business-type activities decreased by 7.41%, to \$0.50 million, which is attributed mainly to lower personnel expenses and material and supply costs. The cost of governmental activities decreased by 2.75% to \$1.77 million, which is attributed to reduced personnel costs. The expenses in the table on the next page are shown net of fees, charges and grants.

Commissioners of St. Michaels
Management's Discussion and Analysis
June 30, 2013

Commissioners of St. Michaels
Change in Net Position
(in millions)

	Governmental		Business-Type		Total		Total Percentage Change
	2013	2012 (Restated)	2013	2012	2013	2012 (Restated)	
Program Revenue							
Charges for Services	-	-	0.55	0.55	0.55	0.55	-
General Revenue							
Taxes	2.10	2.40	-	-	2.10	2.40	(12.50%)
Investment Income	0.08	0.09	-	-	0.08	0.09	(11.11%)
Total Revenue	2.18	2.49	0.55	0.55	2.73	3.04	(10.20%)
Program Expenses - Net							
General	0.33	0.32	-	-	0.33	0.32	3.13%
Police	0.78	0.80	-	-	0.78	0.80	(2.5%)
Public Works	0.66	0.70	-	-	0.66	0.70	(5.71%)
Water	-	-	0.50	0.54	0.50	0.54	(7.41%)
Total Expenses	1.77	1.82	0.50	0.54	2.27	2.36	(3.81%)
Change in Net Position	0.41	0.67	0.05	0.01	0.46	0.68	(32.35%)
Net Position Beginning	21.22	20.56	1.53	1.51	22.75	22.07	3.08%
Net Position Ending	21.63	21.23	1.58	1.52	23.21	22.75	2.02%

GENERAL FUND BUDGETARY HIGHLIGHTS (For purposes of the MD&A presentation, the budgeted amounts refer to general operational expenditures, and capital funds net of prior year funding).

The original budget was amended twice during the current fiscal year to realign revenue and expenses, specifically by providing for additional building rent and income tax revenue along with additional general government expenditures.

Actual revenues of \$2.94 million were over budgeted revenues by \$.62 million. This favorable variance is primarily due to unanticipated state shared revenue, grants and service charges.

Actual expenditures in the amount of \$2.57 million came in \$1.29 million under budgeted amounts. This favorable variance is due to lower personnel costs and lower than expected expenditures on capital projects, mainly from Phase V of the street repairs having been delayed due to a County sewer work funding shortage.

WATER FUND BUDGETARY HIGHLIGHTS

Actual revenue of \$545,712 exceeded budgeted revenue by \$4,717. Expenditures came in \$26,363 under budgeted amounts. Overall, the water fund had a favorable budget variance of \$31,080.

Commissioners of St. Michaels
Management's Discussion and Analysis
June 30, 2013

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013 the Town had \$12.20 million invested in capital assets, including police equipment, parks and recreation facilities, buildings, land, vehicles, and water system improvements. This amount represents a net increase (additions, deductions, and depreciation) of \$0.29 million, or 2.43% more than last year.

Commissioners of St. Michaels
Capital Assets Net of Depreciation
(in millions)

	Governmental		Business-Type		Total	
	2013	2012	2013	2012	2013	2012
Land and Improvements	2.03	2.04	-	-	2.03	2.04
Buildings	0.96	1.00	-	-	0.96	1.00
Equipment	0.10	0.12	-	-	0.10	0.12
Improvements	5.70	5.45	-	-	5.70	5.45
Vehicles	0.19	0.03	-	-	0.19	0.03
Water	-	-	3.09	3.16	3.09	3.16
Construction in Progress	0.13	0.11	-	-	0.13	0.11
Total Capital Assets	9.11	8.75	3.09	3.16	12.20	11.91

Note 6 of the Notes to the Basic Financial Statements gives further details of the Town's capital asset activity.

Debt

At year-end, the Town had \$1.72 million in bonds and notes outstanding versus \$1.81 million last year, a decrease of \$0.09 million or 4.97% under last year.

Commissioners of St. Michaels
Debt
(in millions)

	Governmental		Business-Type		Total	
	2013	2012	2013	2012	2013	2012
USDA-Water Bonds	-	-	0.54	0.58	0.54	0.58
Maryland CDA-Water Tower	-	-	0.23	0.24	0.23	0.24
Maryland Department of Environment-Arsenic Removal	-	-	0.95	0.99	0.95	0.99
Total Debt	-	-	1.72	1.81	1.72	1.81

Note 7 of the Notes to the Basic Financial Statements gives further details of the Town's debt activity.

Commissioners of St. Michaels
Management's Discussion and Analysis
June 30, 2013

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The economic climate remains relatively unchanged from the latter half of 2008. Fixed costs associated with long-term infrastructure projects cannot be reduced while the revenues from investments and taxes are projected to remain at the low levels set in FY 2010. The State's reduction to local governments in the Highway User revenues and Police Protection grants also continues. These funding reductions continue to be exacerbated by an interest rate of less than one percent. These losses required the Commissioners to take the following approach in balancing the budget for the Town. The Commissioners have:

1. Reviewed and reduced expenditures not essential to the core operations of the town;
2. Reviewed and considered the services currently provided to citizens;
3. Reduced town debt in each of the past two fiscal years;
4. Considered utilizing funding from prior years' reserves.

In an effort to reduce debt payments owed by the Town, the Commissioners amended the FY2011 budget by paying off the balance of the 2006 Public Improvement Bond early. The Commissioners transferred the funds to pay off the debt from the Electric Utility Proceeds, reducing the fund balance by \$4,575,594. This debt retirement then allowed the Commissioners to reduce the tax rate in FY2012 by \$.06/\$100, to \$.58/\$100, and by another \$.06/\$100, to \$.52/\$100 in FY2013, for a total reduction of 12 cents per \$100 of assessed value in this two year period.

This reduction in tax rate coupled with the State's real property reassessment resulted in a decrease in annual property tax revenue of \$165,994 in FY2013, a decrease of \$478,673 since FY2011. These reductions in revenue are offset by a reduction in the debt payment required by the 2006 Public Improvement Bond, which was paid in full in 2011, the payoff of the State Retirement unfunded actuarial liability in FY2012, and continued reductions in personnel costs in FY2013.

Also, since FY2012, both the Public Works and Administrative Departments are operating with one less employee, for a total decrease since FY2010 of 2 people in each department. No reductions to the Town's workforce occurred in the current year.

The Commissioners also implemented a new refuse collection policy in FY2011 that includes curbside recycling and takes refuse removal to one day a week. This policy has reduced the amount of refuse being hauled to the landfill by approximately 50% and has freed up the three public works crew members one additional day per week.

Legal fees for FY2013 remained low, however with the revisions to the State mandated ethics law, as well as a few other legal issues, it is anticipated that legal fees will increase slightly in FY2014.

It is important to note that the funds received from the sale of the Town's electric distribution system may not be used to offset any general shortfall of revenue. The purchase price paid by Choptank Electric Cooperative, Inc. for the Town's electric distribution system was \$8.2 million, paid to the Town in 2006, and \$400,000 to be paid annually for ten years with zero stated interest. All net revenues from the sale of the system are restricted by the Town Charter, which states:

The funds (from the sale of the system) thus transferred to the Town's general fund shall be segregated and such funds, together with all earnings thereon, shall be used solely for such capital improvements by the Town as deemed appropriate by the Town Commissioners from time-to-time. (See Charter of the Town of St. Michaels, §C-62.1, emphasis and explanation added.)

There are also several impending multi-year impacts to the Town's finances related to the Water Department. The St. Michaels well and distribution system serves not only the Town of St. Michaels, but also the unincorporated county communities of Rio Vista and Bentley Hay. In the next decade, it is projected that the system may need:

- a new well to provide adequate future water service and backup of current water supplies;
- a new water storage tower;
- inspection and updating of the distribution lines; and

Commissioners of St. Michaels
Management's Discussion and Analysis
June 30, 2013

- inspection and updating of the current water storage towers.

In addition to the above costs, problems continue with the maintenance of the arsenic removal plants. The corrective actions needed to maintain the system since the expiration of the maintenance contract in 2012 necessitate a continued budget increase in subsequent years. The town has applied for assistance from the Maryland Department of the Environment for help in dealing with the difficult arsenic removal system issue. Funding promised in FY2011 was withdrawn by the State. In FY2013, repairs were made to the Arsenic System totaling \$36,920.

The necessary upgrades to the infrastructure of the Water System as well as the institution of an arsenic maintenance fund in anticipation of the need for services beyond FY2013 will require an increase in water rates, proposed at 20% for FY2014.

A Community Development Block Grant made by the Town in 1985 to Associated Investors, a Maryland general partnership, came due to the Town in August of 2010. Associated Investors has sold the property to Osprey Development Company, at which time the loan was paid off and re-loaned to the purchaser. The new purchaser has demolished the building and is constructing 40 workforce housing units. As long as the property remains as such, the loan will not have to be repaid.

Although progress is hampered by the loss of revenue, the Commissioners continue to pursue the revitalization of the Commercial District. A broad scale revitalization effort began in 2001 with the designation of the area as a Designated Neighborhood in the State of Maryland's Neighborhood Business Development Program. As detailed in the Community Legacy Plan of 2008, the renovation of Muskrat Park, the construction of the St. Michaels Nature Trail and the long-range plans for the improvement of the Fremont Street Corridor all further the Commissioners' efforts to revitalize the commercial core of the Town and to enhance the quality of life for the Town's residents and visitors alike. The multi-year 5.5 million-dollar street rehabilitation project is in Phase 5 of the five-phase plan to rehabilitate and reconstruct 23 of the Town's streets. The Town has gone through the application process to become a Sustainable Community with the Maryland Office of Planning and expects to receive its certification in FY2014.

Capital projects completed by the Town in FY2013 include the construction of a public restroom, parking lot improvements, the purchase of a new police vehicle and a new garbage truck.

Beginning in FY2013, the Town received a grant from Star Spangled 200 to host an event to mark the Bicentennial of the Battle of St. Michaels during the War of 1812 on August 10, 2013. Funding for the event carried from FY2013 into FY2014. The grant of \$75,600 along with funding from the Electric Utility Fund and Prior Year Reserves, helped the Town to move the utility lines underground in Muskrat Park, as well as install irrigation and sod in Muskrat Park, the main venue for the Bicentennial activities.

Although the Town struggles with lower property values and state shared revenues, The Commissioners have successfully reduced costs and lowered the property tax rate by \$.12 between FY2011 and FY2013, with an additional \$.07 reduction in FY2014, for a total reduction of \$.19 in the last three years.

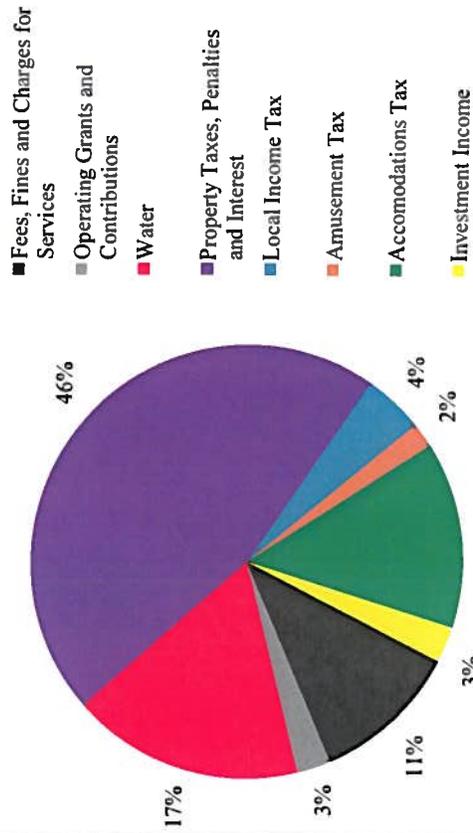
The Commissioners adopted an official Fiscal Policy for the Town in FY2013. The policy sets out guidelines that provide management tools and support the Town Charter in managing the finances of the town.

FINANCIAL CONTACT

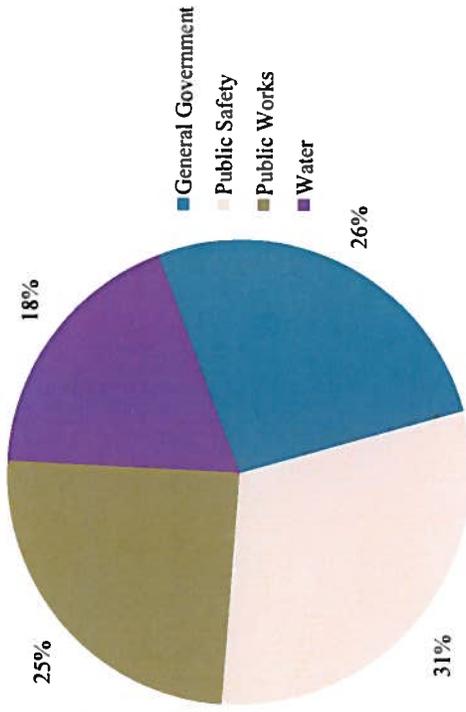
The Town's financial statements are designed to present users (citizens, taxpayers, customers, and creditors) with a general overview of the Town's finances and to demonstrate the Town's accountability. If you have questions about the report or need additional financial information, please contact the Town's management at P.O. Box 206, St. Michaels, Maryland 21663-0206.

COMMISSIONERS OF ST. MICHAELS
MANAGEMENT'S DISCUSSION AND ANALYSIS
TOTAL REVENUE AND EXPENSES
GOVERNMENT-WIDE
JUNE 30, 2013

Total Revenues



Total Expenses



COMMISSIONERS OF ST. MICHAELS
GOVERNMENT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2013

EXHIBIT A

ASSETS	Governmental Activities	Business-Type Activities	Total
Cash	\$ 177,123	\$ -	\$ 177,123
Accounts Receivable	223,413	154,118	377,531
Investments	10,351,503	58,610	10,410,113
Accounts Receivable - Parking Spaces	150,800	-	150,800
Note Receivable - Choptank Electric Cooperative, Inc.	1,451,958	-	1,451,958
Note Receivable - Block Grant	375,130	-	375,130
Capital Assets:			
Land	2,090,532	-	2,090,532
Buildings	1,286,733	-	1,286,733
Equipment	440,817	948,051	1,388,868
Improvements	6,541,882	3,171,472	9,713,354
Vehicles	500,355	78,206	578,561
Accumulated Depreciation	<u>(1,745,528)</u>	<u>(1,106,994)</u>	<u>(2,852,522)</u>
Total Assets	<u>21,844,718</u>	<u>3,303,463</u>	<u>25,148,181</u>
LIABILITIES			
Accounts Payable	214,621	5,234	219,855
Non-Current Liabilities:			
Due within one year	-	97,676	97,676
Due in more than one year	<u>-</u>	<u>1,622,826</u>	<u>1,622,826</u>
Total Liabilities	<u>214,621</u>	<u>1,725,736</u>	<u>1,940,357</u>
NET POSITION			
Invested in Capital Assets, Net of Related Debt	9,114,791	1,370,233	10,485,024
Restricted	10,301,459	58,610	10,360,069
Unrestricted - Restated	<u>2,213,847</u>	<u>148,884</u>	<u>2,362,731</u>
Total Net Position	<u>\$ 21,630,097</u>	<u>\$ 1,577,727</u>	<u>\$ 23,207,824</u>

**COMMISSIONERS OF ST. MICHAELS
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

EXHIBIT B

	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>			
	<u>Expenses</u>	<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Program Activities</u>							
<u>Governmental Activities</u>							
General Government	\$ 713,350	\$ 334,955	\$ 44,286	\$ -	\$ (334,109)	\$ -	\$ (334,109)
Public Safety	823,326	10,042	37,050	-	(776,234)	-	(776,234)
Public Works	666,606	-	-	4,000	(662,606)	-	(662,606)
<u>Total Governmental Activities</u>	<u>2,203,282</u>	<u>344,997</u>	<u>81,336</u>	<u>4,000</u>	<u>(1,772,949)</u>	<u>-</u>	<u>(1,772,949)</u>
<u>Business-Type Activities</u>							
Water	498,478	545,712	-	-	-	47,234	47,234
<u>Total Government</u>	<u>\$ 2,701,760</u>	<u>\$ 890,709</u>	<u>\$ 81,336</u>	<u>\$ 4,000</u>	<u>(1,772,949)</u>	<u>47,234</u>	<u>(1,725,715)</u>

General Revenues:

Property Taxes, Penalties and Interest	1,449,176	-	1,449,176
Local Income Tax	142,786	-	142,786
Amusement Tax	58,567	-	58,567
Highway Use Tax	13,407	-	13,407
Accommodations Tax	439,423	-	439,423
Investment Income/(Loss)	84,044	50	84,094
Transfer In/(Out)	(5,201)	5,201	-
<u>Total General Revenues</u>	<u>2,182,202</u>	<u>5,251</u>	<u>2,187,453</u>
Change in Net Position	409,253	52,485	461,738
<u>Net Position-Beginning-Restated</u>	<u>21,220,844</u>	<u>1,525,242</u>	<u>22,746,086</u>
<u>Net Position-Ending</u>	<u>\$ 21,630,097</u>	<u>\$ 1,577,727</u>	<u>\$ 23,207,824</u>

COMMISSIONERS OF ST. MICHAELS
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2013

EXHIBIT C

ASSETS	General Fund
Cash	\$ 177,123
Accounts Receivable	223,413
Investments	<u>10,351,503</u>
Total Assets	<u><u>\$ 10,752,039</u></u>

LIABILITIES AND FUND BALANCES

Liabilities:	
Accounts Payable	<u>\$ 214,621</u>
Fund Balance:	
Unassigned	2,063,047
Committed	<u>8,474,371</u>
Total Fund Balance	<u>10,537,418</u>
Total Liabilities and Fund Balance	<u><u>\$ 10,752,039</u></u>

Amounts Reported For Governmental Activities in The Statement of Net Position Are Different Because:

Total Fund Balance	\$ 10,537,418
Note Receivable-Block Grant is a long term asset	375,130
Note Receivable-Choptank Electric is a long term asset	1,451,958
Accounts Receivable-Parking Spaces is a long term asset	150,800
Capital assets, and related accumulated depreciation, used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.	<u>9,114,791</u>
Net Position of Governmental Activities	<u><u>\$ 21,630,097</u></u>

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2013

EXHIBIT D

	General Fund
Revenues:	
Taxes	\$ 1,961,696
Revenue from Other Agencies	224,230
Licenses and Permits	28,183
Rental/Franchise Revenue	229,166
Fines	2,150
Service Charges	60,746
Interest Income	84,044
Miscellaneous	27,521
Total Revenues	<u>2,617,736</u>
Expenditures:	
Current:	
General Government	688,401
Police	781,542
Public Works	448,110
Capital Outlay	651,135
Total Expenditures	<u>2,569,188</u>
Excess of Revenues over Expenditures	<u>48,548</u>
Other Financing Sources/(Uses):	
Operating Transfers Out	(5,201)
Principal Proceeds from Choptank Note	328,771
Total Other Financing Sources/(Uses)	<u>323,570</u>
Net Change in Fund Balance	372,118
Fund Balances at Beginning of Year	<u>10,165,300</u>
Fund Balances at End of Year	<u>\$ 10,537,418</u>

COMMISSIONERS OF ST. MICHAELS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

EXHIBIT E

Net Change in Fund Balance-Total Governmental Funds	\$ 372,118
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay and construction in progress as expenditures. However, in the government-wide statement of activities and changes in net position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	615,529
Governmental funds report proceeds from the Choptank note receivable as income when received. However the government-wide statement of activities reported the entire gain in 2007, the year of sale.	(328,771)
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but it does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds.	<u>(249,623)</u>
Change in Net Position of Governmental Activities	<u>\$ 409,253</u>

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013

EXHIBIT F

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Favorable (Unfavorable) Variance</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	\$ 1,937,037	\$ 1,924,073	\$ 1,961,696	\$ 37,623
Revenue from Other Agencies	163,657	181,107	224,230	43,123
Licenses and Permits	22,050	22,050	28,183	6,133
Rental/Franchise Revenue	202,139	225,858	229,166	3,308
Fines	2,000	2,000	2,150	150
Service Charges	6,000	6,000	60,746	54,746
Interest Income	11,010	95,695	84,044	(11,651)
Miscellaneous	2,450	-	27,521	27,521
Total Revenues	<u>2,346,343</u>	<u>2,456,783</u>	<u>2,617,736</u>	<u>160,953</u>
Expenditures:				
Current:				
General Government	744,930	730,530	688,401	42,129
Police	871,945	871,945	781,542	90,403
Public Works	647,879	645,554	448,110	197,444
Capital Outlay	1,217,850	1,607,130	651,135	955,995
Total Expenditures	<u>3,482,604</u>	<u>3,855,159</u>	<u>2,569,188</u>	<u>1,285,971</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(1,136,261)</u>	<u>(1,398,376)</u>	<u>48,548</u>	<u>1,446,924</u>
Other Financing Sources/(Uses):				
Operating Transfers Out	(5,201)	(5,201)	(5,201)	-
Principal Proceeds from Choptank Note	400,000	400,000	328,771	(71,229)
Loan Repayment - Associated Investors	-	28,000	-	(28,000)
Prior Year Reserves	720,067	954,172	-	(954,172)
Total Other Financing Sources/(Uses)	<u>1,114,866</u>	<u>1,376,971</u>	<u>323,570</u>	<u>(1,053,401)</u>
Net Change in Fund Balance	<u>(21,395)</u>	<u>(21,405)</u>	<u>372,118</u>	<u>393,523</u>
Fund Balances at Beginning of Year	<u>10,165,300</u>	<u>10,165,300</u>	<u>10,165,300</u>	<u>-</u>
Fund Balances at End of Year	<u>\$ 10,143,905</u>	<u>\$ 10,143,895</u>	<u>\$ 10,537,418</u>	<u>\$ 393,523</u>

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF NET POSITION-ENTERPRISE FUNDS
JUNE 30, 2013

EXHIBIT G

ASSETS	<u>Water Fund</u>
Current Assets:	
Accounts Receivable	\$ 154,118
Investments	58,610
Total Current Assets	<u>212,728</u>
Capital Assets:	
Construction in Progress	-
Equipment	948,051
Improvements	3,171,472
Vehicles	78,206
Accumulated Depreciation	(1,106,994)
Total Capital Assets	<u>3,090,735</u>
Total Assets	<u>\$ 3,303,463</u>
 LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 5,234
Current Portion of Long Term Debt	97,676
Total Current Liabilities	<u>102,910</u>
Non-Current Liabilities:	
Long Term Debt-Net of Current Portion	<u>1,622,826</u>
Total Liabilities	<u>1,725,736</u>
 NET POSITION	
Invested in Capital Assets, Net of Related Debt	1,370,233
Restricted	58,610
Unrestricted	148,884
Total Net Position	<u>1,577,727</u>
Total Liabilities and Net Position	<u>\$ 3,303,463</u>

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

EXHIBIT H

Operating Revenues:	
Charges for Services	\$ 527,822
Connection Charges	8,900
Capital Charges	4,400
Miscellaneous	4,590
Total Operating Revenues	<u>545,712</u>
Operating Expenses:	
Salaries	182,075
Overtime	3,639
Administrative Salary Charge	31,735
Supplies	189
Computer/Telemetry Software	6,705
Capital Outlay - Small Items	1,440
Postage	1,688
Electric	21,128
Testing	6,054
Travel and Training	885
Insurance	3,765
Dues and Subscriptions	450
Telephone	1,272
Miscellaneous	865
Maintenance of Generator #2	2,417
Water Tank Inspections	2,500
Vehicle Expense	5,047
Materials and Supplies	22,529
Uniforms	5,152
Audit	1,600
Arsenic System Maintenance	36,920
Depreciation	111,738
Arsenic Removal Administrative Fee	2,088
Arsenic Removal Interest	3,972
USDA Loan Interest	28,577
Water Tower Interest	14,048
Total Operating Expenses	<u>498,478</u>
Net Operating Income	47,234
Interest Income	50
Income Before Transfers	47,284
Transfers	5,201
Change in Net Position	52,485
Net Position at Beginning of Year	<u>1,525,242</u>
Net Position at End of Year	<u>\$ 1,577,727</u>

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

EXHIBIT I

Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 530,686
Connection Charges	8,900
Capital Charges	4,400
Miscellaneous Charges	4,590
Cash Payments for Interest	(46,597)
Cash Payments to Employees for Services	(217,449)
Cash Payments to Suppliers for Goods and Services	(133,341)
Net Cash from Operating Activities	<u>151,189</u>
Cash Flows from Non-Capital Financing Activities:	
Cash from/(to) Maryland Local Government Investment Pool	(23,706)
Transfers-General Fund	5,201
Net Cash from Non-Capital and Related Financing Activities	<u>(18,505)</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of Capital Assets	(38,391)
Retirement of Debt	(94,293)
Net Cash from Capital and Related Financing Activities	<u>\$ (132,684)</u>
Net Increase in Cash	-
Cash - Beginning of year	<u>-</u>
Cash - End of year	<u>\$ -</u>
Reconciliation of Net Operating Income to Net Cash from Operating Activities:	
Net Operating Income	\$ 47,234
Adjustments to Reconcile Net Operating Income to Net Cash from Operating Activities:	
Depreciation	111,738
Change in Accounts Receivable	2,864
Change in Accounts Payable	(10,647)
Net Cash from Operating Activities	<u>\$ 151,189</u>

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

EXHIBIT J
PAGE 1

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. **General Statement**

The Commissioners of St. Michaels (also known as the Town of St. Michaels), (the "Town"), is located on the Eastern Shore of Maryland and has a population of approximately 1,000 people. Some of the major services provided by the Town include water, parks and recreation, planning and zoning, improvements, and public safety.

The accounting and reporting policies of the Town relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable).

The more significant accounting policies of the Town are described below.

B. **Financial Reporting Entity**

The Town's basic financial statements include the accounts of all Town operations. The criteria for including organizations as component units within the Town's reporting entity is set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 61.

Based on this criteria, the Town has no component units.

C. **Basis of Presentation**

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type.

Government-wide Financial Statements:

The statement of net position and the statement of activities report information on all of the activities of the Town. Governmental activities are normally supported by taxes and intergovernmental revenues.

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

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

EXHIBIT J
PAGE 2

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Fund Financial Statements:

The Town segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements would normally be presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- a. Total assets, deferred outflows, liabilities, deferred inflows, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, deferred outflows, liabilities, deferred inflows, revenues, or expenditures/expenses of that individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources.

The Town has presented the following major funds:

General Fund

The General Fund is the primary operating fund of the Town. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Water Fund

The Water Fund is used to account for the provision of water services to the residents of the Town. Activities of the fund include administration, operations and maintenance of the water system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs for water debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

D. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements, and fund financial statements for proprietary funds, are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

EXHIBIT J
PAGE 3

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Governmental fund financial statements are reported using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Town considers Governmental Revenue as available if it is collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred.

The revenues susceptible to accrual are licenses, charges for services, and intergovernmental revenues. All other Governmental Fund revenues are recognized when received.

E. Budgetary Control

The Town Manager submits an annual budget to the Commissioners in accordance with the Town Charter. In June the Commissioners adopt the annual fiscal year appropriated budget for Town funds. These include General, Police, Public Works, Water, and Capital. Once approved, the Commissioners may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

Each fund’s appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. All budget revisions at this level are subject to final review by the Commissioners. Within these control levels, management may transfer appropriations with Commissioners’ approval.

The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund presents a comparison of budgetary data to actual results. The General Fund is reported on the same basis of accounting for both budgetary purposes and actual results.

F. Cash and Investments

The Town follows the practice of segregating cash as to fund purpose or type. The types of investments allowed are governed by Maryland Statute. The Town considers all cash or investments with an initial maturity of three months or less to be cash. All deposits with financial institutions must be insured or collateralized by the pledging financial institution trust department.

Investments include repurchase agreements under PNC Investments’ Local Government Investment Pool. Fair value is the same as par value: \$1 a share.

G. Accounts Receivable

Management of the Town considers all accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been provided. If amounts become uncollectible, they will be charged to operations in the period of uncollectibility.

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

EXHIBIT J
PAGE 4

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

H. Property Taxes

Property taxes are billed each July 1 for the fiscal year. Full payment is due by December 31. January 1 is the delinquent date and the levy date is June 1. Liens are placed on properties on June 15.

I. Transactions Between Funds

Legally authorized transfers are treated as inter-fund transfers and are included in the results of operations of the funds.

J. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable column in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	20-50 Years
Equipment	5-20 Years
Vehicles	5-10 Years
Streets	30 Years
Water Department Assets	3-40 Years

In accordance with Accounting Standards Codification (ASC), No. 360, "Accounting for the Impairment or Disposal of Long-Lived Assets", management reviews property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recovered. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment losses have been recognized during the year presented.

K. Net Position

Net position represents the difference between assets and deferred outflows, and liabilities and deferred inflows. Net position invested in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

L. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America, requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

M. Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Non-spendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Town currently has no non-spendable fund balance.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Commissioners. These amounts cannot be used for any other purpose unless the Commissioners remove or change the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the Town's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Commissioners or through the Commissioners delegating this responsibility to the Town manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The Town currently has no assigned fund balance.
- **Unassigned:** This classification includes the residual fund balance for the General Fund and the amount established for Minimum Funding, if any. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The Town would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

N. Subsequent Events:

Events and transactions subsequent to year end have been evaluated for potential recognition in the financial statements or disclosure in the notes to the financial statements. All events and transactions have been evaluated through November 8, 2013, the date the report was available for issuance.

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

EXHIBIT J
PAGE 6

NOTE 2 – CASH AND INVESTMENTS:

The following is a detail of cash and investments:

<u>Cash on Hand</u>		\$	75
<u>PNC Bank (Balances per bank):</u>			
General Fund Checking	\$ 118,933		
General Fund Payroll	34,174		
Parking Lot	75,039		
Muskrat Park	2,040		
Murray Shoreline	4,930		
SMPD-SMYLE	<u>5,043</u>		
<u>Total PNC Bank</u>			240,159
<u>Maryland Local Government Investment Pool (MLGIP)</u>			<u>10,410,113</u>
 <u>TOTAL CASH AND INVESTMENTS</u>		 \$	 <u>10,650,347</u>

The balance of cash is categorized as follows:

Amount insured by the FDIC, or collateralized with securities.		\$	240,159
Uninsured and Uncollateralized			<u>-</u>
 <u>TOTAL CASH</u>		 \$	 <u>240,159</u>

Investments owned by the various funds of the Town are as follows:

<u>DESCRIPTION</u>	<u>INTEREST RATES</u>	<u>PAR VALUE</u>	<u>COST</u>	<u>MARKET VALUE</u>	<u>RECOGNIZED GAIN (LOSS)</u>
<u>GENERAL FUND</u>					
<u>MLGIP</u>					
Unrestricted	Various	\$ 1,877,132	\$ 1,877,132	\$ 1,877,132	\$ -
Committed	Various	8,474,371	8,474,371	8,474,371	-
 <u>ENTERPRISE FUND</u>					
<u>MLGIP</u>					
Restricted	Various	<u>58,610</u>	<u>58,610</u>	<u>58,610</u>	-
 <u>TOTAL ALL FUNDS</u>		 \$ <u>10,410,113</u>	 \$ <u>10,410,113</u>	 \$ <u>10,410,113</u>	 \$ <u>-</u>

The Maryland Local Government Investment Pool (MLGIP) provides all local government units of the State an investment vehicle for the short term investment of funds. The State Legislature created the Maryland Local Government Investment Pool with the passage of Article 95 22G, of the Annotated Code of Maryland. The Pool's purpose is to assist the public finance officer by providing an investment medium in which the participants may invest their idle balances. A pooled fund strategy is utilized creating a money market fund that provides professional money management, a well diversified portfolio and reduced cost.

The MLGIP is rated "AAAm" by Standard and Poor's (their highest rating). The MLGIP, under the administrative control of the State Treasurer, is managed by PNC Institutional Investments. A MLGIP Advisory Committee of current participants reviews, on a semi-annual basis, the activities of the Fund. The Fund's financial information is available via the internet at www.mlgip.com.

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

EXHIBIT J
PAGE 7

NOTE 2 – CASH AND INVESTMENTS (CONTINUED):

Investments – The Pool may invest in any instrument in which the State Treasurer may invest. Permissible instruments are established by section 6-222 of the State Finance and Procurement Article. This includes: an obligation for which the United States has pledged its faith and credit for the payment of principal and interest; an obligation that a federal agency or federal instrumentality has issued; a repurchase agreement collateralized in an amount not less than 102% of the principal amount by an obligation of the United States, its agencies or instrumentalities; bankers acceptances guaranteed by a financial institution with a short-term debt rating in the highest letter rating by at least one nationally recognized statistical rating organization (NRSRO) as designated by either the United States Securities and Exchange Commission (SEC) or the State Treasurer; Commercial Paper that has received the highest letter rating by at least one NRSRO as designated by the SEC; and money market mutual funds that are registered with the SEC under the Investment Company Act of 1940, as amended, and are operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended. No direct investment may have a maturity date of more than 13 months after its acquisition. However, floating rate notes are permitted with a minimum semi-annual reset and two year final maturity.

Repurchase Agreements – The Pool may agree to purchase portfolio securities from financial institutions, such as banks and broker-dealers, subject to the seller's agreement to repurchase them at an agreed upon date and price. The seller will be required on a daily basis, to maintain collateral in the form of an obligation of the United States, its agencies or instrumentalities on behalf of the Pool equal to 102% of market value of securities subject to resale. The agreement is conditioned upon the collateral being deposited under the Federal Reserve book-entry system. Such agreements, which are fully collateralized at year-end, are stated separately in the Pool's schedule of investments. In the event of a bankruptcy or default of certain sellers or repurchase agreements, the Pool could experience costs and delays in liquidating the underlying security, which is held as collateral, and the Pool might incur a loss if the value of the collateral held declines during this period.

NOTE 3 – RECEIVABLES:

The following is a list, by type of charge, of outstanding receivables:

Tower Rents	\$ 10,859
1812 Grant	37,800
Kevlar Police Grant	1,388
Water Rents	154,118
Public Accommodations Tax	133,458
Parking Spaces	150,800
Cherry Street Sidewalks	752
Highway Users Taxes	3,112
Admissions and Amusements	10,058
Taxes	4,306
Housing Authority P.I.L.O.T.	14,247
Other Miscellaneous Receivables	7,183
Boat Slips	250
	<hr/>
<u>TOTAL</u>	\$ 528,331

NOTE 4 - NOTE RECEIVABLE – CHOPTANK ELECTRIC COOPERATIVE:

In 2008 the Town of St. Michaels sold their electric distribution system to Choptank Electric Cooperative, Inc. for \$11,444,358. Choptank Electric Cooperative paid \$8,200,000 in cash and will pay the remaining \$3,244,358 over the next 10 years in annual installments of \$400,000, including imputed interest at 4%.

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

EXHIBIT J
PAGE 8

NOTE 5 – NOTE RECEIVABLE – BLOCK GRANT:

The Town of St. Michaels received a grant from the United States Department of Housing and Urban Development, Community Development Block Grant Program. On April 9, 1985, the Town resolved to loan \$375,130 to a developer to convert an old school into badly needed rental units for the low and moderate income elderly. The developer received this money on August 8, 1985. The terms of the loan call for the developer to repay the loan at the end of 25 years with 0% interest. The Town holds a second mortgage on the property in case the developer defaults on the loan. Any future use of these funds is restricted to similar projects. The note was due and payable in August of 2010, but the borrower failed to meet the repayment requirement. On September 9, 2013, the sale of the property was finalized. The note receivable was paid back to the Town, and the Town re-loaned the funds to a new 40 unit workforce housing project.

NOTE 6 – CAPITAL ASSETS:

Following is a summary of Capital Asset changes for the current year:

	<u>ASSETS</u>				
	BALANCE	<u>ACQUISITIONS</u>	<u>RETIREMENTS</u>		BALANCE
	JULY 1, <u>2012</u>				JUNE 30, <u>2013</u>
Land and Improvements	\$ 2,090,532	\$ -	\$ -	\$ 2,090,532	
Buildings	1,286,733	-	-	1,286,733	
Equipment	432,294	8,523	-	440,817	
Improvements	6,102,765	439,117	-	6,541,882	
Vehicles	349,029	167,889	(16,563)	500,355	
Water	4,159,338	38,391	-	4,197,729	
<u>TOTAL</u>	\$ 14,420,691	\$ 653,920	\$ (16,563)	\$ 15,058,048	
 <u>ACCUMULATED DEPRECIATION</u> 					
	BALANCE	<u>DEPRECIATION</u>	<u>RETIREMENTS</u>	BALANCE	
	JULY 1, <u>2012</u>			JUNE 30, <u>2013</u>	
Land and Improvements	\$ 67,388	\$ 3,041	\$ -	\$ 70,429	
Buildings	293,579	32,217	-	325,796	
Equipment	310,573	24,918	-	335,491	
Improvements	538,876	176,046	-	714,922	
Vehicles	302,052	13,401	(16,563)	298,890	
Water	995,256	111,738	-	1,106,994	
<u>TOTAL</u>	\$ 2,507,724	\$ 361,361	\$ (16,563)	\$ 2,852,522	
<u>CAPITAL ASSETS</u>				\$ 12,205,526	

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

EXHIBIT J
PAGE 9

NOTE 6 - CAPITAL ASSETS (CONTINUED):

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

Governmental Activities:	
General Government	\$ 15,993
Police	32,586
Public Works	201,044
Water Fund	111,738
Total Depreciation Expense	<u>\$ 361,361</u>

Capital outlay in the general fund expenditures is \$651,537. This amount exceeds the current additions to capital assets by \$36,006 because there are amounts in the expenditures which did not meet the Town's capitalization policy.

NOTE 7 - DEBT:

Debt consists of the following:

Bonds payable to Rural Development in the amount of \$1,287,000. Paid in semi-annual installments of \$37,525, including interest of 5% through September 2022 (Water system upgrade).	\$ 538,511
Bonds payable to Maryland Community Development Administration (CDA) in the amount of \$342,484. Paid in semi-annual installments of \$11,874 including interest of 5.625% through May 2027 (Water tower construction).	226,894
Note payable to Maryland Department of Environment. Payable in semi-annual installments of \$43,907 including interest of .4% and an administrative fee of 5% of debt service payments. Total loan amount was \$1,179,000. Due Date February 1, 2037 (Arsenic treatment compliance).	<u>955,097</u>
<u>TOTAL DEBT</u>	1,720,502
Less: Current Portion	<u>(97,676)</u>
<u>TOTAL LONG-TERM DEBT</u>	<u>\$ 1,622,826</u>

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

EXHIBIT J
PAGE 10

NOTE 7 – DEBT (CONTINUED):

Maturities of Debt subsequent to year end, are as follows:

	<u>GOVERNMENTAL</u>		<u>ENTERPRISE</u>	
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
2014	-	-	97,676	42,939
2015	-	-	100,929	39,686
2016	-	-	104,343	36,272
2017	-	-	107,929	32,686
2018-2022	-	-	600,052	28,922
2023-2027	-	-	300,183	82,198
2028-2032	-	-	202,511	20,895
2033-2037	-	-	206,879	7,417
<u>TOTAL</u>	\$ -	\$ -	\$ 1,720,502	\$ 291,015

Below summarizes the changes in Debt:

	<u>BALANCE</u> <u>7/1/12</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>BALANCE</u> <u>6/30/13</u>
USDA	\$ 584,984	\$ -	\$ (46,473)	\$ 538,511
Maryland CDA	236,870	-	(9,976)	226,894
Arsenic Removal	992,941	-	(37,844)	955,097
<u>TOTAL</u>	\$ 1,814,795	\$ -	\$ (94,293)	\$ 1,720,502

NOTE 8 – RESTRICTIONS ON NET POSITION:

Restricted net position are available for the following purposes:

	<u>GENERAL</u>	<u>ENTERPRISE</u>
Capital Projects	\$ 9,926,329	\$ -
Note Receivable-Block Grant-Housing	375,130	-
Water Improvements	-	58,610
<u>TOTAL</u>	\$ 10,301,459	\$ 58,610

NOTE 9 – RISK AND INSURANCE COVERAGE:

The Town has exposure to various kinds of risk. As a vehicle to reduce this exposure the Town has purchased insurance policies from commercial insurance agents and entered into agreements with The Maryland Local Government Insurance Trust and The Injured Workers' Insurance Fund.

The insurance policies from commercial agents cover bonding for employees and The Commissioners.

The Maryland Local Government Insurance Trust covers general liability, public officials' legal liability for errors and omissions, police legal liability for wrongful acts and automobile liability and damage claims.

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

EXHIBIT J
PAGE 11

NOTE 9 – RISK AND INSURANCE COVERAGE (CONTINUED):

The Injured Workers' Insurance Fund covers workman's compensation claims.

The Maryland Local Government Insurance Trust and the Injured Workers' Insurance Fund are risk pools to which the Town pays a premium for selected types and amounts of insurance coverage. These two pools provide policies with retrospectively rated premiums. Premiums are accrued (paid) based on the ultimate cost of the experience to date of a group of entities.

NOTE 10 – PENSION PLAN:

Plan Description-The Town's employees participate in the State Retirement and Pension System of Maryland (SRPSM), a defined benefit pension plan which provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. This is an agent multiple-employer pension plan. The plan is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland. The Commissioners of St. Michaels assign the authority to establish and amend the benefit provisions of the plans that participate in the SRPSM to the Board of Trustees of the SRPSM. The State of Maryland issues a publicly available financial report that includes financial statements and required supplementary information for the SRPSM. The report may be obtained by writing to the State Retirement and Pension System of Maryland, 301 West Preston Street, Baltimore, MD 21201, or via the internet at www.sra.state.md.us.

Funding Policy-Members are required to contribute 5% of the portion of their salary above the federal social security wage base for the year. The Town is required to contribute at an actuarially determined rate. The contribution requirements of plan members and the Town are established and may be amended by the SRPSM Board of Trustees.

Annual Pension Cost-The Town's annual pension cost of \$83,917 was equal to the Town's required and actual contributions. The required contribution was determined as part of the June 30, 2012 actuarial valuation using the aggregate entry age normal method. The actuarial assumptions included (a) 7.75% investment rate of return, (b) projected salary increases ranging from 3.5% to 8.5% per year, and (c) 3% simple per year cost-of-living adjustments. Both (a) and (b) are adjusted for inflation. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments from year to year.

NOTE 11 – PRIOR PERIOD ADJUSTMENT:

In accordance with GASB No. 63 "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*," the Town has reclassified \$150,800 of deferred parking space revenue to prior year revenues, since this transaction is not specifically defined in the standard. The June 30, 2012 ending Net Position balance was increased and deferred revenues were decreased.

COMMISSIONERS OF ST. MICHAELS

SUPPLEMENTAL INFORMATION

JUNE 30, 2013

**COMMISSIONERS OF ST. MICHAELS
SUPPLEMENTAL INFORMATION
ANALYSIS OF REVENUE-BUDGET AND ACTUAL-ALL FUNDS
YEAR ENDED JUNE 30, 2013**

**SCHEDULE A
PAGE 1**

	2013				
	Budgeted Amounts		Actual Amounts	Favorable (Unfavorable) Variance	Prior Year 6/30/12
	Original	Final			
TAXES-LOCAL:					
Real and Personal Property:					
Real Estate Taxes	\$ 1,370,077	\$ 1,357,113	\$ 1,357,113	\$ -	\$ 1,523,107
Personal Property and Corporation	56,506	56,506	49,014	(7,492)	62,850
Utilities	44,676	44,676	43,576	(1,100)	44,572
Total Real and Personal Property	1,471,259	1,458,295	1,449,703	(8,592)	1,630,529
Admissions and Amusements	53,000	53,000	58,567	5,567	54,587
Public Accomodations	416,000	416,000	439,423	23,423	434,279
Taxes-State Shared:					
Franchise Tax	1,123	1,123	1,123	-	1,123
Highway User	13,655	13,655	13,407	(248)	20,767
Total Taxes	1,955,037	1,942,073	1,962,223	20,150	2,141,285
Less: Discounts and Allowances	(18,000)	(18,000)	(527)	17,473	(10,228)
NET TAXES	1,937,037	1,924,073	1,961,696	37,623	2,131,057
REVENUE FROM OTHER AGENCIES:					
Federal Government:					
Department of The Interior	1,769	1,769	1,783	14	1,769
FEMA Grant	-	-	3,703	3,703	8,730
State Government:					
Police Protection State	18,388	18,388	18,388	-	18,388
Critical Area Grant	4,000	4,000	4,000	-	4,000
Income Tax	120,000	135,000	142,786	7,786	266,519
State Fire, Rescue, & Ambulance Fund	-	2,450	2,895	445	-
War of 1812 Grant	-	-	38,800	38,800	-
County Government:					
Crossing Guard	11,875	11,875	11,875	-	11,875
Other Agencies:					
St. Michaels Housing Authority PILOT	7,625	7,625	-	(7,625)	-
TOTAL REVENUE FROM OTHER AGENCIES	163,657	181,107	224,230	43,123	311,281
LICENSES AND PERMITS:					
Traders Licenses	8,000	8,000	9,418	1,418	8,343
Animal Licenses	50	50	90	40	148
Building Permits	8,000	8,000	13,342	5,342	9,161
HDC Permits	3,000	3,000	2,100	(900)	2,550
Board of Appeals	2,000	2,000	1,303	(697)	2,493
Other Licenses & Permits	1,000	1,000	1,930	930	1,450
TOTAL LICENSES AND PERMITS	22,050	22,050	28,183	6,133	24,145

**COMMISSIONERS OF ST. MICHAELS
SUPPLEMENTAL INFORMATION
ANALYSIS OF REVENUE-BUDGET AND ACTUAL-ALL FUNDS
YEAR ENDED JUNE 30, 2013**

**SCHEDULE A
PAGE 2**

	2013				
	Budgeted Amounts		Actual Amounts	Favorable (Unfavorable) Variance	Prior Year 6/30/12
	Original	Budget Final			
RENTAL/FRANCHISE REVENUE:					
Cable TV	\$ 12,500	\$ 12,500	\$ 12,215	\$ (285)	\$ 15,377
Boat Slip Rentals	23,390	23,390	25,983	2,593	22,930
Building Rent	16,833	40,552	40,662	110	40,662
Tower Rent	149,416	149,416	150,306	890	146,723
TOTAL RENTAL/FRANCHISE REVENUE	202,139	225,858	229,166	3,308	225,692
WATER CHARGES:					
Water Service Charges	530,000	530,000	527,822	(2,178)	547,163
Water Connections	10,000	10,000	8,900	(1,100)	4,400
Water Capital Charges	1,000	1,000	4,400	3,400	2,200
Miscellaneous Water Revenue	-	-	4,590	4,590	-
TOTAL WATER CHARGES	541,000	541,000	545,712	4,712	553,763
FINES:					
Parking and Civil Violations	2,000	2,000	2,150	150	3,970
SERVICE CHARGES:					
Copy Machine	500	500	58	(442)	892
Parking Spaces	-	-	41,300	41,300	26,900
Tree Mitigation Funds	4,000	4,000	11	(3,989)	2,700
Health Officer Charges	1,000	1,000	2,825	1,825	2,400
Other Service Charges	500	500	16,552	16,052	-
TOTAL SERVICE CHARGES	6,000	6,000	60,746	54,746	32,892
MISCELLANEOUS REVENUE:					
Interest	11,045	95,740	84,094	(11,646)	94,288
Other Miscellaneous Revenue	2,450	-	8,136	8,136	83,523
SMPD/SMYLE Donations	-	-	3,892	3,892	-
Reimbursed Expenses	-	-	15,493	15,493	-
Star Spangled 200	-	28,000	-	(28,000)	-
Prior Year Reserves	720,067	954,172	-	(954,172)	-
Proceeds from Sale of St. Michael's Utility Commission	400,000	400,000	328,771	(71,229)	316,126
TOTAL MISCELLANEOUS REVENUE	1,133,562	1,477,912	440,386	(1,037,526)	493,937
TOTAL REVENUE	\$ 4,007,445	\$ 4,380,000	\$ 3,492,269	\$ (887,731)	\$ 3,776,737

**COMMISSIONERS OF ST. MICHAELS
SUPPLEMENTAL INFORMATION
ANALYSIS OF EXPENDITURES/EXPENSES-BUDGET AND ACTUAL
ALL FUNDS
YEAR ENDED JUNE 30, 2013**

**SCHEDULE B
PAGE 1**

	2013				
	Budgeted Amounts		Actual Amounts	Favorable (Unfavorable) Variance	Prior Year 6/30/12
	Original	Final			
GOVERNMENTAL FUNDS					
GENERAL GOVERNMENT					
<u>Legislative</u>					
Commissioner's Salaries and Benefits	\$ 11,000	\$ 11,000	\$ 10,558	\$ 442	\$ 16,392
Other Operating Expense	13,100	13,100	5,071	8,029	10,903
<u>Executive</u>					
Staff Salaries and Benefits	157,763	157,763	119,622	38,141	337,811
Staff Salaries Overtime	2,000	2,000	2,601	(601)	3,035
Election Expense	-	-	-	-	995
Office Expense	21,000	21,000	22,417	(1,417)	25,279
Codification - Maintenance	12,000	12,000	10,954	1,046	7,097
Janitorial	3,000	3,000	2,870	130	2,775
Travel and Training	2,000	2,000	1,703	297	1,700
Ads and Notices	5,500	5,500	3,657	1,843	6,279
Insurance	9,000	9,000	11,712	(2,712)	10,350
Dues and Subscriptions	5,000	5,000	3,693	1,307	3,862
Telephone	7,900	7,900	5,155	2,745	6,469
Miscellaneous	1,000	1,000	1,780	(780)	3,362
Audit	14,000	14,000	9,870	4,130	12,020
Legal	40,000	40,000	24,403	15,597	26,057
Engineering	5,000	5,000	4,553	447	3,261
Website Development	5,400	9,500	5,684	3,816	1,414
Capital Outlay	30,000	10,000	8,954	1,046	-
Holiday - Volunteer Acknowledgement	300	300	-	300	-
Total Legislative and Executive	344,963	329,063	255,257	73,806	479,061
<u>Planning and Zoning/Critical Areas</u>					
Advertising	5,000	5,000	3,267	1,733	3,117
Salaries and Benefits	114,986	114,986	109,887	5,099	110,035
Overtime	2,000	2,000	1,955	45	2,145
Administrative Salary Charge	31,734	31,734	31,735	(1)	41,686
Legal Services	13,000	13,000	16,609	(3,609)	8,785
Office Expenses	3,500	3,500	3,461	39	3,473
Plan/Zoning Consulting	2,000	2,000	210	1,790	273
Reimbursables	-	-	50,835	(50,835)	17,096
Inspections	3,500	3,500	2,231	1,269	1,775
Total Planning and Zoning/Critical Areas	175,720	175,720	220,190	(44,470)	188,385
<u>Other General Government</u>					
Tourism and Economic Development	154,400	157,400	153,561	3,839	100,686
Talbot County Arts Council	-	-	-	-	-
Talbot County Free Library	-	7,500	7,500	-	5,000
Fire Department Appropriation	50,847	50,847	50,847	-	47,903
St. Michaels Community Center	-	3,000	3,000	-	5,000
St. Mary's Square Museum	-	3,000	3,000	-	3,000
Other Donations	15,000	-	-	-	-
St. Michaels Fireworks	-	-	-	-	1,000
Bay Hundred Pool	4,000	4,000	4,000	-	4,000
Total Other General Government	224,247	225,747	221,908	3,839	166,589
TOTAL GENERAL GOVERNMENT	744,930	730,530	697,355	33,175	834,035
<u>POLICE</u>					
Sworn Salaries and Benefits	691,794	709,093	606,797	102,296	632,201
Sworn Overtime	15,000	15,000	28,884	(13,884)	25,051
Other Salaries	66,817	52,518	34,529	17,989	33,586
Other Overtime	4,200	1,200	1,448	(248)	1,737
Administrative Salary Charges	31,734	31,734	31,735	(1)	41,686
Advertising (Personnel)	800	800	423	377	-
Office Supplies	4,000	4,000	5,442	(1,442)	6,453
Janitorial	2,500	2,500	3,515	(1,015)	2,688
Travel and Training	1,500	1,500	3,572	(2,072)	1,500
Insurance	10,000	10,000	7,990	2,010	9,523
Dues and Subscriptions	500	500	63	437	275

**COMMISSIONERS OF ST. MICHAELS
SUPPLEMENTAL INFORMATION
ANALYSIS OF EXPENDITURES/EXPENSES-BUDGET AND ACTUAL
ALL FUNDS
YEAR ENDED JUNE 30, 2013**

**SCHEDULE B
PAGE 2**

	2013				
	Budgeted Amounts		Actual Amounts	Favorable (Unfavorable) Variance	Prior Year 6/30/12
	Original	Final			
POLICE (CONTINUED)					
Communications	\$ 1,000	\$ 1,000	\$ 500	\$ 500	\$ 500
Telephone	6,000	6,000	7,144	(1,144)	7,218
Miscellaneous	1,000	2,000	1,219	781	1,240
Auto Expense	17,000	17,000	18,027	(1,027)	21,417
Utilities	5,500	5,500	6,367	(867)	6,338
Equipment and Supplies	5,000	5,000	6,357	(1,357)	1,880
Uniforms	3,000	3,000	3,636	(636)	2,064
Personnel Testing	500	500	622	(122)	379
SMYLE Expenses	1,000	-	7,413	(7,413)	7,572
Capital Outlay	42,050	42,050	37,103	4,947	48,928
Legal	1,600	1,600	-	1,600	58
Reimbursables	-	-	4,359	(4,359)	-
Audit	1,500	1,500	1,500	-	1,600
TOTAL POLICE	913,995	913,995	818,645	95,350	853,894
PUBLIC WORKS					
<u>Maintenance and Grounds</u>					
Salaries and Benefits	210,663	210,663	182,087	28,576	203,372
Overtime	10,000	10,000	3,643	6,357	4,992
Administrative Salary Charge	31,734	31,734	31,735	(1)	41,686
Insurance	6,000	6,000	4,669	1,331	4,395
Telephone	800	800	2,058	(1,258)	3,196
Maintenance and Supplies	3,000	3,000	2,959	41	9,342
Miscellaneous	250	250	201	49	41
Uniforms	3,700	3,700	5,174	(1,474)	5,588
Tree Planting	8,000	8,000	10,978	(2,978)	9,611
Mosquito Control	3,000	3,000	2,560	440	2,979
Audit	2,030	2,030	2,030	-	2,030
Health Officer	300	300	800	(500)	165
Personnel Testing	400	400	-	400	-
Total Maintenance and Grounds	279,877	279,877	248,894	30,983	287,397
<u>Sanitation and Waste Removal</u>					
Vehicle Expense	15,000	15,000	8,985	6,015	11,923
Repairs and Maintenance	1,000	1,000	311	689	-
Recycling Service	53,600	53,600	53,490	110	52,428
Dump Fees	28,000	28,000	27,652	348	32,864
Capital Outlay	127,325	125,000	142,309	(17,309)	-
Total Sanitation and Waste Removal	224,925	222,600	232,747	(10,147)	97,215
<u>Streets</u>					
Street Lights	45,000	45,000	45,075	(75)	44,720
Parking Lots - Repairs and Maintenance	500	500	63	437	476
Snow and Ice Removal	1,000	1,000	-	1,000	-
Storm Drain - Repairs and Maintenance	4,000	4,000	1,079	2,921	2,032
Vehicle Expenses	11,000	11,000	7,499	3,501	10,991
Maintenance and Supplies	11,000	11,000	5,678	5,322	9,124
Sidewalks - Repairs and Maintenance	3,000	3,000	329	2,671	-
Signs	3,000	3,000	978	2,022	1,279
Capital Outlay - Streets	1,055,000	1,035,000	43,322	991,678	68,438
Capital Outlay - Parking Lots	-	101,128	106,043	(4,915)	6,887
Capital Outlay - Signs	-	-	-	-	3,000
Total Streets	1,133,500	1,214,628	210,066	1,004,562	146,947
<u>Municipal Buildings</u>					
Utilities	17,000	17,000	12,617	4,383	11,495
Maintenance and Supplies	11,000	11,000	6,771	4,229	9,958
Property Tax	9,277	9,277	9,443	(166)	9,613
Total Municipal Buildings	37,277	37,277	28,831	8,446	31,066

**COMMISSIONERS OF ST. MICHAELS
SUPPLEMENTAL INFORMATION
ANALYSIS OF EXPENDITURES/EXPENSES-BUDGET AND ACTUAL
ALL FUNDS
YEAR ENDED JUNE 30, 2013**

**SCHEDULE B
PAGE 3**

	2013				
	Budgeted Amounts		Actual Amounts	Favorable (Unfavorable) Variance	Prior Year 6/30/12
	Original	Final			
Parks and Recreation					
Vehicle Expenses	\$ 4,000	\$ 4,000	\$ 2,383	\$ 1,617	\$ 2,592
Maintenance and Supplies	16,000	16,000	13,489	2,511	15,725
Uniforms	1,800	1,800	2,587	(787)	2,593
Harbor Maintenance and Supplies	3,000	3,000	304	2,696	1,838
Capital Outlay - Parks	120,800	428,952	300,865	128,087	37,298
Capital Outlay - Harbor	-	-	12,539	(12,539)	-
Rails and Trails	1,500	1,500	483	1,017	7,439
Park Enhancement Fund	1,000	1,000	-	1,000	-
Total Parks and Recreation	148,100	456,252	332,650	123,602	67,485
TOTAL PUBLIC WORKS	1,823,679	2,210,634	1,053,188	1,157,446	630,110
TOTAL GOVERNMENTAL EXPENDITURES	3,482,604	3,855,159	2,569,188	1,285,971	2,318,039
ENTERPRISE FUNDS					
WATER FUND					
Salaries and Benefits	210,663	210,663	182,075	28,588	203,328
Overtime	10,000	10,000	3,639	6,361	4,991
Administrative Salary Charge	31,734	31,734	31,735	(1)	41,686
Office Supplies	600	600	189	411	692
Computer/Telemetry Software	6,000	6,000	6,705	(705)	4,423
Postage	1,500	1,500	1,688	(188)	1,444
Electric	22,000	22,000	21,128	872	21,400
Testing	7,100	7,100	6,054	1,046	7,147
Travel and Training	2,000	2,000	885	1,115	135
Insurance	4,900	4,900	3,765	1,135	3,590
Dues and Subscriptions	250	250	450	(200)	300
Telephone	1,500	1,500	1,272	228	1,232
Miscellaneous	500	500	865	(365)	288
Maintenance of Generator #2	2,500	2,500	2,417	83	2,306
Water Tank Inspections	-	-	2,500	(2,500)	2,500
Vehicle Expense	4,500	4,500	5,047	(547)	1,757
Materials and Supplies	25,000	25,000	22,529	2,471	36,591
Uniforms	3,800	3,800	5,152	(1,352)	5,331
Arsenic System Maintenance	4,500	4,500	39,008	(34,508)	35,946
Depreciation	-	-	111,738	(111,738)	111,877
Audit	1,600	1,600	1,600	-	1,600
Capital Outlay	41,491	41,491	1,440	40,051	-
Debt Service - Arsenic DOE	43,904	43,904	3,972	39,932	4,341
Debt Service - Water Bonds (FHA)	75,050	75,050	28,577	46,473	30,911
Debt Service - New Water Tower	23,749	23,749	14,048	9,701	13,940
TOTAL WATER FUND	524,841	524,841	498,478	26,363	537,756
TOTAL EXPENDITURES/EXPENSES	\$ 4,007,445	\$ 4,380,000	\$ 3,067,666	\$ 1,312,334	\$ 2,855,795

COMMISSIONERS OF ST. MICHAELS

SCHEDULE C

SUPPLEMENTAL INFORMATION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION-BUDGET AND ACTUAL

PROPRIETARY FUND

FOR THE YEAR ENDED JUNE 30, 2013

	<u>Budget</u>	<u>Actual Amounts</u>	<u>Favorable (Unfavorable) Variance</u>	<u>Prior Year 6/30/12</u>
Operating Revenues:				
Charges for Services	\$ 530,000	\$ 527,822	\$ (2,178)	\$ 547,163
Connection Charges	10,000	8,900	(1,100)	4,400
Capital Charges	1,000	4,400	3,400	2,200
Miscellaneous	-	4,590	4,590	-
Total Operating Revenues	541,000	545,712	4,712	553,763
Operating Expenses:				
Salaries and Benefits	210,663	182,075	28,588	203,328
Overtime	10,000	3,639	6,361	4,991
Administrative Salary Charge	31,734	31,735	(1)	41,686
Supplies	600	189	411	692
Computer/Telemetry Software	6,000	6,705	(705)	4,423
Capital Outlay	41,491	1,440	40,051	-
Postage	1,500	1,688	(188)	1,444
Electric	22,000	21,128	872	21,400
Testing	7,100	6,054	1,046	7,147
Travel and Training	2,000	885	1,115	135
Insurance	4,900	3,765	1,135	3,590
Dues and Subscriptions	250	450	(200)	300
Telephone	1,500	1,272	228	1,232
Miscellaneous	500	865	(365)	288
Maintenance of Generator #2	2,500	2,417	83	2,306
Water Tank Inspections	-	2,500	(2,500)	2,500
Vehicle Expense	4,500	5,047	(547)	1,757
Materials and Supplies	25,000	22,529	2,471	36,591
Uniforms	3,800	5,152	(1,352)	5,331
Audit	1,600	1,600	-	1,600
Arsenic System Maintenance	4,500	36,920	(32,420)	33,858
Depreciation	-	111,738	(111,738)	111,877
Arsenic Removal Administrative Fee	-	2,088	(2,088)	2,088
Arsenic Removal Interest	43,904	3,972	39,932	4,341
USDA Loan Interest	75,050	28,577	46,473	30,911
Water Tower Interest	23,749	14,048	9,701	13,940
Total Operating Expenses	524,841	498,478	26,363	537,756
Net Operating Income/(Loss)	16,159	47,234	31,075	16,007
Non-Operating Revenue				
Interest Income	45	50	5	36
Income/(Loss) Before Transfers	16,204	47,284	31,080	16,043
Transfers/Prior Year Reserves	5,201	5,201	-	(2,160)
Change in Net Position	21,405	52,485	31,080	13,883
Net Position at Beginning of Year	1,525,242	1,525,242	-	1,511,359
Net Position at End of Year	\$ 1,546,647	\$ 1,577,727	\$ 31,080	\$ 1,525,242



Robert B. Lank, C.P.A.
Terrence Johnson, C.P.A.
Richard L. Tull, C.P.A.

Gary W. Tuttle, C.P.A.
John E. Cullen, Jr., C.P.A.
Robert B. Lank, Jr., C.P.A.

LANK, JOHNSON & TULL

Certified Public Accountants

P.O. Box 418 • 521 N. Market St. Ext. • Seaford, Delaware 19973
P.O. Box 253 • 268 Milford-Harrington Highway • Milford, Delaware 19963
1475 S. Governors Avenue • Dover, Delaware 19904

Seaford Office
(302) 629-9543
Fax (302) 629-3501

Milford Office
(302) 422-3308
Fax (302) 422-4782

Dover Office
(302) 736-2618
Fax (302) 736-5522

**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**

To The Commissioners
Town of St. Michaels, 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 Commissioners of St. Michaels, as of and for the fiscal year ended June 30, 2013, and related notes to the financial statements, which collectively comprise the Commissioners of St. Michaels's basic financial statements, and have issued our report thereon dated November 8, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commissioners of St. Michaels's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the 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 Commissioners of St. Michaels's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commissioners of St. Michaels'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 entity'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.

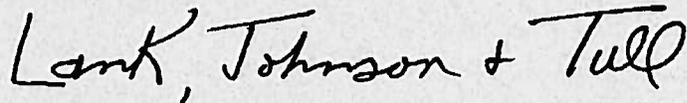
Members

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commissioners of St. Michaels's financial statements are free from 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.

A handwritten signature in cursive script that reads "Lank, Johnson + Tull".

Seaford, Delaware
November 8, 2013