

COMMISSIONERS OF ST. MICHAELS
FINANCIAL STATEMENTS WITH
SUPPLEMENTAL INFORMATION
JUNE 30, 2014

COMMISSIONERS OF ST. MICHAELS

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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, 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 Commissioners of St.

Michaels, as of June 30, 2014, 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.

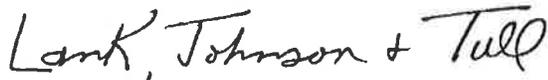
Other Information

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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

Schedules A, B, C, and the schedule of expenditures of federal awards 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, schedules A, B, C, and the schedule of expenditures of federal awards 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 October 22, 2014, 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.



Seaford, Delaware
October 22, 2014

COMMISSIONERS OF ST. MICHAELS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

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, 2014. 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 and are designed to provide readers with a broad overview of the town in a manner similar to a private sector business. 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, 2014

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 decreased by 1% from 2013 to 2014. (See table below) General fund net position decreased by 1%, while the business-type fund increased by 4%. 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
	2014	2013 Restated	2014	2013 Restated	2014	2013 Restated	
Current and Other Assets	12.50	12.73	0.30	0.21	12.80	12.94	(1%)
Capital Assets	9.25	9.11	2.98	3.09	12.23	12.20	.2%
Total Assets	21.75	21.84	3.28	3.30	25.03	25.14	(.4%)
Long Term Debt	-	-	1.62	1.72	1.62	1.72	(6%)
Other Liabilities	0.47	0.32	0.02	0.01	0.49	0.33	48%
Total Liabilities	0.47	0.32	1.64	1.73	2.11	2.05	3%
Net Position							
Capital Assets Net of Debt	9.25	9.11	1.36	1.37	10.61	10.48	1%
Restricted	9.79	10.30	0.11	0.06	9.90	10.36	(4%)
Unrestricted	2.24	2.11	0.17	0.14	2.41	2.25	7%
Total Net Position	21.28	21.52	1.64	1.57	22.92	23.09	(1%)

The Town's total revenues (excluding transfers) decreased by 6% to \$2.57 million (See table below). Revenue from business-type activities increased by 13% to \$.62 million, which is due to an increase in water rates. General Governmental revenues decreased by 11% to \$1.95 million, which is primarily attributable in part to a property tax rate reduction approved by the Commissioners.

The total cost of all programs and services increased by 15%, to \$2.74 million. The costs of business-type activities increased by 6%, to \$.54 million, which was primarily due to arsenic media replacement. The costs of governmental-type activities increased by 17% to \$2.20 million, which is primarily attributable to the write off of the Associated Investors Block Grant. 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, 2014

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

	Governmental		Business-Type		Total		Total Percentage Change
	2014	2013 Restated	2014	2013 Restated	2014	2013 Restated	
Program Revenue							
Charges for Services	-	-	0.62	0.55	0.62	0.55	13%
General Revenue							
Taxes	1.89	2.10	-	-	1.89	2.10	(10%)
Investment Income	0.06	0.08	-	-	0.06	0.08	(25%)
Total Revenue	1.95	2.18	0.62	0.55	2.57	2.73	(6%)
Program Expenses - Net							
General	0.68	0.37	-	-	0.68	0.37	84%
Police	0.85	0.84	-	-	0.85	0.84	1%
Public Works	0.67	0.67	-	-	0.67	0.67	-
Water	-	-	0.54	0.51	0.54	0.51	6%
Total Expenses	2.20	1.88	0.54	0.51	2.74	2.39	15%
Excess (Deficiency)	(0.25)	0.30	0.08	0.04	(0.17)	0.34	(150%)
Transfer In/(Out)	0.01	-	(0.01)	-	-	-	-
Change in Net Position	(0.24)	0.30	0.07	0.04	(0.17)	0.34	(150%)
Net Position - Beginning - Restated	21.52	21.22	1.57	1.53	23.09	22.75	1%
Net Position - Ending	21.28	21.52	1.64	1.57	22.92	23.09	(1%)

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 not amended during the year.

Actual revenues of \$4.25 million were over budgeted revenues by \$1.36 million. This favorable variance is primarily due to Block Grant proceeds, which were not included in the budget.

Actual expenditures in the amount of \$3.87 million came in \$.31 million over budgeted amounts. This unfavorable variance is due to the unbudgeted Block Grant expenditure along with budgeted capital projects which were not completed.

WATER FUND BUDGETARY HIGHLIGHTS

Actual revenue of \$0.62 million exceeded budgeted revenue by very little in 2014. Expenditures came in \$.05 million under budgeted amounts. Overall, the water fund had a favorable budget variance of \$50,848.

COMMISSIONERS OF ST. MICHAELS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2014, the Town had \$12.23 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 \$.03 million, or .2% from the prior year.

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

	Governmental		Business-Type		Total	
	2014	2013	2014	2013	2014	2013
Land and Improvements	2.03	2.03	-	-	2.03	2.03
Buildings	0.93	0.96	-	-	0.93	0.96
Equipment	0.09	0.10	-	-	0.09	0.10
Improvements	5.51	5.70	-	-	5.51	5.70
Vehicles	0.17	0.19	-	-	0.17	0.19
Water	-	-	2.98	3.09	2.98	3.09
Construction in Progress	0.52	0.13	-	-	0.52	0.13
Total Capital Assets	9.25	9.11	2.98	3.09	12.23	12.20

Note 5 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 \$1.62 million in bonds and notes outstanding, versus \$1.72 million last year, a decrease of \$.10 million or 6% under last year.

Commissioners of St. Michaels
Debt
(in millions)

	Governmental		Business-Type		Total	
	2014	2013	2014	2013	2014	2013
USDA - Water Bonds	-	-	0.49	0.54	0.49	0.54
Maryland CDA - Water Tower	-	-	0.21	0.23	0.21	0.23
Maryland Department of Environment - Arsenic Removal	-	-	0.92	0.95	0.92	0.95
Total Debt	-	-	1.62	1.72	1.62	1.72

Note 6 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, 2014

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

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, and by \$.07/\$100 to \$.45/\$100 in FY2014, for a total reduction of 19 cents per \$100 of assessed value in this three 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 \$170,971 in FY2014, a decrease of \$649,644 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 and a reduction in capital projects in FY2014.

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 FY2014 remained low, however with the revisions to the State mandated ethics law, an ongoing zoning case, as well as a few other legal issues, it is anticipated that legal fees will increase slightly in FY2015.

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:

COMMISSIONERS OF ST. MICHAELS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

- 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
- 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 and has received assistance from the Maryland Department of the Environment for help in dealing with the difficult arsenic removal system issue. The grant is in the amount of \$1,157,000, that comes with a \$192,000 town commitment. In FY2014, media for the arsenic removal plant on Glory Avenue was replaced, costing \$74,343. The E. Marengo Street well remained off line for the entire fiscal year.

Water rates were increased by 20% in Fiscal Year 2014 in order to pay for necessary maintenance to the water towers.

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, and should be completed in FY2015. The Town became a Sustainable Community with the Maryland Office of Planning in FY2014.

Capital projects completed by the Town in FY2014 include the work on Phase V of the street rehabilitation project, the purchase of a new police vehicle and weapons, a culvert replacement on Canton Street, and the rehabilitation of the boat ramp and buying station on Harbor Road.

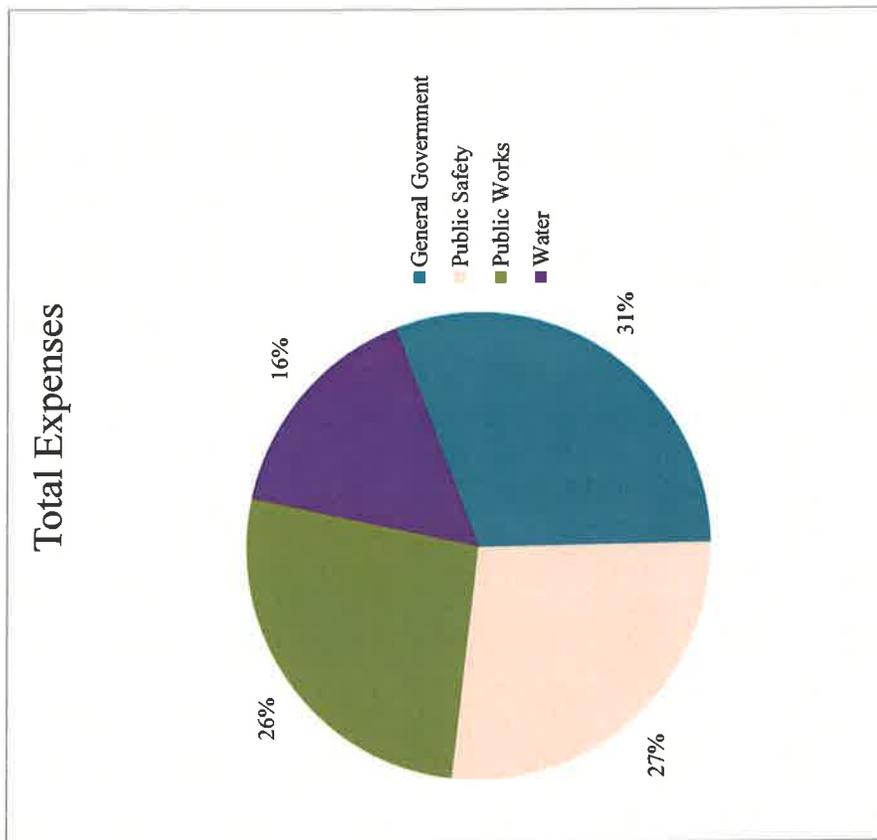
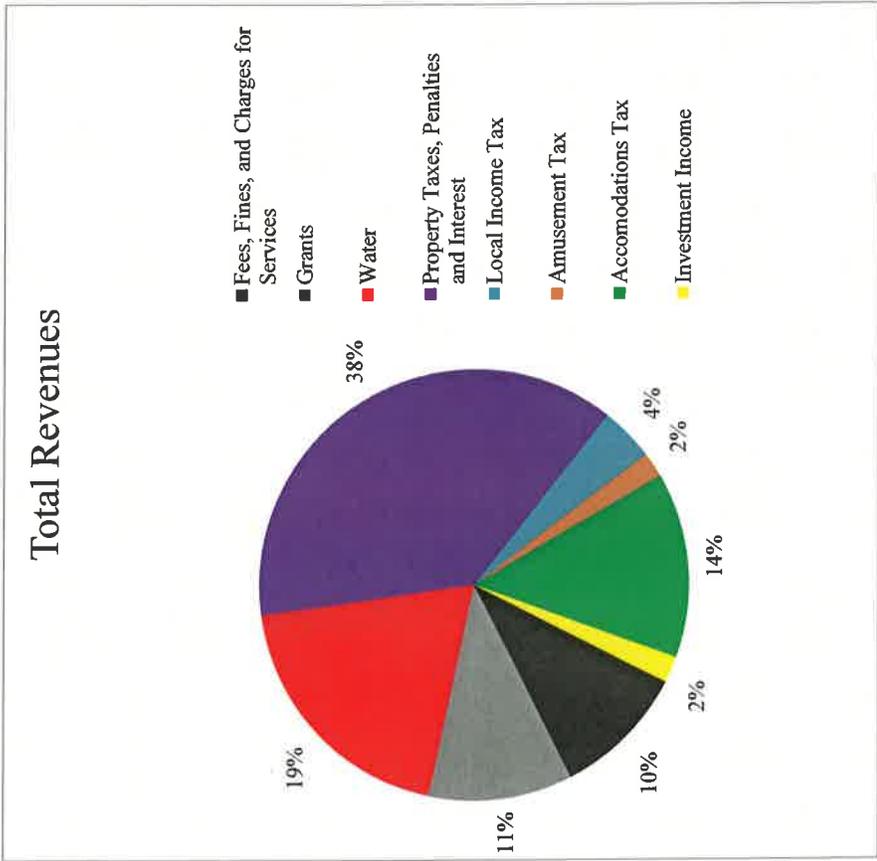
Beginning in FY2013, the Town received a grant from Star Spangled 200 to host an event to mark the Bicentennial of the Battle of St. Michaels during the War of 1812 on August 10, 2013. Funding for the event carried from FY2013 into FY2014. The grant of \$75,600 along with funding from the Electric Utility 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 \$.19 between FY2011 and FY2014, despite declining assessments, and the Commissioners were still able to maintain the rate of \$.45/\$100 of assessment for FY2015.

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, 2014



COMMISSIONERS OF ST. MICHAELS
GOVERNMENT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2014

EXHIBIT A

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Cash	\$ 388,560	\$ -	\$ 388,560
Accounts Receivable	429,850	189,830	619,680
Investments	10,469,325	111,345	10,580,670
Accounts Receivable - Parking Spaces	103,800	-	103,800
Note Receivable - Choptank Electric Cooperative, Inc.	1,110,036	-	1,110,036
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	6,930,959	3,171,472	10,102,431
Vehicles	422,897	78,206	501,103
Accumulated Depreciation	<u>(1,919,923)</u>	<u>(1,217,078)</u>	<u>(3,137,001)</u>
Total Assets	<u>\$ 21,753,586</u>	<u>\$ 3,281,826</u>	<u>\$ 25,035,412</u>
<u>LIABILITIES</u>			
Accounts Payable	\$ 348,765	\$ 8,941	\$ 357,706
Non-Current Liabilities:			
Compensated Absences	123,377	9,776	133,153
Due within one year	-	100,929	100,929
Due in more than one year	<u>-</u>	<u>1,521,398</u>	<u>1,521,398</u>
Total Liabilities	<u>472,142</u>	<u>1,641,044</u>	<u>2,113,186</u>
<u>NET POSITION</u>			
Net Investment in Capital Assets	9,252,015	1,358,324	10,610,339
Restricted	9,789,674	111,345	9,901,019
Unrestricted	<u>2,239,755</u>	<u>171,113</u>	<u>2,410,868</u>
Total Net Position	<u>\$ 21,281,444</u>	<u>\$ 1,640,782</u>	<u>\$ 22,922,226</u>

COMMISSIONERS OF ST. MICHAELS
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2014

EXHIBIT C

<u>ASSETS</u>	<u>General Fund</u>
Cash	\$ 388,560
Accounts Receivable	429,850
Investments	<u>10,469,325</u>
Total Assets	<u>\$ 11,287,735</u>

LIABILITIES AND FUND BALANCES

Liabilities:	
Accounts Payable	\$ <u>348,765</u>
Fund Balance:	
Unassigned	2,259,332
Committed	<u>8,679,638</u>
Total Fund Balance	<u>10,938,970</u>
Total Liabilities and Fund Balance	<u>\$ 11,287,735</u>

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

Total Fund Balance	\$ 10,938,970
Note Receivable - Choptank Electric is a long term asset	1,110,036
Accounts Receivable - Parking Spaces is a long term asset	103,800
Capital assets and related accumulated depreciation used in governmental activities are not financial resources and therefore are not reported in the governmental fund's balance sheet.	9,252,015
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Compensated Absences	<u>(123,377)</u>
Net Position of Governmental Activities	<u>\$ 21,281,444</u>

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

EXHIBIT D

	<u>General Fund</u>
Revenues:	
Taxes	\$ 1,752,308
Revenue from Other Agencies	1,703,733
Licenses and Permits	34,737
Rental/Franchise Revenue	234,447
Fines	980
Service Charges	55,676
Investment Income	64,430
Miscellaneous	<u>66,104</u>
Total Revenues	<u>3,912,415</u>
Expenditures:	
Current:	
General Government	1,882,094
Police	880,822
Public Works	684,019
Capital Outlay	<u>419,189</u>
Total Expenditures	<u>3,866,124</u>
Excess of Revenues over Expenditures	<u>46,291</u>
Other Financing Sources/(Uses):	
Operating Transfers	13,339
Principal Proceeds from Choptank Note	<u>341,922</u>
Total Other Financing Sources/(Uses)	<u>355,261</u>
Net Change in Fund Balance	401,552
Fund Balances - Beginning - Restated	<u>10,537,418</u>
Fund Balances - Ending	<u>\$ 10,938,970</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, 2014

EXHIBIT E

Net Change in Fund Balance - Total Governmental Funds	\$	401,552
Amounts reported for governmental activities in the statement of activities are different because:		
Block grant proceeds were previously reported as revenue in government wide statements		(375,130)
Parking space proceeds were previously reported as revenue in government wide statements		(47,000)
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.		419,189
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.		(341,922)
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds. This is the change in the compensated absences for the year.		(14,868)
Depreciation expense on capital assets is reported in the government-wide statement of activities, but it does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds.		<u>(281,966)</u>
Change in Net Position of Governmental Activities	\$	<u><u>(240,145)</u></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, 2014

EXHIBIT F

	Budgeted Amounts		Actual Amounts	Favorable (Unfavorable) Variance
	Original	Final		
Revenues:				
Taxes	\$ 1,707,406	\$ 1,707,406	\$ 1,752,308	\$ 44,902
Revenue from Other Agencies	456,558	456,558	1,703,733	1,247,175
Licenses and Permits	25,800	25,800	34,737	8,937
Rental/Franchise Revenue	235,740	235,740	234,447	(1,293)
Fines	2,200	2,200	980	(1,220)
Service Charges	58,300	58,300	55,676	(2,624)
Investment Income	70,778	70,778	64,430	(6,348)
Miscellaneous	-	-	66,104	66,104
Total Revenues	2,556,782	2,556,782	3,912,415	1,355,633
Expenditures:				
Current:				
General Government	716,649	716,649	1,882,094	(1,165,445)
Police	877,677	877,677	880,822	(3,145)
Public Works	535,792	535,792	684,019	(148,227)
Capital Outlay	1,420,200	1,420,200	419,189	1,001,011
Total Expenditures	3,550,318	3,550,318	3,866,124	(315,806)
Excess (Deficiency) of Revenues over Expenditures	(993,536)	(993,536)	46,291	1,039,827
Other Financing Sources/(Uses):				
Operating Transfers	13,339	13,339	13,339	-
Principal Proceeds from Choptank Note	341,922	341,922	341,922	-
Prior Year Reserves	617,212	617,212	-	(617,212)
Total Other Financing Sources/(Uses)	972,473	972,473	355,261	(617,212)
Net Change in Fund Balance	(21,063)	(21,063)	401,552	422,615
Fund Balances - Beginning	10,537,418	10,537,418	10,537,418	-
Fund Balances - Ending	\$ 10,516,355	\$ 10,516,355	\$ 10,938,970	\$ 422,615

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF NET POSITION - ENTERPRISE FUND
JUNE 30, 2014

EXHIBIT G

<u>ASSETS</u>	<u>Water Fund</u>
Current Assets:	
Accounts Receivable	\$ 189,830
Investments	<u>111,345</u>
Total Current Assets	<u>301,175</u>
Capital Assets:	
Equipment	948,051
Improvements	3,171,472
Vehicles	78,206
Accumulated Depreciation	<u>(1,217,078)</u>
Total Capital Assets	<u>2,980,651</u>
Total Assets	<u>\$ 3,281,826</u>
 <u>LIABILITIES</u> 	
Current Liabilities:	
Accounts Payable	\$ 8,941
Current Portion of Long Term Debt	<u>100,929</u>
Total Current Liabilities	<u>109,870</u>
Non-Current Liabilities:	
Compensated Absences	9,776
Long Term Debt - Net of Current Portion	<u>1,521,398</u>
Total Non-Current Liabilities	<u>1,531,174</u>
Total Liabilities	<u>1,641,044</u>
 <u>NET POSITION</u> 	
Invested in Capital Assets, Net of Related Debt	1,358,324
Restricted	111,345
Unrestricted	<u>171,113</u>
Total Net Position	<u>1,640,782</u>
Total Liabilities and Net Position	<u>\$ 3,281,826</u>

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2014

EXHIBIT H

	Water Fund
Operating Revenues:	
Charges for Services	\$ 617,632
Connection Charges	4,200
Capital Charges	1,100
Miscellaneous	<u>3,924</u>
 Total Operating Revenues	 <u>626,856</u>
Operating Expenses:	
Salaries	196,686
Overtime	4,261
Administrative Salary Charge	32,635
Supplies	1,132
Computer/Telemetry Software	7,350
Postage	1,311
Electric	17,568
Testing	7,317
Insurance	4,900
Dues and Subscriptions	300
Telephone	1,834
Miscellaneous	1,367
Maintenance of Generator #2	2,406
Reimbursables	4,341
Vehicle Expense	2,008
Materials and Supplies	15,128
Uniforms	6,327
Audit	1,600
Arsenic System Maintenance	78,282
Depreciation	110,084
Arsenic Removal Administrative Fee	2,088
Arsenic Removal Interest	3,821
USDA Loan Interest	26,429
Water Tower Interest	<u>12,465</u>
 Total Operating Expenses	 <u>541,640</u>
Operating Income (Loss)	85,216
Non-Operating Revenue:	
Investment Income	<u>34</u>
Income/(Loss) Before Transfers	85,250
Transfers	<u>(13,339)</u>
Change in Net Position	71,911
Net Position - Beginning - Restated	<u>1,568,871</u>
Net Position - Ending	<u>\$ 1,640,782</u>

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2014

EXHIBIT I

	<u>Water Fund</u>
Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 581,920
Connection Charges	4,200
Capital Charges	1,100
Miscellaneous Charges	3,924
Cash Payments for Interest	(42,715)
Cash Payments to Employees for Services	(232,662)
Cash Payments to Suppliers for Goods and Services	<u>(151,552)</u>
Net Cash Flows from Operating Activities	<u>164,215</u>
Cash Flows from Non-Capital Financing Activities:	
Cash from/(to) Maryland Local Government Investment Pool	(52,701)
Transfers-General Fund	<u>(13,339)</u>
Net Cash Flows from Non-Capital Financing Activities	<u>(66,040)</u>
Cash Flows from Capital and Related Financing Activities:	
Retirement of Debt	<u>(98,175)</u>
Net Increase in Cash	-
Cash - Beginning	<u>-</u>
Cash - Ending	<u>\$ -</u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:	
Operating Income (Loss)	\$ 85,216
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Depreciation	110,084
Change in Accounts Receivable	(35,712)
Change in Compensated Absences	920
Change in Accounts Payable	<u>3,707</u>
Net Cash Flows from Operating Activities	<u>\$ 164,215</u>

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.

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:

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

- 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 fund.

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.

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.

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

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 presented using 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 the receivable is deemed uncollectible.

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.

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

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:

<u>Classification</u>	<u>Life</u>
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 of resources and liabilities and deferred inflows of resources. 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 preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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. The Town currently has no restricted fund balance.
- 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. Compensated Absences

Employees are granted vacation and compensatory time in varying amounts. Vacation leave is only accrued as earned on the basis of services already performed by the employee and that it is probable to be paid in a future period. An employee is allowed to carry a maximum of sixty days of vacation time from one year to the next. Any amounts over 60 days will be forfeited, unless written permission is given by the Town Manager. Compensatory time is limited to 480 hours for police and 240 hours for office staff. An employee that exceeds this amount during a given year will be required to take overtime pay for all hours exceeding the limits.

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

EXHIBIT J
PAGE 6

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

G. 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 October 22, 2014, the date the report was available for issuance.

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	\$	330,604	
General Fund Payroll		35,935	
Parking Lot		69,587	
Muskrat Park		7,205	
Murray Shoreline		1,326	
SMPD-SMYLE		10,777	
<u>Total PNC Bank</u>			455,434
<u>Maryland Local Government Investment Pool (MLGIP)</u>			10,580,669
 <u>TOTAL CASH AND INVESTMENTS</u>			 <u>\$ 11,036,178</u>

The balance of cash is categorized as follows:

Amount insured by the FDIC, or collateralized with securities.		\$	455,434
Uninsured and Uncollateralized			-
 <u>TOTAL CASH</u>			 <u>\$ 455,434</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	\$ 1,789,687	\$ 1,789,687	\$ 1,789,687	\$ -
Committed/Restricted	Various	8,679,638	8,679,638	8,679,638	-
 <u>ENTERPRISE FUND</u>					
<u>MLGIP</u>					
Restricted	Various	111,345	111,345	111,345	-
 <u>TOTAL ALL FUNDS</u>		 <u>\$ 10,580,670</u>	<u>\$ 10,580,670</u>	<u>\$ 10,580,670</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

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

EXHIBIT J
PAGE 7

NOTE 2 - CASH AND INVESTMENTS (CONTINUED):

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.

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 the type of charge, of outstanding receivables:

Tower Rents	\$ 3,738
CDBG Grant	45,976
Harbor Road Boat Ramp	198,000
Water Rents	189,830
Public Accommodations Tax	143,371
Parking Spaces	103,800
Cherry Street Sidewalks	75
Highway User Taxes	4,676
Admissions and Amusements	10,095
Taxes	2,280
Housing Authority P.I.L.O.T.	13,437
Other Miscellaneous Receivables	<u>8,202</u>
<u>TOTAL</u>	<u>\$ 723,480</u>

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

EXHIBIT J
PAGE 8

NOTE 4 - NOTE RECEIVABLE - CHOPTANK ELECTRIC COOPERATIVE:

In 2008 the Town of St. Michaels sold its 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%.

NOTE 5 - CAPITAL ASSETS:

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

	<u>ASSETS</u>			
	BALANCE JULY 1, <u>2013</u>	<u>Acquisitions</u>	<u>Retirements</u>	BALANCE JUNE 30, <u>2014</u>
Land and Improvements	\$ 2,090,532	\$ -	\$ -	\$ 2,090,532
Buildings	1,286,733	-	-	1,286,733
Equipment	440,817	-	-	440,817
Improvements	6,541,882	389,077	-	6,930,959
Vehicles	500,355	30,113	(107,571)	422,897
Water Assets	<u>4,197,729</u>	<u>-</u>	<u>-</u>	<u>4,197,729</u>
<u>TOTALS</u>	<u>\$ 15,058,048</u>	<u>\$ 419,190</u>	<u>\$ (107,571)</u>	<u>\$ 15,369,667</u>
	<u>ACCUMULATED DEPRECIATION</u>			
	BALANCE JULY 1, <u>2013</u>	<u>Depreciation</u>	<u>Retirements</u>	BALANCE JUNE 30, <u>2014</u>
Land and Improvements	\$ 70,429	\$ 3,040	\$ -	\$ 73,469
Buildings	325,796	32,217	-	358,013
Equipment	335,491	17,299	-	352,790
Improvements	714,922	187,389	-	902,311
Vehicles	298,890	42,021	(107,571)	233,340
Water Assets	<u>1,106,994</u>	<u>110,084</u>	<u>-</u>	<u>1,217,078</u>
<u>TOTALS</u>	<u>\$ 2,852,522</u>	<u>\$ 392,050</u>	<u>\$ (107,571)</u>	<u>\$ 3,137,001</u>
<u>CAPITAL ASSETS</u>				<u>\$ 12,232,666</u>

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

EXHIBIT J
PAGE 9

NOTE 5 - CAPITAL ASSETS (CONTINUED):

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

Governmental Activities:	
General Government	\$ 25,661
Police	33,946
Public Works	222,359
Water Fund	<u>110,084</u>
Total Depreciation Expense	<u>\$ 392,050</u>

NOTE 6 - 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).	\$ 489,890
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).	215,336
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>917,101</u>
<u>TOTAL DEBT</u>	<u>1,622,327</u>
Less: Current Portion	<u>(100,929)</u>
<u>TOTAL LONG TERM DEBT</u>	<u>\$ 1,521,398</u>

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

	Governmental		Enterprise	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ -	\$ -	\$ 100,929	\$ 39,686
2016	-	-	104,343	36,272
2017	-	-	107,929	32,686
2018	-	-	111,693	28,922
2019	-	-	112,642	27,973
2020 - 2024	-	-	492,062	60,913
2025 - 2029	-	-	264,143	16,184
2030 - 2034	-	-	204,136	4,944
2035 - 2039	-	-	<u>124,450</u>	<u>998</u>
<u>TOTALS</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,622,327</u>	<u>\$ 248,578</u>

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

EXHIBIT J
PAGE 10

NOTE 6 – DEBT (CONTINUED):

Below summarizes the changes in Debt:

	<u>BALANCE</u> <u>7/1/13</u>	<u>Additions</u>	<u>Retirements</u>	<u>BALANCE</u> <u>6/30/14</u>
USDA	\$ 538,511	\$ -	\$ (48,621)	\$ 489,890
Maryland CDA	226,894	-	(11,558)	215,336
Arsenic Removal	<u>955,097</u>	<u>-</u>	<u>(37,996)</u>	<u>917,101</u>
<u>TOTALS</u>	<u>\$ 1,720,502</u>	<u>\$ -</u>	<u>\$ (98,175)</u>	<u>\$ 1,622,327</u>

NOTE 7 - RESTRICTIONS ON NET POSITION:

Restricted net position is available for the following purposes:

	<u>General</u>	<u>Enterprise</u>
Capital Projects	\$ 9,789,674	\$ -
Water Improvements	<u>-</u>	<u>111,345</u>
<u>TOTALS</u>	<u>\$ 9,789,674</u>	<u>\$ 111,345</u>

NOTE 8 - 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 Chesapeake Employers' Insurance.

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.

Chesapeake Employers' Insurance covers workman's compensation claims.

The Maryland Local Government Insurance Trust and Chesapeake Employers' Insurance 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 9 - 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 7% 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 \$97,323 was equal to the Town's required and actual contributions. The required contribution was determined as part of the June 30, 2013 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 10 - PRIOR PERIOD ADJUSTMENT:

Compensated absences had not been accrued in the past. To correct this, beginning net position for the General fund has decreased by \$108,508 and beginning net position for the Enterprise fund has decreased by \$8,856.

NOTE 11 - COMMUNITY DEVELOPMENT BLOCK GRANTS:

The Town received a Community Development Block Grant from the United States Department of Housing and Urban Development in the amount of \$864,438 which was passed through to an entity constructing an affordable housing project. The previous Block Grant in the amount of \$375,130 which was loaned to an affordable housing developer has been repaid and is being used in another affordable housing project. These amounts were not budgeted for the current year but are shown as revenues and expenditures in the fund financial statements.

COMMISSIONERS OF ST. MICHAELS

SUPPLEMENTAL INFORMATION

JUNE 30, 2014

COMMISSIONERS OF ST. MICHAELS
 SUPPLEMENTAL INFORMATION
 ANALYSIS OF REVENUE-BUDGET AND ACTUAL-ALL FUNDS
 YEAR ENDED JUNE 30, 2014

SCHEDULE A
 PAGE 1

	2014				
	Budgeted Amounts		Actual Amounts	Favorable (Unfavorable) Variance	Prior Year 6/30/13
	Original	Final			
TAXES-LOCAL:					
<u>Real and Personal Property:</u>					
Real Estate Taxes	\$ 1,186,142	\$ 1,186,142	\$ 1,184,439	\$ (1,703)	\$ 1,357,113
Personal Property and Corporation	1,123	1,123	1,123	-	50,137
Utilities	44,572	44,572	43,698	(874)	43,576
<u>Total Real and Personal Property</u>	1,231,837	1,231,837	1,229,260	(2,577)	1,450,826
<u>Admissions and Amusements</u>	53,000	53,000	61,036	8,036	58,567
<u>Public Accomodations</u>	420,000	420,000	449,743	29,743	439,423
<u>Taxes - State Shared:</u>					
Highway User	14,569	14,569	14,271	(298)	13,407
<u>Total Taxes</u>	1,719,406	1,719,406	1,754,310	34,904	1,962,223
Less: Discounts and Allowances	(12,000)	(12,000)	(2,002)	9,998	(527)
<u>NET TAXES</u>	1,707,406	1,707,406	1,752,308	44,902	1,961,696
REVENUE FROM OTHER AGENCIES:					
<u>Federal Government:</u>					
Department of The Interior	1,769	1,769	2,040	271	1,783
FEMA Grant	-	-	-	-	3,703
DHCD and SMHA-Federal Block Grant	-	-	1,239,569	1,239,569	-
<u>State Government:</u>					
Police Protection State	35,839	35,839	35,576	(263)	18,388
Critical Area Grant	4,000	4,000	4,000	-	4,000
Harbor Road Boat Ramp	198,000	198,000	198,000	-	-
Back Creek Dock	50,000	50,000	-	(50,000)	-
Hollis Park	15,000	15,000	-	(15,000)	-
State Highway Grant	-	-	32,099	32,099	-
Income Tax	130,000	130,000	132,754	2,754	142,786
State Fire, Rescue, & Ambulance Fund	2,450	2,450	1,705	(745)	2,895
War of 1812 Grant	-	-	38,800	38,800	38,800
<u>County Government:</u>					
Crossing Guard	11,875	11,875	12,500	625	11,875
<u>Other Agencies:</u>					
St. Michaels Housing Authority PILOT	7,625	7,625	6,690	(935)	-
<u>TOTAL REVENUE FROM OTHER AGENCIES</u>	456,558	456,558	1,703,733	1,247,175	224,230
LICENSES AND PERMITS:					
Traders Licenses	8,300	8,300	7,907	(393)	9,418
Animal Licenses	100	100	178	78	90
Building Permits	11,500	11,500	14,962	3,462	13,342
HDC Permits	2,500	2,500	2,250	(250)	2,100
Board of Appeals	2,400	2,400	1,050	(1,350)	1,303
Land Use Management Fees	-	-	5,000	5,000	-
Other Licenses & Permits	1,000	1,000	3,390	2,390	1,930
<u>TOTAL LICENSES AND PERMITS</u>	25,800	25,800	34,737	8,937	28,183

COMMISSIONERS OF ST. MICHAELS
 SUPPLEMENTAL INFORMATION
 ANALYSIS OF REVENUE-BUDGET AND ACTUAL-ALL FUNDS
 YEAR ENDED JUNE 30, 2014

SCHEDULE A
 PAGE 2

	2014				
	Budgeted Amounts			Favorable (Unfavorable) Variance	Prior Year 6/30/13
	Original	Budget Final	Actual Amounts		
RENTAL/FRANCHISE REVENUE:					
Cable TV	\$ 15,300	\$ 15,300	\$ 12,854	\$ (2,446)	\$ 12,215
Boat Slip Rentals	23,000	23,000	23,719	719	25,983
Building Rent	40,553	40,553	40,662	109	40,662
Tower Rent	156,887	156,887	157,212	325	150,306
TOTAL RENTAL/FRANCHISE REVENUE	235,740	235,740	234,447	(1,293)	229,166
WATER CHARGES:					
Water Service Charges	615,000	615,000	617,632	2,632	527,822
Water Connections	4,000	4,000	4,200	200	8,900
Water Capital Charges	2,000	2,000	1,100	(900)	4,400
Miscellaneous Water Revenue	-	-	3,924	3,924	4,590
TOTAL WATER CHARGES	621,000	621,000	626,856	5,856	545,712
FINES:					
Parking and Civil Violations	2,200	2,200	980	(1,220)	2,150
SERVICE CHARGES:					
Copy Machine	500	500	259	(241)	58
Parking Spaces	52,000	52,000	47,000	(5,000)	41,300
Tree Mitigation Funds	2,000	2,000	10	(1,990)	11
Health Officer Charges	1,500	1,500	4,253	2,753	2,825
Other Service Charges	2,300	2,300	4,154	1,854	16,552
TOTAL SERVICE CHARGES	58,300	58,300	55,676	(2,624)	60,746
MISCELLANEOUS REVENUE:					
Interest	70,823	70,823	64,464	(6,359)	84,094
Other Miscellaneous Revenue	-	-	26,550	26,550	8,136
Proceeds from Sale of St. Michael's Utility Commission *	341,922	341,922	341,922	-	328,771
Reimbursed Expenses	-	-	11,781	11,781	15,493
SMPD/SMYLE Donations	-	-	27,773	27,773	3,892
Prior Year Reserves	617,212	617,212	-	(617,212)	-
TOTAL MISCELLANEOUS REVENUE	1,029,957	1,029,957	472,490	(557,467)	440,386
TOTAL REVENUE	\$ 4,136,961	\$ 4,136,961	\$ 4,881,227	\$ 744,266	\$ 3,492,269

COMMISSIONERS OF ST. MICHAELS
 SUPPLEMENTAL INFORMATION
 ANALYSIS OF EXPENDITURES/EXPENSES-BUDGET AND ACTUAL
 ALL FUNDS
 YEAR ENDED JUNE 30, 2014

SCHEDULE B
 PAGE 1

	2014				
	Budgeted Amounts		Actual Amounts	Favorable (Unfavorable) Variance	Prior Year 6/30/13
	Original	Final			
GOVERNMENTAL FUNDS					
GENERAL GOVERNMENT:					
<u>Legislative:</u>					
Commissioner's Salaries and Benefits	\$ 10,000	\$ 10,000	\$ 11,200	\$ (1,200)	\$ 10,558
Other Operating Expenses	13,400	13,400	6,458	6,942	5,071
<u>Executive:</u>					
Salaries and Benefits	141,539	141,539	127,526	14,013	119,622
Overtime	2,000	2,000	5,165	(3,165)	2,601
Communications Personnel	50,000	50,000	4,961	45,039	-
Legal	40,000	40,000	31,445	8,555	24,403
Audit	10,000	10,000	17,838	(7,838)	9,870
Engineering	5,000	5,000	4,255	745	4,553
Liability and Property Insurance	9,000	9,000	10,021	(1,021)	11,712
Website Development	2,500	2,500	7,036	(4,536)	5,684
Volunteer Acknowledgement	300	300	-	300	-
Election	1,500	1,500	938	562	-
Miscellaneous	1,000	1,000	1,438	(438)	1,780
Telephone	7,500	7,500	5,931	1,569	5,155
Dues and Subscriptions	4,000	4,000	3,941	59	3,693
Notices and Ads	5,500	5,500	5,964	(464)	3,657
Travel and Training	2,000	2,000	1,760	240	1,703
Janitorial	3,000	3,000	3,057	(57)	2,870
Codification - Maintenance	12,000	12,000	1,963	10,037	10,954
Office Expense	25,000	25,000	21,827	3,173	22,417
Document Retention	6,000	6,000	2,378	3,622	-
Capital Outlay	-	-	-	-	8,954
Total Legislative and Executive	351,239	351,239	275,102	76,137	255,257
<u>Planning and Zoning:</u>					
Salaries and Benefits	118,072	118,072	115,444	2,628	109,887
Overtime	2,000	2,000	5,597	(3,597)	1,955
Administrative Salary Charge	32,635	32,635	32,635	-	31,735
Legal	10,000	10,000	19,149	(9,149)	16,609
Consulting	2,000	2,000	105	1,895	210
Office Expenses	3,500	3,500	2,315	1,185	3,461
Inspections	2,500	2,500	6,587	(4,087)	2,231
Advertising	3,500	3,500	2,071	1,429	3,267
Reimbursables	-	-	44,642	(44,642)	50,835
Total Planning and Zoning:	174,207	174,207	228,545	(54,338)	220,190
<u>Donations to Outside Agencies:</u>					
Tourism Board	122,000	122,000	69,676	52,324	153,561
Block Grant	-	-	1,239,568	(1,239,568)	-
Fire Department	51,703	51,703	51,703	-	50,847
St. Mary's Square Museum	3,000	3,000	3,000	-	3,000
Talbot County Library	7,500	7,500	7,500	-	7,500
St. Michaels Community Center	3,000	3,000	3,000	-	3,000
Bay Hundred Pool	4,000	4,000	4,000	-	4,000
Total Donations to Outside Agencies	191,203	191,203	1,378,447	(1,187,244)	221,908
TOTAL GENERAL GOVERNMENT	716,649	716,649	1,882,094	(1,165,445)	697,355
<u>POLICE:</u>					
SMYLE Expenses	1,000	1,000	22,527	(21,527)	7,413
Sworn Salaries and Benefits	712,039	712,039	677,298	34,741	606,797
Sworn Overtime	15,000	15,000	30,504	(15,504)	28,884
Other Salaries	53,403	53,403	35,799	17,604	34,529
Other Overtime	1,200	1,200	1,995	(795)	1,448
Administrative Salary Charges	32,635	32,635	32,635	-	31,735
Audit	1,600	1,600	1,600	-	1,500
Legal	1,000	1,000	-	1,000	-
Liability and Property Insurance	8,500	8,500	8,500	-	7,990
Utilities	5,500	5,500	5,944	(444)	6,367
Personnel Testing	500	500	-	500	622

COMMISSIONERS OF ST. MICHAELS
 SUPPLEMENTAL INFORMATION
 ANALYSIS OF EXPENDITURES/EXPENSES-BUDGET AND ACTUAL
 ALL FUNDS
 YEAR ENDED JUNE 30, 2014

SCHEDULE B
 PAGE 2

	2014				
	Budgeted Amounts		Actual Amounts	Favorable (Unfavorable) Variance	Prior Year 6/30/13
	Original	Final			
POLICE (CONTINUED):					
Uniforms	\$ 4,000	\$ 4,000	\$ 3,406	\$ 594	\$ 3,636
Communications (Radio)	1,500	1,500	500	1,000	500
Equipment and Supplies	4,000	4,000	2,650	1,350	6,357
Vehicle Expense	16,000	16,000	25,051	(9,051)	18,027
Advertising (Personnel)	800	800	-	800	423
Miscellaneous	1,000	1,000	1,260	(260)	1,219
Telephone	7,000	7,000	7,099	(99)	7,144
Dues and Subscriptions	500	500	465	35	63
Travel and Training	2,500	2,500	2,820	(320)	3,572
Janitorial	3,000	3,000	5,290	(2,290)	3,515
Office Expenses	5,000	5,000	6,383	(1,383)	5,442
Reimbursable	-	-	283	(283)	4,359
Capital Outlay	45,200	45,200	38,926	6,274	37,103
TOTAL POLICE	922,877	922,877	910,935	11,942	818,645
PUBLIC WORKS:					
<u>Maintenance and Grounds:</u>					
Salaries and Benefits	216,827	216,827	195,777	21,050	182,087
Overtime	10,000	10,000	4,263	5,737	3,643
Administrative Salary Charge	32,635	32,635	32,635	-	31,735
Audit	2,030	2,030	2,030	-	2,030
Liability and Property Insurance	5,000	5,000	5,000	-	4,669
Tree Planting and Maintenance	8,000	8,000	5,732	2,268	10,978
Maintenance and Supplies	3,000	3,000	5,665	(2,665)	2,959
Health Officer	300	300	2,953	(2,653)	800
Mosquito Control	2,600	2,600	2,570	30	2,560
Uniforms	4,800	4,800	6,380	(1,580)	5,174
Personnel Testing	400	400	-	400	-
Miscellaneous	250	250	471	(221)	201
Telephone	2,100	2,100	1,629	471	2,058
Total Maintenance and Grounds	287,942	287,942	265,105	22,837	248,894
<u>Sanitation and Waste Removal:</u>					
Landfill Fees	30,000	30,000	28,590	1,410	27,652
Repairs and Maintenance	4,500	4,500	6	4,494	311
Vehicle Expense	12,000	12,000	6,182	5,818	8,985
Recycling Service	54,000	54,000	54,085	(85)	53,490
Capital Outlay	-	-	-	-	142,309
Total Sanitation and Waste Removal	100,500	100,500	88,863	11,637	232,747
<u>Streets:</u>					
Signs	1,200	1,200	5,326	(4,126)	978
Sidewalk Repair	3,600	3,600	423	3,177	329
Maintenance and Supplies	11,000	11,000	9,020	1,980	5,678
Storm Drain Repair and Maintenance	4,000	4,000	259	3,741	1,079
Snow and Ice Removal	1,000	1,000	510	490	-
Parking Lots Repair and Maintenance	500	500	-	500	63
Vehicle Expense	12,000	12,000	13,259	(1,259)	7,499
Electric - Street Lights	45,000	45,000	44,557	443	45,075
Capital Outlay - Streets	1,035,000	1,035,000	377,295	657,705	43,322
Capital Outlay - Parking Lots	77,000	77,000	10,981	66,019	106,043
Total Streets	1,190,300	1,190,300	461,630	728,670	210,066
<u>Municipal Buildings:</u>					
Utilities	15,000	15,000	16,855	(1,855)	12,617
Maintenance and Supplies	10,000	10,000	10,870	(870)	6,771
Real Estate Taxes	9,450	9,450	8,961	489	9,443
Total Municipal Buildings	34,450	34,450	36,686	(2,236)	28,831

COMMISSIONERS OF ST. MICHAELS
 SUPPLEMENTAL INFORMATION
 ANALYSIS OF EXPENDITURES/EXPENSES-BUDGET AND ACTUAL
 ALL FUNDS
 YEAR ENDED JUNE 30, 2014

SCHEDULE B
 PAGE 3

	2014				
	Budgeted Amounts		Actual Amounts	Favorable (Unfavorable) Variance	Prior Year 6/30/13
	Original	Final			
Parks and Recreation:					
Harbor Maintenance	\$ 2,000	\$ 2,000	\$ 1,684	\$ 316	\$ 304
Maintenance and Supplies	23,600	23,600	23,225	375	13,489
Vehicle Maintenance	4,000	4,000	3,465	535	2,383
Uniforms	2,500	2,500	3,182	(682)	2,587
Nature Trail Maintenance	1,500	1,500	-	1,500	483
Park Enhancement Fund	1,000	1,000	1,000	-	-
Capital Outlay - Back Creek Dock	50,000	50,000	-	50,000	-
Capital Outlay - Parks	15,000	15,000	800	14,200	300,865
Capital Outlay - W Harbor Bulkhead	198,000	198,000	187,455	10,545	12,539
Total Parks and Recreation	297,600	297,600	220,811	76,789	332,650
TOTAL PUBLIC WORKS	1,910,792	1,910,792	1,073,095	837,697	1,053,188
TOTAL GOVERNMENTAL EXPENDITURES	3,550,318	3,550,318	3,866,124	(315,806)	2,569,188
ENTERPRISE FUND					
WATER FUND:					
Salaries and Benefits	216,827	216,827	196,686	20,141	182,075
Overtime	10,000	10,000	4,261	5,739	3,639
Administrative Salary Charge	32,635	32,635	32,635	-	31,735
Consulting, Audit and Legal	1,600	1,600	1,600	-	1,600
Liability and Property Insurance	4,900	4,900	4,900	-	3,765
Office Expenses	700	700	1,132	(432)	189
Computer and Telemetry Software	7,000	7,000	7,350	(350)	6,705
Postage	1,600	1,600	1,311	289	1,688
Electric - Wells and Towers	23,500	23,500	17,568	5,932	21,128
Testing	7,100	7,100	7,317	(217)	6,054
Travel and Training	2,000	2,000	-	2,000	885
Dues and Subscriptions	300	300	300	-	450
Telephone	2,000	2,000	1,834	166	1,272
Uniforms	5,300	5,300	6,327	(1,027)	5,152
Vehicle Expense	2,200	2,200	2,008	192	5,047
Materials and Supplies	25,000	25,000	15,128	9,872	22,529
Maintenance on Arsenic System	20,000	20,000	6,017	13,983	39,008
Reimbursable	-	-	4,341	(4,341)	-
Miscellaneous	500	500	1,367	(867)	865
Maintenance of Generator #2	2,500	2,500	2,406	94	2,417
Water Tank Inspections	2,300	2,300	-	2,300	2,500
Arsenic Media Replacement	75,600	75,600	74,353	1,247	-
Debt Service - New Water Tower	24,127	24,127	12,465	11,662	14,048
Debt Service - Water Bonds (FHA)	75,050	75,050	26,429	48,621	28,577
Debt Service - Arsenic DOE	43,904	43,904	3,821	40,083	3,972
Depreciation	-	-	110,084	(110,084)	111,738
Capital Outlay	-	-	-	-	1,440
TOTAL WATER FUND	586,643	586,643	541,640	45,003	498,478
TOTAL EXPENDITURES/EXPENSES	\$ 4,136,961	\$ 4,136,961	\$ 4,407,764	\$ (270,803)	\$ 3,067,666

COMMISSIONERS OF ST. MICHAELS
 SUPPLEMENTAL INFORMATION
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
 BUDGET AND ACTUAL
 PROPRIETARY FUND
 FOR THE YEAR ENDED JUNE 30, 2014

SCHEDULE C

	Budget	Actual Amounts	Favorable (Unfavorable) Variance	Prior Year Restated 6/30/13
<u>Operating Revenues:</u>				
Charges for Services	\$ 615,000	\$ 617,632	\$ 2,632	\$ 527,822
Connection Charges	4,000	4,200	200	8,900
Capital Charges	2,000	1,100	(900)	4,400
Miscellaneous	-	3,924	3,924	4,590
<u>Total Operating Revenues</u>	<u>621,000</u>	<u>626,856</u>	<u>5,856</u>	<u>545,712</u>
<u>Operating Expenses:</u>				
Salaries and Benefits	216,827	196,686	20,141	182,075
Overtime	10,000	4,261	5,739	3,639
Administrative Salary Charge	32,635	32,635	-	31,735
Consulting, Legal, and Audit	1,600	1,600	-	1,600
Liability and Property Insurance	4,900	4,900	-	3,765
Office Expenses	700	1,132	(432)	189
Computer and Telemetry Software	7,000	7,350	(350)	6,705
Postage	1,600	1,311	289	1,688
Electric - Wells and Towers	23,500	17,568	5,932	21,128
Testing	7,100	7,317	(217)	6,054
Travel and Training	2,000	-	2,000	885
Dues and Subscriptions	300	300	-	450
Telephone	2,000	1,834	166	1,272
Uniforms	5,300	6,327	(1,027)	5,152
Vehicle Expense	2,200	2,008	192	5,047
Materials and Supplies	25,000	15,128	9,872	22,529
Maintenance on Arsenic System	20,000	3,929	16,071	36,920
Reimbursable	-	4,341	(4,341)	-
Miscellaneous	500	1,367	(867)	865
Maintenance of Generator #2	2,500	2,406	94	2,417
Water Tank Inspections	2,300	-	2,300	2,500
Arsenic Media Replacement	75,600	74,353	1,247	-
Arsenic Removal Administrative Fee	-	2,088	(2,088)	2,088
Debt Service - New Water Tower	24,127	12,465	11,662	14,048
Debt Service - Water Bonds (FHA)	75,050	26,429	48,621	28,577
Debt Service - Arsenic DOE	43,904	3,821	40,083	3,972
Depreciation	-	110,084	(110,084)	111,738
Capital Outlay	-	-	-	1,440
<u>Total Operating Expenses</u>	<u>586,643</u>	<u>541,640</u>	<u>45,003</u>	<u>498,478</u>
<u>Operating Income/(Loss)</u>	<u>34,357</u>	<u>85,216</u>	<u>50,859</u>	<u>47,234</u>
<u>Non-Operating Revenue:</u>				
Investment Income	45	34	(11)	50
<u>Income/(Loss) Before Transfers</u>	<u>34,402</u>	<u>85,250</u>	<u>50,848</u>	<u>47,284</u>
<u>Transfers</u>	<u>(13,339)</u>	<u>(13,339)</u>	<u>-</u>	<u>5,201</u>
<u>Change in Net Position</u>	<u>21,063</u>	<u>71,911</u>	<u>50,848</u>	<u>52,485</u>
<u>Net Position - Beginning - Restated</u>				
	<u>1,568,871</u>	<u>1,568,871</u>	<u>-</u>	<u>1,525,242</u>
<u>Net Position - Ending</u>	<u>\$ 1,589,934</u>	<u>\$ 1,640,782</u>	<u>\$ 50,848</u>	<u>\$ 1,577,727</u>

COMMISSIONERS OF ST. MICHAELS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

SCHEDULE D

<u>FEDERAL GRANTOR/PASS- THROUGH GRANTOR/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
United States Department of Housing and Urban Development Community Development Block Grant (CDBG)	14.228	\$ <u>864,438</u>
Total		\$ <u>864,438</u>

COMMISSIONERS OF ST. MICHAELS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

SCHEDULE E

SECTION I - SUMMARY OF AUDITOR'S RESULTS:

FINANCIAL STATEMENTS:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Significant Deficiency(ies) identified?	No
Significant Deficiency(ies) Identified as Material Weakness(es)?	No
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS:

Internal control over major programs:					
Significant Deficiency(ies) identified?	No				
Reportable condition(s) identified not considered to be material weaknesses?	No				
Type of auditor's report issued on compliance for major programs	Unqualified				
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No				
Identification of major programs:					
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"><u>CFDA Number</u></td> <td style="width: 40%;"><u>Name of Federal Program or Cluster</u></td> </tr> <tr> <td>14.228</td> <td>Maryland Community Development Block Grant</td> </tr> </table>	<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	14.228	Maryland Community Development Block Grant	
<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>				
14.228	Maryland Community Development Block Grant				
Dollar threshold used to distinguish between Type A and Type B programs	\$300,000				
Auditee qualified as low-risk auditee?	Yes				

SECTION II - FINANCIAL STATEMENT FINDINGS:

None

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS:

None



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.
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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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commissioners of St. Michaels, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Commissioners of St. Michaels' basic financial statements and have issued our report thereon dated October 22, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commissioners of St. Michaels' 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' internal control. Accordingly, we do not express an opinion on the effectiveness of the Commissioners of St. Michaels' 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

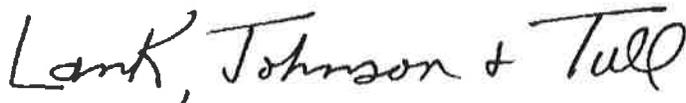
Members

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commissioners of St. Michaels' 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.

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
October 22, 2014



Robert B. Lank, C.P.A.
Terrence Johnson, C.P.A.
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Commissioners
Town of St. Michaels, Maryland

Report on Compliance for Each Major Federal Program

We have audited the Commissioners of St. Michaels' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Commissioners of St. Michaels' major federal programs for the year ended June 30, 2014. The Commissioners of St. Michaels' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Commissioners of St. Michaels' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commissioners of St. Michaels' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Commissioners of St. Michaels' compliance.

Opinion on Each Major Federal Program

In our opinion, the Commissioners of St. Michaels complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Members

Report on Internal Control over Compliance

Management of the Commissioners of St. Michaels is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Commissioners of St. Michaels' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commissioners of St. Michaels' internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Seaford, Delaware
October 22, 2014