COMMISSIONERS OF ST. MICHAELS
FINANCIAL STATEMENTS WITH
SUPPLEMENTAL INFORMATION
JUNE 30, 2015

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Lank, Johnson & Tull, CPAs is a full service Delaware accounting firm specializing in tax planning and audit services.

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 year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation 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 standard's 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.

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Michaels, as of June 30, 2015, 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 Supplemental 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the 10 year pension schedule required by GASB 68 that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

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 - Enterprise 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 October 29, 2015, 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
October 29, 2015

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, 2015. Please read it in conjunction with the Town's financial statements, which follows 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.

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 .3% from 2014 to 2015. (See table below) General fund net position decreased by 1.3%, while the business-type fund increased by 13%. 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, and a reduction in the net pension obligation.

Commissioners of St. Michaels
Net Position
(in millions)

	Governmental		Business-Type		Total		Total
	2015	2014 Restated	2015	2014 Restated	2015	2014 Restated	Percentage Change
Current and Other Assets	10.87	12.50	0.41	0.30	11.28	12.80	(12%)
Capital Assets	10.45	9.25	3.02	2.98	13.47	12.23	10%
Deferred Outflows	0.02	0.08	-	0.01	0.02	0.09	(77.8%)
Total Assets and Deferrals	21.34	21.83	3.43	3.29	24.77	25.12	(1.4%)
Long-Term Debt	-	-	1.52	1.62	1.52	1.62	(6%)
Other Liabilities	0.95	1.17	0.17	0.13	1.12	1.30	(13.85)%
Total Liabilities	0.95	1.17	1.69	1.75	2.64	2.92	(9.6)%
Net Position							
Capital Assets Net of Debt	10.45	9.25	1.50	1.36	11.95	10.61	13%
Restricted	8.35	9.79	0.23	0.11	8.58	9.90	(13%)
Unrestricted - Restated	1.59	1.62	0.01	0.07	1.60	1.69	(5.3%)
Total Net Position	20.39	20.66	1.74	1.54	22.13	22.20	(.3%)

The Town's total revenues (excluding transfers) decreased by 19.5% to $2.52 million (See table below). Revenue from business-type activities increased by 6% to $.66 million, which is due to an increase in water rates. General Governmental revenues decreased by 5% to $1.86 million, which is primarily attributable to a property tax rate reduction approved by the Commissioners and lower State shared income tax revenue.

The total cost of all programs and services decreased by 5%, to $2.59 million. The costs of business-type activities decreased by 6%, to $.51 million, which was primarily due to a reduction in arsenic media replacement costs. The costs of governmental-type activities decreased by 5% to $2.08 million, which is primarily due to a decrease in various line item expenditures. The expenses in the table on the next page are shown net of fees, charges, and grants.

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

	Governmental		Business-Type		Total		Total
	2015	2014	2015	2014	2015	2014	Percentage Change
Program Revenue							
Charges for Services	-	-	0.66	0.62	0.66	0.62	6%
General Revenue							
Taxes	1.81	1.89	-	-	1.81	1.89	(4%)
Investment Income	0.05	0.06	-	-	0.05	0.06	(17%)
Total Revenue	1.86	1.95	0.66	0.62	2.52	2.57	(2%)
Program Expenses - Net							
General	0.45	0.68	-	-	0.45	0.68	(34%)
Police	0.91	0.85	-	-	0.91	0.85	7%
Public Works	0.72	0.67	-	-	0.72	0.67	7%
Water	-	-	0.51	0.54	0.51	0.54	(6%)
Total Expenses	2.08	2.20	0.51	0.54	2.59	2.74	(5%)
Excess (Deficiency)	(0.22)	(0.25)	0.15	0.08	(0.07)	(0.17)	(59%)
Transfer In/(Out)	(0.05)	0.01	0.05	(0.01)	-	-	-
Change in Net Position	(0.27)	(0.24)	0.20	0.07	(0.07)	(0.17)	(59%)
Net Position - Beginning - Restated	20.66	20.90	1.54	1.47	22.20	22.37	(.8%)
Net Position - Ending	20.39	20.66	1.74	1.54	22.13	22.20	(.3%)

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 once during the year.

Actual revenues of $2.77 million were over budgeted revenues by $0.14 million. This favorable variance is primarily due to grants for infrastructure improvements not in the budget, unanticipated building permits and fees and parking space revenue.

Actual expenditures in the amount of $3.76 million came in $0.14 million over budgeted amounts. This unfavorable variance is due primarily to unbudgeted capital project costs.

WATER FUND BUDGETARY HIGHLIGHTS

Actual revenue of $0.66 million exceeded budgeted revenue by $0.03 million. Expenditures came in $0.12 million under budgeted amounts. This favorable variance is due to various line item expenses coming in under budget. Overall, the water fund had a favorable budget variance of $146,063.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015, the Town had $13.47 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 $1.24 million, or 10% from the prior year.

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

	Governmental		Business-Type		Total	
	2015	2014	2015	2014	2015	2014
Land and Improvements	2.01	2.03	-	-	2.01	2.03
Buildings	0.89	0.93	-	-	0.89	0.93
Equipment	0.12	0.09	-	-	0.12	0.09
Improvements	7.21	6.03	-	-	7.21	6.03
Vehicles	0.22	0.17	-	-	0.22	0.17
Water	-	-	3.02	2.98	3.02	2.98
Total Capital Assets	10.45	9.25	3.02	2.98	13.47	12.23

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 $1.52 million in bonds and notes outstanding, versus $1.62 million in 2014, a decrease of $0.10 million or 6% under last year.

Commissioners of St. Michaels
Debt
(in millions)

	Governmental		Business-Type		Total	
	2015	2014	2015	2014	2015	2014
USDA - Water Bonds	-	-	0.44	0.49	0.44	0.49
Maryland CDA - Water Tower	-	-	0.20	0.21	0.20	0.21
Maryland Department of Environment - Arsenic Removal	-	-	0.88	0.92	0.88	0.92
Total Debt	-	-	1.52	1.62	1.52	1.62

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. Utilized 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. In FY2015, the Commissioners were able to maintain the $.45 tax rate by funding some of the capital expenditures with Prior Year Reserves.

The Town's real estate tax (FY2014) is 45 cents per $100 of the State's assessment of the property values. The Town's assessable base dropped from $263,587,102 to $246,092,016, a decrease of $17,495,086 in assessable base, which correlates into a shortfall of $78,728 in tax revenues from FY2014 to FY2015 at the tax rate of $.45. This reduction was offset from Prior Year Reserves.

Also, since FY2012, both the Public Works and Administrative Departments had been operating with one less employee, for a total decrease since FY2010 of 2 people in each department. In FY2015, the Commissioners added a Communications Manager position to the Administrative Department. This hire has enabled the Town of work more effectively in enhancing tourism in St. Michaels which is the economic engine of the Town. In addition, the Communications Manager has been instrumental in redesigning the Town's website and communicating with the Town residents on important local matters.

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 FY2015 remained low in the Administrative Department, however, due to an ongoing zoning case, it is anticipated that legal fees in the Planning & Zoning Department will remain steady in FY2016. Administrative legal fees should remain low in FY2016.

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
- 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 $1,357,000, a Revolving Loan Fund loan in the amount of $860,727, with loan forgiveness in the amount of $143,000. The Town will be applying to the DHCD for grant assistance in the amount of $300,000 to help offset the new debt service and help minimize water rate increases. In FY2015, 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, however work was scheduled to begin on the arsenic system in July 2015.

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 constructed 40 workforce housing units. The units enjoy a nearly 100% occupancy. 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 was completed in FY2015. Included in the project was the installation of a bump out and screening of the Acme parking lot as well as installation of brick sidewalk on Fremont from Railroad to Carpenter Alley. The Town became a Sustainable Community with the Maryland Office of Planning in FY2014.

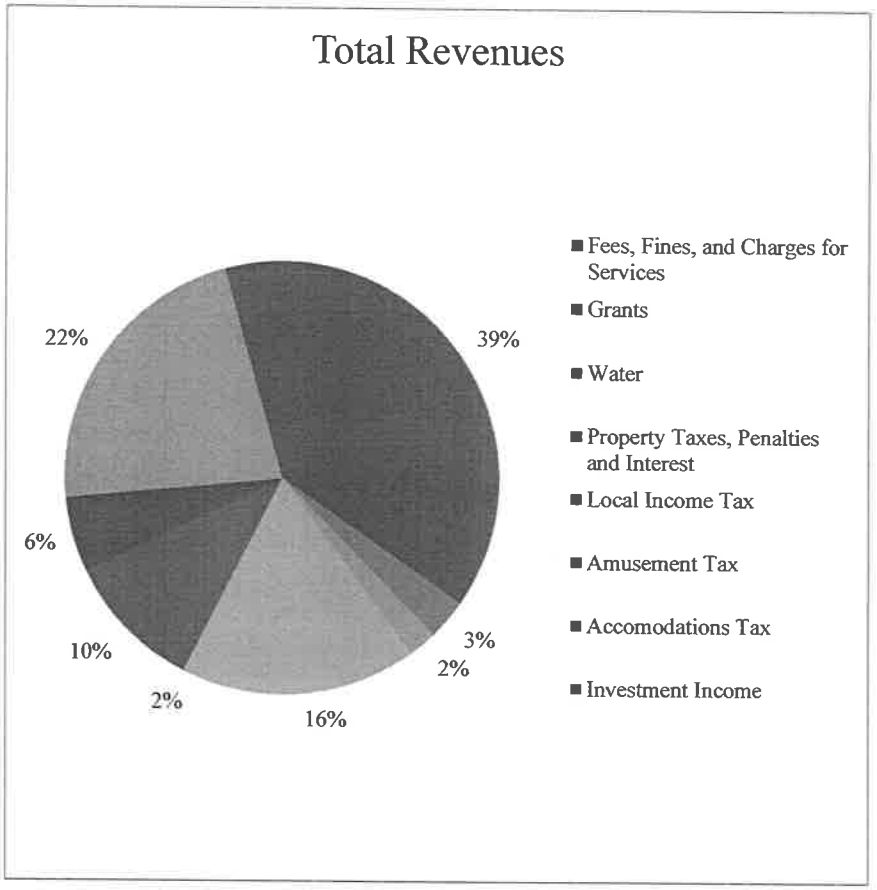
Capital projects completed by the Town in FY2015 include the completion of Phase V of the street rehabilitation project, purchase of a new public works vehicle, Hollis Park bulkhead replacement, phone system and audio visual upgrades to the Town office, the purchase of a new police vehicle, Live Scan finger print system, and E-Tix Communications system.

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 and 2016.

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, 2015



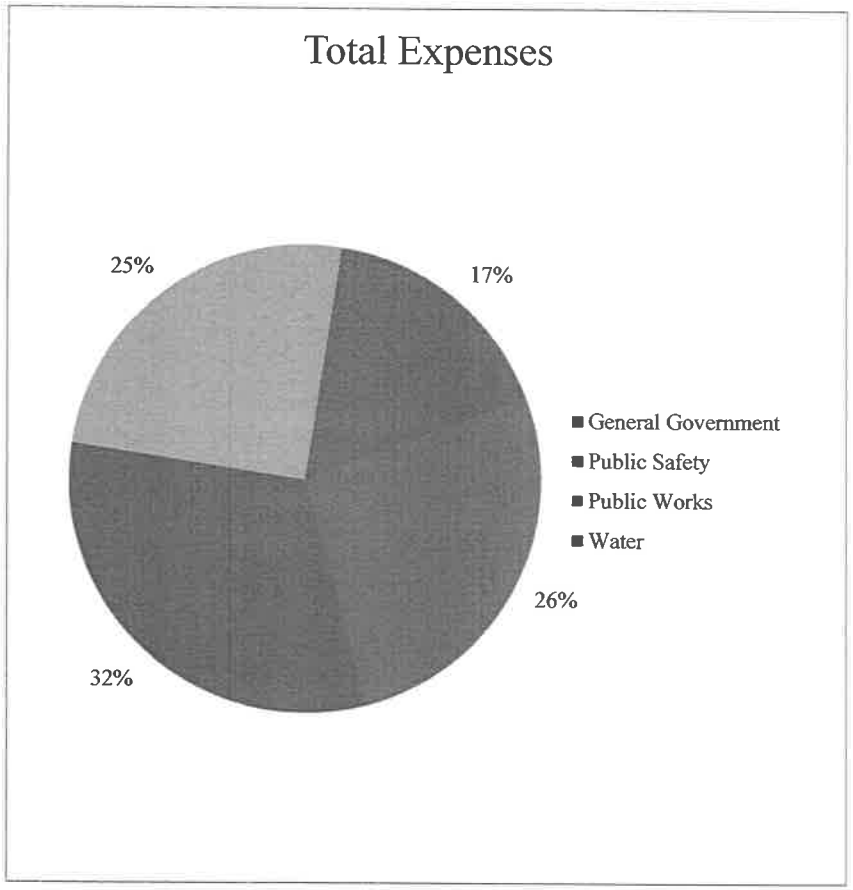


EXHIBIT A

COMMISSIONERS OF ST. MICHAELS
GOVERNMENT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2015

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash	$ 399,376	$ -	$ 399,376
Accounts Receivable	223,155	184,898	408,053
Investments	9,425,077	225,155	9,650,232
Accounts Receivable - Parking Spaces	65,200	-	65,200
Note Receivable - Choptank Electric Cooperative, Inc.	754,438	-	754,438
Capital Assets:			
Land	2,090,532	-	2,090,532
Buildings	1,286,733	-	1,286,733
Equipment	487,091	948,051	1,435,142
Improvements	8,297,979	3,315,526	11,613,505
Vehicles	476,817	78,206	555,023
Accumulated Depreciation	(2,185,879)	(1,322,648)	(3,508,527)
Total Assets	21,320,519	3,429,188	24,749,707
Deferred Outflow of Resources	24,035	3,815	27,850
Total Assets and Deferred Outflows	$ 21,344,554	$ 3,433,003	$ 24,777,557
LIABILITIES			
Accounts Payable	$ 154,789	$ 54,747	$ 209,536
Non-Current Liabilities:			
Compensated Absences	153,628	13,955	167,583
Net Pension Liability	639,619	101,539	741,158
Due within one year	-	104,343	104,343
Due in more than one year	-	1,417,085	1,417,085
Total Liabilities	948,036	1,691,669	2,639,705
NET POSITION			
Net Investment in Capital Assets	10,453,273	1,497,707	11,950,980
Restricted	8,347,042	225,155	8,572,197
Unrestricted - Restated	1,596,203	18,472	1,614,675
Total Net Position	$ 20,396,518	$ 1,741,334	$ 22,137,852

COMMISSIONERS OF ST. MICHAELS
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

EXHIBIT B

Program Activities	Expenses	Program Revenues: Fees, Fines, and Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position: Governmental Activities	Net (Expenses) Revenues and Changes in Net Position: Business-Type Activities	Net (Expenses) Revenues and Changes in Net Position: Total
Governmental Activities:							
General Government	$ 825,227	$ 308,341	$ 2,469	$ 65,774	$ (448,643)	$ -	$ (448,643)
Police	984,006	1,390	76,997	-	(905,619)	-	(905,619)
Public Works	775,049	-	-	23,426	(751,623)	-	(751,623)
Total Governmental Activities	2,584,282	309,731	79,466	89,200	(2,105,885)	-	(2,105,885)
Business-Type Activities:							
Water	518,444	664,451	-	-	-	146,007	146,007
Total Government	$ 3,102,726	$ 974,182	$ 79,466	$ 89,200	(2,105,885)	146,007	(1,959,878)
General Revenues:							
Property Taxes, Penalties, and Interest					1,165,027	-	1,165,027
Local Income Tax					89,615	-	89,615
Amusement Tax					64,506	-	64,506
Highway Use Tax					48,363	-	48,363
Accomodations Tax					478,018	-	478,018
Investment Income					49,726	56	49,782
Transfer In/(Out)					(53,103)	53,103	-
Total General Revenues					1,842,152	53,159	1,895,311
Change in Net Position					(263,733)	199,166	(64,567)
Net Position - Beginning - Restated					20,660,251	1,542,168	22,202,419
Net Position - Ending					$ 20,396,518	$ 1,741,334	$ 22,137,852

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

COMMISSIONERS OF ST. MICHAELS
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2015

EXHIBIT C

ASSETS	General Fund
Cash	$ 399,376
Accounts Receivable	223,155
Investments	9,425,077
Total Assets	$ 10,047,608

LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts Payable	$ 154,789
Fund Balance:	
Unassigned	2,300,215
Committed	7,592,604
Total Fund Balance	9,892,819
Total Liabilities and Fund Balance	$ 10,047,608

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

Total Fund Balance	$ 9,892,819
Note Receivable - Choptank Electric is a long-term asset	754,438
Accounts Receivable - Parking Spaces is a long-term asset	65,200
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.	10,453,273
The deferred outflow of resources is not a current financial resource and therefore is not reported in the governmental fund's balance sheet	24,035
The net pension liability is not a current financial resource and therefore is not reported in the governmental fund's balance sheet	(639,619)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Compensated Absences	(153,628)
Net Position of Governmental Activities	$ 20,396,518

EXHIBIT D

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

		General Fund
Revenues:		
Taxes	$	1,755,914
Revenue from Other Agencies		229,828
Licenses and Permits		38,895
Rental/Franchise Revenue		242,853
Fines		1,390
Service Charges		44,791
Investment Income		49,726
Miscellaneous		48,855
Total Revenues		2,412,252
Expenditures:		
Current:		
General Government		791,629
Police		928,387
Public Works		573,668
Capital Outlay		1,467,215
Total Expenditures		3,760,899
Excess of Revenues over/(under) Expenditures		(1,348,647)
Other Financing Sources/(Uses):		
Operating Transfers		(53,103)
Principal Proceeds from Choptank Note		355,599
Total Other Financing Sources/(Uses)		302,496
Net Change in Fund Balance		(1,046,151)
Fund Balance - Beginning		10,938,970
Fund Balance - Ending	$	9,892,819

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

EXHIBIT E

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, 2015

Net Change in Fund Balance - Total Governmental Fund	$	(1,046,151)
Amounts reported for governmental activities in the statement of activities are different because:		
Pension plan adjustments related to GASB 68 affect the amount of pension expense reflected in the financial statements		5,609
Parking space proceeds were previously reported as revenue in government-wide statements		(38,600)
Governmental funds report capital outlay and construction in progress as expenditures. However, in the government-wide statement of activities the cost of those assets is allocated over their estimated usefuld lives as depreciation expense. This is the amount of capital assets in the current period.		1,467,215
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.		(355,599)
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.		(30,251)
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 the governmental fund.		(265,956)
Change in Net Position of Governmental Activities	$	(263,733)

EXHIBIT F

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts			
Revenues:	Original	Final	Actual Amounts	Favorable (Unfavorable) Variance
Taxes	$ 1,670,134	$ 1,726,052	$ 1,755,914	$ 29,862
Revenue from Other Agencies	193,533	219,921	229,828	9,907
Licenses and Permits	26,200	26,200	38,895	12,695
Rental/Franchise Revenue	243,905	243,905	242,853	(1,052)
Fines	1,500	1,500	1,390	(110)
Service Charges	4,600	5,440	44,791	39,351
Investment Income	95,122	95,122	49,726	(45,396)
Miscellaneous	-	-	48,855	48,855
Total Revenues	2,234,994	2,318,140	2,412,252	94,112
Expenditures:				
Current:				
General Government	746,276	813,549	791,629	21,920
Police	893,741	910,998	928,387	(17,389)
Public Works	576,935	592,935	573,668	19,267
Capital Outlay	1,298,500	1,298,500	1,467,215	(168,715)
Total Expenditures	3,515,452	3,615,982	3,760,899	(144,917)
Excess (Deficiency) of Revenues over Expenditures	(1,280,458)	(1,297,842)	(1,348,647)	(50,805)
Other Financing Sources/(Uses):				
Operating Transfers	(53,103)	(53,103)	(53,103)	-
Principal Proceeds from Choptank Note	311,198	311,198	355,599	44,401
Prior Year Reserves	1,336,500	1,336,500	-	(1,336,500)
Total Other Financing Sources/(Uses)	1,594,595	1,594,595	302,496	(1,292,099)
Net Change in Fund Balance	314,137	296,753	(1,046,151)	(1,342,904)
Fund Balances - Beginning	10,938,970	10,938,970	10,938,970	-
Fund Balances - Ending	$ 11,253,107	$ 11,235,723	$ 9,892,819	$ (1,342,904)

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF NET POSITION - ENTERPRISE FUND
JUNE 30, 2015

EXHIBIT G

ASSETS	Water Fund
Current Assets:	
Accounts Receivable	$ 184,898
Investments	225,155
Total Current Assets	410,053
Capital Assets:	
Equipment	948,051
Improvements	3,315,526
Vehicles	78,206
Accumulated Depreciation	(1,322,648)
Total Capital Assets	3,019,135
Total Assets	3,429,188
Deferred Outflow of Resources	3,815
Total Assets and Deferred Outflows	$ 3,433,003
LIABILITIES	
Current Liabilities:	
Accounts Payable	$ 54,747
Current Portion of Long-Term Debt	104,343
Total Current Liabilities	159,090
Non-Current Liabilities:	
Compensated Absences	13,955
Net Pension Liability	101,539
Long-Term Debt - Net of Current Portion	1,417,085
Total Non-Current Liabilities	1,532,579
Total Liabilities	1,691,669
NET POSITION	
Invested in Capital Assets, Net of Related Debt	1,497,707
Restricted	225,155
Unrestricted - Restated	18,472
Total Net Position	1,741,334
Total Liabilities and Net Position	$ 3,433,003

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

EXHIBIT H

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2015

	Water Fund
Operating Revenues:	
Charges for Services	$ 652,294
Connection Charges	8,289
Capital Charges	2,200
Miscellaneous	1,668
Total Operating Revenues	664,451
Operating Expenses:	
Salaries	205,831
Overtime	4,372
Administrative Salary Charge	34,583
Consulting, Legal, and Audit	1,600
Insurance	5,154
Supplies	660
Computer/Telemetry Software	13,850
Postage	1,177
Electric	18,038
Testing	4,032
Travel and Training	1,044
Dues and Subscriptions	400
Telephone	1,773
Uniforms	6,278
Vehicle Expense	1,984
Materials and Supplies	30,100
Maintenance on Arsenic System	3,409
Reimburseables	1,688
Miscellaneous	845
Maintenance of Generator #2	3,038
Arsenic Media Replacement	27,105
Arsenic Removal Administrative Fee	2,088
Water Tower Interest	12,448
USDA Loan Interest	23,863
Arsenic Removal Interest	7,514
Depreciation	105,570
Total Operating Expenses	518,444
Operating Income (Loss)	146,007
Non-Operating Revenue:	
Investment Income	56
Income/(Loss) Before Transfers	146,063
Transfers	53,103
Change in Net Position	199,166
Net Position - Beginning - Restated	1,542,168
Net Position - Ending	$ 1,741,334

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2015

EXHIBIT I

		Water Fund
Cash Flows from Operating Activities:		
Cash Received from Customers	$	657,226
Connection Charges		8,289
Capital Charges		2,200
Miscellaneous Charges		1,668
Cash Payments for Interest		(43,825)
Cash Payments to Employees for Services		(241,497)
Cash Payments to Suppliers for Goods and Services		(78,457)
Net Cash Flows from Operating Activities		305,604
Cash Flows from Non-Capital Financing Activities:		
Cash from/(to) Maryland Local Government Investment Pool		(113,754)
Transfers - General Fund		53,103
Net Cash Flows from Non-Capital Financing Activities		(60,651)
Cash Flows from Capital and Related Financing Activities:		
Purchase of Capital Assets		(144,054)
Retirement of Debt		(100,899)
Net Cash Flows from Capital and Related Financing Activities		(244,953)
Net Increase in Cash		-
Cash - Beginning		-
Cash - Ending	$	-
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:		
Operating Income (Loss)	$	146,007
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:		
Depreciation		105,570
Change in Accounts Receivable		4,932
Change in Deferred Outflows		9,518
Change in Compensated Absences		4,179
Change in Net Pension Liability		(10,408)
Change in Accounts Payable		45,806
Net Cash Flows from Operating Activities	$	305,604

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

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):

C. Basis of Presentation (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:

Classification	Life
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.

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

O. 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 29, 2015, the date the report was available for issuance.

NOTE 2 - CASH AND INVESTMENTS:

The following is a detail of cash and investments:

Cash on Hand		$ 75
PNC Bank (Balances per bank):		
General Fund Checking	$ 243,122	
General Fund Payroll	32,531	
Parking Lot	69,611	
Muskrat Park	7,898	
Murray Shoreline	1,312	
Classic Motor Museum	12,505	
SMPD-SMYLE	19,107	
Total PNC Bank		386,086
Maryland Local Government Investment Pool (MLGIP)		9,730,232
TOTAL CASH AND INVESTMENTS		$ 10,116,393

The balance of cash is categorized as follows:

Amount insured by the FDIC, or collateralized with securities.	$ 386,086
Uninsured and Uncollateralized	-
TOTAL CASH	$ 386,086

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

Description	Interest Rates	Par Value	Cost	Market Value	Recognized Gain (Loss)
GENERAL FUND					
MLGIP					
Unrestricted	Various	$ 1,832,473	$ 1,832,473	$ 1,832,473	$ -
Committed/Restricted	Various	7,592,604	7,592,604	7,592,604	-
ENTERPRISE FUND					
MLGIP					
Restricted	Various	225,155	225,155	225,155	-
TOTAL ALL FUNDS		$ 9,650,232	$ 9,650,232	$ 9,650,232	$ -

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

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	$	5,256
Harbor Road Boat Ramp		19,426
Water Rents		184,888
Public Accommodations Tax		149,372
Parking Spaces		65,200
Cherry Street Sidewalks		75
Highway User Taxes		3,434
Admissions and Amusements		13,029
Taxes		9,876
Housing Authority P.I.L.O.T.		13,437
Other Miscellaneous Receivables		9,260
TOTAL	$	473,253

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:

ASSETS

	Balance July 1, 2014	Acquisitions	Retirements	Balance June 30, 2015
Land and Improvements	$ 2,090,532	$ -	$ -	$ 2,090,532
Buildings	1,286,733	-	-	1,286,733
Equipment	440,817	46,274	-	487,091
Improvements	6,930,959	1,367,020	-	8,297,979
Vehicles	422,897	53,920	-	476,817
Water Assets	4,197,729	144,054	-	4,341,783
TOTALS	$ 15,369,667	$ 1,611,268	$ -	$ 16,980,935

ACCUMULATED DEPRECIATION

	Balance July 1, 2014	Depreciation	Retirements	Balance June 30, 2015
Land and Improvements	$ 73,469	$ 3,040	$ -	$ 76,509
Buildings	358,013	32,216	-	390,229
Equipment	352,790	16,459	-	369,249
Improvements	902,311	187,913	-	1,090,224
Vehicles	233,340	26,328	-	259,668
Water Assets	1,217,078	105,570	-	1,322,648
TOTALS	$ 3,137,001	$ 371,526	$ -	$ 3,508,527
CAPITAL ASSETS				$ 13,472,408

NOTE 5 - CAPITAL ASSETS (CONTINUED):

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

Governmental Activities:	
General Government	$ 25,846
Police	42,017
Public Works	198,093
Water Fund	105,570
Total Depreciation Expense	$ 371,526

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).	$ 438,702
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).	203,772
Note payable to Maryland Department of Environment. Payable in semi-annual installments of interest and annual principal payments. Total payment 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).	878,954
TOTAL DEBT	1,521,428
Less: Current Portion	(104,343)
TOTAL LONG-TERM DEBT	$ 1,417,085

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

	Governmental		Enterprise	
	Principal	Interest	Principal	Interest
2016	$ -	$ -	$ 104,343	$ 36,272
2017	-	-	107,929	32,686
2018	-	-	111,693	28,922
2019	-	-	115,648	24,967
2020	-	-	119,802	20,813
2021 - 2025	-	-	429,301	48,622
2026 - 2030	-	-	244,627	11,950
2031 - 2035	-	-	204,953	4,127
2036 - 2040	-	-	83,132	500
TOTALS	$ -	$ -	$ 1,521,428	$ 208,859

NOTE 6 – DEBT (CONTINUED):

Below summarizes the changes in Debt:

	BALANCE 7/1/14	Additions	Retirements	BALANCE 6/30/15
USDA	$ 489,890	$ -	$ 51,188	$ 438,702
Maryland CDA	215,336	-	11,564	203,772
Arsenic Removal	917,101	-	38,147	878,954
TOTALS	$ 1,622,327	$ -	$ 100,899	$ 1,521,428

NOTE 7 - RESTRICTIONS ON NET POSITION:

Restricted net position is available for the following purposes:

	General	Enterprise
Capital Projects	$ 8,347,042	$ -
Water Improvements	-	225,155
TOTALS	$ 8,347,042	$ 225,155

NOTE 8 - PENSION PLAN:

The Town contributes to the Maryland State Retirement and Pension System (MSRPS) which is a cost sharing multiple employer defined benefit plan. All compensation earned by a member of the Plan is subject to employer pension contributions at an actuarially determined rate. The rate is established by the Board of Pension Trustees on the basis of the most recent actuarial valuation and is adjusted on July 1st of each year. Employer contributions for June 30, 2014 were at a rate of 6.20% of earnings. A deduction is made from each employee's compensation equal to 7% of base pay. Full service pension allowance equals 1.2% of Average Final Compensation (AFC) for the three highest consecutive years as an employee for each year of creditable service accrued prior to July 1, 1998 plus 1.8% of the AFC for the three highest consecutive years as an employee for each year of creditable service accrued on or after July 1, 1998. Members are eligible for full service pension allowances upon accumulating 30 years of eligibility service regardless of age. Absent 30 years of eligibility service, members must meet one of the following conditions to be eligible for full service pension allowances; age 62 with 5 years of eligibility service, age 63 with 4 years of eligibility service, age 64 with 3 years of eligibility service, or age 65 or older and 2 years of eligibility service. Members may be eligible for reduced vested pension allowances upon attaining age 55 with 15 years of eligibility.

The plan provides for disability and survivor benefits.

During the year ended June 30, 2015, the Town contributed $98,254 to the plan.

Basis of Accounting - The plan's financial statements have been presented in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The statements have been presented on the accrual basis of accounting. Employer contributions, benefits and refunds are recognized when due and payable in accordance with the terms of the plan. The plan's fiduciary net position has been determined on the same basis as that used by the plan.

Investments - Investments are reported at fair value.

NOTE 8 - PENSION PLAN (CONTINUED):

Actuarial Assumptions -	Investment rate of return/discount	7.65%
	Projected salary increases	3.4% - 11.9% including inflation
	Cost of living adjustments	3%
	Inflation rate included	2.9% general, 3.4% wage

Mortality rates are based on the RP-2000 Combined Healthy Mortality table projected to the year 2025.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2013 to June 30, 2014.

Discount Rate - A single discount rate of 7.65% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the Board after considering input from the System's investment consultant(s) and actuary(ies). For each major asset class that is included in the System's target asset allocation, these best estimates are summarized in the following table:

Asset Class	Rate
Public Equity	4.7%
Fixed Income	2.0%
Credit Opportunity	3.0%
Real Return	2.8%
Absolute Return	5.0%
Private Equity	6.3%
Real Estate	4.5%
Cash and Equivalents	1.4%

The following presents the collective net pension liability (asset) of the plans calculated using the discount rate of 7.65%, as well as what the plan's net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

1% Decrease	$1,068,102
Current Discount Rate	$741,158
1% Increase	$467,301

NOTE 8 - PENSION PLAN (CONTINUED):

The Town's share of the net pension liability (asset) was calculated based on a percentage, the numerator of which is the Town's contribution for June 30, 2014 and the denominator is the total employer contributions for all participating employers. The total plan pension liability (asset) was multiplied by this percentage to arrive at the Town's share. The percentage for June 30, 2014 was .0041763058%. The collective total pension liability (asset) for the June 30, 2014 measurement date was determined by an actuarial valuation as of June 30, 2014 using the entry age normal actuarial cost method.

Deferred Inflows and Outflows of Resources - The Town's share of the deferred inflows and outflows of resources are as follows:

Deferred Outflow for Changes in Proportion	$ (10,721)
Deferred Inflow for Projected and Actual Investment Differences	81,125
Deferred Outflow for Contributions after Measurement Date	(98,254)
Net Deferred Outflow of Resources	$(27,850)

The components of collective deferred outflows of resources and deferred inflows of resources, other than the difference between the projected and actual earnings on MSRPS investments, are amortized into pension expense over a closed period, which reflects the weighted average remaining service life of all plan members, beginning the year in which the deferred amount occurs. The amortization period is 5 years for deferred amounts arising in 2014. The annual difference between the projected and actual earnings on investments is amortized over a 5 year closed period beginning the year in which the difference occurs. The cumulative amounts of collective net deferred outflows (inflows) of resources reported as of June 30, 2014 will be recognized in pension expense as follows:

Year Ending	Amount
06/30/15	$5,570
06/30/16	$5,570
06/30/17	$5,570
06/30/18	$5,570
06/30/19	$5,570

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 MSRPS 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 MSRPS. The report may be obtained by writing to the Maryland State Retirement Agency, 120 East Baltimore Street, Baltimore, MD 21202, or via the internet at www.sra.state.md.us.

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 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.

NOTE 9 - RISK AND INSURANCE COVERAGE (CONTINUED):

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 10 - PRIOR PERIOD ADJUSTMENT:

Due to the implementation of GASB 68, beginning net position of the government-wide financial statements has been reduced by $719,807, the deferred outflow of resources for 2014 was increased by $97,323, and the net pension liability for 2014 was increased by $817,130.

COMMISSIONERS OF ST. MICHAELS

SUPPLEMENTAL INFORMATION

JUNE 30, 2015

COMMISSIONERS OF ST. MICHAELS
SUPPLEMENTAL INFORMATION
ANALYSIS OF REVENUE - BUDGET AND ACTUAL - ALL FUNDS
YEAR ENDED JUNE 30, 2015

	2015				
	Budgeted Amounts				
	Original	Final	Actual Amounts	Favorable (Unfavorable) Variance	Prior Year 6/30/14
TAXES-LOCAL:					
Real and Personal Property:					
Real Estate Taxes	$ 1,107,414	$ 1,129,614	$ 1,129,519	$ (95)	$ 1,184,439
Personal Property and Corporation	1,123	1,123	1,123	-	1,123
Utilities	43,698	43,698	47,124	3,426	43,698
Total Real and Personal Property	1,152,235	1,174,435	1,177,766	3,331	1,229,260
Admissions and Amusements	55,000	55,000	64,506	9,506	61,036
Public Accomodations	460,000	460,000	478,018	18,018	449,743
Taxes - State Shared:					
Highway User	14,899	48,617	48,363	(254)	46,370
Total Taxes	1,682,134	1,738,052	1,768,653	30,601	1,786,409
Less: Discounts and Allowances	(12,000)	(12,000)	(12,739)	(739)	(2,002)
NET TAXES	1,670,134	1,726,052	1,755,914	29,862	1,784,407
REVENUE FROM OTHER AGENCIES:					
Federal Government:					
Department of The Interior	1,769	1,769	2,469	700	2,040
DHCD and SMHA-Federal Block Grant	-	65,773	65,774	1	1,239,569
State Government:					
Police Protection State	35,839	35,839	33,905	(1,934)	35,576
Critical Area Grant	4,000	4,000	4,000	-	4,000
Harbor Road Boat Ramp	-	-	19,426	19,426	198,000
Income Tax	129,000	89,615	89,615	-	132,754
State Fire, Rescue, and Ambulance Fund	2,800	2,800	2,139	(661)	1,705
War of 1812 Grant	-	-	-	-	38,800
County Government:					
Crossing Guard	12,500	12,500	12,500	-	12,500
Other Agencies:					
St. Michaels Housing Authority PILOT	7,625	7,625	-	(7,625)	6,690
TOTAL REVENUE FROM OTHER AGENCIES	193,533	219,921	229,828	9,907	1,671,634
LICENSES AND PERMITS:					
Traders Licenses	9,000	9,000	8,464	(536)	7,907
Animal Licenses	100	100	270	170	178
Building Permits	13,000	13,000	21,746	8,746	14,962
HDC Permits	2,100	2,100	1,950	(150)	2,250
Board of Appeals	1,000	1,000	300	(700)	1,050
Land Use Management Fees	-	-	5,300	5,300	5,000
Other Licenses and Permits	1,000	1,000	865	(135)	3,390
TOTAL LICENSES AND PERMITS	26,200	26,200	38,895	12,695	34,737

COMMISSIONERS OF ST. MICHAELS
SUPPLEMENTAL INFORMATION
ANALYSIS OF REVENUE - BUDGET AND ACTUAL - ALL FUNDS
YEAR ENDED JUNE 30, 2015

	2015				
	Budgeted Amounts				
	Original	Final	Actual Amounts	Favorable (Unfavorable) Variance	Prior Year 6/30/14
RENTAL/FRANCHISE REVENUE:					
Cable TV	$ 12,720	$ 12,720	$ 14,034	$ 1,314	$ 12,854
Boat Slip Rentals	25,900	25,900	23,802	(2,098)	23,719
Building Rent	40,553	40,553	40,662	109	40,662
Tower Rent	164,732	164,732	164,355	(377)	157,212
TOTAL RENTAL/FRANCHISE REVENUE	243,905	243,905	242,853	(1,052)	234,447
WATER CHARGES:					
Water Service Charges	630,000	630,000	652,294	22,294	617,632
Water Connections	4,000	4,000	8,289	4,289	4,200
Water Capital Charges	2,000	2,000	2,200	200	1,100
Miscellaneous Water Revenue	-	-	1,668	1,668	3,924
TOTAL WATER CHARGES	636,000	636,000	664,451	28,451	626,856
FINES:					
Parking and Civil Violations	1,500	1,500	1,390	(110)	980
SERVICE CHARGES:					
Copy Machine	100	100	161	61	259
Parking Spaces	-	-	38,600	38,600	47,000
Tree Mitigation Funds	2,000	2,000	-	(2,000)	10
Health Officer Charges	2,000	2,000	5,190	3,190	4,253
Kayak Rack Rentals	-	840	840	-	-
Other Service Charges	500	500	-	(500)	4,154
TOTAL SERVICE CHARGES	4,600	5,440	44,791	39,351	55,676
MISCELLANEOUS REVENUE:					
Interest	50,766	50,766	49,782	(984)	64,464
Other Miscellaneous Revenue	-	-	16,864	16,864	26,550
Proceeds from Sale of St. Michael's Utility Commission	355,599	355,599	355,599	-	341,922
Reimbursed Expenses	-	-	3,538	3,538	11,781
SMPD/SMYLE Donations	-	28,053	28,453	400	27,773
Prior Year Reserves	1,336,500	1,336,500	-	(1,336,500)	-
TOTAL MISCELLANEOUS REVENUE	1,742,865	1,770,918	454,236	(1,316,682)	472,490
TOTAL REVENUE	$ 4,518,737	$ 4,629,936	$ 3,432,358	$ (1,197,578)	$ 4,881,227

COMMISSIONERS OF ST. MICHAELS
SUPPLEMENTAL INFORMATION
ANALYSIS OF EXPENDITURES/EXPENSES - BUDGET AND ACTUAL
ALL FUNDS
YEAR ENDED JUNE 30, 2015

	2015				
	Budgeted Amounts				
	Original	Final	Actual Amounts	Favorable (Unfavorable) Variance	Prior Year 6/30/14
GOVERNMENTAL FUNDS					
GENERAL GOVERNMENT:					
Legislative:					
Commissioner's Salaries and Benefits	$ 10,000	$ 10,000	$ 8,047	$ 1,953	$ 11,200
Other Operating Expenses	13,400	13,400	14,856	(1,456)	6,458
Executive:					
Salaries and Benefits	195,597	195,597	211,514	(15,917)	132,487
Overtime	2,000	2,000	2,485	(485)	5,165
Legal	40,000	40,000	20,645	19,355	31,445
Audit	10,000	10,000	12,270	(2,270)	17,838
Engineering	5,000	5,000	3,676	1,324	4,255
Liability and Property Insurance	9,000	9,000	10,227	(1,227)	10,021
Website Development	2,500	6,000	6,089	(89)	7,036
Volunteer Acknowledgement	300	300	-	300	-
Election	-	-	-	-	938
Miscellanous	1,000	1,000	1,751	(751)	1,438
Telephone	7,500	7,500	6,324	1,176	5,931
Dues and Subscriptions	4,000	4,000	4,158	(158)	3,941
Notices and Ads	5,500	5,500	3,063	2,437	5,964
Travel and Training	2,000	2,000	3,532	(1,532)	1,760
Janitorial	3,000	3,000	3,030	(30)	3,057
Codification - Maintenance	11,000	9,000	6,068	2,932	1,963
Office Expense	25,000	25,000	25,925	(925)	21,827
Document Retention	4,000	4,000	2,295	1,705	2,378
Tourism	124,500	124,500	128,262	(3,762)	69,676
Capital Outlay	13,000	13,000	11,150	1,850	-
Total Legislative and Executive	488,297	489,797	485,367	4,430	344,778
Planning and Zoning:					
Salaries and Benefits	120,846	120,846	118,775	2,071	115,444
Overtime	2,000	2,000	5,129	(3,129)	5,597
Administrative Salary Charge	32,635	32,635	32,635	-	32,635
Legal	15,000	15,000	14,639	361	19,149
Consulting	2,000	2,000	-	2,000	105
Office Expenses	3,500	3,500	3,293	207	2,315
Inspections	4,000	4,000	4,535	(535)	6,587
Advertising	3,500	3,500	3,230	270	2,071
Reimbursables	-	-	311	(311)	44,642
Total Planning and Zoning:	183,481	183,481	182,547	934	228,545
Donations to Outside Agencies:					
Block Grant	-	65,773	65,774	(1)	1,239,568
Fire Department	51,998	51,998	51,998	-	51,703
Talbot County Arts Council	1,000	1,000	1,000	-	-
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
SMASH	4,000	4,000	4,000	-	-
Bay Hundred Pool	4,000	4,000	4,000	-	4,000
Total Donations to Outside Agencies	74,498	140,271	140,272	(1)	1,308,771
TOTAL GENERAL GOVERNMENT	746,276	813,549	808,186	5,363	1,882,094
POLICE:					
SMYLE Expenses	1,000	18,257	18,259	(2)	22,527
Sworn Salaries and Benefits	708,217	708,217	712,036	(3,819)	677,298
Sworn Overtime	15,000	15,000	45,723	(30,723)	30,504
Other Salaries	72,489	72,489	39,191	33,298	35,799
Other Overtime	1,200	1,200	3,646	(2,446)	1,995
Administrative Salary Charges	32,635	32,635	32,635	-	32,635
Audit	1,600	1,600	1,600	-	1,600
Legal	1,000	1,000	760	240	-
Liability and Property Insurance	8,500	8,500	9,566	(1,066)	8,500
Utilities	6,300	6,300	7,603	(1,303)	5,944
Personnel Testing	500	500	401	99	-

COMMISSIONERS OF ST. MICHAELS
SUPPLEMENTAL INFORMATION
ANALYSIS OF EXPENDITURES/EXPENSES - BUDGET AND ACTUAL
ALL FUNDS
YEAR ENDED JUNE 30, 2015

	2015				
	Budgeted Amounts				
	Original	Final	Actual Amounts	Favorable (Unfavorable) Variance	Prior Year 6/30/14
POLICE (CONTINUED):					
Uniforms	$ 4,000	$ 4,000	$ 3,945	$ 55	$ 3,406
Communications (Radio)	1,500	1,500	1,357	143	500
Equipment and Supplies	4,000	4,000	3,340	660	2,650
Vehicle Expense	16,000	16,000	20,691	(4,691)	25,051
Advertising (Personnel)	800	800	589	211	-
Miscellaneous	1,000	1,000	1,135	(135)	1,260
Telephone	7,000	7,000	7,502	(502)	7,099
Dues and Subscriptions	500	500	3,669	(3,169)	465
Travel and Training	2,500	2,500	2,723	(223)	2,820
Janitorial	3,000	3,000	5,200	(2,200)	5,290
Office Expenses	5,000	5,000	6,816	(1,816)	6,383
Reimbursable	-	-	-	-	283
Capital Outlay	54,500	54,500	50,766	3,734	38,926
TOTAL POLICE	948,241	965,498	979,153	(13,655)	910,935
PUBLIC WORKS:					
Maintenance and Grounds:					
Salaries and Benefits	215,156	215,156	202,771	12,385	195,777
Overtime	10,000	10,000	4,372	5,628	4,263
Administrative Salary Charge	33,649	33,649	33,649	-	32,635
Audit	2,030	2,030	2,030	-	2,030
Liability and Property Insurance	5,000	5,000	5,654	(654)	5,000
Tree Planting and Maintenance	10,000	10,000	13,151	(3,151)	5,732
Maintenance and Supplies	3,000	3,000	4,272	(1,272)	5,665
Health Officer	500	500	3,344	(2,844)	2,953
Mosquito Control	2,600	2,600	2,403	197	2,570
Personnel Testing	400	400	-	400	-
Uniforms	5,500	5,500	6,309	(809)	6,380
Miscellaneous	250	250	364	(114)	471
Telephone	2,100	2,100	1,206	894	1,629
Total Maintenance and Grounds	290,185	290,185	279,525	10,660	265,105
Sanitation and Waste Removal:					
Landfill Fees	30,000	30,000	34,574	(4,574)	28,590
Repairs and Maintenance	3,000	3,000	1,071	1,929	6
Vehicle Expense	9,000	9,000	6,084	2,916	6,182
Recycling Service	54,000	54,000	63,638	(9,638)	54,085
Landfill Cleanup	-	16,000	16,008	(8)	-
Total Sanitation and Waste Removal	96,000	112,000	121,375	(9,375)	88,863
Streets:					
Signs	8,200	8,200	8,475	(275)	5,326
Sidewalk Repair	3,600	3,600	1,560	2,040	423
Maintenance and Supplies	13,000	13,000	15,746	(2,746)	9,020
Storm Drain Repair and Maintenance	4,000	4,000	466	3,534	259
Snow and Ice Removal	1,000	1,000	1,004	(4)	510
Parking Lots Repair and Maintenance	500	500	1,174	(674)	-
Vehicle Expense	12,000	12,000	11,986	14	13,259
Electric - Street Lights	45,000	45,000	45,466	(466)	44,557
Capital Outlay - Truck	25,000	25,000	24,598	402	-
Capital Outlay - Streets	1,200,000	1,200,000	1,273,424	(73,424)	377,295
Capital Outlay - Parking Lots	-	-	33,408	(33,408)	10,981
Total Streets	1,312,300	1,312,300	1,417,307	(105,007)	461,630
Municipal Buildings:					
Utilities	15,000	15,000	11,560	3,440	16,855
Maintenance and Supplies	10,000	10,000	5,438	4,562	10,870
Real Estate Taxes	9,450	9,450	9,485	(35)	8,961
Total Municipal Buildings	34,450	34,450	26,483	7,967	36,686

COMMISSIONERS OF ST. MICHAELS
SUPPLEMENTAL INFORMATION
ANALYSIS OF EXPENDITURES/EXPENSES - BUDGET AND ACTUAL
ALL FUNDS
YEAR ENDED JUNE 30, 2015

	2015				
	Budgeted Amounts				
	Original	Final	Actual Amounts	Favorable (Unfavorable) Variance	Prior Year 6/30/14
Parks and Recreation:					
Harbor Maintenance	$ 2,000	$ 2,000	$ 4,374	$ (2,374)	$ 1,684
Maintenance and Supplies	19,500	19,500	27,508	(8,008)	23,225
Vehicle Maintenance	4,000	4,000	3,428	572	3,465
Uniforms	2,500	2,500	2,835	(335)	3,182
Nature Trail Maintenance	1,500	1,500	348	1,152	-
Park Enhancement Fund	2,500	2,500	2,558	(58)	1,000
Horticulturist Contract	12,000	12,000	7,667	4,333	-
Capital Outlay - Parks	44,000	44,000	60,188	(16,188)	800
Capital Outlay - W Harbor Bulkhead	-	-	19,964	(19,964)	187,455
Total Parks and Recreation	88,000	88,000	128,870	(40,870)	220,811
TOTAL PUBLIC WORKS	1,820,935	1,836,935	1,973,560	(136,625)	1,073,095
TOTAL GOVERNMENTAL EXPENDITURES	3,515,452	3,615,982	3,760,899	(144,917)	3,866,124
ENTERPRISE FUND					
WATER FUND:					
Salaries and Benefits	215,156	215,156	205,831	9,325	196,686
Overtime	10,000	10,000	4,372	5,628	4,261
Administrative Salary Charge	33,649	33,649	34,583	(934)	32,635
Consulting, Audit and Legal	1,600	1,600	1,600	-	1,600
Liability and Property Insurance	4,500	4,500	5,154	(654)	4,900
Office Expenses	700	700	660	40	1,132
Computer and Telemetry Software	9,000	9,000	13,850	(4,850)	7,350
Postage	1,800	1,800	1,177	623	1,311
Electric - Wells and Towers	23,500	23,500	18,038	5,462	17,568
Testing	7,100	7,100	4,032	3,068	7,317
Travel and Training	2,000	2,000	1,044	956	-
Dues and Subscriptions	500	500	400	100	300
Telephone	2,000	2,000	1,773	227	1,834
Uniforms	5,300	5,300	6,278	(978)	6,327
Vehicle Expense	3,000	3,000	1,984	1,016	2,008
Materials and Supplies	27,000	27,000	30,100	(3,100)	15,128
Maintenance on Arsenic System	37,438	37,438	5,497	31,941	6,017
Reimbursable	2,300	2,300	1,688	612	4,341
Miscellaneous	500	500	845	(345)	1,367
Maintenance of Generator #2	2,500	2,500	3,038	(538)	2,406
Arsenic Media Replacement	103,421	103,421	27,105	76,316	74,353
Debt Service - New Water Tower	75,050	75,050	12,448	62,602	12,465
Debt Service - Water Bonds (FHA)	24,127	24,127	23,863	264	26,429
Debt Service - Arsenic DOE	43,904	43,904	7,514	36,390	3,821
Depreciation	-	-	105,570	(105,570)	110,084
TOTAL WATER FUND	636,045	636,045	518,444	117,601	541,640
TOTAL EXPENDITURES/EXPENSES	$ 4,151,497	$ 4,252,027	$ 4,279,343	$ (27,316)	$ 4,407,764

SCHEDULE C

COMMISSIONERS OF ST. MICHAELS
SUPPLEMENTAL INFORMATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2015

	Budget	Actual Amounts	Favorable (Unfavorable) Variance	Prior Year 6/30/14
Operating Revenues:				
Charges for Services	$ 630,000	$ 652,294	$ 22,294	$ 617,632
Connection Charges	4,000	8,289	4,289	4,200
Capital Charges	2,000	2,200	200	1,100
Miscellaneous	-	1,668	1,668	3,924
Total Operating Revenues	636,000	664,451	28,451	626,856
Operating Expenses:				
Salaries and Benefits	215,156	205,831	9,325	196,686
Overtime	10,000	4,372	5,628	4,261
Administrative Salary Charge	33,649	34,583	(934)	32,635
Consulting, Legal, and Audit	1,600	1,600	-	1,600
Liability and Property Insurance	4,500	5,154	(654)	4,900
Office Expenses	700	660	40	1,132
Computer and Telemetry Software	9,000	13,850	(4,850)	7,350
Postage	1,800	1,177	623	1,311
Electric - Wells and Towers	23,500	18,038	5,462	17,568
Testing	7,100	4,032	3,068	7,317
Travel and Training	2,000	1,044	956	-
Dues and Subscriptions	500	400	100	300
Telephone	2,000	1,773	227	1,834
Uniforms	5,300	6,278	(978)	6,327
Vehicle Expense	3,000	1,984	1,016	2,008
Materials and Supplies	27,000	30,100	(3,100)	15,128
Maintenance on Arsenic System	37,438	3,409	34,029	3,929
Reimbursable	2,300	1,688	612	4,341
Miscellaneous	500	845	(345)	1,367
Maintenance of Generator #2	2,500	3,038	(538)	2,406
Arsenic Media Replacement	103,421	27,105	76,316	74,353
Arsenic Removal Administrative Fee	-	2,088	(2,088)	2,088
Debt Service - New Water Tower	75,050	12,448	62,602	12,465
Debt Service - Water Bonds (FHA)	24,127	23,863	264	26,429
Debt Service - Arsenic DOE	43,904	7,514	36,390	3,821
Depreciation	-	105,570	(105,570)	110,084
Total Operating Expenses	636,045	518,444	117,601	541,640
Operating Income/(Loss)	(45)	146,007	146,052	85,216
Non-Operating Revenue:				
Investment Income	45	56	11	34
Income/(Loss) Before Transfers	-	146,063	146,063	85,250
Transfers	53,103	53,103	-	(13,339)
Change in Net Position	53,103	199,166	146,063	71,911
Net Position - Beginning - Restated	1,542,168	1,542,168	-	1,470,257
Net Position - Ending	$ 1,595,271	$ 1,741,334	$ 146,063	$ 1,542,168

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Lank, Johnson & Tull, CPAs is a full service Delaware accounting firm specializing in tax planning and audit services.

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 year ended June 30, 2015, and 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 29, 2015.

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' 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. 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.

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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. 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.

Lank, Johnson & Tull

Seaford, Delaware
October 29, 2015