

COMMISSIONERS OF ST. MICHAELS
FINANCIAL STATEMENTS WITH
SUPPLEMENTAL INFORMATION
JUNE 30, 2017

COMMISSIONERS OF ST. MICHAELS

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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, 2017, 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. 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.

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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, 2017, 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 the management's discussion and analysis, budgetary comparison information, proportionate share of the net pension liability, and required pension contributions 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 supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commissioners of St. Michaels' basic financial statements. The Analysis of Revenues and Expenditures/Expenses - Budget and Actual - All Fund Types (Schedules C and D), and the Statement of Revenues, Expenses, and Changes in Fund Net Position - Budget and Actual - Enterprise Fund (Schedule E), 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 26, 2017, 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 26, 2017

COMMISSIONERS OF ST. MICHAELS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

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, 2017. 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.

COMMISSIONERS OF ST. MICHAELS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

The Town's combined net position increased by 1% from 2016 to 2017 (See table below). General fund net position decreased by 1%, while the business-type fund increased by 14%. 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, grant contributions, and investment earnings, without incurring any substantial new debt.

Commissioners of St. Michaels
Net Position
(in millions)

	Governmental		Business-Type		Total		Total
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>Percentage Change</u>
Current and Other Assets	10.54	10.42	0.31	0.51	10.85	10.93	(1%)
Capital Assets	10.36	10.62	4.70	4.21	15.06	14.83	2%
Deferred Outflows	0.20	0.12	0.03	0.02	0.23	0.14	64%
Total Assets and Deferrals	21.10	21.16	5.04	4.74	26.14	25.90	1%
Long-Term Debt	-	-	1.33	1.47	1.33	1.47	(10%)
Other Liabilities	1.22	1.12	0.18	0.18	1.40	1.30	8%
Total Liabilities	1.22	1.12	1.51	1.65	2.73	2.77	(1%)
Net Position							
Capital Assets Net of Debt	10.36	10.62	3.19	2.74	13.55	13.36	1%
Unrestricted	9.52	9.42	0.34	0.35	9.86	9.77	9%
Total Net Position	19.88	20.04	3.53	3.09	23.41	23.13	1%

The Town's total revenues (excluding transfers) decreased by 11% to \$3.36 million (See table below). Revenue from business-type activities decreased by 26% to \$1.29 million, which is due to a decrease in capital grants received from DHCD and MDE. General Governmental revenues increased by 3% to \$2.07 million, which is primarily attributable to an increase in real estate taxes and the sale of surplus real estate.

The total cost of all programs and services increased by 12% to \$3.08 million. The costs of business-type activities increased by 17% to \$.70 million, which was primarily due to an increase in water tower maintenance and depreciation. The costs of governmental-type activities increased by 10% to \$2.38 million, which is primarily due to an increase in capital spending and various other line item expenditures. The governmental 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, 2017

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

	Governmental		Business-Type		Total		Total
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>Percentage Change</u>
Program Revenue							
Charges for Services	-	-	0.66	0.63	0.66	0.63	5%
Capital Grants	-	-	0.63	1.12	0.63	1.12	(44%)
General Revenue							
Taxes	2.00	1.96	-	-	2.00	1.96	2%
Investment Income	0.07	0.05	-	-	0.07	0.05	40%
Total Revenue	2.07	2.01	1.29	1.75	3.36	3.76	(11%)
Program Expenses - Net							
General	0.47	0.36	-	-	0.47	0.36	.31%
Police	1.01	1.03	-	-	1.01	1.03	(2%)
Public Works	0.90	0.77	-	-	0.90	0.77	17%
Water	-	-	0.70	0.60	0.70	0.60	17%
Total Expenses	2.38	2.16	0.70	0.60	3.08	2.76	12%
Excess (Deficiency)	(0.31)	(0.15)	0.59	1.15	0.28	1.00	(72%)
Transfer In/Out	0.15	(0.20)	(0.15)	0.20	-	-	-
Change in Net Position	(0.16)	(0.35)	0.44	1.35	0.28	1.00	(72%)
Net Position - Beginning	20.04	20.39	3.09	1.74	23.13	22.13	5%
Net Position - Ending	19.88	20.04	3.53	3.09	23.41	23.13	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 amended once during the year.

Actual revenues of \$2.67 million were over budgeted revenues by \$0.29 million. This favorable variance is primarily due to the unbudgeted sale of surplus real estate, along with other charges and fees.

Actual expenditures in the amount of \$2.67 million came in \$0.25 million under budgeted amounts. This favorable variance is due to capital spending under budgeted amounts.

WATER FUND BUDGETARY HIGHLIGHTS

Actual revenue of \$0.66 million was constant with budgeted revenue. Expenditures came in \$0.05 million over budgeted amounts. This unfavorable variance is due to various line item expenses coming in over budget.

COMMISSIONERS OF ST. MICHAELS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2017, the Town had \$15.06 million invested in capital assets, including police equipment, parks and recreation facilities, buildings, land, vehicles, and water system improvements. This amount represents a net increase (additions, deductions, and depreciation) of \$0.23 million or 2% from the prior year.

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

	Governmental		Business-Type		Total	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Land and Improvements	1.92	2.09	-	-	1.92	2.09
Buildings	0.83	0.87	-	-	0.83	0.87
Equipment	0.10	0.13	-	-	0.10	0.13
Improvements	7.34	7.36	-	-	7.34	7.36
Vehicles	0.17	0.17	-	-	0.17	0.17
Water	-	-	4.70	4.21	4.70	4.21
Total Capital Assets	10.36	10.62	4.70	4.21	15.06	14.83

Note 4 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 \$1.33 million in bonds and notes outstanding, versus \$1.47 million in 2016, a decrease of \$0.14 million or 10% under last year.

Commissioners of St. Michaels
Debt
(in millions)

	Governmental		Business-Type		Total	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
USDA - Water Bonds	-	-	0.33	0.39	0.33	0.39
Maryland CDA - Water Tower	-	-	-	0.19	-	0.19
Maryland Department of Environment - Arsenic Removal	-	-	0.80	0.84	0.80	0.84
Maryland Department of Environment - Arsenic Removal II	-	-	0.20	0.05	0.20	0.05
Total Debt	-	-	1.33	1.47	1.33	1.47

COMMISSIONERS OF ST. MICHAELS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

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 last year. 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 low interest rates. 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;
5. Raised real estate tax rate by 1 penny to \$.46 per \$100 of assessed value.

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 combined with spending down unrestricted prior year reserves, then allowed the Commissioners to reduce the tax rate in the next several budgets for a total reduction of 19 cents per \$100 of assessed value. As unrestricted prior year reserves were reaching the minimum level as set by the Town's Fiscal Policy. In FY2017 the Commissioners funded only a new police car from prior year reserves and were in the financial position that a 1 penny tax increase was necessary.

The Town's real estate tax (FY2017) is 46 cents per \$100 of the State's assessment of the property values. The Town's assessable base increased from \$250,837,531 to \$256,863,220 from FY2016 to FY2017, an increase of \$6,025,689 in assessable base. This number, while showing an increase from last year is still down from the FY2009 assessable base of \$301,557,489.

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. In FY2017, due to changes in policing, the Commissioners funded one new police officer and funded ½ a year for a second new police officer.

The Commissioners 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 crewmembers one additional day per week.

Legal fees for FY2017 remained low in the Administrative Department. The ongoing zoning case ended and legal fees in the Planning & Zoning Department dropped significantly and should remain steady in FY2018. Administrative legal fees should be fairly steady in FY2018.

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 paid annually for ten years with zero stated interest. All net revenues from the sale of the system are committed 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.)*

COMMISSIONERS OF ST. MICHAELS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

In FY 2017 the Commissioners commissioned a comprehensive Full Reserve Study (the "Reserve Study") that examined the physical assets of the Town government; the repair and replacement schedules for Town property, equipment and infrastructure; the financial mechanisms to adequately fund the depreciation of the Town's physical assets in accordance with generally accepted municipal accounting standards, and potential funding sources to implement the recommendations from the Reserve Study. Following the study the Commissioners made changes to the Town Charter which will enable the goals of the reserve study to be implemented.

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;
- replacement of water meters system wide as meters installed in the 1980's age out.

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 also received a grant in the amount of \$300,000 from the DHCD to help offset the new debt service and help minimize water rate increases. In FY2016, work commenced on the rehabilitation of the arsenic removal plants and the Marengo Street well was put back on line. Chemical costs are expected to rise with the new filtration system in place and rate increases may result from the increased operational costs. Work on the arsenic removal system was mostly completed in FY2017. There are a few issues with regard to the VFD and well pump that will need to be addressed before the project can be closed out.

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.

During FY2016 the Town received a grant from the DHCD on behalf of the Community Center to enable the St. Michaels Community Center to purchase their property.

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 6 of the five-phase plan to rehabilitate and reconstruct 25 of the Town's streets, and was completed in FY2015. Phase 6 is funded through the Electric Utility Fund. 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.

During FY2016 the Commissioners purchased 124 S. Fremont Street with the intention of using it for governmental facilities, possible uses include Police, Town Office and or parking. The Commissioners also declared both 101 and 113 Conner Street

COMMISSIONERS OF ST. MICHAELS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

as surplus property, both were sold, with the closing for 101 Conner in FY2017. During FY2017 the Commissioners entered into a contract to purchase 800 S. Talbot Street, settlement to occur in FY2018.

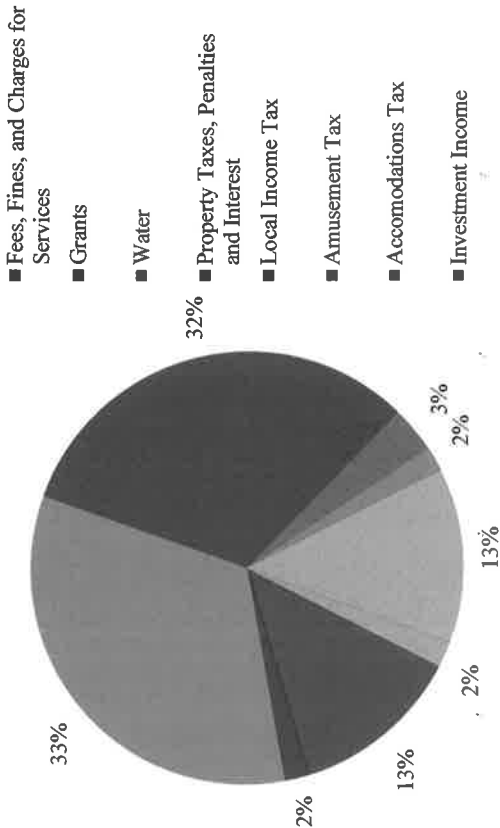
Capital projects included in the Town's FY2017 budget included a new police vehicle, the rehabilitation of both Radcliffe Avenue and Douglas Lane, the removal and replacement of curb and sidewalk in the 300 and 400 block of S. Talbot Street, as well as engineering for the rehabilitation of the Fremont Street parking lot. The Commissioners also hired a Route Assessment and feasibility study for the undergrounding of utilities on Talbot Street. During FY2017 the Commissioners also formed a committee and hired an architect to do a deficiency and needs assessment for the town office and police department buildings.

FINANCIAL CONTACT

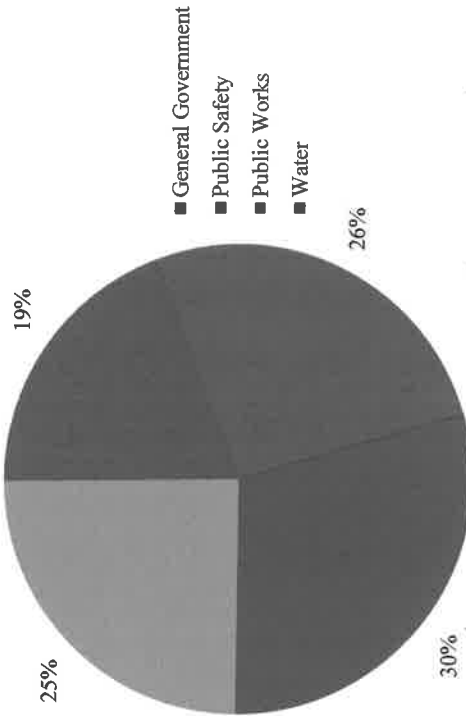
The Town's financial statements are designed to present users (citizens, taxpayers, customers, and creditors) with a general overview of the Town's finances and to demonstrate the Town's accountability. If you have questions about the report or need additional financial information, please contact the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

COMMISSIONERS OF ST. MICHAELS
MANAGEMENT'S DISCUSSION AND ANALYSIS
TOTAL REVENUES AND EXPENSES
GOVERNMENT-WIDE
JUNE 30, 2017

TOTAL REVENUES



TOTAL EXPENSES



COMMISSIONERS OF ST. MICHAELS
GOVERNMENT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2017

EXHIBIT A

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash	\$ 358,995	\$ -	\$ 358,995
Accounts Receivable	218,580	200,200	418,780
Investments	9,754,435	288,420	10,042,855
Accounts Receivable - Parking Spaces	28,150	-	28,150
Interfund Balances	179,553	(179,553)	-
Capital Assets:			
Land	1,991,076	-	1,991,076
Buildings	1,286,733	-	1,286,733
Equipment	522,726	948,051	1,470,777
Improvements	8,877,825	5,247,123	14,124,948
Vehicles	390,913	78,206	469,119
Accumulated Depreciation	<u>(2,708,123)</u>	<u>(1,574,979)</u>	<u>(4,283,102)</u>
Total Assets	20,900,863	5,007,468	25,908,331
Deferred Outflow of Resources	<u>198,154</u>	<u>29,084</u>	<u>227,238</u>
Total Assets and Deferred Outflows	<u>\$ 21,099,017</u>	<u>\$ 5,036,552</u>	<u>\$ 26,135,569</u>
<u>LIABILITIES</u>			
Accounts Payable	\$ 140,562	\$ 21,938	\$ 162,500
Non-Current Liabilities:			
Compensated Absences	164,028	16,604	180,632
Net Pension Liability	910,944	140,866	1,051,810
Due within one year	-	130,019	130,019
Due in more than one year	<u>-</u>	<u>1,200,743</u>	<u>1,200,743</u>
Total Liabilities	<u>1,215,534</u>	<u>1,510,170</u>	<u>2,725,704</u>
<u>NET POSITION</u>			
Net Investment in Capital Assets	10,361,150	3,188,086	13,549,236
Unrestricted	<u>9,522,333</u>	<u>338,296</u>	<u>9,860,629</u>
Total Net Position	<u>\$ 19,883,483</u>	<u>\$ 3,526,382</u>	<u>\$ 23,409,865</u>

COMMISSIONERS OF ST. MICHAELS
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

EXHIBIT B

<u>Program Activities</u>	<u>Program Revenues</u>		<u>Capital Grants and Contributions</u>	<u>Net (Expenses) Revenues and Changes in Net Position</u>		
	<u>Fees, Fines, and Charges for Services</u>	<u>Operating Grants and Contributions</u>		<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Governmental Activities:</u>						
General Government	\$ 965,530	\$ 490,993	\$ -	(474,537)	-	\$ (474,537)
Police	1,082,469	4,410	-	(1,011,132)	-	(1,011,132)
Public Works	904,438	-	4,800	(899,380)	-	(899,380)
<u>Total Governmental Activities</u>	<u>2,952,437</u>	<u>495,403</u>	<u>4,800</u>	<u>(2,385,049)</u>	<u>-</u>	<u>(2,385,049)</u>
<u>Business-Type Activities:</u>						
Water	705,831	657,895	-	-	586,213	586,213
<u>Total Government</u>	<u>\$ 3,658,268</u>	<u>\$ 1,153,298</u>	<u>\$ 67,185</u>	<u>(2,385,049)</u>	<u>586,213</u>	<u>(1,798,836)</u>

<u>General Revenues:</u>						
Property Taxes, Penalties, and Interest	1,234,850	-	-	1,234,850		
Local Income Tax	134,605	-	-	134,605		
Amusement Tax	71,612	-	-	71,612		
Highway Use Tax	53,718	-	-	53,718		
Accommodations Tax	507,084	-	-	507,084		
Investment Income	72,446	1,598	-	74,044		
Transfer In/(Out)	148,929	(148,929)	-	-		
<u>Total General Revenues</u>	<u>2,223,244</u>	<u>(147,331)</u>		<u>2,075,913</u>		
Change in Net Position	(161,805)	438,882		277,077		
Net Position - Beginning	20,045,288	3,087,500		23,132,788		
Net Position - Ending	\$ 19,883,483	\$ 3,526,382		\$ 23,409,865		

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

COMMISSIONERS OF ST. MICHAELS
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2017

EXHIBIT C

<u>ASSETS</u>	General Fund
Cash	\$ 358,995
Accounts Receivable	218,580
Investments	<u>9,754,435</u>
Total Assets	\$ <u>10,332,010</u>
 <u>LIABILITIES AND FUND BALANCES</u>	
Liabilities:	
Accounts Payable	\$ <u>140,562</u>
Fund Balance:	
Committed	8,079,004
Unassigned	<u>2,112,444</u>
Total Fund Balance	<u>10,191,448</u>
Total Liabilities and Fund Balance	\$ <u>10,332,010</u>
 Amounts Reported For Governmental Activities in The Statement of Net Position Are Different Because:	
Total Fund Balance	\$ 10,191,448
Accounts Receivable - Parking Spaces are long-term assets	28,150
Interfund Balance - Due to General Fund from Enterprise Fund	179,553
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.	10,361,150
The deferred outflow of resources is not a current financial resource and therefore is not reported in the governmental fund's balance sheet	198,154
The net pension liability is not due and payable in the current period and therefore is not reported in the governmental fund's balance sheet	(910,944)
Compensated absences are not due and payable in the current period and therefore are not reported in the governmental fund's balance sheet	<u>(164,028)</u>
Net Position of Governmental Activities	\$ <u>19,883,483</u>

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

EXHIBIT D

	<u>General Fund</u>
Revenues:	
Taxes	\$ 1,867,264
Revenue from Other Agencies	193,343
Licenses and Permits	49,135
Rental/Franchise Revenue	258,477
Fines	10,637
Service Charges	47,834
Investment Income	72,446
Sale of Property	108,001
Miscellaneous	<u>59,783</u>
Total Revenues	<u>2,666,920</u>
Expenditures:	
Current:	
General Government	756,238
Police	1,022,336
Public Works	628,255
Capital Outlay	<u>267,541</u>
Total Expenditures	<u>2,674,370</u>
Excess of Revenues over/(under) Expenditures	<u>(7,450)</u>
Other Financing Sources/(Uses):	
Operating Transfers	148,929
Non Operating Transfers	(182,303)
Principal Proceeds from Choptank Note	<u>384,615</u>
Total Other Financing Sources/(Uses)	<u>351,241</u>
Net Change in Fund Balance	343,791
Fund Balance - Beginning	<u>9,847,657</u>
Fund Balance - Ending	<u>\$ 10,191,448</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, 2017

EXHIBIT E

Net Change in Fund Balance - Total Governmental Fund	\$ 343,791
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	(3,631)
Parking space proceeds were previously reported as revenue in government-wide statements	(25,217)
Loan from General Fund to Enterprise Fund, net of repayments	179,553
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 useful lives as depreciation expense. This is the amount of capital assets in the current period.	267,541
Book value of assets sold does not require the use of current financial resources	(170,302)
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.	(384,615)
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.	(12,696)
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.	<u>(356,229)</u>
Change in Net Position of Governmental Activities	\$ <u><u>(161,805)</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, 2017

EXHIBIT F

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Favorable</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>(Unfavorable)</u>
Revenues:				
Taxes	\$ 1,857,054	\$ 1,857,054	\$ 1,867,264	\$ 10,210
Revenue from Other Agencies	174,104	174,104	193,343	19,239
Licenses and Permits	36,100	36,100	49,135	13,035
Rental/Franchise Revenue	260,670	260,670	258,477	(2,193)
Fines	1,500	1,500	10,637	9,137
Service Charges	2,300	2,300	47,834	45,534
Investment Income	37,234	37,234	72,446	35,212
Sale of Property	-	-	108,001	108,001
Miscellaneous	-	-	59,783	59,783
Total Revenues	<u>2,368,962</u>	<u>2,368,962</u>	<u>2,666,920</u>	<u>297,958</u>
Expenditures:				
Current:				
General Government	747,576	763,527	756,238	7,289
Police	1,046,489	1,029,488	1,022,336	7,152
Public Works	567,712	611,712	628,255	(16,543)
Capital Outlay	777,500	522,500	267,541	254,959
Total Expenditures	<u>3,139,277</u>	<u>2,927,227</u>	<u>2,674,370</u>	<u>252,857</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(770,315)</u>	<u>(558,265)</u>	<u>(7,450)</u>	<u>550,815</u>
Other Financing Sources/(Uses):				
Operating Transfers	148,929	148,929	148,929	-
Principal Proceeds from Choptank Note	384,615	384,615	384,615	-
Non-Operating Transfer	(182,303)	(182,303)	(182,303)	-
Prior Year Reserves	385,700	176,650	-	(176,650)
Total Other Financing Sources/(Uses)	<u>736,941</u>	<u>527,891</u>	<u>351,241</u>	<u>(176,650)</u>
Net Change in Fund Balance	<u>(33,374)</u>	<u>(30,374)</u>	<u>343,791</u>	<u>374,165</u>
Fund Balances - Beginning	<u>9,847,657</u>	<u>9,847,657</u>	<u>9,847,657</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 9,814,283</u>	<u>\$ 9,817,283</u>	<u>\$ 10,191,448</u>	<u>\$ 374,165</u>

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF NET POSITION - ENTERPRISE FUND
JUNE 30, 2017

EXHIBIT G

<u>ASSETS</u>	<u>Water Fund</u>
Current Assets:	
Accounts Receivable	\$ 200,200
Investments	<u>288,420</u>
Total Current Assets	<u>488,620</u>
Capital Assets:	
Equipment	948,051
Improvements	5,247,123
Vehicles	78,206
Accumulated Depreciation	<u>(1,574,979)</u>
Total Capital Assets	<u>4,698,401</u>
Total Assets	5,187,021
Deferred Outflow of Resources	<u>29,084</u>
Total Assets and Deferred Outflows	<u>\$ 5,216,105</u>
<u>LIABILITIES</u>	
Current Liabilities:	
Accounts Payable	\$ 21,938
Current Portion of Long-Term Debt	<u>130,019</u>
Total Current Liabilities	<u>151,957</u>
Non-Current Liabilities:	
Compensated Absences	16,604
Net Pension Liability	140,866
Interfund Balances	179,553
Long-Term Debt - Net of Current Portion	<u>1,200,743</u>
Total Non-Current Liabilities	<u>1,537,766</u>
Total Liabilities	<u>1,689,723</u>
<u>NET POSITION</u>	
Invested in Capital Assets, Net of Related Debt	3,188,086
Unrestricted	<u>338,296</u>
Total Net Position	<u>3,526,382</u>
Total Liabilities and Net Position	<u>\$ 5,216,105</u>

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2017

EXHIBIT H

	<u>Water Fund</u>
Operating Revenues:	
Charges for Services	\$ 640,822
Connection Charges	7,698
Capital Charges	5,500
Miscellaneous	<u>3,875</u>
Total Operating Revenues	<u>657,895</u>
Operating Expenses:	
Salaries	193,096
Overtime	5,254
Administrative Salary Charge	45,283
Liability and Property Insurance	5,109
Office Supplies	3,579
Computer and Telemetry Software	12,693
Postage	1,275
Electric - Wells and Towers	21,204
Water Testing	6,746
Travel and Training	1,364
Dues and Subscriptions	300
Telephone	2,203
Uniforms	8,496
Vehicle Expense	3,828
Materials and Supplies	49,429
Maintenance on Arsenic System	12,901
Maintenance of Generator #2	2,192
Server Time - Mission Units	2,374
Miscellaneous	558
Water Tower Maintenance Contract	135,526
Arsenic Removal Administrative Fee	3,917
Debt Service - New Water Tower	15,138
Debt Service - Water Bonds (FHA)	18,549
Debt Service - Arsenic DOE	4,556
Water Tower Interfund Loan	606
Depreciation	<u>149,655</u>
Total Operating Expenses	<u>705,831</u>
Operating Income (Loss)	(47,936)
Non-Operating Revenues:	
Investment Income	1,598
Grant Income	<u>634,149</u>
Total Non-Operating Revenues	635,747
Income/(Loss) Before Transfers	587,811
Transfers	<u>(148,929)</u>
Change in Net Position	438,882
Net Position - Beginning	<u>3,087,500</u>
Net Position - Ending	<u>\$ 3,526,382</u>

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2017

EXHIBIT I

	<u>Water</u> <u>Fund</u>
Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 623,240
Connection Charges	7,698
Capital Charges	5,500
Miscellaneous Charges	3,875
Cash Payments for Interest	(42,766)
Cash Payments to Employees for Services	(239,530)
Cash Payments to Suppliers for Goods and Services	(285,167)
	<u>72,850</u>
Net Cash Flows from Operating Activities	
Cash Flows from Non-Capital Financing Activities:	
Cash from/(to) Maryland Local Government Investment Pool	42,254
Transfers - General Fund	(148,929)
	<u>(106,675)</u>
Net Cash Flows from Non-Capital Financing Activities	
Cash Flows from Capital and Related Financing Activities:	
Grant Proceeds	634,149
Loan Proceeds	179,553
Purchase of Capital Assets	(642,653)
Retirement of Debt	(137,224)
	<u>33,825</u>
Net Cash Flows from Capital and Related Financing Activities	
Net Increase in Cash	-
Cash - Beginning	-
Cash - Ending	<u>\$ -</u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:	
Operating Income (Loss)	\$ (47,936)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Depreciation	149,655
Change in Accounts Receivable	(17,582)
Change in Deferred Outflows	(10,050)
Change in Compensated Absences	3,572
Change in Net Pension Liability	10,581
Change in Accounts Payable	(15,390)
	<u>(15,390)</u>
Net Cash Flows from Operating Activities	<u>\$ 72,850</u>

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

EXHIBIT J
PAGE 1

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. General Statement

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

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

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

B. Financial Reporting Entity

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

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

C. Basis of Presentation

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

Government-wide Financial Statements:

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

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

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.

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

EXHIBIT J
PAGE 3

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, or as loans, as appropriate.

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

EXHIBIT J
PAGE 4

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, 2017

EXHIBIT J
PAGE 6

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 26, 2017, 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	\$ 169,803		
General Fund Payroll	41,741		
Parking Lot	168,970		
Muskrat Park	7,850		
Classic Motor Museum	12,505		
SMPD-SMYLE	17,347		
Health Reimbursement	5,635		
<u>Total PNC Bank</u>			423,851
<u>Maryland Local Government Investment Pool (MLGIP)</u>			9,990,027
 <u>TOTAL CASH AND INVESTMENTS</u>		 \$	 <u>10,413,953</u>
 The balance of cash is categorized as follows:			
Amount insured by the FDIC, or collateralized with securities		\$	423,851
Uninsured and Uncollateralized			75
 <u>TOTAL CASH</u>		 \$	 <u>423,926</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	\$ 1,882,064	\$ 1,882,064	\$ 1,882,064	\$ -
Committed/Restricted	Various	7,872,371	7,872,371	7,872,371	-
 <u>ENTERPRISE FUND</u>					
<u>MLGIP</u>					
Restricted	Various	288,420	288,420	288,420	-
 <u>TOTAL ALL FUNDS</u>		 \$ 10,042,855	 \$ 10,042,855	 \$ 10,042,855	 \$ -

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, 2017

EXHIBIT J
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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 "AAA_m" 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. http://www.treasurer.state.md.us/media/92715/mlgip_sandp_rating_09_16.pdf

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	\$ 11,984
Water Charges	200,200
Public Accommodations Tax	152,136
Parking Spaces	28,150
Highway User Taxes	3,351
Admissions and Amusements	9,917
Housing Authority P.I.L.O.T.	13,437
Brick Sidewalks	21,454
Other Miscellaneous Receivables	<u>6,301</u>
<u>TOTAL</u>	<u>\$ 446,930</u>

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

EXHIBIT J
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NOTE 4 - CAPITAL ASSETS:

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

<u>ASSETS</u>				
	Balance Beginning of Year	<u>Acquisitions</u>	<u>Retirements</u>	Balance End of Year
Land and Improvements	\$ 2,161,378	\$ -	\$ (170,302)	\$ 1,991,076
Buildings	1,286,733	-	-	1,286,733
Equipment	522,726	-	-	522,726
Improvements	8,640,551	237,274	-	8,877,825
Vehicles	360,646	30,267	-	390,913
Water Assets	<u>5,630,727</u>	<u>642,653</u>	<u>-</u>	<u>6,273,380</u>
<u>TOTALS</u>	<u>\$ 18,602,761</u>	<u>\$ 910,194</u>	<u>\$ (170,302)</u>	<u>\$ 19,342,653</u>

<u>ACCUMULATED DEPRECIATION</u>				
	Balance Beginning of Year	<u>Depreciation</u>	<u>Retirements</u>	Balance End of Year
Land Improvements	\$ 66,891	\$ 3,041	\$ -	\$ 69,932
Buildings	422,444	32,217	-	454,661
Equipment	393,434	24,945	-	418,379
Improvements	1,281,247	260,271	-	1,541,518
Vehicles	187,878	35,755	-	223,633
Water Assets	<u>1,425,324</u>	<u>149,655</u>	<u>-</u>	<u>1,574,979</u>
<u>TOTALS</u>	<u>\$ 3,777,218</u>	<u>\$ 505,884</u>	<u>\$ -</u>	<u>\$ 4,283,102</u>
<u>NET CAPITAL ASSETS</u>				<u>\$ 15,059,551</u>

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

Governmental Activities:	
General Government	\$ 26,785
Police	57,363
Public Works	272,081
Water Fund	<u>149,655</u>
Total Depreciation Expense	<u>\$ 505,884</u>

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

EXHIBIT J
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NOTE 5 - INTERFUND BALANCES:

Balances due to/from other funds at June 30, 2017, consist of the following:

	<u>Balance</u> <u>July 1</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30</u>
Due to General Fund from Enterprise Fund	\$ -	\$ 182,303	\$ (2,750)	\$ 179,553

The balance due to the general fund is to be repaid in semi-annual installments of \$10,064, including interest of 2% through April 1, 2027.

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).	\$ 328,422
Note payable to Maryland Department of Environment (MDE). Payable in semi-annual installments of interest and annual principal payments. Total payments 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 Removal).	802,200
Note payable to Maryland Department of Environment (MDE). Payable in semi-annual installments of interest and annual principal payments. Total payments of \$36,593 including interest of .7% and an administrative fee of 5% of debt service payments. Total loan amount will be \$680,727. Due date February 1, 2036 (Arsenic Removal II)	<u>200,140</u>
<u>TOTAL DEBT</u>	1,330,762
Less: Current Portion	<u>(130,019)</u>
<u>TOTAL LONG-TERM DEBT</u>	\$ <u>1,200,743</u>

Maturities of Principal and interest over the next five years and five year increments thereafter, are as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ -	\$ -	\$ 130,019	\$ 18,898
2019	-	-	133,404	15,737
2020	-	-	136,943	12,424
2021	-	-	140,643	8,952
2022	-	-	144,514	5,310
2023 - 2027	-	-	236,134	10,572
2028 - 2032	-	-	202,511	6,569
2033 - 2037	-	-	206,594	2,486
<u>TOTALS</u>	\$ -	\$ -	\$ 1,330,762	\$ 80,948

EXHIBIT J
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COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

EXHIBIT J
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NOTE 9 - PENSION PLAN (CONTINUED):

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.

Basis of Accounting - The System's financial statements are prepared on the accrual basis of accounting, and are in conformity with principles generally accepted in the United States of America. Accordingly, investment purchases and sales are recorded as of their respective trade dates. Employer and Member contributions are recognized in the period when due, pursuant to statutory or contractual requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the 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, 2017, were at a rate of 4.64% of earnings. A deduction is made from each employee's compensation equal to 7% of base pay. There are 4 inactive employees who are either receiving benefits or who are entitled to benefit payments, and 18 active, covered employees. Contributions to the plan from the Town for the past four years were as follows:

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual</u> <u>Pension</u> <u>Cost</u>	<u>Percentage</u> <u>Funded</u>
06/30/2014	\$ 97,323	100%
06/30/2015	\$ 98,254	100%
06/30/2016	\$ 86,845	100%
06/30/2017	\$ 82,855	100%

At June 30, 2017, the Town reported a liability of \$1,051,810 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental units, actuarially determined. At June 30, 2016, the Town's proportion was 0.0046616%.

For the year ended June 30, 2017, the Town recognized expense of \$120,745. The Town's contribution of \$82,855 subsequent to the measurement date, reported as deferred outflows of resources, will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

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

Deferred financing inflows and outflows are made up of changes in actuarial assumptions, differences in actual and expected experience and net difference in the projected and actual investment earnings. The deferred inflows and outflows related to non-investment activity are being amortized over the remaining service life of 5.8647, 5.87, and 5 years for the years ended June 30, 2016, 2015, and 2014 respectively. The net difference in investment earnings for 2016, 2015, and 2014 are being amortized over a closed five year period. The following table shows the future amortization of these balances:

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

EXHIBIT J
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NOTE 9 - PENSION PLAN (CONTINUED):

Year End	2016 Balance Amortization		2015 Balance Amortization				2014 Balance Amortization	
	Deferred Outflows	Deferred Inflows	Deferred Outflows		Deferred Inflows		Deferred Outflows	Deferred Inflows
	Net Difference in	Actual and	Net Difference in	Change in	Actual and	Change in	Net Difference in	Net Difference in
	Investment	Expected	Investment	Assumptions	Expected	Assumptions	Investment	Investment
	Earnings	Experience	Earnings		Experience		Earnings	Earnings
2018 \$	26,083 \$	(2,362) \$	21,332 \$	9,941 \$	(4,067) \$	2,680 \$	(20,281)	
2019	26,083	(2,362)	21,332	9,941	(4,067)	2,680	(20,281)	
2020	26,083	(2,362)	21,332	9,941	(4,067)	-	-	
2021	26,083	(2,362)	-	8,730	(3,571)	-	-	
2022	-	(2,076)	-	-	-	-	-	
	\$ 104,332	\$ (11,524)	\$ 63,996	\$ 38,553	\$ (15,772)	\$ 5,360	\$ (40,562)	

The actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2015 to June 30, 2016.

Investments - Investments are reported at fair value.

<u>Actuarial Assumptions</u> -	Investment rate of return/discount	7.55%
	Projected salary increases	3.30% - 9.20% including inflation
	Cost of living adjustments	3%
	Inflation rate included	2.7% general, 3.2% wage

Mortality rates are based on the RP-2014 Mortality.

Discount Rate - A single discount rate of 7.55% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.55%. 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 as of June 30, 2016, these best estimates are summarized in the following table:

Asset Class	Rate
Public Equity	6.6%
Private Equity	7.4%
Rate Sensitive	1.3%
Credit Opportunity	4.2%
Real Assets	4.7%
Absolute Return	3.7%

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

EXHIBIT J
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NOTE 9 - PENSION PLAN (CONTINUED):

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.55%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1 percentage-point lower or 1 percentage-point higher:

1% Decrease	\$	1,444,736
Current Discount Rate	\$	1,051,810
1% Increase	\$	724,815

NOTE 10 - 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 11 - SUBSEQUENT EVENTS:

On July 10, 2017, the Town purchased land at 800 S. Talbot Street, in the amount of \$206,633. The land is slated to be used for the construction of a new Town office.

COMMISSIONERS OF ST. MICHAELS

SUPPLEMENTAL INFORMATION

JUNE 30, 2017

COMMISSIONERS OF ST. MICHAELS
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF THE TOWN'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
MARYLAND STATE RETIREMENT AND PENSION SYSTEM
(UNAUDITED)

SCHEDULE A

	<u>2017</u>		<u>2016</u>		<u>2015</u>
Town's Proportion of the Net Pension Liability	0.0044579%		0.0046616%		0.0041763%
Town's Proportionate Share of the Net Pension Liability	\$ 1,051,810	\$	968,761	\$	741,158
Town's Covered-Employee Payroll	\$ 1,018,119	\$	1,009,800	\$	973,227
Town's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	103.31%		95.94%		76.15%
Plan Fiduciary Net Postion as a Percentage of the Total Pension Liability	65.79%		68.78%		71.87%

This scheule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which information is available.

COMMISSIONERS OF ST. MICHAELS
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF THE TOWN'S CONTRIBUTIONS
MARYLAND STATE RETIREMENT AND PENSION SYSTEM
(UNAUDITED)

SCHEDULE B

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 86,845	\$ 98,254	\$ 97,323
Contributions in Relation to the Contractually Required Contribution	<u>(86,845)</u>	<u>(98,254)</u>	<u>(97,323)</u>
Contribution Deficiency (Excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Town's Covered-Employee Payroll	\$ <u>1,018,119</u>	\$ <u>1,009,800</u>	\$ <u>973,227</u>
Contributions as a Percentage of Covered-Employee Payroll	8.53%	9.73%	10.00%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which information is available.

COMMISSIONERS OF ST. MICHAELS
SUPPLEMENTAL INFORMATION
ANALYSIS OF REVENUES - BUDGET AND ACTUAL - ALL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

SCHEDULE C
PAGE 1

	2017				
	Budgeted Amounts			Favorable (Unfavorable) Variance	Prior Year 6/30/16
	Original	Final	Actual Amounts		
<u>TAXES-LOCAL:</u>					
<u>Real and Personal Property:</u>					
Real Estate Taxes	\$ 1,181,571	\$ 1,181,571	\$ 1,182,696	\$ 1,125	\$ 1,142,322
Personal Property and Corporation	1,123	1,123	1,123	-	1,123
Utilities	47,915	47,915	49,469	1,554	47,915
<u>Total Real and Personal Property</u>	1,230,609	1,230,609	1,233,288	2,679	1,191,360
<u>Admissions and Amusements</u>	64,000	64,000	71,612	7,612	84,180
<u>Public Accomodations</u>	510,000	510,000	507,084	(2,916)	502,858
<u>Taxes - State Shared:</u>					
Highway Use	56,445	56,445	53,718	(2,727)	53,939
<u>Total Taxes</u>	1,861,054	1,861,054	1,865,702	4,648	1,832,337
Less: Discounts and Allowances	(4,000)	(4,000)	1,562	5,562	(6,884)
<u>NET TAXES</u>	1,857,054	1,857,054	1,867,264	10,210	1,825,453
<u>REVENUE FROM OTHER AGENCIES:</u>					
<u>Federal Government:</u>					
Department of The Interior	2,040	2,040	-	(2,040)	2,778
DHCD and SMHA-Federal Block Grant	-	-	-	-	6,315
DHCD and SMCC	-	-	-	-	473,616
DHCD Arsenic Grant	-	-	119,045	119,045	180,955
<u>State Government:</u>					
Police Protection State	35,839	35,839	37,390	1,551	35,697
Critical Area Grant	4,000	4,000	4,800	800	4,000
Income Tax	110,000	110,000	134,605	24,605	139,233
State Fire, Rescue, and Ambulance Fund	2,100	2,100	3,790	1,690	3,082
MDE Grant	-	-	515,104	515,104	942,148
<u>County Government:</u>					
Crossing Guard	12,500	12,500	12,500	-	12,500
<u>Other Agencies:</u>					
Eastern Shore Land Conservancy Grant	-	-	-	-	76,000
UMD Grant	-	-	258	258	-
St. Michaels Housing Authority PILOT	7,625	7,625	-	(7,625)	-
<u>TOTAL REVENUE FROM OTHER AGENCIES</u>	174,104	174,104	827,492	653,388	1,876,324
<u>LICENSES AND PERMITS:</u>					
Traders Licenses	8,500	8,500	8,997	497	9,733
Animal Licenses	100	100	5	(95)	-
Building Permits	23,000	23,000	25,808	2,808	20,809
HDC Permits	2,500	2,500	2,800	300	2,650
Board of Appeals	1,000	1,000	1,050	50	633
Land Use Management Fees	-	-	9,000	9,000	11,550
Other Licenses and Permits	1,000	1,000	1,475	475	1,000
<u>TOTAL LICENSES AND PERMITS</u>	36,100	36,100	49,135	13,035	46,375

COMMISSIONERS OF ST. MICHAELS
SUPPLEMENTAL INFORMATION
ANALYSIS OF REVENUE - BUDGET AND ACTUAL - ALL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

SCHEDULE C
PAGE 2

	2017				
	Budgeted Amounts			Favorable (Unfavorable) Variance	Prior Year 6/30/16
	Original	Final	Actual Amounts		
RENTAL/FRANCHISE REVENUE:					
Cable TV	\$ 14,000	\$ 14,000	\$ 14,434	\$ 434	\$ 13,604
Boat Slip Rentals	24,500	24,500	23,873	(627)	25,055
Building Rent	40,553	40,553	41,136	583	40,662
Tower Rent	181,617	181,617	179,034	(2,583)	171,485
TOTAL RENTAL/FRANCHISE REVENUE	260,670	260,670	258,477	(2,193)	250,806
WATER CHARGES:					
Water Service Charges	650,000	650,000	640,822	(9,178)	612,619
Water Connections	8,000	8,000	7,698	(302)	7,251
Water Capital Charges	2,200	2,200	5,500	3,300	2,200
Miscellaneous Water Revenue	-	-	3,875	3,875	3,190
TOTAL WATER CHARGES	660,200	660,200	657,895	(2,305)	625,260
FINES:					
Parking and Civil Violations	1,500	1,500	4,410	2,910	3,865
Planning and Zoning Fines and Violations	-	-	6,227	6,227	2,750
TOTAL FINES	1,500	1,500	10,637	9,137	6,615
SERVICE CHARGES:					
Copy Machine	100	100	43	(57)	27
Parking Spaces	-	-	25,217	25,217	33,826
Sidewalks	-	-	21,454	21,454	-
Tree Mitigation Funds	100	100	-	(100)	-
Health Officer Charges	2,000	2,000	-	(2,000)	2,088
Kayak Rack Rentals	-	-	1,120	1,120	840
Other Service Charges	100	100	-	(100)	14
TOTAL SERVICE CHARGES	2,300	2,300	47,834	45,534	36,795
MISCELLANEOUS REVENUE:					
Interest	37,279	37,279	74,044	36,765	51,192
Other Miscellaneous Revenue	-	-	5,993	5,993	12,661
Proceeds from Sale of St. Michael's Utility Commission	384,615	384,615	384,615	-	369,822
Reimbursed Expenses	-	-	40,543	40,543	28,269
SMPD/SMYLE Donations	-	-	13,247	13,247	18,988
Sale of Property	-	-	108,001	108,001	80,001
TOTAL MISCELLANEOUS REVENUE	421,894	421,894	626,443	204,549	560,933
TOTAL REVENUE	\$ 3,413,822	\$ 3,413,822	\$ 4,345,177	\$ 931,355	\$ 5,228,561

COMMISSIONERS OF ST. MICHAELS
SUPPLEMENTAL INFORMATION
ANALYSIS OF EXPENDITURES/EXPENSES - BUDGET AND ACTUAL
ALL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

SCHEDULE D
PAGE 1

	2017				
	Budgeted Amounts			Favorable (Unfavorable) Variance	Prior Year 6/30/16
	Original	Final	Actual Amounts		
<u>GOVERNMENTAL FUNDS</u>					
<u>GENERAL GOVERNMENT:</u>					
<u>Legislative:</u>					
Commissioner's Salaries and Benefits	\$ 10,000	\$ 10,000	\$ 11,012	\$ (1,012)	\$ 13,771
Other Operating Expenses	16,900	16,900	14,548	2,352	15,175
<u>Executive:</u>					
Salaries and Benefits	191,331	191,332	202,794	(11,462)	188,564
Overtime	2,000	2,000	1,916	84	1,797
Tourism Board	135,600	135,600	130,317	5,283	113,573
Legal	30,000	30,000	12,437	17,563	9,210
Audit	13,000	13,000	13,000	-	13,000
Engineering	5,000	5,000	4,795	205	17,654
Liability and Property Insurance	10,500	10,500	10,346	154	10,582
Office Supplies and Expenses	23,000	23,000	25,068	(2,068)	26,117
Codification - Maintenance	10,000	10,000	4,281	5,719	3,806
Janitorial	3,100	3,100	3,350	(250)	3,155
Travel and Training	3,500	3,500	1,532	1,968	1,675
Notices and Ads	4,000	4,000	2,771	1,229	3,103
Dues and Subscriptions	4,200	4,200	4,512	(312)	4,659
Telephone	7,500	7,500	7,254	246	6,123
Miscellaneous	1,500	1,500	2,280	(780)	3,278
Election	-	-	-	-	962
Volunteer Acknowledgement	300	300	-	300	-
Website Development	2,500	2,500	1,032	1,468	1,415
Document Retention	2,600	2,600	2,295	305	2,295
Reserve Study	-	15,950	15,950	-	-
Capital Outlay - Town Office	238,000	238,000	18,874	219,126	-
Capital Outlay - 124 Fremont Street	-	-	-	-	162,641
<u>Total Legislative and Executive</u>	<u>714,531</u>	<u>730,482</u>	<u>490,364</u>	<u>240,118</u>	<u>602,555</u>
<u>Planning and Zoning:</u>					
Salaries and Benefits	123,362	123,362	122,267	1,095	140,660
Overtime	2,000	2,000	114	1,886	521
Administrative Salary Charge	45,057	45,057	45,283	(226)	45,648
Legal	15,000	15,000	7,765	7,235	1,743
Consulting	2,000	2,000	-	2,000	-
Advertising	3,400	3,400	1,988	1,412	4,523
Inspections	4,500	4,500	5,631	(1,131)	6,583
Office Expenses	3,000	3,000	2,284	716	3,537
Reimbursables	-	-	26,690	(26,690)	18,523
<u>Total Planning and Zoning</u>	<u>198,319</u>	<u>198,319</u>	<u>212,022</u>	<u>(13,703)</u>	<u>221,738</u>
<u>Donations to Outside Agencies:</u>					
Block Grant	-	-	-	-	6,315
DHCD and SMCC	-	-	-	-	473,616
Fire Department	53,226	53,226	53,226	-	52,860
Talbot County Arts Council	1,000	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	5,000	5,000	5,000	-	4,000
<u>Total Donations to Outside Agencies</u>	<u>72,726</u>	<u>72,726</u>	<u>72,726</u>	<u>-</u>	<u>551,291</u>
<u>TOTAL GENERAL GOVERNMENT</u>	<u>985,576</u>	<u>1,001,527</u>	<u>775,112</u>	<u>226,415</u>	<u>1,375,584</u>
<u>POLICE:</u>					
Sworn Salaries and Benefits	837,784	820,783	728,535	92,248	\$ 750,293
Sworn Overtime	15,000	15,000	65,961	(50,961)	49,447
Other Salaries	67,948	67,948	76,142	(8,194)	39,773
Other Overtime	1,500	1,500	3,559	(2,059)	3,118

COMMISSIONERS OF ST. MICHAELS
SUPPLEMENTAL INFORMATION
ANALYSIS OF EXPENDITURES/EXPENSES - BUDGET AND ACTUAL
ALL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

SCHEDULE D
PAGE 2

2017					
	Budgeted Amounts			Favorable (Unfavorable) Variance	Prior Year 6/30/16
	Original	Final	Actual Amounts		
POLICE (CONTINUED):					
Event Crossing Guards	\$ 3,000	\$ 3,000	\$ -	\$ 3,000	\$ -
Administrative Salary Charges	45,057	45,057	45,283	(226)	45,648
Consulting and Audit	1,600	1,600	1,250	350	1,250
Legal	1,000	1,000	262	738	418
Liability and Property Insurance	9,500	9,500	9,458	42	9,900
Office Expenses	6,800	6,800	6,350	450	7,470
Janitorial	5,000	5,000	5,708	(708)	5,300
Travel and Training	2,800	2,800	3,316	(516)	3,142
Dues and Subscriptions	3,500	3,500	563	2,937	563
Telephone	7,500	7,500	8,960	(1,460)	8,377
Miscellaneous	1,000	1,000	2,235	(1,235)	1,056
Advertising (Personnel)	500	500	1,166	(666)	-
Vehicle Expense	18,000	18,000	28,070	(10,070)	19,210
Equipment and Supplies	5,200	5,200	10,000	(4,800)	9,756
Communications (Radio)	1,300	1,300	1,766	(466)	660
Uniforms	4,000	4,000	2,652	1,348	5,175
Personnel Testing	500	500	2,587	(2,087)	-
SMYLE Expenses	1,000	1,000	11,762	(10,762)	27,549
Utilities	7,000	7,000	6,751	249	6,958
Capital Outlay - Vehicle	31,000	31,000	30,267	733	-
Capital Outlay - Police Station	-	-	9,777	(9,777)	-
Capital Outlay - Gas Pump	-	-	-	-	12,760
Capital Outlay - Tasers	-	-	-	-	12,879
Capital Outlay - Drug Tracking K-9	-	-	-	-	9,995
TOTAL POLICE	1,077,489	1,060,488	1,062,380	(1,892)	1,030,697
PUBLIC WORKS:					
Maintenance and Grounds:					
Salaries and Benefits	202,699	202,699	190,879	11,820	189,981
Overtime	10,000	10,000	5,249	4,751	5,206
Administrative Salary Charge	45,283	45,283	45,283	-	45,648
Audit	2,030	2,030	1,250	780	1,250
Liability and Property Insurance	5,600	5,600	5,594	6	5,588
Tree Planting and Maintenance	10,000	10,000	26,848	(16,848)	12,139
Telephone	1,700	1,700	1,168	532	1,498
Maintenance and Supplies	5,000	5,000	5,741	(741)	3,502
Miscellaneous	400	400	490	(90)	496
Personnel Testing	300	300	-	300	-
Uniforms	6,500	6,500	8,496	(1,996)	8,568
Mosquito Control	2,500	2,500	1,648	852	2,480
Capital Outlay - Public Works Bldg Refurbishment	15,000	15,000	5,153	9,847	-
Health Officer	500	500	-	500	225
Total Maintenance and Grounds	307,512	307,512	297,799	9,713	276,581
Sanitation and Waste:					
Vehicle Expense	9,000	9,000	9,000	-	5,736
Maintenance and Supplies	3,000	3,000	205	2,795	1,992
Landfill Fees	36,000	36,000	41,441	(5,441)	41,919
Recycling	56,000	56,000	62,297	(6,297)	60,857
Landfill Cleanup	-	-	-	-	13,129
Total Sanitation and Waste Removal	104,000	104,000	112,943	(8,943)	123,633
Streets and Sidewalks:					
Electric - Street Lights	45,000	45,000	51,817	(6,817)	49,277
Vehicle Expense	12,000	12,000	12,000	-	15,100
Parking Lots Repair and Maintenance	500	500	138	362	802
Snow and Ice Removal	1,000	1,000	189	811	826
Storm Drain Repair and Maintenance	1,000	1,000	6,719	(5,719)	1,052
Supplies	11,000	11,000	8,302	2,698	8,966
Sidewalk Repair	2,500	2,500	565	1,935	3,174
Alley Maintenance	5,000	5,000	-	5,000	-
Signs	5,000	5,000	2,832	2,168	1,042
Capital Outlay - Phase V	-	-	310	(310)	295,669
Capital Outlay - Perry Cabin Drive	-	-	-	-	20,560
Capital Outlay - Grace Street Engineering	-	-	2,172	(2,172)	8,388
Capital Outlay - Grace Street Culvert	-	-	5,020	(5,020)	2,836
Capital Outlay - Thompson Alley Engineering	-	-	1,212	(1,212)	8,388
Capital Outlay - Radcliffe Avenue	28,000	28,000	23,915	4,085	-

COMMISSIONERS OF ST. MICHAELS
SUPPLEMENTAL INFORMATION
ANALYSIS OF EXPENDITURES/EXPENSES - BUDGET AND ACTUAL
ALL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

SCHEDULE D
PAGE 3

	2017				
	Budgeted Amounts			Favorable (Unfavorable) Variance	Prior Year 6/30/16
	Original	Final	Actual Amounts		
<u>Streets and Sidewalks (CONTINUED):</u>					
Capital Outlay - Douglas Lane	\$ 60,000	\$ 60,000	\$ 58,414	\$ 1,586	\$ -
Capital Outlay - Grace Street Construction	215,000	-	-	-	-
Capital Outlay - Thompson Street Construction	100,000	-	-	-	-
Capital Outlay - Curb Replacement	20,000	80,000	108,183	(28,183)	-
Capital Outlay - Fremont Street Brick Sidewalks	10,500	10,500	3,646	6,854	-
Capital Outlay - Parking Lot Fremont Street	60,000	60,000	-	60,000	-
<u>Total Streets</u>	<u>576,500</u>	<u>321,500</u>	<u>285,434</u>	<u>36,066</u>	<u>416,080</u>
<u>Municipal Buildings:</u>					
Utilities	15,000	15,000	14,554	446	15,878
Maintenance and Supplies	10,000	27,000	31,273	(4,273)	6,553
Real Estate Taxes	9,500	9,500	11,897	(2,397)	11,146
Capital Outlay - Boy Scout Cabin	-	-	-	-	6,730
<u>Total Municipal Buildings</u>	<u>34,500</u>	<u>51,500</u>	<u>57,724</u>	<u>(6,224)</u>	<u>40,307</u>
<u>Parks and Recreation:</u>					
Uniforms	3,000	-	4,248	(4,248)	4,490
Vehicle Maintenance	4,000	4,000	4,000	-	2,019
Maintenance and Supplies	23,000	23,000	21,486	1,514	23,909
Harbor Maintenance	2,200	2,200	37	2,163	245
Bay Hundred Pool	4,000	4,000	4,000	-	4,000
Park Enhancement Fund	4,000	4,000	3,980	20	3,711
Horticulturist Contract	12,000	12,000	11,980	20	11,986
Nature Trail Maintenance	1,500	1,500	-	1,500	-
Kayak Expense	-	-	686	(686)	-
Capital Outlay - Utility Underground Study	-	30,000	31,653	(1,653)	6,931
Capital Outlay - Back Creek Dock	-	-	908	(908)	-
<u>Total Parks and Recreation</u>	<u>53,700</u>	<u>80,700</u>	<u>82,978</u>	<u>(2,278)</u>	<u>57,291</u>
<u>TOTAL PUBLIC WORKS</u>	<u>1,076,212</u>	<u>865,212</u>	<u>836,878</u>	<u>28,334</u>	<u>913,892</u>
<u>TOTAL GOVERNMENTAL EXPENDITURES</u>	<u>3,139,277</u>	<u>2,927,227</u>	<u>2,674,370</u>	<u>252,857</u>	<u>3,320,173</u>
<u>ENTERPRISE FUND</u>					
<u>WATER FUND:</u>					
Salaries and Benefits	202,700	202,700	193,096	9,604	202,014
Overtime	7,580	7,580	5,254	2,326	5,208
Administrative Salary Charge	45,648	45,648	45,283	365	45,648
Legal Consulting, and Audit	1,600	1,600	-	1,600	-
Liability and Property Insurance	5,200	5,200	5,109	91	5,088
Office Supplies	800	800	3,579	(2,779)	5,947
Computer and Telemetry Software	12,000	12,000	12,693	(693)	1,617
Postage	1,400	1,400	1,275	125	502
Electric - Wells and Towers	23,500	23,500	21,204	2,296	18,550
Water Testing	7,500	7,500	6,746	754	4,688
Travel and Training	2,000	2,000	1,364	636	2,581
Dues and Subscriptions	500	500	300	200	500
Telephone	2,000	2,000	2,203	(203)	2,107
Uniforms	6,500	6,500	8,496	(1,996)	7,565
Vehicle Expense	2,000	2,000	3,828	(1,828)	3,997
Materials and Supplies	30,000	30,000	49,429	(19,429)	35,132
Maintenance on Arsenic System	60,000	60,000	12,901	47,099	8,463
Maintenance of Generator #2	2,500	2,500	2,192	308	1,814
Server Time - Mission Units	2,500	2,500	2,374	126	2,254
Miscellaneous	500	500	558	(58)	438
Water Tower Maintenance Contract	103,421	103,421	135,526	(32,105)	109,969
Water Line Loop	14,328	14,328	-	14,328	-
Debt Service - New Water Tower	63,136	63,136	15,138	47,998	11,796
Debt Service - Water Bonds (FHA)	19,029	19,029	18,549	480	21,271
Debt Service - Arsenic DOE	43,904	43,904	8,473	35,431	7,560
Water Tower Interfund Loan	-	-	606	(606)	-
Depreciation	-	-	149,655	(149,655)	102,675
<u>TOTAL WATER FUND</u>	<u>660,246</u>	<u>660,246</u>	<u>705,831</u>	<u>(45,585)</u>	<u>607,384</u>
<u>TOTAL EXPENDITURES/EXPENSES</u>	<u>\$ 3,799,523</u>	<u>\$ 3,587,473</u>	<u>\$ 3,380,201</u>	<u>\$ 207,272</u>	<u>\$ 3,927,557</u>

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, 2017

SCHEDULE E

	Budget	Actual Amounts	Favorable (Unfavorable) Variance	Prior Year 6/30/16
<u>Operating Revenues:</u>				
Charges for Services	\$ 650,000	\$ 640,822	\$ (9,178)	\$ 612,619
Connection Charges	8,000	7,698	(302)	7,251
Capital Charges	2,200	5,500	3,300	2,200
Miscellaneous	-	3,875	3,875	3,190
Total Operating Revenues	660,200	657,895	(2,305)	625,260
<u>Operating Expenses:</u>				
Salaries and Benefits	202,700	193,096	9,604	202,014
Overtime	7,580	5,254	2,326	5,208
Administrative Salary Charge	45,648	45,283	365	45,648
Legal Consulting, and Audit	1,600	-	1,600	-
Liability and Property Insurance	5,200	5,109	91	5,088
Office Supplies	800	3,579	(2,779)	5,947
Computer and Telemetry Software	12,000	12,693	(693)	1,617
Postage	1,400	1,275	125	502
Electric - Wells and Towers	23,500	21,204	2,296	18,550
Water Testing	7,500	6,746	754	4,688
Travel and Training	2,000	1,364	636	2,581
Dues and Subscriptions	500	300	200	500
Telephone	2,000	2,203	(203)	2,107
Uniforms	6,500	8,496	(1,996)	7,565
Vehicle Expense	2,000	3,828	(1,828)	3,997
Materials and Supplies	30,000	49,429	(19,429)	35,132
Maintenance on Arsenic System	60,000	12,901	47,099	8,463
Maintenance of Generator #2	2,500	2,192	308	1,814
Server Time - Mission Units	2,500	2,374	126	2,254
Miscellaneous	500	558	(58)	438
Water Tower Maintenance Contract	103,421	135,526	(32,105)	109,969
Water Line Loop	14,328	-	14,328	-
Arsenic Removal Administrative Fee	-	3,917	(3,917)	3,917
Debt Service - New Water Tower	63,136	15,138	47,998	11,796
Debt Service - Water Bonds (FHA)	19,029	18,549	480	21,271
Debt Service - Arsenic DOE	43,904	4,556	39,348	3,643
Water Tower Interfund Loan	-	606	(606)	-
Depreciation	-	149,655	(149,655)	102,675
Total Operating Expenses	660,246	705,831	(45,585)	607,384
<u>Operating Income/(Loss)</u>	(46)	(47,936)	(47,890)	17,876
<u>Non-Operating Revenue:</u>				
Investments	45	1,598	1,553	499
Grant Revenue	-	634,149	634,149	1,123,103
Total Non-Operating Revenues	45	635,747	635,702	1,123,602
<u>Income/(Loss) Before Transfers</u>	(1)	587,811	587,812	1,141,478
<u>Transfers</u>	(148,929)	(148,929)	-	204,688
<u>Change in Net Position</u>	(148,930)	438,882	587,812	1,346,166
<u>Net Position - Beginning</u>	3,087,500	3,087,500	-	1,741,334
<u>Net Position - Ending</u>	\$ 2,938,570	\$ 3,526,382	\$ 587,812	\$ 3,087,500

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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 and each major fund of the Commissioners of St. Michaels, as of and for the year ended June 30, 2017, 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 26, 2017.

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. 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.

A handwritten signature in black ink that reads "Lank, Johnson & Tull". The signature is written in a cursive, flowing style.

Seaford, Delaware
October 26, 2017