

COMMISSIONERS OF ST. MICHAELS
FINANCIAL STATEMENTS WITH
SUPPLEMENTAL INFORMATION
JUNE 30, 2018

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, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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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, 2018, and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, 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 29, 2018, on our consideration of the Commissioners of St. Michaels' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commissioners of St. Michaels' internal control over financial reporting and compliance.

Lank, Johnson + Tull

Seaford, Delaware
October 29, 2018

COMMISSIONERS OF ST. MICHAELS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

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, 2018. 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, 2018

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

The Town's combined net position remained constant from 2017 to 2018 (See table below). General and business-type funds remained constant as well. This is 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
	2018	2017	2018	2017	2018	2017	Percentage Change
Current and Other Assets	10.50	10.54	0.31	0.31	10.81	10.85	-
Capital Assets	10.42	10.36	4.65	4.70	15.07	15.06	-
Deferred Outflows	0.21	0.26	0.03	0.04	0.24	0.30	(20%)
Total Assets and Deferrals	21.13	21.16	4.99	5.05	26.12	26.21	-
Long-Term Debt	-	-	1.20	1.33	1.20	1.33	(10%)
Other Liabilities	1.12	1.22	0.26	0.18	1.38	1.40	(1%)
Deferred Inflows	0.10	0.06	0.02	0.01	0.12	0.07	71%
Total Liabilities and Deferrals	1.22	1.28	1.48	1.52	2.70	2.80	(4%)
Net Position							
Capital Assets Net of Debt	10.42	10.36	3.45	3.19	13.87	13.55	2%
Unrestricted	9.49	9.52	0.06	0.34	9.55	9.86	(3%)
Total Net Position	19.91	19.88	3.51	3.53	23.42	23.41	-

The Town's total revenues (excluding transfers) decreased by 8% to \$3.08 million, which is primarily due to a reduction in capital grants from DHCD and MDE for the water fund (See table below). Revenue from business-type activities decreased by 50% to \$.64 million, which is due to the decrease in capital grants. General Governmental revenues increased by 18% to \$2.44 million, which is primarily attributable to an increase in real estate, admissions and amusements, and public accommodations taxes. The total cost of all programs and services remained constant at \$3.07 million. The costs of business-type activities decreased by 1% to \$.69 million, which was primarily due to a decrease in water tower maintenance and salaries. The costs of governmental-type activities remained constant at \$2.38 million. The governmental expenses in the table below are shown net of fees, charges, and grants.

COMMISSIONERS OF ST. MICHAELS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

Commissioners of St. Michaels

Change in Net Assets

(in millions)

	Governmental		Business-Type		Total		Total Percentage
	2018	2017	2018	2017	2018	2017	Change
Program Revenue							
Charges for Services	-	-	0.64	0.66	0.64	0.66	(3%)
Capital Grants	-	-	-	0.63	-	0.63	(100%)
General Revenue							
Taxes	2.30	2.00	-	-	2.30	2.00	15%
Investment Income	0.14	0.07	-	-	0.14	0.07	100%
Total Revenue	2.44	2.07	0.64	1.29	3.08	3.36	(8%)
Program Expenses							
General	0.42	0.47	-	-	0.42	0.47	(11%)
Police	1.07	1.01	-	-	1.07	1.01	6%
Public Works	0.89	0.90	-	-	0.89	0.90	(1%)
Water	-	-	0.69	0.70	0.69	0.70	(1%)
Total Expenses	2.38	2.38	0.69	0.70	3.07	3.08	-
Excess (Deficiency)	0.06	(0.31)	(0.05)	0.59	0.01	0.28	(96%)
Transfers In/Out	(0.03)	0.15	0.03	(0.15)	-	-	-
Change in Net Position	0.03	(0.16)	(0.02)	0.44	0.01	0.28	(96%)
Net Position - Beginning	19.88	20.04	3.53	3.09	23.41	23.13	1%
Net Position - Ending	19.91	19.88	3.51	3.53	23.42	23.41	-

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.

COMMISSIONERS OF ST. MICHAELS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

Actual revenues of \$2.92 million were over budgeted revenues by \$0.22 million. This favorable variance is primarily due to admissions and amusements tax, public accommodations tax and various other revenue line items being over the budgeted amounts.

Actual expenditures in the amount of \$2.92 million came in \$0.31 million under budgeted amounts. This favorable variance is due to capital spending and sworn salaries and benefits under budgeted amounts.

WATER FUND BUDGETARY HIGHLIGHTS

Actual revenue of \$0.64 million was over budgeted revenues by \$0.01 million. This favorable variance is primarily due to additional connection and capital charges. Expenditures came in \$0.03 million under budgeted amounts. This favorable variance is due to various line item expenses coming in under budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the Town had \$15.07 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 \$0.01 million from the prior year.

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

	Governmental		Business-Type		Total	
	2018	2017	2018	2017	2018	2017
Land and Improvements	2.12	1.92	-	-	2.12	1.92
Buildings	0.83	0.83	-	-	0.83	0.83
Equipment	0.09	0.10	-	-	0.09	0.10
Improvements	7.18	7.34	-	-	7.18	7.34
Vehicles	0.20	0.17	-	-	0.20	0.17
Water	-	-	4.65	4.70	4.65	4.70
Total Capital Assets	10.42	10.36	4.65	4.70	15.07	15.06

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 \$1.20 million in bonds and notes outstanding, versus \$1.33 million in 2017, a decrease of \$0.13 million or 10% under last year.

COMMISSIONERS OF ST. MICHAELS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

Commissioners of St. Michaels

Debt

(in millions)

	Governmental		Business-Type		Total	
	2018	2017	2018	2017	2018	2017
USDA - Water Bonds	-	-	0.27	0.33	0.27	0.33
Maryland Department of Environment - Arsenic Removal	-	-	0.76	0.80	0.76	0.80
Maryland Department of Environment - Arsenic Removal II	-	-	0.17	0.20	0.17	0.20
Total Debt	-	-	1.20	1.33	1.20	1.33

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 has improved over the last year. However, fixed costs associated with long-term infrastructure projects cannot be reduced and the revenues from investments, while improving, have not rebounded to the pre-recession rates. Taxes were increased by 6.4 cents in an effort to bridge the gap. 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 lower 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 6.4 cents to \$.52 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 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. 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 (FY2018) is \$.52 cents per \$100 of the State's assessment of the property values. In the State's initial Constant Yield Tax Rate Certification (Feb., 2017) the Town's assessable base decreased from \$258,756,220 to \$255,981,797, in part necessitating the need for the increase in tax rate. The final assessable base at time of tax bill printing increased to \$268,284,874, an increase of \$9,528,650 in assessable base from FY 2017. This number, while showing an increase 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

COMMISSIONERS OF ST. MICHAELS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

Manager position to the Administrative Department. In FY2017 and 2018, due to changes in policing, the Commissioners incrementally funded two new police officers, bringing the total to 10 sworn officers.

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 FY2018 remained steady in the Administrative and Zoning Department. In FY2019, we are seeing an increase in legal fees due to zoning cases.

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 as follows which enables the goals of the reserve study to be implemented.

After the Town has ceased to own and ceased to have any responsibility for operating the St. Michaels electric distribution system (the "System"), after the Town has received all payments due to it relating to the lease and/or sale of the System, and after the Town has made all payments due from it relating to the System, then the balance of all such revenues, and the balance of the Town's sinking fund relating to the System, after payment of all expenses of the Town relating to the termination of the lease of the System to Delmarva Power & Light Company and the sale of the System to Choptank Electric Cooperative, Inc., shall be transferred to the Town's general fund. The funds 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 Town capital improvements, repairs and maintenance as deemed appropriate by the Town Commissioners from time to time. § C-62.1 Balance of revenues from lease and sale of St. Michaels electric distribution system.

The Town Commissioners shall segregate Town monies into separate funds to help ensure the Town's long-term financial stability. Upon the Town Clerk's recommendation, the Town Commissioners shall establish by resolution the balances maintained in such funds and the methods for maintenance. The following funds shall be established and maintained as the Town Commissioners deem appropriate from time to time:

- A. General Operating Fund. A fund used to account for all activity, assets and liabilities of the Town except those assigned for other purposes in another specific fund. This fund is the primary operating fund that contains uncommitted resources that may be used for the Town's general purposes.*
- B. Repair and Replacement Fund. A fund used to cover anticipated expenses for the repair and replacement of Town facilities, equipment, and infrastructure, otherwise known as reserve elements, as identified in a formal reserve study, which may be updated from time to time at the Town Commissioners' discretion and may be further defined and described by resolution. This fund's purpose is to maintain adequate reserves for the repair, maintenance and replacement of Town assets over time.*
- C. Capital Fund. A fund used for capital projects and improvements, including the acquisition of property and assets not accounted for in the Repair and Replacement Fund.*

COMMISSIONERS OF ST. MICHAELS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

D. Contingency Fund. A fund used to manage uncertain or unexpected emergencies, events, and risks.

E. Water System Enterprise Fund. A fund used to manage the Town's water system finances. This fund may be used for all activity related to the Town's water system, including capital expenditures. § C-62.2 Town funds.

These funds have been created and the Town's budget reflects the changes.

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;
- 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, the maintenance of the arsenic removal plants will remain an expensive cost. The corrective actions taken to maintain compliance with the federal arsenic removal standards are more expensive as the plants are now more labor intensive, and there are more chemical costs. 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.

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

A Community Development Block Grant made by the Town in 1985 to Associated Investors, a Maryland General Partnership, came due to the Town in August of 2010. Associated Investors has sold the property to Osprey Development Company, at which time the loan was paid off and re-loaned to the purchaser. The new purchaser has demolished the building and constructed 40 workforce housing units. The units enjoy a nearly 100% occupancy. As long as the property remains as such, the loan will not have to be repaid.

Although progress is hampered by the loss of revenue, the Commissioners continue to pursue the revitalization of the Commercial District. A broad scale revitalization effort began in 2001 with the designation of the area as a Designated Neighborhood in the State of Maryland's Neighborhood Business Development Program. As detailed in the Community Legacy Plan of 2008, the renovation of Muskrat Park, the construction of the St. Michaels Nature Trail and the long-range plans for the improvement of the Fremont Street Corridor all further the Commissioners' efforts to revitalize the commercial core of the Town and to enhance the quality of life for the Town's residents and visitors alike. The multi-year 5.5 million-dollar street rehabilitation project is in Phase 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 as surplus property, both were sold, with the closing for 101 Conner in FY2017. During FY2018 the Commissioners purchased 800 S. Talbot Street, and demolished the building in preparation of a possible municipal use. In FY2018 the Commissioners hired an architect to design a new Town Office. The Commissioners also voted not to build a new police station at this time, but to continue to make necessary improvements to the current station.

COMMISSIONERS OF ST. MICHAELS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

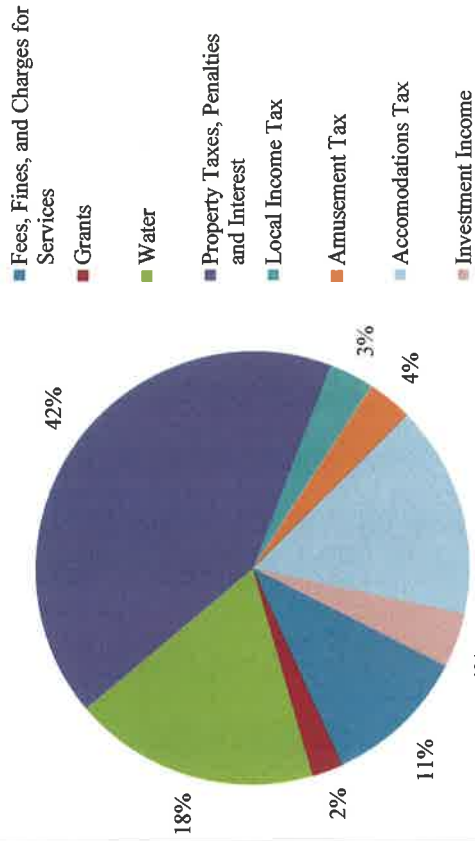
Capital projects included in the Town's FY2018 budget included a new police vehicle, the rehabilitation of both Mitchell Street and Seymour Avenue, which were completed, however the rehabilitation of Grace and Thompson Streets was put off until FY 2018 as the County had not completed necessary sewer work. The rehabilitation of the Fremont Street parking lot was completed as well as the purchase of a new vehicle in the public works department. Following the Route Assessment and feasibility study for the undergrounding of utilities on Talbot Street during FY2017 the Commissioners voted not to move forward with the project.

FINANCIAL CONTACT

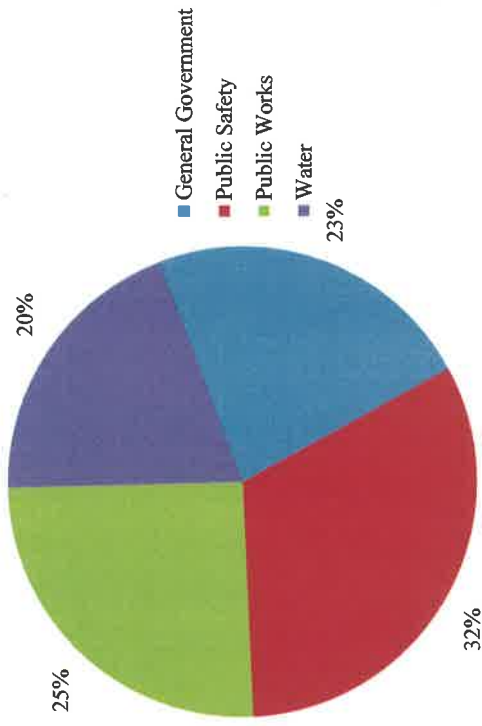
The Town's financial statements are designed to present users (citizens, taxpayers, customers, and creditors) with a general overview of the Town's finances and to demonstrate the Town's accountability. If you have questions about the report or need additional financial information, please contact the 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, 2018

TOTAL REVENUES



TOTAL EXPENSES



COMMISSIONERS OF ST. MICHAELS
GOVERNMENT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2018

EXHIBIT A

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash	\$ 377,231	\$ -	\$ 377,231
Accounts Receivable	263,367	162,823	426,190
Investments	9,692,048	313,204	10,005,252
Accounts Receivable - Parking Spaces	6,875	-	6,875
Interfund Balances	162,863	(162,863)	-
Capital Assets:			
Land	2,197,709	-	2,197,709
Buildings	1,317,456	-	1,317,456
Equipment	526,524	948,051	1,474,575
Improvements	8,987,234	5,359,744	14,346,978
Vehicles	456,049	78,206	534,255
Accumulated Depreciation	<u>(3,067,204)</u>	<u>(1,732,807)</u>	<u>(4,800,011)</u>
Total Assets	20,920,152	4,966,358	25,886,510
Deferred Outflow of Resources	<u>207,446</u>	<u>30,737</u>	<u>238,183</u>
Total Assets and Deferred Outflows	<u>21,127,598</u>	<u>4,997,095</u>	<u>26,124,693</u>
<u>LIABILITIES</u>			
Accounts Payable	160,741	125,350	286,091
Non-Current Liabilities:			
Compensated Absences	195,698	19,063	214,761
Net Pension Liability	760,070	120,195	880,265
Due within one year	-	133,404	133,404
Due in more than one year	<u>-</u>	<u>1,067,338</u>	<u>1,067,338</u>
Total Liabilities	1,116,509	1,465,350	2,581,859
Deferred Inflow of Resources	<u>104,298</u>	<u>14,670</u>	<u>118,968</u>
Total Liabilities and Deferred Inflows	<u>1,220,807</u>	<u>1,480,020</u>	<u>2,700,827</u>
<u>NET POSITION</u>			
Net Investment in Capital Assets	10,417,768	3,452,452	13,870,220
Unrestricted	<u>9,489,023</u>	<u>64,623</u>	<u>9,553,646</u>
Total Net Position	<u>\$ 19,906,791</u>	<u>\$ 3,517,075</u>	<u>\$ 23,423,866</u>

COMMISSIONERS OF ST. MICHAELS
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

EXHIBIT B

Program Activities	Program Revenues			Net (Expenses) Revenues and Changes in Net Position			
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General Government	\$ 805,222	\$ 368,564	\$ 10,000	\$ -	\$ (426,658)	\$ -	\$ (426,658)
Police	1,135,602	3,490	65,498	-	(1,066,614)	-	(1,066,614)
Public Works	896,672	-	-	4,800	(891,872)	-	(891,872)
Total Governmental Activities	2,837,496	372,054	75,498	4,800	(2,385,144)	-	(2,385,144)
Business-Type Activities:							
Water	688,389	640,573	-	-	-	(47,816)	(47,816)
Total Government	\$ 3,525,885	\$ 1,012,627	\$ 75,498	\$ 4,800	(2,385,144)	(47,816)	(2,432,960)

<u>General Revenues:</u>							
Property Taxes, Penalties, and Interest	1,461,998	-	-	-	-	-	1,461,998
Local Income Tax	117,706	-	-	-	-	-	117,706
Amusement Tax	118,394	-	-	-	-	-	118,394
Highway Use Tax	52,891	-	-	-	-	-	52,891
Accommodations Tax	553,903	-	-	-	-	-	553,903
Investment Income	138,369	3,700	-	-	-	-	142,069
Transfer In/(Out)	(34,809)	34,809	-	-	-	-	-
Total General Revenues	2,408,452	38,509	-	-	-	-	2,446,961
Change in Net Position	23,308	(9,307)	-	-	-	-	14,001
Net Position - Beginning	19,883,483	3,526,382	-	-	-	-	23,409,865
Net Position - Ending	\$ 19,906,791	\$ 3,517,075	-	-	-	-	\$ 23,423,866

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

COMMISSIONERS OF ST. MICHAELS
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2018

EXHIBIT C

<u>ASSETS</u>	<u>General Fund</u>
Cash	\$ 377,231
Accounts Receivable	263,367
Investments	<u>9,692,048</u>
Total Assets	<u>\$ 10,332,646</u>
<u>LIABILITIES AND FUND BALANCE</u>	
Liabilities:	
Accounts Payable	<u>\$ 160,741</u>
Fund Balance:	
Committed	7,872,424
Unassigned	<u>2,299,481</u>
Total Fund Balance	<u>10,171,905</u>
Total Liabilities and Fund Balance	<u>\$ 10,332,646</u>

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

Total Fund Balance	\$ 10,171,905
Accounts Receivable - Parking Spaces are long-term assets	6,875
Interfund Balance - Due to General Fund from Enterprise Fund	162,863
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.	10,417,768
The deferred outflow of resources is not a current financial resource and therefore is not reported in the governmental fund's balance sheet	207,446
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	(760,070)
Compensated absences are not due and payable in the current period and therefore are not reported in the governmental fund's balance sheet	(195,698)
The deferred inflow of resources is not a use of current financial resources and therefore is not reported in the governmental fund's balance sheet	<u>(104,298)</u>
Net Position of Governmental Activities	<u>\$ 19,906,791</u>

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

EXHIBIT D

	General Fund
Revenues:	
Taxes	\$ 2,187,186
Revenue from Other Agencies	185,224
Licenses and Permits	58,965
Rental/Franchise Revenue	271,577
Fines	3,590
Service Charges	22,463
Investment Income	138,369
Miscellaneous	<u>49,514</u>
Total Revenues	<u>2,916,888</u>
Expenditures:	
Current:	
General Government	790,332
Police	1,074,323
Public Works	628,181
Capital Outlay	<u>425,476</u>
Total Expenditures	<u>2,918,312</u>
Excess of Revenues over/(under) Expenditures	<u>(1,424)</u>
Other Financing Sources/(Uses):	
Interfund Loan Repayment	16,690
Operating Transfers	<u>(34,809)</u>
Total Other Financing Sources/(Uses):	<u>(18,119)</u>
Net Change in Fund Balance	(19,543)
Fund Balance - Beginning	<u>10,191,448</u>
Fund Balance - Ending	<u>\$ 10,171,905</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, 2018

EXHIBIT E

Net Change in Fund Balance - Total Governmental Fund	\$ (19,543)
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	55,868
Parking space proceeds were previously reported as revenue in government-wide statements	(21,275)
Loan repayment on Interfund loan is not a source of revenue	(16,690)
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.	425,476
Book value of assets disposed does not require the use of current financial resources	(9,777)
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.	(31,670)
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>(359,081)</u>
Change in Net Position of Governmental Activities	\$ <u><u>23,308</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, 2018

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:				<u>Variance</u>
Taxes	\$ 2,011,080	\$ 2,082,025	\$ 2,187,186	\$ 105,161
Revenue from Other Agencies	191,164	191,164	185,224	(5,940)
Licenses and Permits	36,600	45,600	58,965	13,365
Rental/Franchise Revenue	274,544	274,544	271,577	(2,967)
Fines	4,000	4,000	3,590	(410)
Service Charges	3,300	3,300	22,463	19,163
Investment Income	52,230	102,119	138,369	36,250
Miscellaneous	100	100	49,514	49,414
Total Revenues	<u>2,573,018</u>	<u>2,702,852</u>	<u>2,916,888</u>	<u>214,036</u>
Expenditures:				
Current:				
General Government	763,330	768,530	790,332	(21,802)
Police	1,126,923	1,181,923	1,074,323	107,600
Public Works	602,146	602,146	628,181	(26,035)
Capital Outlay	491,120	674,247	425,476	248,771
Total Expenditures	<u>2,983,519</u>	<u>3,226,846</u>	<u>2,918,312</u>	<u>308,534</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(410,501)</u>	<u>(523,994)</u>	<u>(1,424)</u>	<u>522,570</u>
Other Financing Sources/(Uses):				
Operating Transfers	(34,809)	(34,809)	(34,809)	-
Interfund Loan Repayment	16,690	16,690	16,690	-
Prior Year Reserves	427,439	540,932	-	(540,932)
Total Other Financing Sources/(Uses)	<u>409,320</u>	<u>522,813</u>	<u>(18,119)</u>	<u>(540,932)</u>
Net Change in Fund Balance	<u>(1,181)</u>	<u>(1,181)</u>	<u>(19,543)</u>	<u>(18,362)</u>
Fund Balances - Beginning	<u>10,191,448</u>	<u>10,191,448</u>	<u>10,191,448</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 10,190,267</u>	<u>\$ 10,190,267</u>	<u>\$ 10,171,905</u>	<u>\$ (18,362)</u>

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF NET POSITION - ENTERPRISE FUND
JUNE 30, 2018

EXHIBIT G

<u>ASSETS</u>	<u>Water Fund</u>
Current Assets:	
Accounts Receivable	\$ 162,823
Investments	<u>313,204</u>
Total Current Assets	<u>476,027</u>
Capital Assets:	
Equipment	948,051
Improvements	5,359,744
Vehicles	78,206
Accumulated Depreciation	<u>(1,732,807)</u>
Total Capital Assets	<u>4,653,194</u>
Total Assets	5,129,221
Deferred Outflow of Resources	<u>30,737</u>
Total Assets and Deferred Outflows	<u>\$ 5,159,958</u>
 <u>LIABILITIES</u>	
Current Liabilities:	
Accounts Payable	\$ 125,350
Current Portion of Long-Term Debt	<u>133,404</u>
Total Current Liabilities	<u>258,754</u>
Non-Current Liabilities:	
Compensated Absences	19,063
Net Pension Liability	120,195
Interfund Balances	162,863
Long-Term Debt - Net of Current Portion	<u>1,067,338</u>
Total Non-Current Liabilities	<u>1,369,459</u>
Total Liabilities	1,628,213
Deferred Inflow of Resources	<u>14,670</u>
Total Liabilities and Deferred Inflows	1,642,883
 <u>NET POSITION</u>	
Invested in Capital Assets, Net of Related Debt	3,452,452
Unrestricted	<u>64,623</u>
Total Net Position	<u>3,517,075</u>
Total Liabilities and Net Position	<u>\$ 5,159,958</u>

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2018

EXHIBIT H

	Water Fund
Operating Revenues:	
Charges for Services	\$ 615,842
Connection Charges	13,200
Capital Charges	7,401
Miscellaneous	<u>4,130</u>
Total Operating Revenues	<u>640,573</u>
Operating Expenses:	
Salaries	178,243
Overtime	5,617
Administrative Salary Charge	49,607
Liability and Property Insurance	5,617
Office Supplies	3,589
Computer and Telemetry Software	7,745
Postage	500
Electric - Wells and Towers	24,830
Water Testing	3,074
Travel and Training	3,976
Dues and Subscriptions	300
Telephone	2,190
Uniforms	9,022
Vehicle Expense	1,495
Materials and Supplies	74,503
Maintenance on Arsenic System	10,514
Maintenance of Generator #2	6,599
Server Time - Mission Units	2,374
Miscellaneous	1,031
6" Gate Valve - S. End of Town	3,650
Water Tower Maintenance Contract	108,593
Arsenic Removal Administrative Fee	3,727
Debt Service - Water Bonds (FHA)	15,688
Debt Service - Arsenic DOE	4,639
Water Tower Interfund Loan	3,438
Depreciation	<u>157,828</u>
Total Operating Expenses	<u>688,389</u>
Operating Income (Loss)	(47,816)
Non-Operating Revenues:	
Investment Income	<u>3,700</u>
Income/(Loss) Before Transfers	(44,116)
Transfers	<u>34,809</u>
Change in Net Position	(9,307)
Net Position - Beginning	<u>3,526,382</u>
Net Position - Ending	<u>\$ 3,517,075</u>

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2018

EXHIBIT 1

	Water Fund
Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 653,219
Connection Charges	13,200
Capital Charges	7,401
Miscellaneous Charges	• 4,130
Cash Payments for Interest	(27,492)
Cash Payments to Employees for Services	(238,662)
Cash Payments to Suppliers for Goods and Services	(166,190)
	<u>245,606</u>
Net Cash Flows from Operating Activities	<u>245,606</u>
Cash Flows from Non-Capital Financing Activities:	
Cash from/(to) Maryland Local Government Investment Pool	(21,084)
Interfund Repayments	(16,690)
Transfers - General Fund	34,809
	<u>(2,965)</u>
Net Cash Flows from Non-Capital Financing Activities	<u>(2,965)</u>
Cash Flows from Capital and Related Financing Activities:	
Purchase of Capital Assets	(112,621)
Retirement of Debt	(130,020)
	<u>(242,641)</u>
Net Cash Flows from Capital and Related Financing Activities	<u>(242,641)</u>
Net Increase in Cash	-
Cash - Beginning	-
Cash - Ending	<u>\$ -</u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:	
Operating Income (Loss)	\$ (47,816)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Depreciation	157,828
Change in Accounts Receivable	37,377
Change in Deferred Outflows	6,858
Change in Compensated Absences	2,459
Change in Net Pension Liability	(20,671)
Change in Deferred Inflows	6,159
Change in Accounts Payable	103,412
	<u>103,412</u>
Net Cash Flows from Operating Activities	<u>\$ 245,606</u>

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. General Statement

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

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

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

B. Financial Reporting Entity

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

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

C. Basis of Presentation

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

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

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

C. Basis of Presentation (Continued)

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

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

The Town has presented the following major funds:

General Fund

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

Water Fund

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

D. Measurement Focus/Basis of Accounting

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

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

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

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

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

E. Budgetary Control

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

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

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

F. Cash and Investments

The Town follows the practice of segregating cash as to fund purpose or type.

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

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

G. Accounts Receivable

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

H. Property Taxes

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

I. Transactions Between Funds

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

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, and capital items costing up to \$5,000, are recorded as expenses. Renewals and betterments costing more than \$5,000 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, 2018

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 29, 2018, the date the report was available for issuance.

NOTE 2 - CASH AND INVESTMENTS:

The following is a detail of cash and investments:

Cash on Hand		\$	75
<u>PNC Bank (Balances per bank):</u>			
General Fund Checking	\$ 265,976		
General Fund Payroll	31,737		
Parking Lot	141,130		
Muskrat Park	7,826		
Classic Motor Museum	1,251		
SMPD-SMYLE	15,266		
Health Reimbursement	8,387		
<u>Total PNC Bank</u>			471,573
<u>Maryland Local Government Investment Pool (MLGIP)</u>			10,005,252
 <u>TOTAL CASH AND INVESTMENTS</u>		 <u>\$</u>	 <u>10,476,900</u>

The balance of cash is categorized as follows:

Amount insured by the FDIC, or collateralized with securities	\$ 471,573
Uninsured and Uncollateralized	75
 <u>TOTAL CASH</u>	 <u>\$ 471,648</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	\$ 1,992,116	\$ 1,992,116	\$ 1,992,116	\$ -
Committed	Various	7,699,932	7,699,932	7,699,932	-
 <u>ENTERPRISE FUND</u>					
<u>MLGIP</u>					
Unrestricted	Various	313,204	313,204	313,204	-
 <u>TOTAL ALL FUNDS</u>		 <u>\$ 10,005,252</u>	 <u>\$ 10,005,252</u>	 <u>\$ 10,005,252</u>	 <u>\$ -</u>

The Maryland Local Government Investment Pool (MLGIP) provides all local government units of the State an investment vehicle for the short term investment of funds. The State Legislature created the Maryland Local Government Investment Pool with the passage of Article 95 22G, of the Annotated Code of Maryland. The

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

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

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	\$ 13,356
Water Charges	162,823
Public Accommodations Tax	167,946
Parking Spaces	6,875
Safe Routes to Schools	3,300
Admissions and Amusements	55,431
Housing Authority P.I.L.O.T.	13,437
Brick Sidewalks	6,559
Other Miscellaneous Receivables	<u>3,338</u>
 <u>TOTAL</u>	 <u>\$ 433,065</u>

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

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NOTE 4 - CAPITAL ASSETS:

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

ASSETS

	Balance Beginning of Year	<u>Acquisitions</u>	<u>Retirements</u>	Balance End of Year
Land and Improvements	\$ 1,991,076	\$ 206,633	\$ -	\$ 2,197,709
Buildings	1,286,733	40,500	(9,777)	1,317,456
Equipment	522,726	3,798	-	526,524
Improvements	8,877,825	109,409	-	8,987,234
Vehicles	390,913	65,136	-	456,049
Water Assets	6,273,380	112,621	-	6,386,001
<u>TOTALS</u>	<u>\$ 19,342,653</u>	<u>\$ 538,097</u>	<u>\$ (9,777)</u>	<u>\$ 19,870,973</u>

ACCUMULATED DEPRECIATION

	Balance Beginning of Year	<u>Depreciation</u>	<u>Retirements</u>	Balance End of Year
Land Improvements	\$ 69,932	\$ 3,041	\$ -	\$ 72,973
Buildings	454,661	31,264	-	485,925
Equipment	418,379	22,873	-	441,252
Improvements	1,541,518	264,146	-	1,805,664
Vehicles	223,633	37,757	-	261,390
Water Assets	1,574,979	157,828	-	1,732,807
<u>TOTALS</u>	<u>\$ 4,283,102</u>	<u>\$ 516,909</u>	<u>\$ -</u>	<u>\$ 4,800,011</u>
<u>NET CAPITAL ASSETS</u>				<u>\$ 15,070,962</u>

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

Governmental Activities:	
General Government	\$ 26,032
Police	59,365
Public Works	273,684
Water Fund	157,828
Total Depreciation Expense	<u>\$ 516,909</u>

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

EXHIBIT J
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NOTE 5 - INTERFUND BALANCES:

Balances due to/from other funds at June 30, 2018, 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	\$ 179,553	\$ -	\$ 16,690	\$ 162,863

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).	\$ 269,060
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).	763,593
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>168,089</u>
<u>TOTAL DEBT</u>	1,200,742
Less: Current Portion	<u>(133,404)</u>
<u>TOTAL LONG-TERM DEBT</u>	\$ <u>1,067,338</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>
2019	\$ -	\$ -	\$ 133,404	\$ 16,943
2020	-	-	136,943	13,404
2021	-	-	140,643	9,704
2022	-	-	144,513	5,834
2023	-	-	72,574	2,723
2024 - 2028	-	-	203,739	9,778
2029 - 2033	-	-	203,322	5,758
2034 - 2038	-	-	165,604	1,660
<u>TOTALS</u>	\$ -	\$ -	\$ 1,200,742	\$ 65,804

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

EXHIBIT J
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NOTE 6 - DEBT (CONTINUED):

Below summarizes the changes in Debt:

	<u>Balance</u> <u>July 1</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30</u>
USDA	\$ 328,422	\$ -	\$ (59,362)	\$ 269,060
MDE - Arsenic Removal	802,200	-	(38,607)	763,593
MDE - Arsenic Removal II	200,140	-	(32,051)	168,089
<u>TOTALS</u>	<u>\$ 1,330,762</u>	<u>\$ -</u>	<u>\$ 130,020</u>	<u>\$ 1,200,742</u>

NOTE 7 - COMMITTED FUND BALANCE:

Committed Fund Balance is available for the following purposes:

	<u>General</u>	<u>Enterprise</u>
Capital Projects	\$ 1,225,331	\$ -
Parking Lot	141,130	-
Muskrat Park	7,826	-
SMPD SMYLE	15,266	-
Contingency	403,406	-
Repair and Replacement	6,071,195	-
Health Reimbursement	8,270	-
Water Improvements	-	313,204
<u>TOTALS</u>	<u>\$ 7,872,424</u>	<u>\$ 313,204</u>

NOTE 8 - LEASE AGREEMENTS:

The Town has entered into lease agreements expiring at various times with Long and Foster for use of the old Town office building, and various cell phone providers for the use of the Town's water tower for wireless antennas and transmission lines. Total lease payments billed for the year ended June 30, 2018, were \$228,850.

Future lease payments to be received are:

Year Ending June 30

2019	\$ 237,903
2020	246,899
2021	256,726
2022	266,977
2023	270,162
Total Minimum Lease Payments to be Received	<u>\$ 1,278,667</u>

NOTE 9 - PENSION AND RETIREMENT PLAN:

Organization - Employees of the Town are covered by the Maryland State Retirement and Pension System (MSRPS), which is a cost-sharing multiple-employer public employee retirement system. The plan is administered by the State Retirement Agency (the Agency). Responsibility for the administration and operation of the MSRPS is vested in a 15-member Board of Trustees. The MSRPS was established by the State Personnel and Pensions Article of the Annotated Code of Maryland. The Agency issued a publicly available financial report that includes basic financial statements and required supplemental information for the MSRPS. The report may be obtained by writing to the Maryland State Retirement Agency, 120 East Baltimore Street, Baltimore, MD 21202, or via the internet at www.sra.state.md.us.

The State Retirement Agency issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the State Retirement and Pension System of Maryland, 120 E. Baltimore Street, Suite 1660, Baltimore, Maryland 21202-1600 or on-line at www.sra.maryland.gov.

Basis of Accounting - The System's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the System and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Summary of Significant Plan Provisions - All plan benefits are specified by the State Personnel and Pensions Article of the Annotated Code of Maryland. For all individuals who are members on or before June 30, 2011, retirement allowances are computed using both the highest three years' Average Final Compensation (AFC) and the actual number of years of accumulated creditable service. For any individual who became a member of the pension system on or after July 1, 2011, pension allowances are computed using both the highest five consecutive year's AFC and the actual number of years of accumulated creditable service. Various retirement options are available which ultimately determines how a retiree's benefit allowance will be computed. Some of these options require actuarial reductions based on the retiree's and/or designated beneficiary's attained age and similar actuarial factors.

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, 2018, were at a rate of 4.64% of earnings.

In addition, the benefit attributable to service on or after July 1, 2011, will be subject to different cost-of-living adjustments (COLA) that are based on the increase in the Consumer Price Index (CPI) and capped at 2.5% or 1.0% based on whether the market value investment return for the preceding calendar year was higher or lower than the investment return assumption used in the valuation.

A brief summary of the retirement eligibility requirements and the benefits available in effect during fiscal year 2017 are as follows:

Service Retirement Allowances - 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.

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

EXHIBIT J
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NOTE 9 - PENSION AND RETIREMENT PLAN (CONTINUED):

Vested Allowances - Any individual who is a member of the State Retirement and Pension System on or before June 30, 2011, and who terminates employment before attaining retirement age but after accumulating 5 years of eligibility service is eligible for a vested retirement allowance. Any individual who joins the State Retirement and Pension System on or after July 1, 2011, and who terminates employment before attaining retirement age, but after accumulating 10 years of eligibility service, is eligible for a vested retirement allowance. A member, who terminates employment prior to attaining retirement age and before vesting, receives a refund of all member contributions and interest.

Actuarial Assumptions - The total pension liability in the actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	In the 2016 actuarial valuation, 2.90% general, 3.20% wage In the 2017 actuarial valuation, 2.65% general, 3.15% wage
Salary Increases	In the 2016 actuarial valuation, 3.20% to 9.20% In the 2017 actuarial valuation, 3.15% to 9.15%
Investment Rate of Return	In the 2016 actuarial valuation, 7.55% In the 2017 actuarial valuation, 7.50%
Discount Rate	7.50%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014
Mortality	RP - 2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRPS experience

Investments - 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 weighing 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 of Trustees 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, 2017, these best estimates are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	36%	5.3%
Private Equity	11%	7.0%
Rate Sensitive	21%	1.2%
Credit Opportunity	9%	3.6%
Real Assets	15%	5.7%
Absolute Return	8%	3.1%
TOTAL	100%	

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

EXHIBIT J
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NOTE 9 - PENSION AND RETIREMENT PLAN (CONTINUED):

For the year ended June 30, 2017, the annual money-weighted rate of return on pension plan investments, net of the pension plan investment expense, was 10.02%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate - A single discount rate of 7.50% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 7.50%. 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.

Sensitivity of the Net Pension Liability - 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 7.50%, as well as what the plan's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

1% Decrease to 6.50%	Discount Rate 7.50%	1% Increase to 8.50%
\$ 1,247,499	\$ 880,265	\$ 575,551

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions - The net pension liability was measured as of June 30, 2017, 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, 2018, the Town reported the following related to pensions:

Employer's proportionate (percentage) of the collective net pension liability	0.0040708%
Employer's proportionate share of the collective net pension liability	\$ 880,265
Pension expense recognized by the employer for the year ended June 30, 2018	\$ -
Deferred outflows of resources, June 30, 2017	\$ 295,096
Year end June 30, 2017, contributions	(82,855)
Change in Assumptions	4,382
Amortization of items allowed by GASB 68	(60,036)
Year end June 30, 2018, contributions	81,596
Deferred outflows of resources, June 30, 2018	\$ 238,183
Deferred inflows of resources, June 30, 2017	\$ 67,858
Difference between expected and actual experience	77,820
Amortization of items allowed by GASB 68	(26,710)
Deferred inflows of resources, June 30, 2018	\$ (118,968)
Net pension liability June 30, 2017	\$ 1,051,810
Change in net pension liability factored for contributions	(171,545)
Net pension liability June 30, 2018	\$ 880,265

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

EXHIBIT J
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NOTE 9 - PENSION AND RETIREMENT PLAN (CONTINUED):

The \$81,596 of deferred outflows of resources resulting from the Town's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources will be amortized over a five year period.

<u>June 30,</u>	<u>Deferred Outflows</u>		<u>Deferred Inflows</u>	
	<u>Difference</u> <u>Between Expected</u> <u>and Actual</u> <u>Experience</u>	<u>Change in</u> <u>Assumptions</u>	<u>Difference</u> <u>Between Expected</u> <u>and Actual</u> <u>Experience</u>	
2019	\$ 47,415	\$ 13,538	\$ (44,427)	
2020	47,415	10,858	(24,146)	
2021	26,083	9,647	(23,650)	
2022	-	917	(19,794)	
2023	-	714	(6,951)	
TOTAL	\$ <u>120,913</u>	\$ <u>35,674</u>	\$ <u>(118,968)</u>	

For the year ended June 30, 2018, the Town's total payroll for all employees was \$1,368,297. Total covered payroll was \$1,014,141. Covered payroll refers to all compensation paid by the Town to active employees covered by the Pension System. 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 22 active, covered employees.

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 - CONTINGENCY FUND

The Commissioners established the Contingency Fund (a stabilization fund) pursuant to Resolution 2017-07 by depositing \$400,000 in the MLGIP. At year end the balance in the fund was \$403,406. This fund will be used for emergency or unexpected needs which may not be covered by other available funds, insurance proceeds or grants from other governmental agencies. Expenditures from this fund may only be done when approved by a super majority of the Commissioners. If expenditures from this fund cause the balance to drop below the initial opening balance as designated by the Commissioners, funds shall be appropriated at 20% per year for five years until the funds are replenished to the original balance.

COMMISSIONERS OF ST. MICHAELS

SUPPLEMENTAL INFORMATION

JUNE 30, 2018

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)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Town's Proportion of the Net Pension Liability	0.0040708%	0.0044579%	0.0046616%	0.0041763%
Town's Proportionate Share of the Net Pension Liability	\$ 880,265	\$ 1,051,810	\$ 968,761	\$ 741,158
Town's Covered-Employee Payroll	\$ 1,014,141	\$ 1,018,119	\$ 1,009,800	\$ 973,227
Town's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	86.80%	103.31%	95.94%	76.15%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.38%	65.79%	68.78%	71.87%

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 82,855	\$ 86,845	\$ 98,254	\$ 97,323
Contributions in Relation to the Contractually Required Contribution	<u>(82,855)</u>	<u>(86,845)</u>	<u>(98,254)</u>	<u>(97,323)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's Covered-Employee Payroll	<u>\$ 1,014,141</u>	<u>\$ 1,018,119</u>	<u>\$ 1,009,800</u>	<u>\$ 973,227</u>
Contributions as a Percentage of Covered-Employee Payroll	8.17%	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, 2018

SCHEDULE C
PAGE 1

	2018				
	Budgeted Amounts				
	Original	Final	Actual Amounts	Favorable (Unfavorable) Variance	Prior Year 6/30/17
TAXES - LOCAL:					
<u>Real and Personal Property:</u>					
Real Estate Taxes	\$ 1,340,002	\$ 1,410,947	\$ 1,410,947	\$ -	\$ 1,182,696
Personal Property and Corporation	1,123	1,123	1,123	-	1,123
Utilities	49,466	49,466	48,707	(759)	49,469
<u>Total Real and Personal Property</u>	1,390,591	1,461,536	1,460,777	(759)	1,233,288
<u>Admissions and Amusements</u>	70,000	70,000	118,394	48,394	71,612
<u>Public Accommodations</u>	500,000	500,000	553,903	53,903	507,084
<u>Taxes - State Shared:</u>					
Highway Use	56,489	56,489	52,891	(3,598)	53,718
<u>Total Taxes</u>	2,017,080	2,088,025	2,185,965	97,940	1,865,702
Less: Discounts and Allowances	(6,000)	(6,000)	1,221	7,221	1,562
<u>NET TAXES</u>	2,011,080	2,082,025	2,187,186	105,161	1,867,264
REVENUE FROM OTHER AGENCIES:					
<u>Federal Government:</u>					
Department of The Interior	2,700	2,700	-	(2,700)	-
DHCD Arsenic Grant	-	-	-	-	119,045
<u>State Government:</u>					
Police Protection State	35,839	35,839	36,399	560	37,390
Critical Area Grant	4,000	4,000	4,800	800	4,800
Income Tax	125,000	125,000	117,706	(7,294)	134,605
State Fire, Rescue, and Ambulance Fund	3,500	3,500	3,819	319	3,790
Safe Routes to School	-	-	10,000	10,000	-
MDE Grant	-	-	-	-	515,104
<u>County Government:</u>					
Crossing Guard	12,500	12,500	12,500	-	12,500
<u>Other Agencies:</u>					
UMD Grant	-	-	-	-	258
St. Michaels Housing Authority PILOT	7,625	7,625	-	(7,625)	-
<u>TOTAL REVENUE FROM OTHER AGENCIES</u>	191,164	191,164	185,224	(5,940)	827,492
LICENSES AND PERMITS:					
Traders Licenses	9,000	9,000	9,205	205	8,997
Animal Licenses	100	100	167	67	5
Building Permits	23,000	32,000	39,803	7,803	25,808
HDC Permits	2,500	2,500	2,990	490	2,800
Board of Appeals	1,000	1,000	600	(400)	1,050
Land Use Management Fees	-	-	4,400	4,400	9,000
Other Licenses and Permits	1,000	1,000	1,800	800	1,475
<u>TOTAL LICENSES AND PERMITS</u>	36,600	45,600	58,965	13,365	49,135

COMMISSIONERS OF ST. MICHAELS
SUPPLEMENTAL INFORMATION
ANALYSIS OF REVENUE - BUDGET AND ACTUAL - ALL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

SCHEDULE C
PAGE 2

	2018				
	<u>Budgeted Amounts</u>			<u>Favorable (Unfavorable) Variance</u>	<u>Prior Year 6/30/17</u>
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>		
<u>RENTAL/FRANCHISE REVENUE:</u>					
Cable TV	\$ 13,600	\$ 13,600	\$ 13,848	\$ 248	\$ 14,434
Boat Slip Rentals	23,900	23,900	24,540	640	23,873
Building Rent	42,305	42,305	41,959	(346)	41,136
109 S. Talbot Tax, Ins, Util. Reim.	4,042	4,042	4,339	297	-
Tower Rent	190,697	190,697	186,891	(3,806)	179,034
<u>TOTAL RENTAL/FRANCHISE REVENUE</u>	<u>274,544</u>	<u>274,544</u>	<u>271,577</u>	<u>(2,967)</u>	<u>258,477</u>
<u>WATER CHARGES:</u>					
Water Service Charges	620,000	620,000	615,842	(4,158)	640,822
Water Connections	7,000	7,000	13,200	6,200	7,698
Water Capital Charges	2,200	2,200	7,401	5,201	5,500
Miscellaneous Water Revenue	-	-	4,130	4,130	3,875
<u>TOTAL WATER CHARGES</u>	<u>629,200</u>	<u>629,200</u>	<u>640,573</u>	<u>11,373</u>	<u>657,895</u>
<u>FINES:</u>					
Parking and Civil Violations	4,000	4,000	3,490	(510)	4,410
Planning and Zoning Fines and Violations	500	500	100	(400)	6,227
<u>TOTAL FINES</u>	<u>4,500</u>	<u>4,500</u>	<u>3,590</u>	<u>(910)</u>	<u>10,637</u>
<u>SERVICE CHARGES:</u>					
Copy Machine	100	100	68	(32)	43
Parking Spaces	-	-	21,275	21,275	25,217
Sidewalks	-	-	-	-	21,454
Tree Mitigation Funds	100	100	-	(100)	-
Health Officer Charges	2,000	2,000	-	(2,000)	-
Kayak Rack Rentals	1,100	1,100	1,120	20	1,120
<u>TOTAL SERVICE CHARGES</u>	<u>3,300</u>	<u>3,300</u>	<u>22,463</u>	<u>19,163</u>	<u>47,834</u>
<u>MISCELLANEOUS REVENUE:</u>					
Interest	53,456	103,345	142,069	38,724	74,044
Other Miscellaneous Revenue	100	100	1,764	1,664	5,993
Proceeds from Sale of St. Michael's Utility Commission	-	-	-	-	384,615
Reimbursed Expenses	-	-	34,970	34,970	40,543
SMPD/SMYLE Donations	-	-	12,780	12,780	13,247
Sale of Property	-	-	-	-	108,001
Prior Year Reserves	427,439	540,932	-	(540,932)	-
<u>TOTAL MISCELLANEOUS REVENUE</u>	<u>480,995</u>	<u>644,377</u>	<u>191,583</u>	<u>(452,794)</u>	<u>626,443</u>
<u>TOTAL REVENUE</u>	<u>\$ 3,631,383</u>	<u>\$ 3,874,710</u>	<u>\$ 3,561,161</u>	<u>\$ (313,549)</u>	<u>\$ 4,345,177</u>

COMMISSIONERS OF ST. MICHAELS
SUPPLEMENTAL INFORMATION
ANALYSIS OF EXPENDITURES/EXPENSES - BUDGET AND ACTUAL
ALL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

SCHEDULE D
PAGE 1

	2018					
	Budgeted Amounts			Favorable (Unfavorable) Variance	Prior Year 6/30/17	
	Original	Final	Actual Amounts			
<u>GOVERNMENTAL FUNDS</u>						
<u>GENERAL GOVERNMENT:</u>						
<u>Legislative:</u>						
Commissioner's Salaries and Benefits	\$ 10,500	\$ 10,500	\$ 10,990	\$ (490)	\$ 11,012	
Other Operating Expenses	16,562	18,262	16,718	1,544	14,548	
<u>Executive:</u>						
Salaries and Benefits	203,630	203,630	207,741	(4,111)	202,794	
Overtime	2,000	2,000	2,025	(25)	1,916	
Tourism Board	142,975	142,975	128,641	14,334	130,317	
Legal	25,000	25,000	20,923	4,077	12,437	
Audit	13,000	13,000	13,000	-	13,000	
Engineering	10,000	10,000	11,427	(1,427)	4,795	
Liability and Property Insurance	11,000	11,000	11,079	(79)	10,346	
Office Supplies and Expenses	19,490	19,490	25,335	(5,845)	25,068	
Codification - Maintenance	6,000	6,000	4,716	1,284	4,281	
Janitorial	3,200	3,200	3,250	(50)	3,350	
Travel and Training	3,500	3,500	1,620	1,880	1,532	
Notices and Ads	4,000	4,000	3,818	182	2,771	
Dues and Subscriptions	4,700	4,700	4,309	391	4,512	
Telephone	7,000	7,000	5,744	1,256	7,254	
Miscellaneous	1,500	1,500	2,493	(993)	2,280	
Election	1,500	1,500	1,204	296	-	
Volunteer Acknowledgement	300	300	-	300	-	
Website Development	1,500	5,000	4,674	326	1,032	
Document Retention	2,600	2,600	2,295	305	2,295	
Reserve Study	-	-	-	-	15,950	
Capital Outlay - Town Office	-	-	247,133	(247,133)	18,874	
Capital Outlay - Furnance	6,120	6,120	-	6,120	-	
Capital Outlay - Zoning Code Re-Write	-	64,200	13,610	50,590	-	
<u>Total Legislative and Executive</u>	<u>496,077</u>	<u>565,477</u>	<u>742,745</u>	<u>(177,268)</u>	<u>490,364</u>	
<u>Planning and Zoning:</u>						
Salaries and Benefits	127,395	127,395	118,900	8,495	122,267	
Overtime	2,000	2,000	-	2,000	114	
Administrative Salary Charge	49,608	49,608	49,608	-	45,283	
Legal	10,000	10,000	4,055	5,945	7,765	
Consulting - Zoning Ordinance Revision	2,000	2,000	650	1,350	-	
Advertising	4,000	4,000	1,728	2,272	1,988	
Inspections	6,500	6,500	8,259	(1,759)	5,631	
Office Expenses	2,490	2,490	1,971	519	2,284	
Reimbursables	-	-	40,169	(40,169)	26,690	
<u>Total Planning and Zoning</u>	<u>203,993</u>	<u>203,993</u>	<u>225,340</u>	<u>(21,347)</u>	<u>212,022</u>	
<u>Donations to Outside Agencies:</u>						
Fire Department	54,980	54,980	54,980	-	53,226	
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	5,000	5,000	5,000	-	7,500	
St. Michaels Community Center	3,000	3,000	3,000	-	3,000	
SMASH	2,400	2,400	2,400	-	5,000	
<u>Total Donations to Outside Agencies</u>	<u>69,380</u>	<u>69,380</u>	<u>69,380</u>	<u>-</u>	<u>72,726</u>	
<u>TOTAL GENERAL GOVERNMENT</u>	<u>769,450</u>	<u>838,850</u>	<u>1,037,465</u>	<u>(198,615)</u>	<u>775,112</u>	
<u>POLICE:</u>						
Sworn Salaries and Benefits	919,732	919,732	760,383	159,349	728,535	
Sworn Overtime	15,000	70,000	68,866	1,134	65,961	
Other Salaries	53,322	53,322	81,073	(27,751)	76,142	
Other Overtime	1,500	1,500	2,488	(988)	3,559	

COMMISSIONERS OF ST. MICHAELS
SUPPLEMENTAL INFORMATION
ANALYSIS OF EXPENDITURES/EXPENSES - BUDGET AND ACTUAL
ALL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

SCHEDULE D
PAGE 2

2018					
	Budgeted Amounts			Favorable (Unfavorable) Variance	Prior Year 6/30/17
	Original	Final	Actual Amounts		
POLICE (CONTINUED):					
Administrative Salary Charges	\$ 49,608	\$ 49,608	\$ 49,608	\$ -	\$ 45,283
Consulting and Audit	1,600	1,600	1,250	350	1,250
Legal	1,000	1,000	1,835	(835)	262
Liability and Property Insurance	9,500	9,500	10,326	(826)	9,458
Office Expenses	5,811	5,811	7,358	(1,547)	6,350
Janitorial	5,500	5,500	6,315	(815)	5,708
Travel and Training	4,000	4,000	2,913	1,087	3,316
Dues and Subscriptions	600	600	688	(88)	563
Telephone	8,500	8,500	13,797	(5,297)	8,960
Phone System Update	5,000	5,000	-	5,000	-
Miscellaneous	1,000	1,000	2,117	(1,117)	2,235
Advertising (Personnel)	500	500	-	500	1,166
Vehicle Expense	19,000	19,000	19,045	(45)	28,070
Equipment and Supplies	7,000	7,000	11,925	(4,925)	10,000
Security System	5,000	5,000	2,057	2,943	-
Communications (Radio)	1,000	1,000	840	160	1,766
Uniforms	4,000	4,000	5,101	(1,101)	2,652
Personnel Testing	750	750	2,699	(1,949)	2,587
SMYLE Expenses	1,000	1,000	16,680	(15,680)	11,762
Utilities	7,000	7,000	6,959	41	6,751
Capital Outlay - Vehicle	32,000	32,000	31,273	727	30,267
Capital Outlay - Police Station	-	-	-	-	9,777
TOTAL POLICE	1,158,923	1,213,923	1,105,596	108,327	1,062,380
PUBLIC WORKS:					
Maintenance and Grounds:					
Salaries and Benefits	211,708	211,708	183,865	27,843	190,879
Overtime	10,000	10,000	5,513	4,487	5,249
Administrative Salary Charge	49,608	49,608	49,608	-	45,283
Audit	1,500	1,500	1,250	250	1,250
Liability and Property Insurance	5,600	5,600	6,156	(556)	5,594
Tree Planting and Maintenance	12,000	12,000	10,216	1,784	26,848
Telephone	1,600	1,600	1,179	421	1,168
Maintenance and Supplies	4,000	4,000	3,412	588	5,741
Miscellaneous	600	600	406	194	490
Personnel Testing	200	200	-	200	-
Uniforms	7,000	7,000	9,587	(2,587)	8,496
Mosquito Control	2,200	2,200	1,426	774	1,648
Capital Outlay - Public Works Bldg Refurbishment	-	-	3,798	(3,798)	5,153
Capital Outlay - Pickup	25,000	25,000	33,863	(8,863)	-
Health Officer	300	300	-	300	-
Total Maintenance and Grounds	331,316	331,316	310,279	21,037	297,799
Sanitation and Waste:					
Vehicle Expense	8,000	8,000	11,886	(3,886)	9,000
Maintenance and Supplies	2,500	2,500	2,555	(55)	205
Landfill Fees	49,000	49,000	51,311	(2,311)	41,441
Recycling	61,000	61,000	64,265	(3,265)	62,297
Total Sanitation and Waste Removal	120,500	120,500	130,017	(9,517)	112,943
Streets and Sidewalks:					
Electric - Street Lights	50,000	50,000	48,408	1,592	51,817
Vehicle Expense	12,000	12,000	14,303	(2,303)	12,000
Parking Lots Repair and Maintenance	1,000	1,000	623	377	138
Snow and Ice Removal	1,000	1,000	505	495	189
Storm Drain Repair and Maintenance	4,000	4,000	2,812	1,188	6,719
Supplies	5,000	5,000	8,234	(3,234)	8,302
Sidewalk Repair	2,500	2,500	5,123	(2,623)	565
Alley Maintenance	6,000	6,000	-	6,000	-
Signs	3,000	3,000	2,635	365	2,832
Capital Outlay - Phase V	-	-	-	-	310
Capital Outlay - Grace Street Engineering	5,000	5,000	6,665	(1,665)	2,172
Capital Outlay - Grace Street Culvert	90,000	90,000	675	89,325	5,020
Capital Outlay - Thompson Alley Engineering	-	-	-	-	1,212
Capital Outlay - Radcliffe Avenue	-	-	-	-	23,915

COMMISSIONERS OF ST. MICHAELS
SUPPLEMENTAL INFORMATION
ANALYSIS OF EXPENDITURES/EXPENSES - BUDGET AND ACTUAL
ALL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

SCHEDULE D
PAGE 3

	2018				
	Budgeted Amounts			Favorable (Unfavorable) Variance	Prior Year 6/30/17
	Original	Final	Actual Amounts		
<u>Streets and Sidewalks (CONTINUED):</u>					
Capital Outlay - Douglas Lane	\$ -	\$ -	\$ -	\$ -	\$ 58,414
Capital Outlay - Mulberry Street	10,000	10,000	-	10,000	-
Capital Outlay - Seymour Avenue	-	30,727	30,727	-	-
Capital Outlay - Mitchell Street	8,000	8,000	5,273	2,727	-
Capital Outlay - Grace Street Construction	215,000	215,000	-	215,000	-
Capital Outlay - Thompson Street Construction	100,000	100,000	-	100,000	-
Capital Outlay - Curb Replacment	-	-	-	-	108,183
Capital Outlay - Fremont Street Brick Sidewalks	-	-	-	-	3,646
Capital Outlay - Parking Lot Freemont 112-114	-	88,200	102,069	(13,869)	-
<u>Total Streets</u>	<u>512,500</u>	<u>631,427</u>	<u>228,052</u>	<u>403,375</u>	<u>285,434</u>
<u>Municipal Buildings:</u>					
Utilities	17,000	17,000	19,635	(2,635)	14,554
Maintenance and Supplies	15,000	15,000	24,433	(9,433)	31,273
Real Estate Taxes	11,500	11,500	11,086	414	11,897
<u>Total Municipal Buildings</u>	<u>43,500</u>	<u>43,500</u>	<u>55,154</u>	<u>(11,654)</u>	<u>57,724</u>
<u>Parks and Recreation:</u>					
Uniforms	3,000	3,000	4,508	(1,508)	4,248
Vehicle Maintenance	3,000	3,000	2,548	452	4,000
Maintenance and Supplies	18,330	18,330	18,017	313	21,486
Harbor Maintenance	1,500	1,500	317	1,183	37
Bay Hundred Pool	4,000	4,000	4,000	-	4,000
Park Enhancement Fund	4,000	4,000	3,891	109	3,980
Horticulturist Contract	12,000	12,000	11,793	207	11,980
Nature Trail Maintenance	1,500	1,500	777	723	-
Kayak Expense	-	-	-	-	686
Capital Outlay - Utility Underground Study	-	-	5,898	(5,898)	31,653
Capital Outlay - Back Creek Dock	-	-	-	-	908
<u>Total Parks and Recreation</u>	<u>47,330</u>	<u>47,330</u>	<u>51,749</u>	<u>(4,419)</u>	<u>82,978</u>
<u>TOTAL PUBLIC WORKS</u>	<u>1,055,146</u>	<u>1,174,073</u>	<u>775,251</u>	<u>398,822</u>	<u>836,878</u>
<u>TOTAL GOVERNMENTAL EXPENDITURES</u>	<u>2,983,519</u>	<u>3,226,846</u>	<u>2,918,312</u>	<u>308,534</u>	<u>2,674,370</u>
<u>ENTERPRISE FUND</u>					
<u>WATER FUND:</u>					
Salaries and Benefits	211,707	211,707	178,243	33,464	193,096
Overtime	7,580	7,580	5,617	1,963	5,254
Administrative Salary Charge	49,608	49,608	49,607	1	45,283
Legal Consulting, and Audit	1,600	1,600	-	1,600	-
Liability and Property Insurance	5,100	5,100	5,617	(517)	5,109
Office Supplies	1,500	1,500	3,589	(2,089)	3,579
Computer and Telemetry Software	12,000	12,000	7,745	4,255	12,693
Postage	1,500	1,500	500	1,000	1,275
Electric - Wells and Towers	23,500	23,500	24,830	(1,330)	21,204
Water Testing	7,500	7,500	3,074	4,426	6,746
Travel and Training	2,500	2,500	3,976	(1,476)	1,364
Dues and Subscriptions	500	500	300	200	300
Telephone	2,100	2,100	2,190	(90)	2,203
Uniforms	7,500	7,500	9,022	(1,522)	8,496
Vehicle Expense	2,000	2,000	1,495	505	3,828
Materials and Supplies	50,000	50,000	74,503	(24,503)	49,429
Maintenance on Arsenic System	60,000	60,000	10,514	49,486	12,901
Maintenance of Generator #2	2,500	2,500	6,599	(4,099)	2,192
Server Time - Mission Units	2,500	2,500	2,374	126	2,374
Miscellaneous	500	500	1,031	(531)	558
6" Gate Valve - S. End of Town	4,000	4,000	3,650	350	-
Water Tower Maintenance Contract	63,741	108,593	108,593	-	135,526
Debt Service - New Water Tower	43,904	43,904	-	43,904	15,138
Debt Service - Water Bonds (FHA)	63,136	63,136	15,688	47,448	18,549
Debt Service - Arsenic DOE	32,000	32,000	8,366	23,634	8,473
Water Tower Interfund Loan	15,029	15,029	3,438	11,591	606
Depreciation	-	-	157,828	(157,828)	149,655
<u>TOTAL WATER FUND</u>	<u>673,505</u>	<u>718,357</u>	<u>688,389</u>	<u>29,968</u>	<u>705,831</u>
<u>TOTAL EXPENDITURES/EXPENSES</u>	<u>\$ 3,657,024</u>	<u>\$ 3,945,203</u>	<u>\$ 3,606,701</u>	<u>\$ 338,502</u>	<u>\$ 3,380,201</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, 2018

SCHEDULE E

	Budget	Actual Amounts	Favorable (Unfavorable) Variance	Prior Year 6/30/17
<u>Operating Revenues:</u>				
Charges for Services	\$ 620,000	\$ 615,842	\$ (4,158)	\$ 640,822
Connection Charges	7,000	13,200	6,200	7,698
Capital Charges	2,200	7,401	5,201	5,500
Miscellaneous	-	4,130	4,130	3,875
<u>Total Operating Revenues</u>	<u>629,200</u>	<u>640,573</u>	<u>11,373</u>	<u>657,895</u>
<u>Operating Expenses:</u>				
Salaries and Benefits	211,707	178,243	33,464	193,096
Overtime	7,580	5,617	1,963	5,254
Administrative Salary Charge	49,608	49,607	1	45,283
Legal Consulting, and Audit	1,600	-	1,600	-
Liability and Property Insurance	5,100	5,617	(517)	5,109
Office Supplies	1,500	3,589	(2,089)	3,579
Computer and Telemetry Software	12,000	7,745	4,255	12,693
Postage	1,500	500	1,000	1,275
Electric - Wells and Towers	23,500	24,830	(1,330)	21,204
Water Testing	7,500	3,074	4,426	6,746
Travel and Training	2,500	3,976	(1,476)	1,364
Dues and Subscriptions	500	300	200	300
Telephone	2,100	2,190	(90)	2,203
Uniforms	7,500	9,022	(1,522)	8,496
Vehicle Expense	2,000	1,495	505	3,828
Materials and Supplies	50,000	74,503	(24,503)	49,429
Maintenance on Arsenic System	60,000	10,514	49,486	12,901
Maintenance of Generator #2	2,500	6,599	(4,099)	2,192
Server Time - Mission Units	2,500	2,374	126	2,374
Miscellaneous	500	1,031	(531)	558
6" Gate Valve - S. End of Town	4,000	3,650	350	-
Water Tower Maintenance Contract	108,593	108,593	-	135,526
Arsenic Removal Administrative Fee	-	3,727	(3,727)	3,917
Debt Service - New Water Tower	43,904	-	43,904	15,138
Debt Service - Water Bonds (FHA)	63,136	15,688	47,448	18,549
Debt Service - Arsenic DOE	32,000	4,639	27,361	4,556
Water Tower Interfund Loan	15,029	3,438	11,591	606
Depreciation	-	157,828	(157,828)	149,655
<u>Total Operating Expenses</u>	<u>718,357</u>	<u>688,389</u>	<u>29,968</u>	<u>705,831</u>
<u>Operating Income/(Loss)</u>	<u>(89,157)</u>	<u>(47,816)</u>	<u>41,341</u>	<u>(47,936)</u>
<u>Non-Operating Revenue:</u>				
Investments	1,226	3,700	2,474	1,598
Grant Revenue	-	-	-	634,149
<u>Total Non-Operating Revenues</u>	<u>1,226</u>	<u>3,700</u>	<u>2,474</u>	<u>635,747</u>
<u>Income/(Loss) Before Other Sources/(Uses)</u>	<u>(87,931)</u>	<u>(44,116)</u>	<u>43,815</u>	<u>587,811</u>
<u>Other Financing Sources/(Uses)</u>				
Prior Year Reserves	87,931	-	(87,931)	-
Transfers	34,809	34,809	-	(148,929)
<u>Total Other Financing Sources/(Uses)</u>	<u>122,740</u>	<u>34,809</u>	<u>(87,931)</u>	<u>(148,929)</u>
<u>Change in Net Position</u>	<u>34,809</u>	<u>(9,307)</u>	<u>(44,116)</u>	<u>438,882</u>
<u>Net Position - Beginning</u>	<u>3,526,382</u>	<u>3,526,382</u>	<u>-</u>	<u>3,087,500</u>
<u>Net Position - Ending</u>	<u>\$ 3,561,191</u>	<u>\$ 3,517,075</u>	<u>\$ (44,116)</u>	<u>\$ 3,526,382</u>

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Commissioners
Town of St. Michaels, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the Commissioners of St. Michaels, as of and for the year ended June 30, 2018, and related notes to the financial statements, which collectively comprise the Commissioners of St. Michaels' basic financial statements, and have issued our report thereon dated October 29, 2018.

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 29, 2018