

COMMISSIONERS OF ST. MICHAELS
FINANCIAL STATEMENTS WITH
SUPPLEMENTAL INFORMATION
JUNE 30, 2019

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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, 2019, 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, 2019, 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, 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 August 27, 2019, 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 the effectiveness of the Commissioners of St. Michaels' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commissioners of St. Michaels' internal control over financial reporting and compliance.



Seaford, Delaware
August 27, 2019

COMMISSIONERS OF ST. MICHAELS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019

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, 2019. 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, 2019

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

The Town's combined net position increased by 1% or \$.23 million from 2018 to 2019 (See table below). General and business-type funds remained relatively constant. 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
	2019	2018	2019	2018	2019	2018	Percentage Change
Current and Other Assets	10.64	10.50	0.24	0.31	10.88	10.81	1%
Capital Assets	10.50	10.42	4.49	4.65	14.99	15.07	(1%)
Deferred Outflows	0.17	0.21	0.03	0.03	0.20	0.24	(17%)
Total Assets and Deferrals	21.31	21.13	4.76	4.99	26.07	26.12	-
Long-Term Debt	-	-	1.14	1.20	1.14	1.20	(5%)
Other Liabilities	1.04	1.12	0.15	0.26	1.19	1.38	(14%)
Deferred Inflows	0.09	0.10	0.01	0.02	0.10	0.12	(17%)
Total Liabilities and Deferrals	1.13	1.22	1.30	1.48	2.43	2.70	(10%)
Net Position							
Capital Assets Net of Debt	10.50	10.42	3.36	3.45	13.86	13.87	-
Unrestricted	9.69	9.49	0.10	0.06	9.79	9.55	3%
Total Net Position	20.19	19.91	3.46	3.51	23.65	23.42	1%

The Town's total revenues (excluding transfers) increased by 11% to \$3.41 million, which is primarily due to an increase in tax revenue, building permits, water connections and capital charges, and a grant from MDE for the water fund (See table below). Revenue from business-type activities increased by 17% to \$.75 million, which is due to the increase in charges for services and capital grants. General Governmental revenues increased by 9% to \$2.66 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 increased by 4% to \$3.18 million. The costs of business-type activities increased by 12% to \$.77 million, which was primarily due to an increase in water tower maintenance and salaries. The costs of governmental-type activities remained relatively constant at \$2.41 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, 2019

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

	Governmental		Business-Type		Total		Total Percentage
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>Change</u>
Program Revenue							
Charges for Services	-	-	0.70	0.64	0.70	0.64	9%
Capital Grants	-	-	0.04	-	0.04	-	100%
General Revenue							
Taxes	2.43	2.30	-	-	2.43	2.30	6%
Investment Income	0.23	0.14	.01	-	0.24	0.14	71%
Total Revenue	2.66	2.44	0.75	0.64	3.41	3.08	11%
Program Expenses							
General	0.43	0.42	-	-	0.43	0.42	2%
Police	1.01	1.07	-	-	1.01	1.07	(6%)
Public Works	0.97	0.89	-	-	0.97	0.89	9%
Water	-	-	0.77	0.69	0.77	0.69	12%
Total Expenses	2.41	2.38	0.77	0.69	3.18	3.07	4%
Excess (Deficiency)	0.25	0.06	(0.02)	(0.05)	0.23	0.01	2,200%
Transfers In/Out	0.03	(0.03)	(0.03)	0.03	-	-	-
Change in Net Position	0.28	0.03	(0.05)	(0.02)	0.23	0.01	2,200%
Net Position - Beginning	19.91	19.88	3.51	3.53	23.42	23.41	-
Net Position - Ending	20.19	19.91	3.46	3.51	23.65	23.42	1%

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

Actual revenues of \$3.18 million were over budgeted revenues by \$0.38 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 \$3.01 million came in \$0.75 million under budgeted amounts. This favorable variance is due to capital spending and salaries and benefits under budgeted amounts.

WATER FUND BUDGETARY HIGHLIGHTS

Actual revenue of \$0.75 million was over budgeted revenues by \$.09 million. This favorable variance is primarily due to additional connection fees, capital charges and a capital grant from MDE. Expenditures were relatively constant with the budgeted amounts.

COMMISSIONERS OF ST. MICHAELS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2019, the Town had \$14.99 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 \$0.08 million from the prior year.

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

	Governmental		Business-Type		Total	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Land and Improvements	2.12	2.12	-	-	2.12	2.12
Buildings	0.78	0.80	-	-	0.78	0.80
Equipment	0.13	0.09	-	-	0.13	0.09
Improvements	7.07	7.21	-	-	7.07	7.21
Vehicles	0.40	0.20	-	-	0.40	0.20
Water	-	-	4.49	4.65	4.49	4.65
Total Capital Assets	10.50	10.42	4.49	4.65	14.99	15.07

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 \$1.14 million in bonds and notes outstanding, versus \$1.20 million in 2018, a decrease of \$0.06 million or 5% under last year.

Commissioners of St. Michaels
Debt
(in millions)

	Governmental		Business-Type		Total	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
USDA - Water Bonds	-	-	0.21	0.27	0.21	0.27
Maryland Department of Environment - Arsenic Removal	-	-	0.72	0.76	0.72	0.76
Maryland Department of Environment - Arsenic Removal II	-	-	0.21	0.17	0.21	0.17
Total Debt	-	-	1.14	1.20	1.14	1.20

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

COMMISSIONERS OF ST. MICHAELS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The economic climate has remained steady 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. A tax rate of \$.524 cents per \$100 of assessment was able to be maintained. The State's reduction to local governments in the Highway User Revenues and Police Protection grants also continues. 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 the Repairs and Replacement Fund.

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 (FY2019) is \$.524 cents per \$100 of the State's assessment of the property values. In the State's initial Constant Yield Tax Rate Certification (Feb., 2018) the Town's assessable base increased from \$269,582,013 to \$280,566,285. 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 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. During FY2019, the Commissioners, working with the chief of Police, dropped back to a force of 9 officers, while voting for take home vehicles. The commissioners also voted to join the Law Enforcement Officers Pension System (LEOPS) beginning July 1, 2019.

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 FY2019 increased. The town had a zoning case disputed, as well as two Advisory Opinions asked of the Town's Ethics Commission. There was also an appeal filed to the Circuit Court for Talbot County over a decision of the Ethics Commission. These legal fees resulted in an additional \$12,433 over FY2018. As the case has not been resolved, fees will increase for FY2020 as well.

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.

COMMISSIONERS OF ST. MICHAELS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019

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.*
- 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. The Reserve Study has become a valuable tool in budgeting for the Town. The Reserve Study will be updated in FY2020.

COMMISSIONERS OF ST. MICHAELS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019

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.

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.

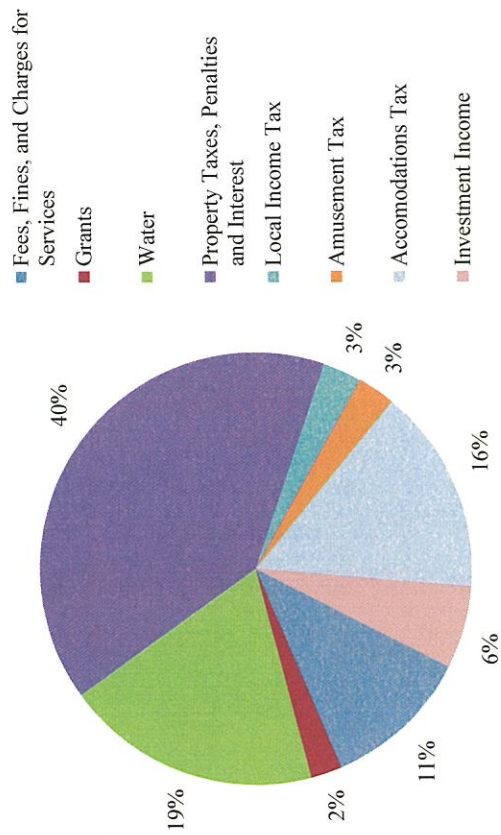
During FY2018 the Commissioners purchased 800 S. Talbot Street, and demolished the building in preparation of a possible municipal use. In FY2018 the Commissioners hired an architect to design a new Town Office. The Commissioners also voted not to build a new police station at this time, but to continue to make necessary improvements to the current station. During FY2019 the Commissioners voted to construct the Town Office at 124 S. Fremont Street.

Capital projects included in the Town's FY2019 budget included two new police vehicles, a new phone system at the Police Department, restoration of the Boy Scout Cabin on St. Mary's Square, and the purchase of a street sweeper. The rehabilitation of several streets has been put on hold as we work with Talbot County and hope to save taxpayers' dollars as a part of the street rehabilitation will become a part of a Federal grant that the County has to rehab sewer lines.

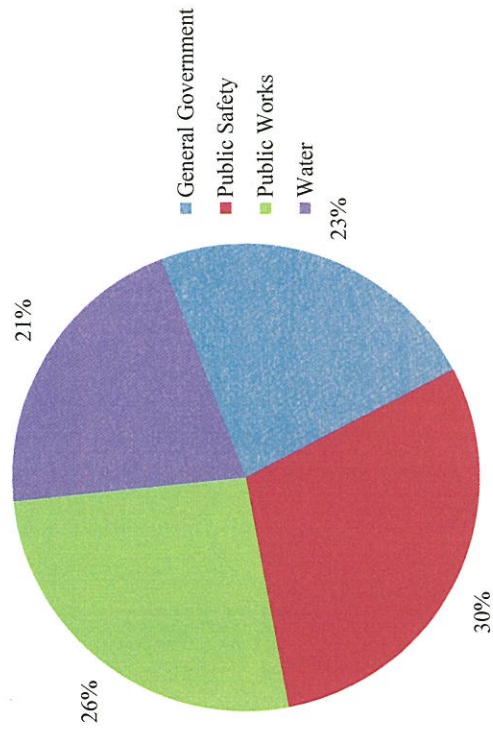
FINANCIAL CONTACT

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.

TOTAL REVENUES



TOTAL EXPENSES



COMMISSIONERS OF ST. MICHAELS
GOVERNMENT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2019

EXHIBIT A

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash	\$ 406,753	\$ -	\$ 406,753
Accounts Receivable	265,234	170,413	435,647
Investments	9,820,171	216,972	10,037,143
Accounts Receivable - Parking Spaces	5,347	-	5,347
Interfund Balances	145,836	(145,836)	-
Capital Assets:			
Land	2,197,709	-	2,197,709
Buildings	1,297,537	-	1,297,537
Equipment	567,489	949,246	1,516,735
Improvements	9,139,930	5,359,744	14,499,674
Vehicles	758,497	78,206	836,703
Accumulated Depreciation	<u>(3,458,252)</u>	<u>(1,890,655)</u>	<u>(5,348,907)</u>
Total Assets	21,146,251	4,738,090	25,884,341
Deferred Outflow of Resources	<u>174,045</u>	<u>26,660</u>	<u>200,705</u>
Total Assets and Deferred Outflows	<u>21,320,296</u>	<u>4,764,750</u>	<u>26,085,046</u>
<u>LIABILITIES</u>			
Accounts Payable	98,273	17,630	115,903
Non-Current Liabilities:			
Compensated Absences	200,526	20,198	220,724
Net Pension Liability	740,708	117,831	858,539
Due within one year	-	136,942	136,942
Due in more than one year	<u>-</u>	<u>1,000,268</u>	<u>1,000,268</u>
Total Liabilities	1,039,507	1,292,869	2,332,376
Deferred Inflow of Resources	<u>92,614</u>	<u>13,244</u>	<u>105,858</u>
Total Liabilities and Deferred Inflows	<u>1,132,121</u>	<u>1,306,113</u>	<u>2,438,234</u>
<u>NET POSITION</u>			
Net Investment in Capital Assets	10,502,910	3,359,331	13,862,241
Unrestricted	<u>9,685,265</u>	<u>99,306</u>	<u>9,784,571</u>
Total Net Position	<u>\$ 20,188,175</u>	<u>\$ 3,458,637</u>	<u>\$ 23,646,812</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

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COMMISSIONERS OF ST. MICHAELS
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Program Activities	Program Revenues		Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<u>Governmental Activities:</u>						
General Government	\$ 860,442	\$ 425,732	\$ 380	\$ (434,330)	\$ -	\$ (434,330)
Police	1,099,894	3,145	84,925	(1,011,824)	-	(1,011,824)
Public Works	973,069	-	-	(968,269)	-	(968,269)
<u>Total Governmental Activities</u>	<u>2,933,405</u>	<u>428,877</u>	<u>85,305</u>	<u>(2,414,423)</u>	<u>-</u>	<u>(2,414,423)</u>
<u>Business-Type Activities:</u>						
Water	770,041	697,577	-	-	(29,716)	(29,716)
<u>Total Government</u>	<u>\$ 3,703,446</u>	<u>\$ 1,126,454</u>	<u>\$ 85,305</u>	<u>(2,414,423)</u>	<u>(29,716)</u>	<u>(2,444,139)</u>
General Revenues:						
Property Taxes, Penalties, and Interest				1,551,186	-	1,551,186
Local Income Tax				113,642	-	113,642
Amusement Tax				108,863	-	108,863
Highway Use Tax				60,706	-	60,706
Accommodations Tax				594,975	-	594,975
Investment Income				230,445	7,268	237,713
Transfer In/(Out)				35,990	(35,990)	-
Total General Revenues				2,695,807	(28,722)	2,667,085
Change in Net Position				281,384	(58,438)	222,946
Net Position - Beginning				19,906,791	3,517,075	23,423,866
Net Position - Ending				\$ 20,188,175	\$ 3,458,637	\$ 23,646,812

COMMISSIONERS OF ST. MICHAELS
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2019

EXHIBIT C

<u>ASSETS</u>	<u>General Fund</u>
Cash	\$ 406,753
Accounts Receivable	265,234
Investments	<u>9,820,171</u>
Total Assets	<u>\$ 10,492,158</u>
<u>LIABILITIES AND FUND BALANCE</u>	
Liabilities:	
Accounts Payable	\$ <u>98,273</u>
Fund Balance:	
Committed	7,646,732
Unassigned	<u>2,747,153</u>
Total Fund Balance	<u>10,393,885</u>
Total Liabilities and Fund Balance	<u>\$ 10,492,158</u>

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

Total Fund Balance	\$ 10,393,885
Accounts Receivable - Parking Spaces are long-term assets	5,347
Interfund Balance - Due to General Fund from Enterprise Fund	145,836
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	10,502,910
The deferred outflow of resources is not a current financial resource and therefore is not reported in the governmental fund's balance sheet	174,045
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	(740,708)
Compensated absences are not due and payable in the current period and therefore are not reported in the governmental fund's balance sheet	(200,526)
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>(92,614)</u>
Net Position of Governmental Activities	<u>\$ 20,188,175</u>

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

EXHIBIT D

	<u>General Fund</u>
Revenues:	
Taxes	\$ 2,315,730
Revenue from Other Agencies	177,171
Licenses and Permits	85,540
Rental/Franchise Revenue	293,031
Fines	3,145
Service Charges	2,839
Investment Income	230,445
Miscellaneous	<u>72,426</u>
Total Revenues	<u>3,180,327</u>
Expenditures:	
Current:	
General Government	825,812
Police	1,038,718
Public Works	645,337
Capital Outlay	<u>501,497</u>
Total Expenditures	<u>3,011,364</u>
Excess of Revenues over/(under) Expenditures	<u>168,963</u>
Other Financing Sources/(Uses):	
Interfund Loan Repayment	17,027
Operating Transfers	<u>35,990</u>
Total Other Financing Sources/(Uses):	<u>53,017</u>
Net Change in Fund Balance	221,980
Fund Balance - Beginning	<u>10,171,905</u>
Fund Balance - Ending	<u>\$ 10,393,885</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, 2019

EXHIBIT E

Net Change in Fund Balance - Total Governmental Fund	\$ 221,980
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	(2,357)
Parking space proceeds were previously reported as revenue in government-wide statements	(1,528)
Loan repayment on Interfund loan is not a source of revenue	(17,027)
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.	501,497
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.	(4,827)
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>(416,354)</u>
Change in Net Position of Governmental Activities	\$ <u><u>281,384</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, 2019

EXHIBIT F

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Favorable</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>(Unfavorable)</u>
				<u>Variance</u>
Revenues:				
Taxes	\$ 2,155,065	\$ 2,155,065	\$ 2,315,730	\$ 160,665
Revenue from Other Agencies	177,914	177,914	177,171	(743)
Licenses and Permits	40,800	40,800	85,540	44,740
Rental/Franchise Revenue	287,593	287,593	293,031	5,438
Fines	4,000	4,000	3,145	(855)
Service Charges	1,700	1,700	2,839	1,139
Investment Income	132,170	132,170	230,445	98,275
Miscellaneous	300	300	72,426	72,126
Total Revenues	<u>2,799,542</u>	<u>2,799,542</u>	<u>3,180,327</u>	<u>380,785</u>
Expenditures:				
Current:				
General Government	772,327	772,327	825,812	(53,485)
Police	1,188,322	1,188,322	1,038,718	149,604
Public Works	612,395	612,395	645,337	(32,942)
Capital Outlay	1,186,308	1,186,308	501,497	684,811
Total Expenditures	<u>3,759,352</u>	<u>3,759,352</u>	<u>3,011,364</u>	<u>747,988</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(959,810)</u>	<u>(959,810)</u>	<u>168,963</u>	<u>1,128,773</u>
Other Financing Sources/(Uses):				
Prior Year Reserves	959,810	959,810	-	(959,810)
Operating Transfers	35,990	35,990	35,990	-
Interfund Loan Repayment	16,690	16,690	17,027	(337)
Total Other Financing Sources/(Uses)	<u>1,012,490</u>	<u>1,012,490</u>	<u>53,017</u>	<u>(960,147)</u>
Net Change in Fund Balance	52,680	52,680	221,980	168,626
Fund Balances - Beginning	<u>10,171,905</u>	<u>10,171,905</u>	<u>10,171,905</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 10,224,585</u>	<u>\$ 10,224,585</u>	<u>\$ 10,393,885</u>	<u>\$ 168,626</u>

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF NET POSITION - ENTERPRISE FUND
JUNE 30, 2019

EXHIBIT G

<u>ASSETS</u>	<u>Water Fund</u>
Current Assets:	
Accounts Receivable	\$ 170,413
Investments	<u>216,972</u>
Total Current Assets	<u>387,385</u>
Capital Assets:	
Equipment	949,246
Improvements	5,359,744
Vehicles	78,206
Accumulated Depreciation	<u>(1,890,655)</u>
Total Capital Assets	<u>4,496,541</u>
Total Assets	4,883,926
Deferred Outflow of Resources	<u>26,660</u>
Total Assets and Deferred Outflows	<u>\$ 4,910,586</u>
 <u>LIABILITIES</u>	
Current Liabilities:	
Accounts Payable	\$ 17,630
Current Portion of Long-Term Debt	<u>136,942</u>
Total Current Liabilities	<u>154,572</u>
Non-Current Liabilities:	
Compensated Absences	20,198
Net Pension Liability	117,831
Interfund Balances	145,836
Long-Term Debt - Net of Current Portion	<u>1,000,268</u>
Total Non-Current Liabilities	<u>1,284,133</u>
Total Liabilities	1,438,705
Deferred Inflow of Resources	<u>13,244</u>
Total Liabilities and Deferred Inflows	1,451,949
 <u>NET POSITION</u>	
Invested in Capital Assets, Net of Related Debt	3,359,331
Unrestricted	<u>99,306</u>
Total Net Position	<u>3,458,637</u>
Total Liabilities and Net Position	<u>\$ 4,910,586</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2019

EXHIBIT H

	Water Fund
Operating Revenues:	
Charges for Services	\$ 635,482
Connection Charges	30,800
Capital Charges	18,700
Miscellaneous	<u>12,595</u>
Total Operating Revenues	<u>697,577</u>
Operating Expenses:	
Salaries	193,903
Overtime	5,692
Administrative Salary Charge	56,527
Liability and Property Insurance	5,134
Office Supplies	4,344
Computer and Telemetry Software	8,076
Electric - Wells and Towers	26,943
Water Testing	4,575
Travel and Training	1,938
Dues and Subscriptions	400
Telephone	2,184
Vehicle Expense	4,176
Materials and Supplies	39,193
Maintenance on Arsenic System	94,790
Maintenance of Generator #2	4,947
Server Time - Mission Units	2,374
Miscellaneous	1,047
Water Tower Maintenance Contract	132,699
Arsenic Removal Administrative Fee	3,727
Debt Service - Water Bonds (FHA)	12,683
Debt Service - Arsenic DOE	3,740
Water Tower Interfund Loan	3,101
Depreciation	<u>157,848</u>
Total Operating Expenses	<u>770,041</u>
Operating Income (Loss)	<u>(72,464)</u>
Non-Operating Revenues:	
Investment Income	7,268
Grant Revenue	<u>42,748</u>
Total Non-Operating Revenues	<u>50,016</u>
Income/(Loss) Before Transfers	(22,448)
Transfers	<u>(35,990)</u>
Change in Net Position	(58,438)
Net Position - Beginning	<u>3,517,075</u>
Net Position - Ending	<u>\$ 3,458,637</u>

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2019

EXHIBIT I

	<u>Water</u> <u>Fund</u>
Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 627,892
Connection Charges	30,800
Capital Charges	18,700
Miscellaneous Charges	12,595
Cash Payments for Interest	(23,251)
Cash Payments to Employees for Services	(254,700)
Cash Payments to Suppliers for Goods and Services	<u>(440,540)</u>
Net Cash Flows from Operating Activities	<u>(28,504)</u>
Cash Flows from Non-Capital Financing Activities:	
Cash from/(to) Maryland Local Government Investment Pool	103,500
Interfund Repayments	(17,027)
Transfers - General Fund	<u>(35,990)</u>
Net Cash Flows from Non-Capital Financing Activities	<u>50,483</u>
Cash Flows from Capital and Related Financing Activities:	
Grant Proceeds	42,748
Loan Proceeds	69,872
Purchase of Capital Assets	(1,195)
Retirement of Debt	<u>(133,404)</u>
Net Cash Flows from Capital and Related Financing Activities	<u>(21,979)</u>
Net Increase in Cash	-
Cash - Beginning	<u>-</u>
Cash - Ending	<u>\$ -</u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:	
Operating Income (Loss)	\$ (72,464)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Depreciation	157,848
Change in Accounts Receivable	(7,590)
Change in Deferred Outflows	4,077
Change in Compensated Absences	1,135
Change in Net Pension Liability	(2,364)
Change in Deferred Inflows	(1,426)
Change in Accounts Payable	<u>(107,720)</u>
Net Cash Flows from Operating Activities	<u>\$ (28,504)</u>

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

EXHIBIT J
PAGE 1

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. General Statement

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

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

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

B. Financial Reporting Entity

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

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

C. Basis of Presentation

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

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

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

C. Basis of Presentation (Continued)

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

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

The Town has presented the following major funds:

General Fund

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

Water Fund

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

D. Measurement Focus/Basis of Accounting

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

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

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

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

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

E. Budgetary Control

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

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

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

F. Cash and Investments

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

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

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

G. Accounts Receivable

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

H. Property Taxes

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

I. Transactions Between Funds

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

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

EXHIBIT J
PAGE 4

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

J. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable column in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance, 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, 2019

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 August 27, 2019, the date the report was available for issuance.

NOTE 2 - CASH AND INVESTMENTS:

The following is a detail of cash and investments:

<u>Cash on Hand</u>		\$	75
<u>PNC Bank (Balances per bank):</u>			
General Fund Checking	\$ 236,383		
General Fund Payroll	31,703		
Parking Lot	142,461		
Muskrat Park	7,802		
Classic Motor Museum	50		
Murray Shoreline Erosion Protec	50		
SMPD-SMYLE	27,131		
Health Reimbursement	6,981		
<u>Total PNC Bank</u>			452,561
<u>Maryland Local Government Investment Pool (MLGIP)</u>			10,037,143
 <u>TOTAL CASH AND INVESTMENTS</u>		 \$	 <u>10,489,779</u>
The balance of cash is categorized as follows:			
Amount insured by the FDIC, or collateralized with securities		\$	452,561
Uninsured and Uncollateralized			75
 <u>TOTAL CASH</u>		 \$	 <u>452,636</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	\$ 2,354,581	\$ 2,354,581	\$ 2,354,581	\$ -
Committed	Various	7,465,590	7,465,590	7,465,590	-
 <u>ENTERPRISE FUND</u>					
<u>MLGIP</u>					
Unrestricted	Various	216,972	216,972	216,972	-
 <u>TOTAL ALL FUNDS</u>		 \$ 10,037,143	 \$ 10,037,143	 \$ 10,037,143	 \$ -

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, 2019

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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	\$ 20,260
Water Charges	170,413
Public Accommodations Tax	190,747
Parking Spaces	5,347
Admissions and Amusements	21,316
Housing Authority P.I.L.O.T.	8,150
Brick Sidewalks	1,901
Other Miscellaneous Receivables	<u>22,860</u>
<u>TOTAL</u>	<u>\$ 440,994</u>

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

EXHIBIT J
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NOTE 4 - CAPITAL ASSETS:

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

	<u>ASSETS</u>			
	<u>Balance Beginning of Year</u>	<u>Acquisitions</u>	<u>Retirements</u>	<u>Balance End of Year</u>
Land and Improvements	\$ 2,197,709	\$ -	\$ -	\$ 2,197,709
Buildings	1,286,733	10,804	-	1,297,537
Equipment	526,524	66,272	(25,307)	567,489
Improvements	9,017,957	121,973	-	9,139,930
Vehicles	456,049	302,448	-	758,497
Water Assets	<u>6,386,001</u>	<u>1,195</u>	<u>-</u>	<u>6,387,196</u>
<u>TOTALS</u>	\$ <u>19,870,973</u>	\$ <u>502,692</u>	\$ <u>(25,307)</u>	\$ <u>20,348,358</u>

	<u>ACCUMULATED DEPRECIATION</u>			
	<u>Balance Beginning of Year</u>	<u>Depreciation</u>	<u>Retirements</u>	<u>Balance End of Year</u>
Land Improvements	\$ 72,973	\$ 3,041	\$ -	\$ 76,014
Buildings	485,925	30,311	-	516,236
Equipment	441,253	23,629	(25,307)	439,575
Improvements	1,805,664	267,296	-	2,072,960
Vehicles	261,390	92,077	-	353,467
Water Assets	<u>1,732,807</u>	<u>157,848</u>	<u>-</u>	<u>1,890,655</u>
<u>TOTALS</u>	\$ <u>4,800,012</u>	\$ <u>574,202</u>	\$ <u>(25,307)</u>	\$ <u>5,348,907</u>
<u>NET CAPITAL ASSETS</u>				\$ <u>14,999,451</u>

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

Governmental Activities:	
General Government	\$ 27,017
Police	63,029
Public Works	326,308
Water Fund	<u>157,848</u>
Total Depreciation Expense	\$ <u>574,202</u>

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

EXHIBIT J
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NOTE 5 - INTERFUND BALANCES:

Balances due to/from other funds at June 30, 2019, consist of the following:

	Balance July 1	Additions	Retirements	Balance June 30
Due to General Fund from Enterprise Fund	\$ 162,863	\$ -	\$ (17,027)	\$ 145,836

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).	\$ 206,693
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).	724,831
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>205,686</u>
<u>TOTAL DEBT</u>	1,137,210
Less: Current Portion	<u>(136,942)</u>
<u>TOTAL LONG-TERM DEBT</u>	<u>\$ 1,000,268</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>
2020	\$ -	\$ -	\$ 136,942	\$ 13,404
2021	-	-	140,643	9,704
2022	-	-	144,513	5,833
2023	-	-	72,574	2,723
2024	-	-	72,964	2,333
2025 - 2029	-	-	240,988	8,980
2030 - 2034	-	-	204,135	4,945
2035 - 2039	-	-	124,451	997
<u>TOTALS</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,137,210</u>	<u>\$ 48,919</u>

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

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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	\$ 269,060	\$ -	\$ (62,367)	\$ 206,693
MDE - Arsenic Removal	763,593	-	(38,762)	724,831
MDE - Arsenic Removal II	<u>168,089</u>	<u>69,872</u>	<u>(32,275)</u>	<u>205,686</u>
<u>TOTALS</u>	<u>\$ 1,200,742</u>	<u>\$ 69,872</u>	<u>\$ (133,404)</u>	<u>\$ 1,137,210</u>

NOTE 7 - COMMITTED FUND BALANCE:

Committed Fund Balance is available for the following purposes:

	<u>General</u>	<u>Enterprise</u>
Capital Projects	\$ 1,206,564	\$
Parking Lot	142,461	
Muskrat Park	7,802	
SMPD SMYLE	23,905	
Contingency	412,574	
Repair and Replacement	5,846,451	
Health Reimbursement	6,975	
Water Improvements	<u>-</u>	<u>216,972</u>
<u>TOTALS</u>	<u>\$ 7,646,732</u>	<u>\$ 216,972</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, 2019, were \$237,907.

Future lease payments to be received are:

Year Ending June 30

2020	\$ 250,803
2021	264,173
2022	274,796
2023	282,581
2024	<u>293,985</u>
Total Minimum Lease Payments to be Received	<u>\$ 1,366,338</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 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, 2019, were at a rate of 8.56% 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 2018 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, 2019

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 2017 actuarial valuation, 2.65% general, 3.15% wage In the 2018 actuarial valuation, 2.60% general, 3.10% wage
Salary Increases	In the 2017 actuarial valuation, 3.15% to 9.15% In the 2018 actuarial valuation, 3.10% to 9.10%
Investment Rate of Return	In the 2017 actuarial valuation, 7.50% In the 2018 actuarial valuation, 7.45%
Discount Rate	7.45% in 2018; 7.5% in 2017
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 (2-dimensional) mortality improvement scale

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, 2018, 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	37%	5.8%
Private Equity	13%	6.7%
Rate Sensitive	19%	1.1%
Credit Opportunity	9%	3.6%
Real Assets	14%	4.8%
Absolute Return	8%	3.2%
TOTAL	<u>100%</u>	

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

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

For the year ended June 30, 2018, the annual money-weighted rate of return on pension plan investments, net of the pension plan investment expense, was 8.08%. 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 7.45% 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 7.45%. 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 7.45%, 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 6.45%	Discount Rate 7.45%	1% Increase to 8.45%
\$ 1,236,601	\$ 858,539	\$ 544,788

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, 2018, 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.

The Town reported the following related to pensions:

Employer's proportionate percentage of the collective net pension liability	0.0040919%
Employer's proportionate share of the collective net pension liability	\$ <u>858,539</u>
Pension expense recognized by the employer	\$ <u>90,064</u>
Deferred outflows of resources, June 30, 2018	\$ 238,183
Year end June 30, 2018, contributions	(81,596)
Change in Assumptions	5,211
Amortization of items allowed by GASB 68	(60,953)
Year end June 30, 2019, contributions	99,860
Deferred outflows of resources, June 30, 2019	\$ <u>200,705</u>
Deferred inflows of resources, June 30, 2018	\$ (118,968)
Difference between expected and actual experience	31,317
Amortization of items allowed by GASB 68	(44,427)
Deferred inflows of resources, June 30, 2019	\$ <u>(105,858)</u>
Net pension liability June 30, 2018	\$ 880,265
Change in net pension liability factored for contributions	(21,726)
Net pension liability June 30, 2019	\$ <u>858,539</u>

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

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

The \$99,860 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 subsequent year. 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>	
2020	\$ 47,415	\$ 11,962	\$ (31,109)	
2021	26,083	10,751	(30,613)	
2022	-	2,021	(26,757)	
2023	-	1,818	(13,912)	
2024	-	795	(3,467)	
TOTAL	\$ 73,498	\$ 27,347	\$ (105,858)	

For the year ended June 30, 2019, the Town's total payroll for all employees was \$1,344,081. Total covered payroll was \$953,212. 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 11 inactive employees who are either receiving benefits or who are entitled to benefit payments, and 23 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 Local Government Insurance Trust and Chesapeake Employers' Insurance.

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

The 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 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 \$412,575. 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, 2019

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

SCHEDULE A

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Town's Proportion of the Net Pension Liability	0.0040919%	0.0040708%	0.0044579%	0.0046616%	0.0041763%
Town's Proportionate Share of the Net Pension Liability	\$ 858,539	\$ 880,265	\$ 1,051,810	\$ 968,761	\$ 741,158
Town's Covered-Employee Payroll	\$ 953,212	\$ 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	90.07%	86.80%	103.31%	95.94%	76.15%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.18%	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)

SCHEDULE B

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 81,595	\$ 82,855	\$ 86,845	\$ 98,254	\$ 97,323
Contributions in Relation to the Contractually Required Contribution	<u>(81,595)</u>	<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>	<u>\$ -</u>
Town's Covered-Employee Payroll	<u>\$ 953,212</u>	<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	8.56%	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, 2019

SCHEDULE C
PAGE 1

	2019				
	Budgeted Amounts			Favorable (Unfavorable) Variance	Prior Year 6/30/18
	Original	Final	Actual Amounts		
<u>TAXES - LOCAL:</u>					
<u>Real and Personal Property:</u>					
Real Estate Taxes	\$ 1,470,167	\$ 1,470,167	\$ 1,497,142	\$ 26,975	\$ 1,410,947
Personal Property and Corporation	1,123	1,123	1,123	-	1,123
Utilities	48,707	48,707	52,353	3,646	48,707
<u>Total Real and Personal Property</u>	1,519,997	1,519,997	1,550,618	30,621	1,460,777
<u>Admissions and Amusements</u>	70,000	70,000	108,863	38,863	118,394
<u>Public Accommodations</u>	515,000	515,000	594,975	79,975	553,903
<u>Taxes - State Shared:</u>					
Highway Use	56,068	56,068	60,706	4,638	52,891
<u>Total Taxes</u>	2,161,065	2,161,065	2,315,162	154,097	2,185,965
Less: Discounts and Allowances	(6,000)	(6,000)	568	6,568	1,221
<u>NET TAXES</u>	2,155,065	2,155,065	2,315,730	160,665	2,187,186
<u>REVENUE FROM OTHER AGENCIES:</u>					
<u>State Government:</u>					
Police Protection State	36,914	36,914	37,082	168	36,399
Critical Area Grant	4,800	4,800	4,800	-	4,800
Income Tax	120,000	120,000	113,642	(6,358)	117,706
State Fire, Rescue, and Ambulance Fund	3,700	3,700	8,767	5,067	3,819
Safe Routes to School	-	-	380	380	10,000
MDE Grant	-	-	42,748	42,748	-
<u>County Government:</u>					
Crossing Guard	12,500	12,500	12,500	-	12,500
<u>TOTAL REVENUE FROM OTHER AGENCIES</u>	177,914	177,914	219,919	42,005	185,224
<u>LICENSES AND PERMITS:</u>					
Traders Licenses	9,000	9,000	8,209	(791)	9,205
Animal Licenses	100	100	-	(100)	167
Building Permits	27,000	27,000	64,989	37,989	39,803
HDC Permits	2,500	2,500	3,460	960	2,990
Board of Appeals	1,000	1,000	1,650	650	600
Land Use Management Fees	-	-	5,200	5,200	4,400
Other Licenses and Permits	1,200	1,200	2,032	832	1,800
<u>TOTAL LICENSES AND PERMITS</u>	40,800	40,800	85,540	44,740	58,965

COMMISSIONERS OF ST. MICHAELS
SUPPLEMENTAL INFORMATION
ANALYSIS OF REVENUE - BUDGET AND ACTUAL - ALL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

SCHEDULE C
PAGE 2

	2019				
	Budgeted Amounts			Favorable (Unfavorable) Variance	Prior Year 6/30/18
	Original	Final	Actual Amounts		
RENTAL/FRANCHISE REVENUE:					
Cable TV	\$ 14,400	\$ 14,400	\$ 26,120	\$ 11,720	\$ 13,848
Boat Slip Rentals	24,500	24,500	24,540	40	24,540
Building Rent	43,962	43,962	42,798	(1,164)	41,959
109 S. Talbot Tax, Ins, Util. Reim.	4,400	4,400	4,467	67	4,339
Tower Rent	200,331	200,331	195,106	(5,225)	186,891
TOTAL RENTAL/FRANCHISE REVENUE	287,593	287,593	293,031	5,438	271,577
WATER CHARGES:					
Water Service Charges	640,000	640,000	635,482	(4,518)	615,842
Water Connections	7,000	7,000	30,800	23,800	13,200
Water Capital Charges	5,000	5,000	18,700	13,700	7,401
Miscellaneous Water Revenue	-	-	12,595	12,595	4,130
TOTAL WATER CHARGES	652,000	652,000	697,577	45,577	640,573
FINES:					
Parking and Civil Violations	4,000	4,000	3,145	(855)	3,490
Planning and Zoning Fines and Violations	500	500	-	(500)	100
TOTAL FINES	4,500	4,500	3,145	(1,355)	3,590
SERVICE CHARGES:					
Copy Machine	100	100	191	91	68
Parking Spaces	-	-	1,528	1,528	21,275
Health Officer Charges	500	500	-	(500)	-
Kayak Rack Rentals	1,100	1,100	1,120	20	1,120
TOTAL SERVICE CHARGES	1,700	1,700	2,839	1,139	22,463
MISCELLANEOUS REVENUE:					
Interest	135,770	135,770	237,713	101,943	142,069
Other Miscellaneous Revenue	300	300	8,996	8,696	1,764
Reimbursed Expenses	-	-	36,854	36,854	34,970
Prior Year Reserves	1,071,309	1,071,309	-	(1,071,309)	-
SMPD/SMYLE Donations	-	-	26,576	26,576	12,780
TOTAL MISCELLANEOUS REVENUE	1,207,379	1,207,379	310,139	(897,240)	191,583
TOTAL REVENUE	\$ 4,526,951	\$ 4,526,951	\$ 3,927,920	\$ (599,031)	\$ 3,561,161

COMMISSIONERS OF ST. MICHAELS
SUPPLEMENTAL INFORMATION
ANALYSIS OF EXPENDITURES/EXPENSES - BUDGET AND ACTUAL
ALL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

SCHEDULE D
PAGE 1

	2019				
	Budgeted Amounts			Favorable (Unfavorable)	Prior Year
	Original	Final	Actual Amounts	Variance	6/30/18
<u>GOVERNMENTAL FUNDS</u>					
<u>GENERAL GOVERNMENT:</u>					
<u>Legislative:</u>					
Commissioner's Salaries and Benefits	\$ 11,000	\$ 11,000	\$ 11,262	\$ (262)	\$ 10,990
Other Operating Expenses	20,700	20,700	20,315	385	16,718
<u>Executive:</u>					
Salaries and Benefits	196,807	196,807	187,275	9,532	207,741
Overtime	2,000	2,000	1,151	849	2,025
Tourism Board	144,674	144,674	146,863	(2,189)	128,641
Legal	25,000	25,000	19,518	5,482	20,923
Audit	13,000	13,000	15,500	(2,500)	13,000
Engineering	10,000	10,000	4,170	5,830	11,427
Liability and Property Insurance	11,000	11,000	10,443	557	11,079
Office Supplies and Expenses	20,600	20,600	25,768	(5,168)	25,335
Codification - Maintenance	6,000	6,000	2,808	3,192	4,716
Janitorial	3,500	3,500	3,250	250	3,250
Travel and Training	3,000	3,000	2,082	918	1,620
Notices and Ads	3,300	3,300	3,222	78	3,818
Dues and Subscriptions	4,700	4,700	4,648	52	4,309
Telephone	2,700	2,700	4,035	(1,335)	5,744
Miscellaneous	1,200	1,200	1,579	(379)	2,493
Election	-	-	-	-	1,204
Volunteer Acknowledgement	300	300	-	300	-
Website Development	5,000	5,000	3,290	1,710	4,674
Document Retention	2,600	2,600	2,404	196	2,295
Reserve Study	1,700	1,700	1,595	105	-
Capital Outlay - Town Office	-	-	35,617	(35,617)	247,133
Capital Outlay - Computer	-	-	2,390	(2,390)	-
Capital Outlay - Zoning Code Re-Write	-	-	56,782	(56,782)	13,610
<u>Total Legislative and Executive</u>	<u>488,781</u>	<u>488,781</u>	<u>565,967</u>	<u>(77,186)</u>	<u>742,745</u>
<u>Planning and Zoning:</u>					
Salaries and Benefits	131,117	131,117	110,011	21,106	118,900
Overtime	2,000	2,000	453	1,547	-
Administrative Salary Charge	56,527	56,527	56,526	1	49,608
Legal	10,000	10,000	17,893	(7,893)	4,055
Consulting - Zoning Ordinance Revision	-	-	1,000	(1,000)	650
Advertising	3,000	3,000	2,680	320	1,728
Inspections	6,000	6,000	11,043	(5,043)	8,259
Office Expenses	1,800	1,800	3,568	(1,768)	1,971
Reimbursables	-	-	21,576	(21,576)	40,169
Capital Outlay - Desk	-	-	1,275	(1,275)	-
Capital Outlay - Computer	-	-	1,195	(1,195)	-
<u>Total Planning and Zoning</u>	<u>210,444</u>	<u>210,444</u>	<u>227,220</u>	<u>(16,776)</u>	<u>225,340</u>
<u>Donations to Outside Agencies:</u>					
Fire Department	56,102	56,102	56,102	-	54,980
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	-	5,000
St. Michaels Community Center	3,000	3,000	3,000	-	3,000
SMASH	5,000	5,000	5,000	-	2,400
<u>Total Donations to Outside Agencies</u>	<u>73,102</u>	<u>73,102</u>	<u>73,102</u>	<u>-</u>	<u>69,380</u>
<u>TOTAL GENERAL GOVERNMENT</u>	<u>772,327</u>	<u>772,327</u>	<u>866,289</u>	<u>(93,962)</u>	<u>1,037,465</u>
<u>POLICE:</u>					
Sworn Salaries and Benefits	958,717	958,717	712,111	246,606	760,383
Sworn Overtime	31,000	31,000	67,122	(36,122)	68,866
Other Salaries	51,077	51,077	99,812	(48,735)	81,073
Other Overtime	1,500	1,500	1,713	(213)	2,488

COMMISSIONERS OF ST. MICHAELS
SUPPLEMENTAL INFORMATION
ANALYSIS OF EXPENDITURES/EXPENSES - BUDGET AND ACTUAL
ALL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

SCHEDULE D
PAGE 2

	2019				
	Budgeted Amounts			Favorable (Unfavorable) Variance	Prior Year 6/30/18
	Original	Final	Actual Amounts		
<u>POLICE (CONTINUED):</u>					
Administrative Salary Charges	\$ 56,527	\$ 56,527	\$ 56,526	\$ 1	\$ 49,608
Consulting and Audit	1,600	1,600	-	1,600	1,250
Legal	1,000	1,000	535	465	1,835
Liability and Property Insurance	9,500	9,500	9,849	(349)	10,326
Office Expenses	951	951	7,758	(6,807)	7,358
Janitorial	6,500	6,500	5,311	1,189	6,315
Travel and Training	4,000	4,000	3,432	568	2,913
Dues and Subscriptions	700	700	736	(36)	688
Telephone	14,000	14,000	15,828	(1,828)	13,797
Miscellaneous	1,000	1,000	1,065	(65)	2,117
Advertising (Personnel)	500	500	565	(65)	-
Vehicle Expense	19,000	19,000	23,757	(4,757)	19,045
Equipment and Supplies	10,000	10,000	4,816	5,184	11,925
Security System	5,000	5,000	-	5,000	2,057
Communications (Radio)	1,000	1,000	-	1,000	840
Uniforms	6,000	6,000	2,944	3,056	5,101
Personnel Testing	750	750	609	141	2,699
SMYLE Expenses	1,000	1,000	17,191	(16,191)	16,680
Utilities	7,000	7,000	7,038	(38)	6,959
Capital Outlay - Vehicle	68,146	68,146	77,498	(9,352)	31,273
Capital Outlay - Phone System Update	8,160	8,160	6,594	1,566	-
Capital Outlay - E-Tix Communication System	2,000	2,000	3,675	(1,675)	-
Capital Outlay - Vehicle Computers	10,000	10,000	10,804	(804)	-
Capital Outlay - Medical Equipment	-	-	7,054	(7,054)	-
Capital Outlay - Computer	-	-	1,195	(1,195)	-
<u>TOTAL POLICE</u>	<u>1,276,628</u>	<u>1,276,628</u>	<u>1,145,538</u>	<u>131,090</u>	<u>1,105,596</u>
<u>PUBLIC WORKS:</u>					
<u>Maintenance and Grounds:</u>					
Salaries and Benefits	211,693	211,693	198,630	13,063	183,865
Overtime	10,000	10,000	5,688	4,312	5,513
Administrative Salary Charge	56,527	56,527	56,527	-	49,608
Audit	1,300	1,300	-	1,300	1,250
Liability and Property Insurance	5,700	5,700	6,636	(936)	6,156
Tree Planting and Maintenance	12,000	12,000	29,284	(17,284)	10,216
Telephone	1,500	1,500	1,172	328	1,179
Maintenance and Supplies	3,800	3,800	7,339	(3,539)	3,412
Miscellaneous	500	500	6	494	406
Personnel Testing	200	200	-	200	-
Uniforms	3,000	3,000	971	2,029	9,587
Mosquito Control	2,000	2,000	1,644	356	1,426
Health Officer	300	300	-	300	-
Capital Outlay - Public Works Bldg Refurbishment	-	-	-	-	3,798
Capital Outlay - Pickup	-	-	-	-	33,863
Capital Outlay - Street Sweeper	225,000	225,000	224,950	50	-
Capital Outlay - Shop Doors	5,000	5,000	-	5,000	-
<u>Total Maintenance and Grounds</u>	<u>538,520</u>	<u>538,520</u>	<u>532,847</u>	<u>5,673</u>	<u>310,279</u>
<u>Sanitation and Waste:</u>					
Vehicle Expense	8,000	8,000	17,527	(9,527)	11,886
Maintenance and Supplies	2,500	2,500	88	2,412	2,555
Landfill Fees	50,000	50,000	39,968	10,032	51,311
Recycling	63,000	63,000	62,267	733	64,265
<u>Total Sanitation and Waste Removal</u>	<u>123,500</u>	<u>123,500</u>	<u>119,850</u>	<u>3,650</u>	<u>130,017</u>
<u>Streets and Sidewalks:</u>					
Electric - Street Lights	52,000	52,000	44,598	7,402	48,408
Vehicle Expense	12,000	12,000	15,536	(3,536)	14,303
Parking Lots Repair and Maintenance	1,000	1,000	20	980	623
Snow and Ice Removal	600	600	260	340	505
Storm Drain Repair and Maintenance	4,000	4,000	24,263	(20,263)	2,812
Supplies	5,000	5,000	7,851	(2,851)	8,234
Sidewalk Repair	3,000	3,000	13,044	(10,044)	5,123
Alley Maintenance	3,000	3,000	-	3,000	-
Signs	5,000	5,000	7,575	(2,575)	2,635
Capital Outlay - Street Crack Repairs	65,927	65,927	-	65,927	-
Capital Outlay - Grace Street Engineering	-	-	1,200	(1,200)	6,665
Capital Outlay - Grace Street Culvert	-	-	1,830	(1,830)	675

COMMISSIONERS OF ST. MICHAELS
SUPPLEMENTAL INFORMATION
ANALYSIS OF EXPENDITURES/EXPENSES - BUDGET AND ACTUAL
ALL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

SCHEDULE D
PAGE 3

	2019				
	Budgeted Amounts			Favorable (Unfavorable) Variance	Prior Year 6/30/18
	Original	Final	Actual Amounts		
<u>Streets and Sidewalks (CONTINUED):</u>					
Capital Outlay - Phase VII N Harbor and Dodson Conner	\$ 513,437	\$ 513,437	\$ 19,321	\$ 494,116	\$ -
Capital Outlay - W Harbor Rd Mill and Overlay	131,870	131,870	-	131,870	-
Capital Outlay - Stormwater Pipe E Marengo	52,000	52,000	-	52,000	-
Capital Outlay - Pole Barn	60,000	60,000	10,804	49,196	-
Capital Outlay - Seymour Avenue	-	-	17,687	(17,687)	30,727
Capital Outlay - Mitchell Street	-	-	-	-	5,273
Capital Outlay - Parking Lot Freemont 112-114	-	-	-	-	102,069
<u>Total Streets</u>	<u>908,834</u>	<u>908,834</u>	<u>163,989</u>	<u>744,845</u>	<u>228,052</u>
<u>Municipal Buildings:</u>					
Utilities	16,000	16,000	15,877	123	19,635
Maintenance and Supplies	16,000	16,000	16,373	(373)	24,433
Real Estate Taxes	12,000	12,000	12,673	(673)	11,086
Capital Outlay - HVAC	-	-	32,090	(32,090)	-
Capital Outlay - Boy Scout Cabin	19,768	19,768	23,891	(4,123)	-
<u>Total Municipal Buildings</u>	<u>63,768</u>	<u>63,768</u>	<u>100,904</u>	<u>(37,136)</u>	<u>55,154</u>
<u>Parks and Recreation:</u>					
Uniforms	1,000	1,000	-	1,000	4,508
Vehicle Maintenance	2,850	2,850	3,935	(1,085)	2,548
Maintenance and Supplies	16,000	16,000	23,374	(7,374)	18,017
Harbor Maintenance	1,425	1,425	4,063	(2,638)	317
Bay Hundred Pool	4,000	4,000	4,000	-	4,000
Park Enhancement Fund	4,000	4,000	4,039	(39)	3,891
Horticulturist Contract	20,000	20,000	20,109	(109)	11,793
Nature Trail Maintenance	1,500	1,500	-	1,500	777
Capital Outlay - Utility Underground Study	-	-	-	-	5,898
Capital Outlay - Back Creek Dock	-	-	3,230	(3,230)	-
Capital Outlay - Tree Gates and Trees	25,000	25,000	19,197	5,803	-
<u>Total Parks and Recreation</u>	<u>75,775</u>	<u>75,775</u>	<u>81,947</u>	<u>(6,172)</u>	<u>51,749</u>
<u>TOTAL PUBLIC WORKS</u>	<u>1,710,397</u>	<u>1,710,397</u>	<u>999,537</u>	<u>710,860</u>	<u>775,251</u>
<u>TOTAL GOVERNMENTAL EXPENDITURES</u>	<u>3,759,352</u>	<u>3,759,352</u>	<u>3,011,364</u>	<u>747,988</u>	<u>2,918,312</u>
<u>ENTERPRISE FUND</u>					
<u>WATER FUND:</u>					
Salaries and Benefits	211,693	211,693	193,903	17,790	178,243
Overtime	10,000	10,000	5,692	4,308	5,617
Administrative Salary Charge	56,527	56,527	56,527	-	49,607
Legal Consulting, and Audit	1,500	1,500	-	1,500	-
Liability and Property Insurance	5,200	5,200	5,134	66	5,617
Office Supplies	2,000	2,000	4,344	(2,344)	3,589
Computer and Telemetry Software	12,000	12,000	8,076	3,924	7,745
Postage	1,500	1,500	-	1,500	500
Electric - Wells and Towers	23,500	23,500	26,943	(3,443)	24,830
Water Testing	7,500	7,500	4,575	2,925	3,074
Travel and Training	2,700	2,700	1,938	762	3,976
Dues and Subscriptions	500	500	400	100	300
Telephone	2,200	2,200	2,184	16	2,190
Uniforms	3,000	3,000	-	3,000	9,022
Vehicle Expense	2,000	2,000	4,176	(2,176)	1,495
Materials and Supplies	50,000	50,000	39,193	10,807	74,503
Maintenance on Arsenic System	60,000	60,000	94,790	(34,790)	10,514
Maintenance of Generator #2	6,000	6,000	4,947	1,053	6,599
Server Time - Mission Units	2,500	2,500	2,374	126	2,374
Miscellaneous	750	750	1,047	(297)	1,031
6" Gate Valve - S. End of Town	-	-	-	-	3,650
Water Tower Maintenance Contract	132,448	132,448	132,699	(251)	108,593
Debt Service - New Water Tower	46,910	46,910	-	46,910	-
Debt Service - Water Bonds (FHA)	63,136	63,136	12,683	50,453	15,688
Debt Service - Arsenic DOE	43,907	43,907	7,467	36,440	8,366
Water Tower Interfund Loan	20,128	20,128	3,101	17,027	3,438
Depreciation	-	-	157,848	(157,848)	157,828
<u>TOTAL WATER FUND</u>	<u>767,599</u>	<u>767,599</u>	<u>770,041</u>	<u>(2,442)</u>	<u>688,389</u>
<u>TOTAL EXPENDITURES/EXPENSES</u>	<u>\$ 4,526,951</u>	<u>\$ 4,526,951</u>	<u>\$ 3,781,405</u>	<u>\$ 745,546</u>	<u>\$ 3,606,701</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, 2019

SCHEDULE E

	Budget	Actual Amounts	Favorable (Unfavorable) Variance	Prior Year 6/30/18
<u>Operating Revenues:</u>				
Charges for Services	\$ 640,000	\$ 635,482	\$ (4,518)	\$ 615,842
Connection Charges	7,000	30,800	23,800	13,200
Capital Charges	5,000	18,700	13,700	7,401
Miscellaneous	-	12,595	12,595	4,130
<u>Total Operating Revenues</u>	<u>652,000</u>	<u>697,577</u>	<u>45,577</u>	<u>640,573</u>
<u>Operating Expenses:</u>				
Salaries and Benefits	211,693	193,903	17,790	178,243
Overtime	10,000	5,692	4,308	5,617
Administrative Salary Charge	56,527	56,527	-	49,607
Legal Consulting, and Audit	1,500	-	1,500	-
Liability and Property Insurance	5,200	5,134	66	5,617
Office Supplies	2,000	4,344	(2,344)	3,589
Computer and Telemetry Software	12,000	8,076	3,924	7,745
Postage	1,500	-	1,500	500
Electric - Wells and Towers	23,500	26,943	(3,443)	24,830
Water Testing	7,500	4,575	2,925	3,074
Travel and Training	2,700	1,938	762	3,976
Dues and Subscriptions	500	400	100	300
Telephone	2,200	2,184	16	2,190
Uniforms	3,000	-	3,000	9,022
Vehicle Expense	2,000	4,176	(2,176)	1,495
Materials and Supplies	50,000	39,193	10,807	74,503
Maintenance on Arsenic System	60,000	94,790	(34,790)	10,514
Maintenance of Generator #2	6,000	4,947	1,053	6,599
Server Time - Mission Units	2,500	2,374	126	2,374
Miscellaneous	750	1,047	(297)	1,031
6" Gate Valve - S. End of Town	-	-	-	3,650
Water Tower Maintenance Contract	132,448	132,699	(251)	108,593
Arsenic Removal Administrative Fee	-	3,727	(3,727)	3,727
Debt Service - New Water Tower	46,910	-	46,910	-
Debt Service - Water Bonds (FHA)	63,136	12,683	50,453	15,688
Debt Service - Arsenic DOE	43,907	3,740	40,167	4,639
Water Tower Interfund Loan	20,128	3,101	17,027	3,438
Depreciation	-	157,848	(157,848)	157,828
<u>Total Operating Expenses</u>	<u>767,599</u>	<u>770,041</u>	<u>(2,442)</u>	<u>688,389</u>
<u>Operating Income/(Loss)</u>	<u>(115,599)</u>	<u>(72,464)</u>	<u>43,135</u>	<u>(47,816)</u>
<u>Non-Operating Revenue:</u>				
Investments	3,600	7,268	3,668	3,700
Grant Revenue	-	42,748	42,748	-
<u>Total Non-Operating Revenues</u>	<u>3,600</u>	<u>50,016</u>	<u>46,416</u>	<u>3,700</u>
<u>Income/(Loss) Before Other Sources/(Uses)</u>	<u>(111,999)</u>	<u>(22,448)</u>	<u>89,551</u>	<u>(44,116)</u>
<u>Other Financing Sources/(Uses)</u>				
Prior Year Reserves	112,000	-	(112,000)	-
Transfers	(35,990)	(35,990)	-	34,809
<u>Total Other Financing Sources/(Uses)</u>	<u>76,010</u>	<u>(35,990)</u>	<u>(112,000)</u>	<u>34,809</u>
<u>Change in Net Position</u>	<u>(35,989)</u>	<u>(58,438)</u>	<u>(22,449)</u>	<u>(9,307)</u>
<u>Net Position - Beginning</u>	<u>3,526,382</u>	<u>3,517,075</u>	<u>(9,307)</u>	<u>3,526,382</u>
<u>Net Position - Ending</u>	<u>\$ 3,490,393</u>	<u>\$ 3,458,637</u>	<u>\$ (31,756)</u>	<u>\$ 3,517,075</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, 2019, 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 August 27, 2019.

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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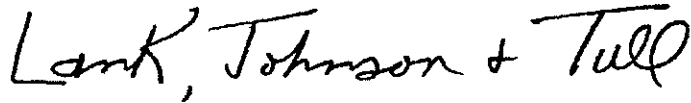
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Compliance and Other Matters

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
August 27, 2019