

TOWN OF TRAPPE, MARYLAND

FINANCIAL REPORT

June 30, 2017

TABLE OF CONTENTS

	<u>Page(s)</u>
Independent Auditors' Report	3 - 5
Management's Discussion and Analysis	6 - 10
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet	13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	14
Statement of Revenues, Expenditures, and Changes in Fund Balances	15
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances of Governmental Funds to the Statement of Activities	16
Enterprise Fund Financial Statements:	
Statement of Fund Net Position	17
Statement of Revenues, Expenses, and Changes in Fund Net Position	18
Statement of Cash Flows	19
Notes to the Financial Statements	20 - 31
Required Supplementary Information:	32
Budgetary Comparison Schedule - General Fund - Revenue Detail	33
Budgetary Comparison Schedule - General Fund - Expenditure Detail	34 - 35
Other Supplementary Information	36
Budgetary Comparison Schedule - Water and Sewer Fund - Revenue and Expense Detail	37
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	38 - 40

Herbert J. Geary III
Corey N. Duncan
Roy J. Geiser
Chris A. Hall
Ronald W. Hickman
Charles M. Meenehan
Craig A. Walter
Mark A. Welsh



INDEPENDENT AUDITORS' REPORT

Commissioners of Trappe
Town of Trappe, Maryland
Trappe, 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 Town of Trappe, Maryland (“the Town”) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditors’ Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information (RSI), as listed in the table of contents, 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 RSI 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 Town's basic financial statements. The other supplementary information (OSI), as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The OSI, as listed in the table of contents is the responsibility of management and has been 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 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, the OSI, as listed in the table of contents is fairly stated in all material respects, in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2017 on our consideration of the Town's internal control over financial reporting and 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 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 Town's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "JHM Group LLC".

Salisbury, Maryland
September 22, 2017

Town of Trappe, Maryland

Management's Discussion and Analysis

This section of the Town of Trappe's annual financial report presents the discussion and analysis of the Town's financial performance during the fiscal year that ended on June 30, 2017. Please read it in conjunction with the Town's financial statements, which follow this section.

BASIC FINANCIAL STATEMENTS

The financial statements are presented to focus on the Town as a whole (government-wide) as well as the major individual funds. The government-wide financial statements provide 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, using accounting methods similar to those used by private-sector companies. 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 they have changed. Net position, the difference between the Town's assets and liabilities, 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 public safety services, planning and zoning, public works, 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 and sewer operations are reported here. Fees are charged to customers to help cover the costs of providing these services.

FUND FINANCIAL STATEMENTS

The fund financial statements provided more detailed information about the Town's most significant funds and will be more familiar to traditional users of government financial statements. The focus is now 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 explains 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 fund (one type of proprietary fund) is the same as its business-type activity, but the fund financial statements provide more detail and additional information, such as cash flows. The Town utilizes an enterprise fund to account for its water and sewer operations.

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

The Town’s combined net position decreased by 3% from 2016 to 2017. (See table below) General fund net position increased by 11%, while the business-type funds decreased by 21%.

Town's Net Position

	Governmental Activities		Business-type Activities		Total		Total % Change
	2017	2016	2017	2016	2017	2016	
Current and other assets	\$ 227,246	\$ 198,723	\$ 155,711	\$ 113,633	\$ 382,957	\$ 312,356	23%
Capital assets	1,031,917	965,194	3,323,205	3,535,669	4,355,122	4,500,863	-3%
Total assets	\$ 1,259,163	\$ 1,163,917	\$ 3,478,916	\$ 3,649,302	\$ 4,738,079	\$ 4,813,219	-2%
Other liabilities	\$ 12,119	\$ 5,528	\$ 12,508	\$ 23,639	\$ 24,627	\$ 29,167	-16%
Long-term debt	281,953	285,805	2,961,188	2,986,104	3,243,141	3,271,909	-1%
Total liabilities	294,072	291,333	2,973,696	3,009,743	3,267,768	3,301,076	-1%
Capital assets net of debt	766,032	693,270	369,738	558,523	1,135,770	1,251,793	-9%
Unrestricted	199,059	179,314	135,482	81,036	334,541	260,350	28%
Total net position	\$ 965,091	\$ 872,584	\$ 505,220	\$ 639,559	\$ 1,470,311	\$ 1,512,143	-3%

The Town continues to use cash reserves to service debt and to fund losses in the Enterprise fund.

The Town's total revenues increased by 23% to \$1,396,703 (See table below.) Revenue from business-type activities increased by 20% to \$667,665. Governmental revenues increased by 25% to \$729,038, due mainly to an increase in grant revenue.

The total cost of all programs and services increased by 2% to \$1,438,535. Costs of business-type activities increased by 5% to \$798,778. The cost of governmental activities decreased by 2% to \$639,757.

Town's Net Position

	Governmental Activities		Business-type Activities		Total		Total % Change
	2017	2016	2017	2016	2017	2016	
Program revenues							
Charges for services	\$ 107,267	\$ 82,912	\$ 639,606	\$ 539,682	\$ 746,873	\$ 622,594	20%
Operating grants	312,852	207,716	-	-	312,852	207,716	51%
Capital grants	-	-	9,401	17,099	9,401	17,099	-45%
General revenues							
Taxes	299,945	274,768	-	-	299,945	274,768	9%
Other	8,974	17,584	18,658	29	27,632	17,613	57%
Total revenues	729,038	582,980	667,665	556,810	1,396,703	1,139,790	23%
Expenses							
General government	342,004	327,080	-	-	342,004	327,080	5%
Public safety	142,198	133,874	-	-	142,198	133,874	6%
Public works	148,778	184,535	-	-	148,778	184,535	-19%
Debt service - interest	6,777	7,296	-	-	6,777	7,296	-7%
Water and sewer	-	-	798,778	759,057	798,778	759,057	5%
Total expenses	639,757	652,785	798,778	759,057	1,438,535	1,411,842	2%
Transfer in/(out)	3,226	(38,600)	(3,226)	38,600	-	-	0%
Change in net position	\$ 92,507	\$ (108,405)	\$ (134,339)	\$ (163,647)	\$ (41,832)	\$ (272,052)	-85%

GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund revenues of \$729,615 were higher than budgeted revenues of \$631,745 by \$97,870 or 15%. This increase was due mainly to an increase in grant revenues.

General fund expenditures of \$710,332 were higher than budgeted expenditures of \$631,745 by \$78,587 or 12%. Capital outlay was under budgeted by \$111,513.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2017 the Town had \$4,355,122 invested in capital assets, including facilities, land, equipment, and water and sewer system improvements. This amount represents a net decrease (additions, deductions, and depreciation) of \$145,741 from prior year.

Capital Assets Net of Depreciation

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 435,025	\$ 435,025	\$ -	\$ -	\$ 435,025	\$ 435,025
Construction in Progress	7,079	12,985	28,100	18,599	35,179	31,584
Land improvements	390,992	291,913	-	-	390,992	291,913
Building improvements	116,330	122,946	-	-	116,330	122,946
Equipment	82,491	102,325	92,506	88,028	174,997	190,353
Water and sewer	-	-	3,202,599	3,429,042	3,202,599	3,429,042
Total capital assets	\$ 1,031,917	\$ 965,194	\$ 3,323,205	\$ 3,535,669	\$ 4,355,122	\$ 4,500,863

More detailed information about the Town's capital assets is presented in note 4 to the financial statements.

Debt

At year-end, the Town had \$3,219,352 in bonds and notes outstanding, a net (additions and repayments) decrease of \$29,718 over last year.

Debt

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Shore United - \$200,000	\$ 165,183	\$ 168,183	\$ 31,000	\$ -	\$ 196,183	\$ 168,183
Shore United - \$100,000	-	-	92,844	85,372	92,844	85,372
Shore United - Sullivan St.	100,702	103,741	-	-	100,702	103,741
Water bond of 2000	-	-	1,191,175	1,219,758	1,191,175	1,219,758
Sewer bond of 2003	-	-	615,250	627,857	615,250	627,857
Sewer bond of 2003	-	-	1,023,198	1,044,159	1,023,198	1,044,159
Total debt	\$ 265,885	\$ 271,924	\$ 2,953,467	\$ 2,977,146	\$ 3,219,352	\$ 3,249,070

More detailed information about the Town's long-term liabilities is presented in note 5 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The income from current property values is expected to increase due to an increase in the property tax rate. The income from local income taxes has taken a drastic cut over the past few fiscal years but is expected to have leveled out and remain consistent starting with fiscal year 2017-2018. State Highway User revenue is expected to remain the same for 2017-2018 as received in the prior year. At this time the Town continues to benefit from two private grants benefiting the Planning Department and the Police Department. The Town is able to maintain the current level of service with the combination of additional property tax revenues and selective budget cuts.

The Enterprise fund, as in previous years, continues to be an area of concern for the Town. Significant additional growth and funds from hookup fees, anticipated since 2007-2008, has not yet happened and is not expected in 2017-2018. Income from consumer water and sewer rates is expected to increase due to the rates being raised an additional 7% for 2017-2018 as well as a large increase in the basic water and basic sewer rates that took effective in March 2017. The water and sewer rates will continue to be raised at least 7% every year from this point until the Town deems financial stability within the Enterprise Fund. The Town will look carefully at the mid-year 2017-2018 budget review and the 2018-2019 budget and determine if increased operating and maintenance cost of aging infrastructure will necessitate an adjustment greater than the proposed 7% in consumer water & sewer rates in order to maintain financial stability beyond the 2017-2018 fiscal year. The Town's recent increase in basic water and basic sewer rates, cash reserves and approved line of credit will allow for financial stability for the 2017-2018 fiscal year. The Town's budget is reviewed monthly by the Town council and revisions will be recommended when and where necessary.

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 162, Trappe, Maryland 21673-0162.

TOWN OF TRAPPE, MARYLAND

STATEMENT OF NET POSITION

June 30, 2017

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 183,646	\$ 48,251	\$ 231,897
Accounts receivable	43,600	107,460	151,060
Nondepreciable capital assets	442,104	28,100	470,204
Depreciable capital assets, net	589,813	3,295,105	3,884,918
Total assets	1,259,163	3,478,916	4,738,079
LIABILITIES			
Accounts payable	8,525	9,445	17,970
Accrued payroll liabilities	3,594	3,063	6,657
Long-term liabilities, due within one year			
Compensated absences	12,328	3,872	16,200
Bonds and notes payable	265,885	188,214	454,099
Long-term liabilities, due in more than one year			
Compensated absences	3,740	3,849	7,589
Bonds and notes payable	-	2,765,253	2,765,253
Total liabilities	294,072	2,973,696	3,267,768
NET POSITION			
Net investment in capital assets	766,032	369,738	1,135,770
Unrestricted	199,059	135,482	334,541
Total net position	\$ 965,091	\$ 505,220	\$ 1,470,311

The Notes to Financial Statements are an integral part of this statement.

TOWN OF TRAPPE, MARYLAND

STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities							
General government	\$ 342,004	\$ 107,267	\$ 194,314	\$ -	\$ (40,423)	\$ -	\$ (40,423)
Public safety	142,198	-	81,698	-	(60,500)	-	(60,500)
Public works	148,778	-	36,840	-	(111,938)	-	(111,938)
Debt Service - Interest	6,777	-	-	-	(6,777)	-	(6,777)
Total governmental activities	639,757	107,267	312,852	-	(219,638)	-	(219,638)
Business-type activities							
Water and sewer	798,778	639,606	-	9,401	-	(149,771)	(149,771)
Total business-type activities	798,778	639,606	-	9,401	-	(149,771)	(149,771)
Total	\$ 1,438,535	\$ 746,873	\$ 312,852	\$ 9,401	(219,638)	(149,771)	(369,409)
General revenues							
Property taxes					210,149	-	210,149
Corporate & public utilities tax					29,898	-	29,898
Local income taxes					59,898	-	59,898
Gain on capital asset disposal					-	18,625	18,625
Other income					8,415	-	8,415
Interest income					559	33	592
Transfer in/(out)					3,226	(3,226)	-
Total general revenues and transfers					312,145	15,432	327,577
Change in net position					92,507	(134,339)	(41,832)
Net position, beginning of year					872,584	639,559	1,512,143
Net position, end of year					\$ 965,091	\$ 505,220	\$ 1,470,311

The Notes to Financial Statements are an integral part of this statement.

TOWN OF TRAPPE, MARYLAND

**BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2017**

	General Fund
ASSETS	
Cash and cash equivalents	\$ 183,646
Accounts receivable	43,600
<hr/>	
Total assets	\$ 227,246
<hr/>	
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	
LIABILITIES	
Accounts payable	\$ 8,525
Accrued liabilities	3,594
<hr/>	
Total liabilities	12,119
<hr/>	
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue	555
<hr/>	
FUND BALANCES	
Unassigned	214,572
<hr/>	
Total fund balances	214,572
<hr/>	
Total liabilities, deferred inflows of resources and fund balances	\$ 227,246
<hr/>	

The Notes to Financial Statements are an integral part of this statement.

TOWN OF TRAPPE, MARYLAND

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION**

June 30, 2017

Total fund balances, governmental funds	\$ 214,572
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are therefore not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.	1,031,917
Certain revenues that do not provide current financial resources are reported as deferred inflows of resources in the fund financial statements, but are not reported in the governmental activities of the Statement of Net Position.	555
Some liabilities are not due and payable in the current period and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position. Those liabilities consist of:	
Compensated absences	(16,068)
Bonds and notes payable	(265,885)
<hr/>	
Net position of governmental activities in the Statement of Net Position	\$ 965,091

The Notes to Financial Statements are an integral part of this statement.

TOWN OF TRAPPE, MARYLAND

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUND
Year Ended June 30, 2017**

	<u>General Fund</u>
REVENUES:	
Taxes:	
Property taxes	\$ 210,726
Corporate & public utilities tax	29,898
Local income taxes	59,898
Grants	276,012
Intergovernmental	36,840
Licenses and permits	22,463
Interest	559
Trash pick-up	67,300
Rental income	17,504
Other	8,415
<hr/>	
Total revenues	729,615
<hr/>	
EXPENDITURES:	
Current:	
General government	333,121
Public Safety	132,548
Public works	114,334
Debt service:	
Principal retirement	6,039
Interest	6,777
Capital projects	117,513
<hr/>	
Total expenditures	710,332
<hr/>	
Excess of revenues over expenditures	19,283
OTHER FINANCING SOURCES:	
Operating transfers in/(out)	3,226
<hr/>	
Total other financing sources (uses)	3,226
<hr/>	
Net change in fund balance	22,509
Fund balance, beginning of year	192,063
<hr/>	
Fund balance, end of year	\$ 214,572
<hr/>	

The Notes to Financial Statements are an integral part of this statement.

TOWN OF TRAPPE, MARYLAND

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2017**

Net change in fund balances, governmental funds \$ 22,509

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement
of Activities, the cost of those assets is allocated over their estimated useful lives and
reported as depreciation expense. In the current period, these amounts are:

Capital outlay	117,513
Depreciation expense	(50,790)

Funds report repayment of debt principal as an expenditure.
In contrast, the Statement of Activities treats such repayments as a
reduction in long term liabilities.

6,039

Because some revenues will not be collected for several months after the Town's
fiscal year ends, they are not considered "available" revenues.
Deferred inflow of resources changed by this amount this year.

(577)

Government Funds report compensated absences when paid. However,
on the Statement of Activities they are recorded when earned.

(2,187)

Change in net position of governmental activities \$ 92,507

The Notes to Financial Statements are an integral part of this statement.

TOWN OF TRAPPE, MARYLAND

**STATEMENT OF FUND NET POSITION
BUSINESS-TYPE ACTIVITIES**

June 30, 2017

	<u>Enterprise Fund</u> Water and Sewer <u>Fund</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 48,251
Accounts Receivable	107,460
Total current assets	<u>155,711</u>
Noncurrent assets	
Nondepreciable capital assets	28,100
Depreciable capital assets, net	3,295,105
Total noncurrent assets	<u>3,323,205</u>
Total assets	<u>3,478,916</u>
LIABILITIES	
Current liabilities	
Accounts payable	9,445
Accrued expenses	3,063
Compensated absences	3,872
Current maturities of long-term debt	188,214
Total current liabilities	<u>204,594</u>
Noncurrent liabilities	
Compensated absences	3,849
Long-term debt	2,765,253
Total noncurrent liabilities	<u>2,769,102</u>
Total liabilities	<u>2,973,696</u>
NET POSITION	
Net investment in capital assets	369,738
Unrestricted	<u>135,482</u>
Total net position	<u>\$ 505,220</u>

TOWN OF TRAPPE, MARYLAND

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
BUSINESS-TYPE ACTIVITIES
Year Ended June 30, 2017**

	<u>Enterprise Fund</u> Water and Sewer Fund
OPERATING REVENUES:	
Charges for services	\$ 623,897
Miscellaneous	15,709
Total operating revenues	639,606
OPERATING EXPENSES:	
Salaries	115,554
Payroll taxes and benefits	21,567
Depreciation	258,865
Electric	44,161
Supplies	28,031
Supervisory Services	14,781
Repairs and maintenance	119,691
Other operating expenses	69,061
Total operating expenses	671,711
Operating loss	(32,105)
NONOPERATING REVENUES (EXPENSES):	
Transfer in/(out)	(3,226)
Grant Income	9,401
Interest expense	(127,067)
Interest income	33
Insurance proceeds	18,625
Total nonoperating revenues (expenses)	(102,234)
Change in net position	(134,339)
Net position, beginning of year	639,559
Net position, end of year	\$ 505,220

TOWN OF TRAPPE, MARYLAND

**STATEMENT OF CASH FLOWS
BUSINESS-TYPE ACTIVITIES
Year Ended June 30, 2017**

	<u>Enterprise Fund</u> Water and Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 621,634
Payments to suppliers	(286,856)
Payments to employees	(138,358)
Net cash provided by operating activities	196,420
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Interfund transfers	(3,226)
Net cash used by noncapital financing activities	(3,226)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of capital assets	(46,401)
Insurance proceeds	18,625
Grant income received	9,401
Proceeds from long-term debt	41,672
Principal paid on long-term debt	(65,351)
Interest paid on long-term debt	(127,067)
Net cash used by capital and related financing activities	(169,121)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	33
Net cash provided by investing activities	33
Net increase in cash and cash equivalents	24,106
Cash and cash equivalents, beginning of year	24,145
Cash and cash equivalents, end of year	\$ 48,251
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating loss	\$ (32,105)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	258,865
(Increase) decrease in assets:	
Accounts receivable	(17,972)
Increase (decrease) in liabilities:	
Accounts payable	(11,555)
Accrued expenses	(813)
Net cash provided by operating activities	\$ 196,420

The Notes to Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

Note 1. Description of the Town of Trappe, Maryland

The Town of Trappe (“the Town”) is located on the Eastern Shore of Maryland and was incorporated in 1856. Some of the major services provided by the Town include: streets, public safety, planning and zoning, water and sewer, trash removal and general administrative services.

Reporting entity – Based upon criteria set forth by the GASB standards related to component units, it was determined that the Town has no component units.

Note 2. Summary of Significant Accounting Policies

The financial statements of the Town have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The most significant of the Town’s accounting policies are described below.

A. Basis of Presentation

The Town’s basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities display information about the Town as a whole. These statements include the financial activities of the Town. The statements distinguish between those activities of the Town that are governmental and those that are considered business-type activities.

The statement of net position presents the financial condition of the governmental and business-type activities of the Town at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Town’s governmental activities and for business-type activities of the Town. Direct expenses are those that are specifically associated with a service, program or department, and therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Town, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from general revenues of the Town.

FUND FINANCIAL STATEMENTS

During the year, the Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Town at a more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The Town has no non-major funds.

The Town uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The Town has no fiduciary funds.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

B. Fund Accounting

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the Town's only governmental fund:

General Fund - The general fund is the general operating fund of the Town. All general revenues and other receipts that are not allocated by law or contractual agreement to another fund and general operating expenditures are accounted for in this fund.

PROPRIETARY FUNDS

Proprietary funds focus on the determination of changes in net assets, financial position and cash flows and are classified as enterprise.

Enterprise fund - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The Town's major enterprise fund is:

Water and Sewer Fund - The water and sewer fund is used to account for all financial transactions, including the acquisition or construction of major capital facilities, related to the operations of the Town's water and sewer services.

C. Measurement Focus

Government-wide financial statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Town are included on the statement of net position.

Fund financial statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, generally only current assets and current liabilities are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of fund net position. The statement of revenues, expenses and changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The statement of cash flows provides information about how the Town finances and meets the cash flow needs of its proprietary activities.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of unavailable revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the Town is defined as collected within 60 days subsequent to year end.

Non-exchange transactions, in which the Town receives value without directly giving equal value in return, include primarily grants. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Town must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Town on a reimbursable basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at year end: charges for services, fines and forfeitures, state-levied locally shared taxes, grants, interest and rent.

Deferred Outflows / Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has no deferred outflow of resources for the current year.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Town has some items which arise under a modified accrual basis of accounting that qualify for reporting in the category. Accordingly, the items, unavailable revenues, are reported on the governmental funds balance sheet. The governmental funds report unavailable revenues that are deferred and recognized as an inflow of resources in the period that the amounts become available.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated assets during the year is reported in the operating statement as an expense with a like amount reported as donated revenue. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgetary Data

Formal budgetary accounting is employed as a management control for the Town's General and Enterprise Funds. The annual budget for the General Fund is prepared in accordance with the basis of accounting utilized by the fund. The budget for the Enterprise Fund is adopted under a basis consistent with GAAP, except for capital outlay and principal payments on debt. The budgets shown in the financial statements are the budget ordinances at the close of the day on June 30, 2017.

The Town follows these procedures in establishing budgetary data reflected in the financial statements.

- At least 60 days prior to the new fiscal year, the budget is legally enacted by a favorable vote of at least a majority of a quorum of the Commissioners.
- The Commissioners may amend the legally adopted budget when unexpected modifications are required in estimated revenues and expenditures.
- All annual appropriations lapse at fiscal year-end.

F. Cash and Cash Equivalents

For the purpose of the statement of cash flows, the proprietary fund considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

G. Property Tax

The Town's real property tax is levied each July 1 on the assessed values certified as of that date for all taxable real property located in the Town. The Maryland State Department of Assessments and Taxation (SDAT) establishes assessed values. Payments are due by September 30. Beginning October 1, interest is charged each month on taxes that remain unpaid. Property represented by delinquent taxes is sold at public auction in June. The Talbot County Treasurer's office collects the Town's real property taxes along with county real property taxes. Collections are remitted to the Town on a monthly basis.

Personal property taxes are levied on personal property owned by businesses operating within the incorporated Town. These taxes are based on the assessed values of personal property certified by SDAT and taxed at the same rate as real property taxes. The Town office is responsible for the collection of personal property taxes.

H. Accounts Receivable

Allowance for doubtful accounts – The Town has evaluated the collectability of outstanding amounts due to the Town for water and sewer service charges. Based on its analysis the Town has determined that all water and sewer accounts are collectable, and as such, has not established an allowance for doubtful accounts.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

I. Interfund Receivables/Payables and Transfers In/Out

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "Interfund Receivables/Payables." Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net assets. The only interfund balances which remain on the government-wide statement of net position are those between governmental and business-type activities. There were no Interfund Balances at June 30, 2017.

Interfund transfers in/out are classified in other financing (uses) sources in the statement of revenues, expenditures and changes in fund balances and in nonoperating revenues (expenses) in the statement of revenues, expenses and change in fund net position.

J. Capital Assets

General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical costs) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Town maintains a capitalization threshold of \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value to the asset or materially extend an asset's life are not.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Asset Class	Depreciable Life (years)
Land / Construction in progress	n/a
Land Improvements	10 - 15
Buildings	15 - 40
Equipment	5 - 10
Water and Sewer Systems	5 - 40

K. Compensated Absences

The Town accrues a liability for vested compensated absences, which includes annual vacation leave with various limitations. All accrued compensated absences liabilities are recorded in the government-wide financial statements.

Town employees earn annual leave based on length of service. Annual leave accumulates, and any unused portion up to 240 hours is paid upon termination.

The entire compensated absences liability is reported on the government-wide financial statements. On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

M. Net Position

Net position represents the net amount of assets, deferred outflows or resources, liabilities and deferred inflows of resources. Invested in capital assets, net of debt consist of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Restricted components of net position are reported when limitations imposed on their use either through enabling legislation or through external restrictions imposed by grantors, contributors, creditors, or laws and regulations of other governments.

The Town applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

N. Governmental Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can only be spent for specific purposes because of the Town charter or code, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed – Amounts that can be used only for specific purposes determined by formal action by the Town Council ordinance or resolutions.

Assigned – Amounts that are designated by the Council or management with intent to be used for specific purposes, but are neither restricted or committed by ordinance or resolution.

Unassigned – Amounts not included in other spendable classifications.

The Town did not have any nonspendable, restricted, committed or assigned fund balances at June 30, 2017.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the Town, these revenues are charges for services for water and sewer activities. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Revenues not meeting these definitions are reported as non-operating.

P. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 3. Cash, Cash Equivalents, and Certificates of Deposit

The Town is authorized to invest unexpended revenues from taxation, lawful distributions of funds from other governmental agencies, or any other funds properly received by it, until it determines the funds are needed for proper public purpose. The Town can invest such funds in federally insured banking institutions that pledge United States Treasury bills, notes, or other obligations to secure such deposits.

At June 30, 2017 the Town had bank deposits with various financial institutions totaling \$315,667 (carrying value \$231,897) As required by law, a depository is required to pledge securities, in addition to FDIC insurance, at least equal to the amount on deposit at all times. The depository bank pledges collateral for specific accounts, which are held in the Town's name by their trust department of agents. As of June 30, 2017 all deposits were fully insured or collateralized.

As of June 30, 2017, the town has no investment therefore the town has no credit risk.

NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets

The following is a summary of changes in capital assets for the year ended June 30, 2017:

	June 30, 2016	Additions	Transfers / Deductions	June 30, 2017
GOVERNMENTAL ACTIVITIES				
Capital assets, not being depreciated:				
Land	\$ 435,025	\$ -	\$ -	\$ 435,025
Construction in progress	12,985	-	(5,906)	7,079
Total capital assets, not being depreciated	448,010	-	(5,906)	442,104
Capital assets, being depreciated:				
Land improvements	398,685	117,513	5,906	522,104
Building improvements	169,230	-	-	169,230
Equipment	203,604	-	-	203,604
Total capital assets, being depreciated	771,519	117,513	5,906	894,938
Less accumulated depreciation:				
Land improvements	(106,772)	(24,340)	-	(131,112)
Building improvements	(46,284)	(6,616)	-	(52,900)
Equipment	(101,279)	(19,834)	-	(121,113)
Total accumulated depreciation	(254,335)	(50,790)	-	(305,125)
Total capital assets, being depreciated, net	517,184	66,723	5,906	589,813
Governmental activities capital assets, net	\$ 965,194	\$ 66,723	\$ -	\$ 1,031,917

Depreciation expense was charged to governmental functions as follows:

General government	\$ 6,696
Public safety	9,650
Public works	34,444
Total depreciation expense	\$ 50,790

NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets (continued)

	June 30, 2016	Additions	Deductions	June 30, 2017
BUSINESS-TYPE ACTIVITIES				
Capital assets, not being depreciated:				
Construction in progress	\$ 18,599	\$ 9,501	\$ -	\$ 28,100
Total capital assets, not being depreciated	18,599	9,501	-	28,100
Capital assets, being depreciated:				
Water and sewer system	7,450,629	22,000	-	7,472,629
Equipment	201,127	14,900	(21,687)	194,340
Total capital assets, being depreciated	7,651,756	36,900	(21,687)	7,666,969
Less accumulated depreciation:				
Water and sewer system	(4,021,587)	(248,443)	-	(4,270,030)
Equipment	(113,099)	(10,422)	21,687	(101,834)
Total accumulated depreciation	(4,134,686)	(258,865)	21,687	(4,371,864)
Total capital assets, being depreciated, net	3,517,070	(221,965)	-	3,295,105
Business-type activities capital assets, net	\$ 3,535,669	\$ (212,464)	\$ -	\$ 3,323,205

Note 5. Long-term liabilities

The following is a summary of the changes in the governmental type long-term debt obligations:

Description	Interest Rate	Maturity Date	Balances	Retirements		Balances	Amount
			June 30, 2016	Additions	and Repayments	June 30, 2017	Due in One Year
Compensated absences			\$ 13,881	\$ 2,187	\$ -	\$ 16,068	\$ 12,328
Note payable Shore United Bank, borrowed under the \$200,000 credit facility	2.10%	12/2017	\$ 168,183	\$ -	\$ (3,000)	\$ 165,183	\$ 165,183
Note payable Shore United Bank - 29428 Sullivan Street	3.25%	9/2017	103,741	-	(3,039)	100,702	100,702
Total governmental type debt			\$ 271,924	\$ -	\$ (6,039)	\$ 265,885	\$ 265,885

The annual requirements to amortize all governmental type debt outstanding are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2018	\$ 265,885	\$ 1,686	\$ 267,571
Total	\$ 265,885	\$ 1,686	\$ 267,571

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-term liabilities (Continued)

The following is a summary of the changes in the business type long-term debt obligations:

Description	Interest Rate	Maturity Date	Balances June 30, 2016	Additions	Retirement and Repayment	Balances June 30, 2017	Amount Due in One Year
Compensated absences			\$ 8,958	\$ -	\$ (1,237)	\$ 7,721	\$ 3,872
Water system improvement bond of 2000	4.50%	9/2040	\$1,219,758	\$ -	\$ (28,583)	\$1,191,175	\$ 29,648
Sewer system improvement bond of 2003	4.25%	9/2043	627,857	-	(12,607)	615,250	13,040
Sewer system improvement bond of 2003	4.25%	9/2043	1,044,159	-	(20,961)	1,023,198	21,682
Note payable Shore United Bank, borrowed under the \$100,000 credit facility	2.10%	12/2017	85,372	10,672	(3,200)	92,844	92,844
Note payable Shore United Bank, borrowed under the \$200,000 credit facility	2.10%	12/2017	-	31,000	-	31,000	31,000
Total business type debt			\$2,977,146	\$ 41,672	\$ (65,351)	\$2,953,467	\$188,214

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-term liabilities (Continued)

The annual requirements to amortize all business type debt outstanding are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2018	\$ 188,214	\$ 123,376	\$ 311,590
2019	67,237	119,859	187,096
2020	70,232	116,864	187,096
2021	73,360	113,736	187,096
2022	76,627	110,469	187,096
2023 - 2027	437,480	498,000	935,480
2028 - 2032	544,009	391,471	935,480
2033 - 2037	676,506	258,974	935,480
2038 - 2042	694,153	99,802	793,955
2043 - 2044	125,649	5,210	130,859
Total	\$ 2,953,467	\$ 1,837,761	\$ 4,791,228

Note 6. Risk Management

The Town is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town's risk financing techniques include participation in a public entity pool and the purchase of commercial insurance.

For general, property, excess, and environmental liability coverage, the Town is a member of the Maryland Local Government Insurance Trust (LGIT). This trust is a public entity risk pool, which is owned and directed by the local governments that subscribe to its coverage and operate under the terms of the Trust Agreement.

Subscribers to coverage by LGIT share risk among participants of the pools. As a result, the Town's annual premium requirements are affected by the loss experience of the various insurance pools in which it participates. The Town may be required to make additional assessments from time to time. These amounts are recorded as an expenditure when they are probable and can be reasonably estimated. Conversely, favorable performance of certain insurance pools may result in reduced premiums.

The Town is fully insured for workers' compensation, employee health, and accidental insurance through commercial insurance, and employees are bonded to limit the loss to the Town in the event of employees committing acts of embezzlement or theft. There have been no significant reductions in insurance coverage from the prior year by major categories of risk, and amounts of settlements have not exceeded insurance coverage for each of the past three fiscal years.

NOTES TO FINANCIAL STATEMENTS

Note 7. Operating Lease

The Town holds two operating leases for office equipment. Lease expense for the year ended June 30, 2017 was approximately \$7,000.

Office copier - 60 month term, maturing January 2020. Payments are due monthly, with a minimum payment of \$333.

Office mail equipment - 63 month term, maturing May 2021. Payments due quarterly, minimum payment \$423.

Minimum Lease Payments	
2018	\$ 6,000
2019	6,000
2020	4,000
2021	2,000

Note 8. Pension Expense

The Town participates in a deferred Compensation Plan administered by Nationwide Retirement Solutions. The Town contributes at a rate of 3% of each eligible employee's salary. Participants are vested after an initial six month employment probationary period and are entitled to 100% of vested contributions. The plan is a deferred Compensation Plan qualified under section 457(b) of the Internal Revenue Code. Pension expense for the year ended June 30, 2017 was \$9,657.

Note 9. Commitments, Contingencies and Subsequent Events

The Town is the recipient of several state-shared taxes and grants. These programs are subject to audit and retroactive adjustment which could result in reimbursement to the State.

An agreement with Rocks Engineering to fund the police and planning departments is renewed annually. If the agreement is not renewed in the coming year this would have a negative impact on these two departments.

Note 10. Required Fund Disclosures

The following had expenditures exceeding budgeted amounts:

Funds	Budgeted Expenditures	Actual Expenditures	Excess of Actual Over Budgeted Expenditures
General	\$ 631,745	\$ 710,332	\$ 78,587
Water and Sewer	387,977	671,711	283,734

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF TRAPPE, MARYLAND

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
REVENUE DETAIL
Year Ended June 30, 2017**

	Original Budget	Final Budget	Actual	Variance With Final Budget
Taxes:				
Property taxes	\$ 214,690	\$ 214,690	\$ 210,726	\$ (3,964)
Corporate & Public Utilities taxes	32,500	32,500	29,898	(2,602)
Total taxes	247,190	247,190	240,624	(6,566)
Local income taxes	70,000	70,000	59,898	(10,102)
Grants	171,500	171,500	276,012	104,512
Intergovernmental	38,685	38,685	36,840	(1,845)
Licenses and permits	12,565	12,565	22,463	9,898
Interest	1,200	1,200	559	(641)
Trash pick-up	65,200	65,200	67,300	2,100
Rental income	16,800	16,800	17,504	704
Other	8,605	8,605	8,415	(190)
Total revenue	\$ 631,745	\$ 631,745	\$ 729,615	\$ 97,870

TOWN OF TRAPPE, MARYLAND

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
EXPENDITURE DETAIL
Year Ended June 30, 2017**

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance With Final <u>Budget</u>
GENERAL GOVERNMENT:				
Legislative:				
Town commissioner's salaries	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Other legislative	6,200	6,200	5,400	800
	<u>16,200</u>	<u>16,200</u>	<u>15,400</u>	<u>800</u>
Financial administration:				
Town office salary	72,097	72,097	72,370	(273)
Payroll taxes and benefits	71,652	71,652	67,669	3,983
Office expense	15,820	15,820	17,857	(2,037)
Professional fees	40,000	40,000	43,330	(3,330)
Other financial administrative	34,269	34,269	39,016	(4,747)
	<u>233,838</u>	<u>233,838</u>	<u>240,242</u>	<u>(6,404)</u>
Planning department:				
Reimbursable salaries and insurance	66,711	66,711	66,966	(255)
Other planning department	6,650	6,650	10,513	(3,863)
	<u>73,361</u>	<u>73,361</u>	<u>77,479</u>	<u>(4,118)</u>
Total general government	<u>323,399</u>	<u>323,399</u>	<u>333,121</u>	<u>(9,722)</u>
PUBLIC SAFETY:				
Volunteer fire department	30,000	30,000	30,000	-
Reimbursable salaries and insurance	70,193	70,193	70,454	(261)
Other public safety	43,780	43,780	32,094	11,686
Total public safety	<u>143,973</u>	<u>143,973</u>	<u>132,548</u>	<u>11,425</u>
PUBLIC WORKS:				
Storm water management	2,000	2,000	500	1,500
Streets	44,500	44,500	38,964	5,536
Sanitation	67,000	67,000	60,180	6,820
Other public works	30,003	30,003	14,690	15,313
Total public works	<u>143,503</u>	<u>143,503</u>	<u>114,334</u>	<u>29,169</u>

TOWN OF TRAPPE, MARYLAND

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
EXPENDITURE DETAIL
Year Ended June 30, 2017
(continued)**

	Original Budget	Final Budget	Actual	Variance With Final Budget
DEBT SERVICE:				
Principal retirement	\$ 5,500	\$ 5,500	\$ 6,039	\$ (539)
Interest expense	9,370	9,370	6,777	2,593
Total debt service	14,870	14,870	12,816	2,054
CAPITAL OUTLAY				
	6,000	6,000	117,513	(111,513)
Total expenditures	631,745	631,745	710,332	(78,587)
Excess (deficiency) of revenue over expenditures	-	-	19,283	19,283
OTHER FINANCING SOURCES:				
Operating transfer in/(out)	-	-	3,226	3,226
	-	-	3,226	3,226
Net change in fund balance	\$ -	\$ -	\$ 22,509	\$ 22,509

OTHER SUPPLEMENTARY INFORMATION

TOWN OF TRAPPE, MARYLAND

**OTHER SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - WATER AND SEWER FUND
REVENUE AND EXPENSE DETAIL
Year Ended June 30, 2017**

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance With Final <u>Budget</u>
OPERATING REVENUES:				
Charges for services	\$ 579,627	\$ 579,627	\$ 623,897	\$ 44,270
Miscellaneous	500	500	15,709	15,209
Total operating revenues	580,127	580,127	639,606	59,479
OPERATING EXPENSES:				
Salaries	128,701	128,701	115,554	13,147
Payroll taxes and benefits	31,983	31,983	21,567	10,416
Depreciation	-	-	258,865	(258,865)
Electric	44,000	44,000	44,161	(161)
Supplies	29,500	29,500	28,031	1,469
Supervisery Services	5,000	5,000	14,781	(9,781)
Repairs and maintenance	66,365	66,365	119,691	(53,326)
Other operating expenses	82,428	82,428	69,061	13,367
Total operating expenses	387,977	387,977	671,711	(283,734)
Operating income (loss)	192,150	192,150	(32,105)	(224,255)
NONOPERATING REVENUES (EXPENSES):				
Operating transfer in/(out)	-	-	(3,226)	(3,226)
Grant income	-	-	9,401	9,401
Debt principle payments	(67,100)	(67,100)	-	67,100
Interest expense	(125,080)	(125,080)	(127,067)	(1,987)
Interest income	30	30	33	3
Insurance proceeds	-	-	18,625	18,625
Total nonoperating revenues (expenses)	(192,150)	(192,150)	(102,234)	89,916
Change in net position	\$ -	\$ -	\$ (134,339)	\$ (134,339)

Herbert J. Geary III
Corey N. Duncan
Roy J. Geiser
Chris A. Hall
Ronald W. Hickman
Charles M. Meenehan
Craig A. Walter
Mark A. Welsh



INDEPENDENT AUDITORS' 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

Commissioners of Trappe
Town of Trappe, Maryland
Trappe, 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 Town of Trappe, Maryland ("the Town") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated September 22, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstance 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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be a material weakness.

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 *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.

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. We identified the following deficiency in internal control over financial reporting that we consider to be a material weakness, as defined above.

Finding Number 2017-1

Criteria: Proper segregation of duties should be in place to strengthen internal controls to provide reasonable assurance that a material misstatement to the financial statements is prevented.

Condition: We noted that the system currently in place creates conflicts within duties assigned to a single individual and produces a high level of internal control risk. During our audit, we noted a lack of segregation of duties.

Cause: The lack of appropriately designed internal control systems has produced conflicts regarding assigned duties.

Effect: Segregation of duties issues do not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, the misappropriation of assets and/or errors on a timely basis.

Recommendation: We recommend that, when possible, responsibilities for authorization, recording, and maintaining custody of assets be assigned to different employees. In situations where this is not possible, we recommend the implementation of certain transaction review controls. It is important to note that review controls do not eliminate all risk when segregation of duties conflicts exist, and management and those charged with governance need to be aware of such risks.

Identification of Repeat Finding: Due to the nature and size of the Town, this is a repeat finding.

Views of Responsible Officials: It has been determined that it would not be cost effective for the Town to add additional personnel to ensure complete segregation of duties in the finance department.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of 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.



Salisbury, Maryland
September 22, 2017