

**TOWN OF TRAPPE, MARYLAND**

**FINANCIAL REPORT**

**June 30, 2020**

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



## INDEPENDENT AUDITORS' REPORT

Commissioners of Trappe  
Town of Trappe, Maryland  
Trappe, Maryland

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, 2020, 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, 2020, 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 October 23, 2020 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 solely 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 black ink that reads "JHM Group LLC". The signature is written in a cursive, flowing style.

Salisbury, Maryland  
October 23, 2020

## **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, 2020. 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 increased by 5% from 2019 to 2020. (See table below) Governmental activities net position increased by 10%, while the business-type activities decreased by 7%.

Town's Net Position

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 550,412	\$ 405,327	\$ 554,568	\$ 478,920	\$ 1,104,980	\$ 884,247
Capital assets	768,554	918,035	2,888,842	2,965,779	3,657,396	3,883,814
Total assets	\$ 1,318,966	\$ 1,323,362	\$ 3,443,410	\$ 3,444,699	\$ 4,762,376	\$ 4,768,061
Total deferred outflows	\$ -	\$ -	\$ 11,100	\$ 11,655	\$ 11,100	\$ 11,655
Other liabilities	\$ 3,394	\$ 3,777	\$ 45,263	\$ 24,285	\$ 48,657	\$ 28,062
Long-term debt	135,339	243,623	2,984,079	2,975,374	3,119,418	3,218,997
Total liabilities	138,733	247,400	3,029,342	2,999,659	3,168,075	3,247,059
Net investment in capital assets	643,371	683,653	(75,023)	15,475	568,348	699,128
Unrestricted	536,862	392,309	500,191	441,220	1,037,053	833,529
Total net position	\$ 1,180,233	\$ 1,075,962	\$ 425,168	\$ 456,695	\$ 1,605,401	\$ 1,532,657

The Town's total revenues increased by 3% to \$1,404,484 (See table below). Revenue from business-type activities increased by 1% to \$837,352, due mainly to increases in water and sewer consumption. Governmental revenues increased by 5% to \$567,132, due mainly to increases in grant revenue and taxes.

The total cost of all programs and services decreased by 2% to \$1,321,628. Costs of business-type activities decreased by 2% to \$870,659. The cost of governmental activities decreased by 2% to \$450,969.

Town's Net Position

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
<b>Program revenues</b>						
Charges for services	\$ 96,625	\$ 97,825	\$ 834,749	\$ 824,865	\$ 931,374	\$ 922,690
Operating grants	119,064	94,481	-	-	119,064	94,481
Capital grants	-	-	-	-	-	-
<b>General revenues</b>						
Taxes	343,517	326,758	-	-	343,517	326,758
Other	7,926	19,453	2,603	3,076	10,529	22,529
<b>Total revenues</b>	<b>567,132</b>	<b>538,517</b>	<b>837,352</b>	<b>827,941</b>	<b>1,404,484</b>	<b>1,366,458</b>
<b>Expenses</b>						
General government	253,640	262,690	-	-	253,640	262,690
Public safety	20,000	30,180	-	-	20,000	30,180
Public works	169,935	157,762	-	-	169,935	157,762
Debt service - interest	7,394	7,497	-	-	7,394	7,497
Water and sewer	-	-	870,659	884,151	870,659	884,151
<b>Total expenses</b>	<b>450,969</b>	<b>458,129</b>	<b>870,659</b>	<b>884,151</b>	<b>1,321,628</b>	<b>1,342,280</b>
Transfer in/(out)	(1,780)	9,455	1,780	(9,455)	-	-
Loss on sale of asset	(10,112)	-	-	-	(10,112)	-
<b>Change in net position</b>	<b>\$ 104,271</b>	<b>\$ 89,843</b>	<b>\$ (31,527)</b>	<b>\$ (65,665)</b>	<b>\$ 72,744</b>	<b>\$ 24,178</b>

**GENERAL FUND BUDGETARY HIGHLIGHTS**

General Fund revenues of \$567,132 were higher than budgeted revenues of \$530,082 by \$37,050 or 7%, which mostly relates to under budgeted grant revenues and income taxes.

General fund expenditures of \$514,690 were lower than budgeted expenditures of \$530,082 by \$15,392 or 3%, which most relates to over budgeted expenditures in the public works department.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2020 the Town had \$3,657,396 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 \$226,418 from prior year.

#### Capital Assets Net of Depreciation

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Land	\$ 406,667	\$ 435,025	\$ -	\$ -	\$ 406,667	\$ 435,025
Construction in Progress	7,079	7,079	320,149	80,909	327,228	87,988
Land improvements	303,236	331,896	-	-	303,236	331,896
Building improvements	20,619	103,097	-	-	20,619	103,097
Equipment	30,953	40,938	83,561	74,029	114,514	114,967
Water and sewer	-	-	2,485,132	2,810,841	2,485,132	2,810,841
Total capital assets	\$ 768,554	\$ 918,035	\$ 2,888,842	\$ 2,965,779	\$ 3,657,396	\$ 3,883,814

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 \$3,100,148 in bonds and notes outstanding, a net (additions and repayments) decrease of \$96,193 from last year.

#### Debt

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Shore United - \$200,000	\$ 125,183	\$ 140,183	\$ 31,000	\$ 31,000	\$ 156,183	\$ 171,183
Shore United - \$100,000	-	-	32,844	52,844	32,844	52,844
Shore United - Sullivan St.	-	94,199	-	-	-	94,199
Infrastructure Bond of 2017	-	-	1,098,500	1,140,000	1,098,500	1,140,000
Infrastructure Bond of 2017	-	-	574,000	592,000	574,000	592,000
Infrastructure Bond of 2017	-	-	955,500	985,000	955,500	985,000
Shore United - \$1,140,000	-	-	118,796	88,750	118,796	88,750
Shore United - \$1,975,500	-	-	143,025	50,000	143,025	50,000
Bond premiums	-	-	21,300	22,365	21,300	22,365
Total debt	\$ 125,183	\$ 234,382	\$ 2,974,965	\$ 2,961,959	\$ 3,100,148	\$ 3,196,341

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 remain the same for 2020-2021 as the property tax rate was not increased. The income from local income taxes is expected to remain the same for 2020-2021. State Highway User revenue is expected to remain the same for 2019-2020. At this time the Town continues to benefit from a private grant benefiting the Planning Department. The Town is able to maintain the current level of service.

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 from Lakeside, anticipated since 2007-2008, have not yet happened but the Town has approved a new 24 townhome subdivision that is expected to start in 2020. This will provide the Town with 24 new water and sewer hookup fees and additional income with their monthly utility bill. This will also provide 24 new taxable properties, which will result in additional property tax income expected in 2021-2022. Lakeside has made significant progress with their development and is expected to begin infrastructure construction in 2020-2021. Lakeside has requested to connect their first 120 units to the Town's existing wastewater treatment plant, which will result in additional sewer hookup fees that were not expected. The consumer water and sewer usage rates were not increased for 2020-2021 due to the COVID-19 pandemic and the Council's concern of the financial impact to the Town's residents. The basic sewer service rate was raised by \$2.50 per month because the Town is preparing for repayment of the loan/grant package that was received from USDA to replace and/or rehab all 7 pumping stations. The Town's budget is reviewed monthly by the Town Council and revisions will be recommended when and where necessary, especially with the possible negative effects due to the COVID-19 pandemic.

## **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, 2020**

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 534,695	\$ 449,099	\$ 983,794
Accounts receivable	15,717	105,469	121,186
Nondepreciable capital assets	413,746	320,149	733,895
Depreciable capital assets, net	354,808	2,568,693	2,923,501
<b>Total assets</b>	<b>1,318,966</b>	<b>3,443,410</b>	<b>4,762,376</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charge on refunding	-	11,100	11,100
<b>Total deferred outflows of resources</b>	<b>-</b>	<b>11,100</b>	<b>11,100</b>
<b>LIABILITIES</b>			
Accounts payable	1,432	26,867	28,299
Accrued payroll liabilities	1,962	18,396	20,358
Long-term liabilities, due within one year			
Compensated absences	4,428	3,973	8,401
Bonds and notes payable	125,183	274,705	399,888
Long-term liabilities, due in more than one year			
Compensated absences	5,728	5,141	10,869
Bonds and notes payable	-	2,700,260	2,700,260
<b>Total liabilities</b>	<b>138,733</b>	<b>3,029,342</b>	<b>3,168,075</b>
<b>NET POSITION</b>			
Net investment in capital assets	643,371	(75,023)	568,348
Unrestricted	536,862	500,191	1,037,053
<b>Total net position</b>	<b>\$ 1,180,233</b>	<b>\$ 425,168</b>	<b>\$ 1,605,401</b>

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

**TOWN OF TRAPPE, MARYLAND**

**STATEMENT OF ACTIVITIES  
Year Ended June 30, 2020**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Governmental activities</b>							
General government	\$ 253,640	\$ 96,625	\$ 78,062	\$ -	\$ (78,953)	\$ -	\$ (78,953)
Public safety	20,000	-	-	-	(20,000)	-	(20,000)
Public works	169,935	-	41,002	-	(128,933)	-	(128,933)
Debt Service - Interest	7,394	-	-	-	(7,394)	-	(7,394)
<b>Total governmental activities</b>	<b>450,969</b>	<b>96,625</b>	<b>119,064</b>	<b>-</b>	<b>(235,280)</b>	<b>-</b>	<b>(235,280)</b>
<b>Business-type activities</b>							
Water and sewer	870,659	834,749	-	-	-	(35,910)	(35,910)
<b>Total business-type activities</b>	<b>870,659</b>	<b>834,749</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(35,910)</b>	<b>(35,910)</b>
<b>Total</b>	<b>\$ 1,321,628</b>	<b>\$ 931,374</b>	<b>\$ 119,064</b>	<b>\$ -</b>	<b>(235,280)</b>	<b>(35,910)</b>	<b>(271,190)</b>
<b>General revenues</b>							
Property taxes					230,903	-	230,903
Corporate & public utilities tax					31,851	-	31,851
Local income taxes					80,763	-	80,763
Other income					3,379	-	3,379
Interest income					4,547	2,603	7,150
Transfer in/(out)					(1,780)	1,780	-
Loss on sale of asset					(10,112)	-	(10,112)
<b>Total general revenues and transfers</b>					<b>339,551</b>	<b>4,383</b>	<b>343,934</b>
Change in net position					104,271	(31,527)	72,744
Net position, beginning of year					1,075,962	456,695	1,532,657
<b>Net position, end of year</b>					<b>\$ 1,180,233</b>	<b>\$ 425,168</b>	<b>\$ 1,605,401</b>

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

**TOWN OF TRAPPE, MARYLAND**

**BALANCE SHEET  
GOVERNMENTAL FUND**

**June 30, 2020**

	<u>General Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 534,695
Accounts receivable	15,715
Due from State of Maryland	2
<hr/>	
<b>Total assets</b>	<b>\$ 550,412</b>
<hr/>	
<b>LIABILITIES AND FUND BALANCES</b>	
<b>LIABILITIES</b>	
Accounts payable	\$ 1,432
Accrued liabilities	1,962
<hr/>	
Total liabilities	3,394
<hr/>	
<b>FUND BALANCES</b>	
Unassigned	547,018
<hr/>	
Total fund balances	547,018
<hr/>	
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 550,412</b>
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*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, 2020**

Total fund balances, governmental funds \$ 547,018

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. 768,554

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	(10,156)
Bonds and notes payable	(125,183)

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Net position of governmental activities in the Statement of Net Position \$ 1,180,233

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*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, 2020**

	<u>General Fund</u>
<b>REVENUES:</b>	
Taxes:	
Property taxes	\$ 230,903
Corporate & public utilities tax	31,851
Local income taxes	80,763
Grants	78,062
Intergovernmental	41,002
Licenses and permits	14,694
Interest	4,547
Trash pick-up	72,531
Rental income	9,400
Other	3,379
<hr/>	
Total revenues	567,132
<hr/>	
<b>EXPENDITURES:</b>	
Current:	
General government	246,506
Public Safety	20,000
Public works	131,591
Debt service:	
Principal retirement	109,199
Interest	7,394
<hr/>	
Total expenditures	514,690
<hr/>	
Excess of revenues over expenditures	52,442
<b>OTHER FINANCING SOURCES (USES):</b>	
Operating transfers in/(out)	(1,780)
Proceeds from sale of assets	94,806
<hr/>	
Total other financing sources (uses)	93,026
<hr/>	
Net change in fund balance	145,468
Fund balance, beginning of year	401,550
<hr/>	
Fund balance, end of year	\$ 547,018
<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, 2020**

Net change in fund balances, governmental funds \$ 145,468

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:

Depreciation expense (44,563)

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the cost of assets disposed of, less accumulated depreciation. (104,918)

Governmental 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. 109,199

Governmental funds report expenditures for compensated absences when paid. However, in the Statement of Activities, these expenditures are recorded when earned. (915)

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Change in net position of governmental activities \$ 104,271

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*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, 2020**

	<u>Enterprise Fund</u> Water and Sewer <u>Fund</u>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 449,099
Accounts Receivable	105,469
Total current assets	554,568
Noncurrent assets	
Nondepreciable capital assets	320,149
Depreciable capital assets, net	2,568,693
Total noncurrent assets	2,888,842
Total assets	3,443,410
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred charge on refunding	11,100
Total deferred outflows of resources	11,100
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	26,867
Accrued expenses	18,396
Compensated absences	3,973
Current maturities of long-term debt	274,705
Total current liabilities	323,941
Noncurrent liabilities	
Compensated absences	5,141
Long-term debt	2,700,260
Total noncurrent liabilities	2,705,401
Total liabilities	3,029,342
<b>NET POSITION</b>	
Net investment in capital assets	(75,023)
Unrestricted	500,191
Total net position	\$ 425,168

**TOWN OF TRAPPE, MARYLAND**

**STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET POSITION  
BUSINESS-TYPE ACTIVITIES  
Year Ended June 30, 2020**

	<u>Enterprise Fund</u> Water and Sewer Fund
<b>OPERATING REVENUES:</b>	
Charges for services	\$ 814,521
Miscellaneous	20,228
Total operating revenues	834,749
<b>OPERATING EXPENSES:</b>	
Salaries	152,016
Payroll taxes and benefits	20,851
Depreciation	260,872
Electric	43,186
Supplies	58,312
Supervisory Services	42,351
Repairs and maintenance	99,451
Other operating expenses	104,054
Total operating expenses	781,093
<b>Operating income</b>	<b>53,656</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>	
Transfer in/(out)	1,780
Interest expense	(89,566)
Interest income	2,603
<b>Total nonoperating revenues (expenses)</b>	<b>(85,183)</b>
Change in net position	(31,527)
Net position, beginning of year	456,695
Net position, end of year	\$ 425,168

**TOWN OF TRAPPE, MARYLAND**

**STATEMENT OF CASH FLOWS  
BUSINESS-TYPE ACTIVITIES  
Year Ended June 30, 2020**

	<u>Enterprise Fund</u> Water and Sewer <u>Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Receipts from customers	\$ 816,022
Payments to suppliers	(326,376)
Payments to employees	(177,168)
Net cash provided by operating activities	312,478
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Interfund transfers	1,780
Net cash provided by noncapital financing activities	1,780
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Acquisition of capital assets	(183,935)
Proceeds from long-term debt	126,099
Principal paid on long-term debt	(113,093)
Deferred charge on refunding	555
Interest paid on long-term debt	(89,566)
Net cash used by capital and related financing activities	(259,940)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest income	2,603
Net cash provided by investing activities	2,603
Net increase in cash and cash equivalents	56,921
Cash and cash equivalents, beginning of year	392,178
Cash and cash equivalents, end of year	\$ 449,099
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
Operating income	\$ 53,656
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	260,872
(Increase) decrease in assets:	
Accounts receivable	(18,727)
Increase (decrease) in liabilities:	
Accounts payable	19,371
Accrued expenses	(2,694)
Net cash provided by operating activities	\$ 312,478

*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.

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.

## 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, 2020.

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 position. 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, 2020.

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:

<u>Asset Class</u>	<u>Depreciable Life (years)</u>
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, 2020.

## 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, 2020 the Town had bank deposits with various financial institutions totaling \$987,664 (carrying value \$983,794) 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, 2020 all deposits were fully insured or collateralized.

As of June 30, 2020, the town has no investments 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, 2020:

	June 30, 2019	Additions	Transfers / Deductions	June 30, 2020
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital assets, not being depreciated:				
Land	\$ 435,025	\$ -	\$ (28,358)	\$ 406,667
Construction in progress	7,079	-	-	7,079
Total capital assets, not being depreciated	<u>442,104</u>	-	<u>(28,358)</u>	<u>413,746</u>
Capital assets, being depreciated:				
Land improvements	522,104	-	-	522,104
Building improvements	169,230	-	(106,671)	62,559
Equipment	140,163	-	-	140,163
Total capital assets, being depreciated	<u>831,497</u>	-	<u>(106,671)</u>	<u>724,826</u>
Less accumulated depreciation:				
Land improvements	(190,208)	(28,660)	-	(218,868)
Building improvements	(66,133)	(5,918)	30,111	(41,940)
Equipment	(99,225)	(9,985)	-	(109,210)
Total accumulated depreciation	<u>(355,566)</u>	<u>(44,563)</u>	<u>30,111</u>	<u>(370,018)</u>
Total capital assets, being depreciated, net	<u>475,931</u>	<u>(44,563)</u>	<u>(76,560)</u>	<u>354,808</u>
Governmental activities capital assets, net	<u>\$ 918,035</u>	<u>\$ (44,563)</u>	<u>\$ (104,918)</u>	<u>\$ 768,554</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 6,219
Public works	38,344
Total depreciation expense	<u>\$ 44,563</u>

## NOTES TO FINANCIAL STATEMENTS

### Note 4. Capital Assets (continued)

	June 30, 2019	Additions	Transfers / Deductions	June 30, 2020
<b>BUSINESS-TYPE ACTIVITIES</b>				
Capital assets, not being depreciated:				
Construction in progress	\$ 80,909	\$ 160,835	\$ 78,405	\$ 320,149
Total capital assets, not being depreciated	80,909	160,835	78,405	320,149
Capital assets, being depreciated:				
Water and sewer system	7,577,422	-	(78,405)	7,499,017
Equipment	201,432	23,100	-	224,532
Total capital assets, being depreciated	7,778,854	23,100	(78,405)	7,723,549
Less accumulated depreciation:				
Water and sewer system	(4,766,581)	(247,304)	-	(5,013,885)
Equipment	(127,403)	(13,568)	-	(140,971)
Total accumulated depreciation	(4,893,984)	(260,872)	-	(5,154,856)
Total capital assets, being depreciated, net	2,884,870	(237,772)	(78,405)	2,568,693
Business-type activities capital assets, net	\$ 2,965,779	\$ (76,937)	-	\$ 2,888,842

### 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 June 30, 2019	Additions	Retirements and Repayments	Balances June 30, 2020	Amount Due in One Year
Compensated absences			\$ 9,241	\$ 915	-	\$ 10,156	\$ 4,428
Note payable Shore United Bank, borrowed under the \$200,000 credit facility	3.90%	12/2020	\$ 140,183	-	\$ (15,000)	\$ 125,183	\$ 125,183
Note payable Shore United Bank - Sullivan Street	3.00%	12/2022	94,199	-	(94,199)	-	-
Total governmental type debt			\$ 234,382	-	\$(109,199)	\$ 125,183	\$ 125,183

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2021	\$ 125,183	\$ 1,158	\$ 126,341

## 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, 2019	Additions	Retirements and Repayments	Balances June 30, 2020	Amount Due in One Year
Compensated absences			\$ 13,415	\$ -	\$ (4,301)	\$ 9,114	\$ 3,973
Note payable Shore United Bank, borrowed under the \$100,000 credit facility	3.90%	12/2020	52,844	-	(20,000)	32,844	32,844
Note payable Shore United Bank, borrowed under the \$200,000 credit facility	3.90%	12/2020	31,000	-	-	31,000	31,000
DHCD Infrastructure Bond, 2017 Series A-1	3.35%	4/2040	1,140,000	-	(41,500)	1,098,500	42,500
DHCD Infrastructure Bond, 2017 Series A-2	3.48%	4/2043	592,000	-	(18,000)	574,000	18,000
DHCD Infrastructure Bond, 2017 Series A-3	3.48%	4/2043	985,000	-	(29,500)	955,500	30,500
Note payable Shore United Bank, borrowed under the \$1,140,000 credit facility	2.55%	2/2020	88,750	33,074	(3,028)	118,796	118,796
Note payable Shore United Bank, borrowed under the \$1,975,500 credit facility	3.55%	6/2024	50,000	93,025	-	143,025	-
Bond premiums			22,365	-	(1,065)	21,300	1,065
<b>Total business type debt</b>			<b>\$ 2,961,959</b>	<b>\$ 126,099</b>	<b>\$ (113,093)</b>	<b>\$ 2,974,965</b>	<b>\$ 274,705</b>

In August 2017, the Town issued 2017 Series A-1, A-2 and A-3, Infrastructure Bonds, with interest rates ranging between 3.35% and 3.48%. The proceeds of \$2,875,108 were used to refund \$1,191,175 of the water system improvement bond of 2000, \$615,250 of the sewer system improvement bond of 2003, and \$1,023,198 of the sewer system improvement bond of 2003. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$12,727, recorded as a deferred charge on refunding on the statement of net position. This difference is being charged to operations as a component of interest expense through the year 2040. The Town completed the refunding to reduce the total debt service payments over a period of 27 years by approximately \$518,000 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$149,000.

## 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
2021	\$ 274,705	\$ 86,039	\$ 360,744
2022	93,565	82,692	176,257
2023	95,565	80,796	176,361
2024	240,590	80,127	320,717
2025	98,565	76,880	175,445
2026 - 2030	539,325	344,006	883,331
2031 - 2035	623,825	256,116	879,941
2036 - 2040	736,325	143,129	879,454
2041 - 2043	272,500	22,356	294,856
Total	\$ 2,974,965	\$ 1,172,141	\$ 4,147,106

### 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, 2020 was approximately \$6,000.

Office copier - 60 month term, maturing January 2023. Payments are due monthly, with a minimum payment of \$295.

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

Minimum Lease Payments	
2021	\$ 5,200
2022	3,500
2023	3,500
2024	500

### 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, 2020 was \$8,158.

### 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 planning department is in effect until the Town receives the 500th building permit issued in the Lakeside Development, as per the Developer's Rights and Responsibilities Agreement. Once this agreement comes to an end, it will have a negative impact on this department.

The COVID-19 pandemic has affected the Town's operations in early fiscal year 2021. The Town has incurred some direct costs related to fighting the pandemic in early fiscal year 2021, and it is unknown at this time how the Town's revenues will be impacted by the pandemic.

**REQUIRED SUPPLEMENTARY INFORMATION**

**TOWN OF TRAPPE, MARYLAND**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
REVENUE DETAIL  
Year Ended June 30, 2020**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Taxes:				
Property taxes	\$ 228,840	\$ 228,840	\$ 230,903	\$ 2,063
Corporate & Public Utilities taxes	31,000	31,000	31,851	851
<b>Total taxes</b>	<b>259,840</b>	<b>259,840</b>	<b>262,754</b>	<b>2,914</b>
Local income taxes	60,000	60,000	80,763	20,763
Grants	55,000	55,000	78,062	23,062
Intergovernmental	53,307	53,307	41,002	(12,305)
Licenses and permits	12,375	12,375	14,694	2,319
Interest	1,000	1,000	4,547	3,547
Trash pick-up	70,560	70,560	72,531	1,971
Rental income	18,000	18,000	9,400	(8,600)
Other	-	-	3,379	3,379
<b>Total revenue</b>	<b>\$ 530,082</b>	<b>\$ 530,082</b>	<b>\$ 567,132</b>	<b>\$ 37,050</b>

**TOWN OF TRAPPE, MARYLAND**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
EXPENDITURE DETAIL  
Year Ended June 30, 2020**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<b>GENERAL GOVERNMENT:</b>				
Legislative:				
Town commissioner's salaries	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Other legislative	5,600	5,600	5,600	-
	<u>15,600</u>	<u>15,600</u>	<u>15,600</u>	<u>-</u>
Financial administration:				
Town office salary	67,891	67,891	68,142	(251)
Payroll taxes and benefits	39,300	39,300	33,831	5,469
Office expense	20,000	20,000	20,297	(297)
Professional fees	40,000	40,000	35,826	4,174
Other financial administrative	31,030	31,030	25,172	5,858
	<u>198,221</u>	<u>198,221</u>	<u>183,268</u>	<u>14,953</u>
Planning department:				
Reimbursable salaries and insurance	33,119	33,119	33,584	(465)
Other planning department	23,000	23,000	14,054	8,946
	<u>56,119</u>	<u>56,119</u>	<u>47,638</u>	<u>8,481</u>
<b>Total general government</b>	<u>269,940</u>	<u>269,940</u>	<u>246,506</u>	<u>23,434</u>
<b>PUBLIC SAFETY:</b>				
Volunteer fire department	20,000	20,000	20,000	-
<b>Total public safety</b>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>-</u>
<b>PUBLIC WORKS:</b>				
Storm water management	2,000	2,000	-	2,000
Streets	54,500	54,500	47,527	6,973
Sanitation	70,560	70,560	54,259	16,301
Other public works	39,909	39,909	29,805	10,104
<b>Total public works</b>	<u>166,969</u>	<u>166,969</u>	<u>131,591</u>	<u>35,378</u>

**TOWN OF TRAPPE, MARYLAND**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
EXPENDITURE DETAIL  
Year Ended June 30, 2020  
(continued)**

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance With Final <u>Budget</u>
<b>DEBT SERVICE:</b>				
Principal retirement	\$ 18,600	\$ 18,600	\$ 109,199	\$ (90,599)
Interest expense	8,000	8,000	7,394	606
<b>Total debt service</b>	<b>26,600</b>	<b>26,600</b>	<b>116,593</b>	<b>(89,993)</b>
<hr/>				
<b>CAPITAL OUTLAY</b>	<b>46,573</b>	<b>46,573</b>	<b>-</b>	<b>46,573</b>
<hr/>				
<b>Total expenditures</b>	<b>530,082</b>	<b>530,082</b>	<b>514,690</b>	<b>15,392</b>
<hr/>				
Excess (deficiency) of revenue over expenditures	-	-	52,442	52,442
<hr/>				
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfer in/(out)	-	-	(1,780)	(1,780)
Proceeds from sale of asset	-	-	94,806	94,806
	-	-	93,026	93,026
<hr/>				
Net change in fund balance	\$ -	\$ -	\$ 145,468	\$ 145,468

**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, 2020**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<b>OPERATING REVENUES:</b>				
Charges for services	\$ 858,402	\$ 858,402	\$ 814,521	\$ (43,881)
Miscellaneous	500	500	20,228	19,728
<b>Total operating revenues</b>	<b>858,902</b>	<b>858,902</b>	<b>834,749</b>	<b>(24,153)</b>
<b>OPERATING EXPENSES:</b>				
Salaries	149,966	149,966	152,016	(2,050)
Payroll taxes and benefits	41,939	41,939	20,851	21,088
Depreciation	-	-	260,872	(260,872)
Electric	40,000	40,000	43,186	(3,186)
Supplies	50,000	50,000	58,312	(8,312)
Supervisory Services	5,000	5,000	42,351	(37,351)
Repairs and maintenance	91,365	91,365	99,451	(8,086)
Other operating expenses	263,132	263,132	104,054	159,078
<b>Total operating expenses</b>	<b>641,402</b>	<b>641,402</b>	<b>781,093</b>	<b>(139,691)</b>
<b>Operating income</b>	<b>217,500</b>	<b>217,500</b>	<b>53,656</b>	<b>(163,844)</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Operating transfer in/(out)	-	-	1,780	1,780
Debt principal payments	(109,000)	(109,000)	-	109,000
Interest expense	(110,000)	(110,000)	(89,566)	20,434
Interest income	1,500	1,500	2,603	1,103
<b>Total nonoperating revenues (expenses)</b>	<b>(217,500)</b>	<b>(217,500)</b>	<b>(85,183)</b>	<b>132,317</b>
<b>Change in net position</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (31,527)</b>	<b>\$ (31,527)</b>

Herbert J. Geary III  
Corey N. Duncan  
Roy J. Geiser  
Chris A. Hall  
Ronald W. Hickman  
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, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated October 23, 2020.

**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) as a basis for determining 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 2020-01

*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 financial statements. 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 cursive script that reads "YHM Group LLC".

Salisbury, Maryland  
October 23, 2020