

TOWN OF TRAPPE, MARYLAND

FINANCIAL REPORT

June 30, 2022

TOWN OF TRAPPE, MARYLAND

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INDEPENDENT AUDITORS' REPORT

Commissioners of Trappe
Town of Trappe, Maryland
Trappe, Maryland

Report on the Audit of the Financial Statements

Opinions

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, 2022, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements as listed in the table of contents.

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, 2022, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 10 to the financial statements, during the year ended June 30, 2022, the Town adopted new accounting guidance from the Government Accounting Standards Board (GASB) Statement No. 87, “Leases”. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Town's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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.

Supplementary 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 31, 2022 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.

The image shows a handwritten signature in dark ink that reads "UHY LLP". The letters are stylized and cursive.

Salisbury, Maryland
October 31, 2022

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, 2022. 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 54% from 2021 to 2022. (See table below) Governmental activities net position increased by 20%, while the business-type activities increased by 114%.

Town's Net Position

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Current and other assets	\$ 1,425,865	\$ 678,584	\$ 2,045,416	\$ 1,148,930	\$ 3,471,281	\$ 1,827,514
Capital assets	708,835	737,057	3,491,617	2,919,201	4,200,452	3,656,258
Total assets	\$ 2,134,700	\$ 1,415,641	\$ 5,537,033	\$ 4,068,131	\$ 7,671,733	\$ 5,483,772
Total deferred outflows	\$ -	\$ -	\$ 9,990	\$ 10,545	\$ 9,990	\$ 10,545
Other liabilities	\$ 477,691	\$ 4,610	\$ 130,599	\$ 103,467	\$ 608,290	\$ 108,077
Long-term debt	115,514	127,815	3,884,854	3,260,349	4,000,368	3,388,164
Total liabilities	593,205	132,425	4,015,453	3,363,816	4,608,658	3,496,241
Net investment in capital assets	604,816	619,123	(368,349)	(317,494)	236,467	301,629
Unrestricted	936,679	664,093	1,899,919	1,032,354	2,836,598	1,696,447
Total net position	\$ 1,541,495	\$ 1,283,216	\$ 1,531,570	\$ 714,860	\$ 3,073,065	\$ 1,998,076

The Town's total revenues increased by 52% to \$2,660,915 (See table below). Revenue from business-type activities increased by 60% to \$1,905,517, due mainly to increases in water and sewer consumption and capacity fees. Governmental revenues increased by 34% to \$755,398, due mainly to the collection of new Town improvement fund and capital asset impact fees related to the Lakeside development.

The total cost of all programs and services increased by 16% to \$1,585,926. Costs of business-type activities increased by 19% to \$1,084,370, mainly due to additional supervisory services related to the Lakeside development. The cost of governmental activities increased by 11% to \$501,556, mainly due to capital outlay, and expenses related to the American Rescue Plan funding.

Town's Net Position

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Program revenues						
Charges for services	\$ 96,041	\$ 82,474	\$ 1,900,712	\$ 1,187,758	\$ 1,996,753	\$ 1,270,232
Operating grants	140,508	97,026	-	-	140,508	97,026
General revenues						
Taxes	389,017	372,238	-	-	389,017	372,238
Other	129,832	13,857	4,805	2,226	134,637	16,083
Total revenues	755,398	565,595	1,905,517	1,189,984	2,660,915	1,755,579
Expenses						
General government	294,345	253,952	-	-	294,345	253,952
Public safety	20,000	20,000	-	-	20,000	20,000
Public works	184,124	175,576	-	-	184,124	175,576
Debt service - interest	3,087	4,043	-	-	3,087	4,043
Water and sewer	-	-	1,084,370	909,079	1,084,370	909,079
Total expenses	501,556	453,571	1,084,370	909,079	1,585,926	1,362,650
Transfer in/(out)	4,437	(8,787)	(4,437)	8,787	-	-
Change in net position	\$ 258,279	\$ 103,237	\$ 816,710	\$ 289,692	\$ 1,074,989	\$ 392,929

GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund revenues of \$755,398 were higher than budgeted revenues of \$524,223 by \$231,175 or 44%, which mostly relates to under budgeted income taxes. Town improvement fund and capital asset impact fees of totaling \$114, 046 related to the Lakeside development were also not included in the budget.

General fund expenditures of \$495,554 were lower than budgeted expenditures of \$524,223 by \$28,669 or 5%, which most relates to over budgeted expenditures related to capital outlay.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital and Intangible Assets

At June 30, 2022 the Town had \$4,200,452 invested in capital and intangible assets, including facilities, land, equipment, and water and sewer system improvements. This amount represents a net increase (additions, deductions, depreciation, and amortization) of \$544,194 from prior year.

Capital and Intangible Assets Net of Depreciation and Amortization

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Land	\$ 406,667	\$ 406,667	\$ -	\$ -	\$ 406,667	\$ 406,667
Construction in Progress	7,079	7,079	1,412,769	607,623	1,419,848	614,702
Land improvements	245,916	274,576	-	-	245,916	274,576
Building improvements	16,569	18,460	-	-	16,569	18,460
Equipment	18,992	22,778	42,355	56,755	61,347	79,533
Right-to-use asset	13,612	7,497	-	-	13,612	7,497
Water and sewer	-	-	2,036,493	2,254,823	2,036,493	2,254,823
Total capital and intangible assets	\$ 708,835	\$ 737,057	\$ 3,491,617	\$ 2,919,201	\$ 4,200,452	\$ 3,656,258

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

Debt

At year-end, the Town had \$3,973,975 in bonds, notes, and leases outstanding, a net (additions and repayments) increase of \$608,801 from last year.

Debt

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Shore United - \$200,000	\$ 90,183	\$ 110,183	\$ 31,000	\$ 31,000	\$ 121,183	\$ 141,183
Shore United - \$100,000	-	-	-	12,844	-	12,844
Infrastructure Bond of 2017	-	-	1,013,000	1,056,000	1,013,000	1,056,000
Infrastructure Bond of 2017	-	-	537,500	556,000	537,500	556,000
Infrastructure Bond of 2017	-	-	894,000	925,000	894,000	925,000
Shore United - \$1,140,000	-	-	222,611	206,549	222,611	206,549
Shore United - \$1,975,500	-	-	298,076	192,246	298,076	192,246
MDE Well Addition	-	-	854,599	247,366	854,599	247,366
Bond premiums	-	-	19,170	20,235	19,170	20,235
Right to-use lease	13,836	7,751	-	-	13,836	7,751
Total debt	\$ 104,019	\$ 117,934	\$ 3,869,956	\$ 3,247,240	\$ 3,973,975	\$ 3,365,174

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 2022-2023 as the property tax rate was not increased. The income from local income taxes is expected to remain the same for 2022-2023. State Highway User revenue is expected to remain the same for 2022-2023. 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 however significant progress has been made with the Lakeside development and infrastructure construction has continued. The Lakeside development has entered into an Allocation Agreement with the Town of Trappe to connect their first 120 houses to the Town's existing wastewater treatment plant. This connection provided the Town with \$630,000 from sewer hookup fees (\$5,520 per connection) which the Town has used to open a savings account as a reserve fund. These funds are earmarked to help fund the ENR upgrade to the Town's existing treatment plant. The Town's budget is reviewed monthly by the Town Council and revisions will be recommended when and where necessary. As of June 30, 2022, no houses from Lakeside were connected to the Town's infrastructure. Connections have started in August 2022, and the number of connections will continue to grow throughout fiscal year 2023.

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, 2022

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,406,361	\$ 1,746,089	\$ 3,152,450
Accounts receivable	19,504	299,327	318,831
Nondepreciable capital assets	413,746	1,412,769	1,826,515
Capital and intangible assets, net	295,089	2,078,848	2,373,937
Total assets	2,134,700	5,537,033	7,671,733
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	-	9,990	9,990
Total deferred outflows of resources	-	9,990	9,990
LIABILITIES			
Accounts payable	1,397	108,091	109,488
Accrued payroll liabilities	3,664	22,508	26,172
Unearned revenue	472,630	-	472,630
Long-term liabilities, due within one year			
Compensated absences	4,218	6,193	10,411
Bonds and notes payable	90,183	662,756	752,939
Right-to-use lease	5,273	-	5,273
Long-term liabilities, due in more than one year			
Compensated absences	7,277	8,705	15,982
Bonds and notes payable	-	3,207,200	3,207,200
Right-to-use lease	8,563	-	8,563
Total liabilities	593,205	4,015,453	4,608,658
NET POSITION			
Net investment in capital assets	604,816	(368,349)	236,467
Unrestricted	936,679	1,899,919	2,836,598
Total net position	\$ 1,541,495	\$ 1,531,570	\$ 3,073,065

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

TOWN OF TRAPPE, MARYLAND

STATEMENT OF ACTIVITIES Year Ended June 30, 2022

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	\$ 294,345	\$ 96,041	\$ 80,856	\$ -	\$ (117,448)	\$ -	\$ (117,448)
Public safety	20,000	-	-	-	(20,000)	-	(20,000)
Public works	184,124	-	59,652	-	(124,472)	-	(124,472)
Debt Service - Interest	3,087	-	-	-	(3,087)	-	(3,087)
Total governmental activities	501,556	96,041	140,508	-	(265,007)	-	(265,007)
Business-type activities							
Water and sewer	1,084,370	1,900,712	-	-	-	816,342	816,342
Total business-type activities	1,084,370	1,900,712	-	-	-	816,342	816,342
Total	\$1,585,926	\$ 1,996,753	\$ 140,508	\$ -	(265,007)	816,342	551,335
General revenues							
Property taxes					241,386	-	241,386
Corporate & public utilities tax					34,165	-	34,165
Local income taxes					113,466	-	113,466
Other income					124,971	-	124,971
Interest income					4,861	4,805	9,666
Transfer in/(out)					4,437	(4,437)	-
Total general revenues and transfers					523,286	368	523,654
Change in net position					258,279	816,710	1,074,989
Net position, beginning of year, as restated					1,283,216	714,860	1,998,076
Net position, end of year					\$ 1,541,495	\$ 1,531,570	\$3,073,065

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

TOWN OF TRAPPE, MARYLAND

BALANCE SHEET GOVERNMENTAL FUND June 30, 2022

	General Fund
ASSETS	
Cash and cash equivalents	\$ 1,406,361
Accounts receivable	19,504
<hr/>	
Total assets	\$ 1,425,865
<hr/>	
LIABILITIES AND FUND BALANCES	
LIABILITIES	
Accounts payable	\$ 1,397
Accrued liabilities	3,664
Unearned revenue	472,630
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Total liabilities	477,691
<hr/>	
FUND BALANCES	
Unassigned	948,174
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Total fund balances	948,174
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Total liabilities, deferred inflows of resources and fund balances	\$ 1,425,865
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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, 2022

Total fund balances, governmental funds \$ 948,174

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

Capital and intangible 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. 708,835

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	(11,495)
Bonds and notes payable	(90,183)
Right-to-use lease	(13,836)

Net position of governmental activities in the Statement of Net Position \$ 1,541,495

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, 2022

	General Fund
REVENUES:	
Taxes:	
Property taxes	\$ 241,386
Corporate & public utilities tax	34,165
Local income taxes	113,466
Grants	80,856
Intergovernmental	59,652
Licenses and permits	39,339
Interest	4,861
Trash pick-up	56,702
Other	124,971
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Total revenues	755,398
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EXPENDITURES:	
Current:	
General government	285,022
Public Safety	20,000
Public works	148,642
Debt service:	
Principal retirement	23,834
Interest	3,087
Capital outlay	14,969
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Total expenditures	495,554
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Excess of revenues over expenditures	259,844
OTHER FINANCING SOURCES (USES):	
Proceeds from long-term leases	9,919
Operating transfers in/(out)	4,437
<hr/>	
Total other financing sources (uses)	14,356
<hr/>	
Net change in fund balance	274,200
Fund balance, beginning of year	673,974
<hr/>	
Fund balance, end of year	\$ 948,174

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 STATEMENT OF ACTIVITIES Year Ended June 30, 2022

Net change in fund balances, governmental funds \$ 274,200

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	5,050
Intangible right-to-use asset	9,919
Depreciation and amortization expense	(43,191)

Proceeds from long-term leases are revenues in the governmental funds but increases in liabilities in the Statement of Net Position. (9,919)

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.

Note payable	20,000
Intangible right-to-use leases	3,834

Governmental funds report expenditures for compensated absences when paid. However, in the Statement of Activities, these expenditures are recored when earned. (1,614)

Change in net position of governmental activities \$ 258,279

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, 2022

	<u>Enterprise Fund</u> Water and Sewer Fund
ASSETS	
Current assets	
Cash and cash equivalents	\$ 1,746,089
Accounts receivable	299,327
Total current assets	<u>2,045,416</u>
Noncurrent assets	
Nondepreciable capital assets	1,412,769
Depreciable capital assets, net	2,078,848
Total noncurrent assets	<u>3,491,617</u>
 Total assets	 <u>5,537,033</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	9,990
 Total deferred outflows of resources	 <u>9,990</u>
LIABILITIES	
Current liabilities	
Accounts payable	108,091
Accrued expenses	22,508
Compensated absences	6,193
Current maturities of long-term debt	662,756
Total current liabilities	<u>799,548</u>
Noncurrent liabilities	
Compensated absences	8,705
Long-term debt	3,207,200
Total noncurrent liabilities	<u>3,215,905</u>
 Total liabilities	 <u>4,015,453</u>
NET POSITION	
Net investment in capital assets	(368,349)
Unrestricted	1,899,919
 Total net position	 <u>\$ 1,531,570</u>

TOWN OF TRAPPE, MARYLAND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION BUSINESS-TYPE ACTIVITIES Year Ended June 30, 2022

	<u>Enterprise Fund</u> Water and Sewer Fund
OPERATING REVENUES:	
Charges for services	\$ 1,647,745
Miscellaneous	252,967
<hr/> Total operating revenues	<hr/> 1,900,712
OPERATING EXPENSES:	
Salaries	161,191
Payroll taxes and benefits	21,969
Depreciation	250,467
Electric	54,616
Supplies	71,339
Supervisory Services	236,125
Repairs and maintenance	83,454
Other operating expenses	121,565
<hr/> Total operating expenses	<hr/> 1,000,726
<hr/> Operating income	<hr/> 899,986
NONOPERATING REVENUES (EXPENSES):	
Transfer in/(out)	(4,437)
Interest expense	(83,644)
Interest income	4,805
<hr/> Total nonoperating revenues (expenses)	<hr/> (83,276)
Change in net position	816,710
Net position, beginning of year	714,860
<hr/> Net position, end of year	<hr/> \$ 1,531,570

TOWN OF TRAPPE, MARYLAND

STATEMENT OF CASH FLOWS BUSINESS-TYPE ACTIVITIES Year Ended June 30, 2022

	<u>Enterprise Fund</u> Water and Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 1,839,040
Payments to suppliers	(539,967)
Payments to employees	(181,371)
Net cash provided by operating activities	1,117,702
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Interfund transfers	(4,437)
Net cash used by noncapital financing activities	(4,437)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(822,883)
Proceeds from long-term debt	1,353,868
Principal paid on long-term debt	(731,152)
Deferred charge on refunding	555
Interest paid on long-term debt	(83,644)
Net cash used by capital and related financing activities	(283,256)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	4,805
Net cash provided by investing activities	4,805
Net increase in cash and cash equivalents	834,814
Cash and cash equivalents, beginning of year	911,275
Cash and cash equivalents, end of year	\$ 1,746,089
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 899,986
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	250,467
(Increase) decrease in assets:	
Accounts receivable	(61,672)
Increase (decrease) in liabilities:	
Accounts payable	25,214
Accrued expenses	3,707
Net cash provided by operating activities	\$ 1,117,702

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

TOWN OF TRAPPE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

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.

TOWN OF TRAPPE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 2. Summary of Significant Accounting Policies (continued)

A. Basis of Presentation (continued)

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.

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.

TOWN OF TRAPPE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 2. Summary of Significant Accounting Policies (continued)

C. Measurement Focus (continued)

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.

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.

TOWN OF TRAPPE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 2. Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

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.

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, 2022.

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.

TOWN OF TRAPPE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 2. Summary of Significant Accounting Policies (continued)

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.

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, 2022.

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.

TOWN OF TRAPPE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 2. Summary of Significant Accounting Policies (continued)

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.

TOWN OF TRAPPE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

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, 2022.

TOWN OF TRAPPE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

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, 2022 the Town had bank deposits with various financial institutions totaling \$3,175,425 (carrying value \$3,152,450) 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, 2022 all deposits were fully insured or collateralized.

As of June 30, 2022, the town has no investments therefore the town has no credit risk.

TOWN OF TRAPPE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 4. Capital and Intangible Assets

The following is a summary of changes in capital assets for the year ended June 30, 2022:

	June 30, 2021	Additions	Transfers / Deductions	June 30, 2022
GOVERNMENTAL ACTIVITIES				
Capital assets, not being depreciated:				
Land	\$ 406,667	\$ -	\$ -	\$ 406,667
Construction in progress	7,079	-	-	7,079
Total capital assets, not being depreciated	413,746	-	-	413,746
Capital assets, being depreciated:				
Land improvements	522,104	-	-	522,104
Building improvements	62,559	-	-	62,559
Equipment	140,163	5,050	(1,570)	143,643
Total capital assets, being depreciated	724,826	5,050	(1,570)	728,306
Less accumulated depreciation:				
Land improvements	(247,528)	(28,660)	-	(276,188)
Building improvements	(44,099)	(1,891)	-	(45,990)
Equipment	(117,385)	(8,836)	1,570	(124,651)
Total accumulated depreciation	(409,012)	(39,387)	1,570	(446,829)
Total capital assets, being depreciated, net	315,814	(34,337)	-	281,477
Governmental activities capital assets, net	\$ 729,560	\$ (34,337)	\$ -	\$ 695,223

Depreciation expense was charged to governmental functions as follows:

General government	\$ 3,905
Public works	35,482
Total depreciation expense	\$ 39,387

Intangible right-to-use asset activity for the year ended June 30, 2022 is as follows:

	June 30, 2021	Additions	Transfers / Deductions	June 30, 2022
Intangible right-to-use assets				
Leased equipment	\$ 16,660	\$ 9,919	\$ -	\$ 26,579
Less accumulated amortization	(9,163)	(3,804)	-	(12,967)
Intangible right-to-use assets, net	\$ 7,497	\$ 6,115	\$ -	\$ 13,612

Amortization expense for the period ended June 30, 2022 totaled \$3,804.

TOWN OF TRAPPE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 4. Capital and Intangible Assets (continued)

	June 30, 2021	Additions	Transfers / Deductions	June 30, 2022
BUSINESS-TYPE ACTIVITIES				
Capital assets, not being depreciated:				
Construction in progress	\$ 607,623	\$ 805,146	\$ -	\$ 1,412,769
Total capital assets, not being depreciated	607,623	805,146	-	1,412,769
Capital assets, being depreciated:				
Water and sewer system	7,499,017	17,737	-	7,516,754
Equipment	224,532	-	-	224,532
Total capital assets, being depreciated	7,723,549	17,737	-	7,741,286
Less accumulated depreciation:				
Water and sewer system	(5,244,194)	(236,067)	-	(5,480,261)
Equipment	(167,777)	(14,400)	-	(182,177)
Total accumulated depreciation	(5,411,971)	(250,467)	-	(5,662,438)
Total capital assets, being depreciated, net	2,311,578	(232,730)	-	2,078,848
Business-type activities capital assets, net	\$ 2,919,201	\$ 572,416	\$ -	\$ 3,491,617

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, 2021	Additions	Retirements and Repayments	Balances June 30, 2022	Amount Due in One Year
Compensated absences			\$ 9,881	\$ 1,614	\$ -	\$ 11,495	\$ 4,218
Intangible right-to-use lease			7,751	9,919	(3,834)	13,836	5,273
Note payable Shore United Bank, borrowed under the \$200,000 credit facility	3.00%	12/2022	\$ 110,183	\$ -	\$ (20,000)	\$ 90,183	\$ 90,183
Total governmental type debt			\$ 127,815	\$ 11,533	\$ (23,834)	\$ 115,514	\$ 99,674

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2023	\$ 90,183	\$ 676	\$ 90,859

TOWN OF TRAPPE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

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, 2021	Additions	Retirements and Repayments	Balances June 30, 2022	Amount Due in One Year
Compensated absences			\$ 13,109	\$ 1,789	\$ -	\$ 14,898	\$ 6,193
DHCD Infrastructure Bond, 2017 Series A-1	3.35%	4/2040	1,056,000	-	(43,000)	1,013,000	44,000
DHCD Infrastructure Bond, 2017 Series A-2	3.48%	4/2043	556,000	-	(18,500)	537,500	19,000
DHCD Infrastructure Bond, 2017 Series A-3	3.48%	4/2043	925,000	-	(31,000)	894,000	31,500
Maryland Department of the Environment, borrowed under the \$982,310 credit facility	0.40%	2/2052	247,366	622,675	(15,442)	854,599	15,504
Bond premiums			20,235	-	(1,065)	19,170	1,065
Total bonds payable			2,804,601	622,675	(109,007)	3,318,269	111,069
Note payable Shore United Bank, borrowed under the \$200,000 credit facility	3.00%	12/2022	31,000	-	-	31,000	31,000
Note payable Shore United Bank, borrowed under the \$100,000 credit facility	3.00%	12/2021	12,844	-	(12,844)	-	-
Note payable Shore United Bank, borrowed under the \$1,140,000 credit facility	3.00%	8/2022	206,549	625,363	(609,301)	222,611	222,611
Note payable Shore United Bank, borrowed under the \$1,975,500 credit facility	3.55%	6/2024	192,246	105,830	-	298,076	298,076
Total notes payable			442,639	731,193	(622,145)	551,687	551,687
Total business type debt			\$ 3,260,349	\$ 1,355,657	\$ (731,152)	\$ 3,884,854	\$ 668,949

TOWN OF TRAPPE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 5. Long-term liabilities (Continued)

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.

The annual requirements to amortize all business type bonds and notes outstanding are as follows:

Fiscal Year Ending June 30,	Bonds		Notes from Direct Borrowings	
	Principal	Interest	Principal	Interest
2023	\$ 111,069	\$ 82,698	\$ 253,611	\$ 1,903
2024	113,131	80,699	298,076	2,645
2025	114,193	78,659	-	-
2026	117,255	76,388	-	-
2027	121,818	73,848	-	-
2028 - 2032	1,028,428	318,735	-	-
2033 - 2037	746,148	220,328	-	-
2038 - 2042	718,157	92,947	-	-
2043 - 2047	179,135	6,224	-	-
2048 - 2052	68,935	691	-	-
Total	\$ 3,318,269	\$ 1,031,217	\$ 551,687	\$ 4,548

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.

TOWN OF TRAPPE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 6. Risk Management (Continued)

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.

Note 7. Intangible Right-to-Use Leases

The Town implemented the guidance of GASB No. 87, *Leases*, at July 1, 2021 for accounting and reporting leases that had previously been reported as operating leases and recognized the value of a copier and postage machine leased under long-term contracts along with a related liability (see also Note 10).

As of July 1, 2021, the Town had a lease agreement for a copier. Payments under this lease total approximately \$3,500 per year. The lease agreement in place for this copier began during fiscal year 2019 and will expire during fiscal year 2024. For purposes of discounting future payments on this lease, the Town used its incremental borrowing rate in place at the time of lease inception of 2.46%. The leased equipment and accumulated amortization of the right-to-use assets are outlined in Note 4.

In March 2022, the Town entered into a lease agreement for a postage machine. Payments under this lease total approximately \$2,000 per year. The lease agreement in place for this postage machine will expire during fiscal year 2027. For purposes of discounting future payments on this lease, the Town used its incremental borrowing rate in place at the time of lease inception of 2.65%. The leased equipment and accumulated amortization of the right-to-use assets are outlined in Note 4.

The future minimum lease payments are approximately as follows:

	Equipment		
	Principal	Interest	Total
2023	\$ 5,273	\$ 298	\$ 5,571
2024	2,727	185	2,912
2025	1,894	132	2,026
2026	1,945	81	2,026
2027	1,997	29	2,026
Total	\$ 13,836	\$ 725	\$ 14,561

Interest expense on the above intangible right-to-use assets was approximately \$200 for the year ended June 30, 2022.

TOWN OF TRAPPE, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

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, 2022 was \$8,704.

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 could have a negative impact on this department.

The Town has entered into an Allocation Agreement with the Lakeside development to connect the development's first 120 houses to the Town's existing wastewater treatment plant.

Note 10. Prior Period Restatement

The Town has determined to restate its Statement of Net Position and its Statement of Activities at June 30, 2021. The determination was made to restate these financial statements in connection with the fiscal year 2022 implementation of the Government Accounting Standards Board's Statement No. 87, *Leases*. This statement's objective is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases. The statement increases the usefulness of the financial statements by requiring the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases.

The following table is a summary of the effects of this change on the statement of net position and the statement of activities at June 30, 2021.

Statement of Net Position - Governmental Activities

	As Previously Reported	GASB 87 Adjustment	As Restated
Intangible right-to-use assets			
Leased equipment	\$ -	\$ 16,660	\$ 16,660
Less accumulated amortization	-	(9,163)	(9,163)
Intangible right-to-use leases	-	7,751	7,751
Net investment in capital assets	619,377	(254)	619,123
Unrestricted	664,093	-	664,093
Total Net Position	\$ 1,283,470	\$ (254)	\$ 1,283,216

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF TRAPPE, MARYLAND

REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE - GENERAL FUND REVENUE DETAIL Year Ended June 30, 2022

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance With Final <u>Budget</u>
Taxes:				
Property taxes	\$ 236,568	\$ 236,568	\$ 241,386	\$ 4,818
Corporate & Public Utilities taxes	33,000	33,000	34,165	1,165
Total taxes	269,568	269,568	275,551	5,983
Local income taxes	60,000	60,000	113,466	53,466
Grants	65,000	65,000	80,856	15,856
Intergovernmental	52,400	52,400	59,652	7,252
Licenses and permits	17,875	17,875	39,339	21,464
Interest	2,400	2,400	4,861	2,461
Trash pick-up	51,480	51,480	56,702	5,222
Other	5,500	5,500	124,971	119,471
Total revenue	\$ 524,223	\$ 524,223	\$ 755,398	\$ 231,175

TOWN OF TRAPPE, MARYLAND

REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE - GENERAL FUND EXPENDITURE DETAIL Year Ended June 30, 2022

	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	\$ 9,667	\$ 333
Other legislative	5,600	5,600	5,900	(300)
	15,600	15,600	15,567	33
Financial administration:				
Town office salary	72,126	72,126	78,862	(6,736)
Payroll taxes and benefits	43,350	43,350	41,905	1,445
Office expense	19,000	19,000	13,652	5,348
Professional fees	38,000	38,000	41,795	(3,795)
Other financial administrative	18,060	18,060	38,111	(20,051)
	190,536	190,536	214,325	(23,789)
Planning department:				
Reimbursable salaries and insurance	30,238	30,238	25,104	5,134
Other planning department	40,800	40,800	30,026	10,774
	71,038	71,038	55,130	15,908
Total general government	277,174	277,174	285,022	(7,848)
PUBLIC SAFETY:				
Volunteer fire department	20,000	20,000	20,000	-
Total public safety	20,000	20,000	20,000	-
PUBLIC WORKS:				
Storm water management	2,000	2,000	-	2,000
Streets	50,000	50,000	46,540	3,460
Sanitation	51,480	51,480	59,405	(7,925)
Other public works	46,063	46,063	42,697	3,366
Total public works	149,543	149,543	148,642	901

TOWN OF TRAPPE, MARYLAND

REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE - GENERAL FUND EXPENDITURE DETAIL

Year Ended June 30, 2022

(continued)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
DEBT SERVICE:				
Principal retirement	\$ 20,000	\$ 20,000	\$ 23,834	\$ (3,834)
Interest expense	5,500	5,500	3,087	2,413
Total debt service	25,500	25,500	26,921	(1,421)
CAPITAL OUTLAY				
	52,006	52,006	14,969	37,037
Total expenditures	524,223	524,223	495,554	28,669
Excess (deficiency) of revenue over expenditures	-	-	259,844	259,844
OTHER FINANCING SOURCES (USES):				
Proceeds from long-term leases			9,919	9,919
Operating transfer in/(out)	-	-	4,437	4,437
	-	-	14,356	14,356
Net change in fund balance	\$ -	\$ -	\$ 274,200	\$ 274,200

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, 2022

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance With Final <u>Budget</u>
OPERATING REVENUES:				
Charges for services	\$ 888,195	\$ 888,195	\$ 1,647,745	\$ 759,550
Miscellaneous	500	500	252,967	252,467
Total operating revenues	888,695	888,695	1,900,712	1,012,017
OPERATING EXPENSES:				
Salaries	162,588	162,588	161,191	1,397
Payroll taxes and benefits	20,007	20,007	21,969	(1,962)
Depreciation	-	-	250,467	(250,467)
Electric	45,000	45,000	54,616	(9,616)
Supplies	70,000	70,000	71,339	(1,339)
Supervisory Services	8,000	8,000	236,125	(228,125)
Repairs and maintenance	97,800	97,800	83,454	14,346
Other operating expenses	276,100	276,100	121,565	154,535
Total operating expenses	679,495	679,495	1,000,726	(321,231)
Operating income	209,200	209,200	899,986	690,786
NONOPERATING REVENUES (EXPENSES):				
Operating transfer in/(out)	-	-	(4,437)	(4,437)
Debt principal payments	(105,500)	(105,500)	-	105,500
Interest expense	(105,700)	(105,700)	(83,644)	22,056
Interest income	2,000	2,000	4,805	2,805
Total nonoperating revenues (expenses)	(209,200)	(209,200)	(83,276)	125,924
Change in net position	\$ -	\$ -	\$ 816,710	\$ 816,710

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, 2022, 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 31, 2022.

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 designing 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 2022-01

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.

The image shows a handwritten signature in dark ink. The letters 'UHY' are written in a large, cursive, and somewhat stylized font. To the right of 'UHY', the letters 'LLP' are written in a smaller, more straightforward, sans-serif font.

Salisbury, Maryland
October 31, 2022