

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Description of the Town of Trappe, Maryland

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

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

### Note 2. Summary of Significant Accounting Policies

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

#### A. Basis of Presentation

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

#### GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

#### FUND FINANCIAL STATEMENTS

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

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

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Summary of Significant Accounting Policies (continued)

#### B. Fund Accounting

##### GOVERNMENTAL FUNDS

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

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

##### PROPRIETARY FUNDS

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

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

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

#### C. Measurement Focus

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

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

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

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Summary of Significant Accounting Policies (continued)

#### D. Basis of Accounting

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

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

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

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

#### Deferred Outflows / Inflows of Resources

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

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

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Summary of Significant Accounting Policies (continued)

#### D. Basis of Accounting (continued)

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

#### E. Budgetary Data

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

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

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

#### F. Cash and Cash Equivalents

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

#### G. Property Tax

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

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

#### H. Accounts Receivable

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

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Summary of Significant Accounting Policies (continued)

#### I. Interfund Receivables/Payables and Transfers In/Out

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

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

#### J. Capital Assets

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

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

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

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

#### K. Compensated Absences

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

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

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

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Summary of Significant Accounting Policies (continued)

#### L. Accrued Liabilities and Long-Term Obligations

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

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

#### M. Net Position

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

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

#### N. Governmental Fund Balances

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

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

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

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

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

Unassigned – Amounts not included in other spendable classifications.

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

## NOTES TO FINANCIAL STATEMENTS

### **Note 2. Summary of Significant Accounting Policies (continued)**

#### **O. Operating Revenues and Expenses**

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

#### **P. Estimates**

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

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS

### Note 4. Capital Assets

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

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

Depreciation expense was charged to governmental functions as follows:

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



**NOTES TO FINANCIAL STATEMENTS**

**Note 4. Capital Assets (continued)**

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

**Note 5. Long-term liabilities**

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS

### Note 5. Long-term liabilities (Continued)

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

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

## NOTES TO FINANCIAL STATEMENTS

### Note 5. Long-term liabilities (Continued)

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

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

### Note 6. Risk Management

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS

### Note 7. Operating Lease

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

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

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

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

### Note 8. Pension Expense

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

### Note 9. Commitments, Contingencies and Subsequent Events

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

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

### Note 10. Required Fund Disclosures

The following had expenditures exceeding budgeted amounts:

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**TOWN OF TRAPPE, MARYLAND**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
REVENUE DETAIL**

**Year Ended June 30, 2017**

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

**TOWN OF TRAPPE, MARYLAND**

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

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

**TOWN OF TRAPPE, MARYLAND**

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

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



**OTHER SUPPLEMENTARY INFORMATION**

**TOWN OF TRAPPE, MARYLAND**

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

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

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



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

Commissioners of Trappe  
Town of Trappe, Maryland  
Trappe, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Trappe, Maryland ("the Town") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated September 22, 2017.

**Internal Control Over Financial Reporting**

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

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We identified the following deficiency in internal control over financial reporting that we consider to be a material weakness, as defined above.

#### Finding Number 2017-1

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

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

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

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

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

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

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Salisbury, Maryland  
September 22, 2017