

TOWN OF SUDLERSVILLE
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

TOWN OF SUDLERSVILLE

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1 - 2
Management Discussion and Analysis	3 - 8
Statement of Net Position	9
Statement of Activities	10
Balance Sheet – Governmental Funds	11
Reconciliation of Balance Sheet – Governmental Funds to the Statement of Net Position	12
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Statement of Net Position – Proprietary Fund	15
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Fund	16
Statement of Cash Flows – Proprietary Fund	17
Notes to Financial Statements	18 - 33
Required Supplementary Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual	34
Notes to Required Supplementary Information	35
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	36 - 37
Schedule of Findings and Responses	38 - 39

Independent Auditors' Report

To the Town Commissioners
Town of Sudlersville
Sudlersville, MD

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component unit, and each major fund of the Town of Sudlersville as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Independent Auditors' Report (continued)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit and each major fund of the Town of Sudlersville as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 34 through 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2020, on our consideration of the Town of Sudlersville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 of Sudlersville's internal control over financial reporting and compliance.

Weyrich, Cronin & Serra, LLC

February 13, 2020
Hunt Valley, MD

TOWN OF SUDLERSVILLE

Management Discussion and Analysis
June 30, 2019

The discussion and analysis for the Town of Sudlersville's (the Town's) financial performance reviews the Town's activities for the fiscal year ended June 30, 2019. The Town's financial statements include the "Government-wide" statements combining all operations carried out by the Town and its Component Unit, the "Governmental Fund" which represents the normal governmental activities of administration, public safety, and public works, and the "Proprietary Fund" representing the sewer and water utility which operates like a business. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Sudlersville.

Financial Highlights

Governmental revenues increased for the year mainly due to an increase in local income taxes. Total expenditures of the Governmental funds showed modest decreases as management continues to implement cost-control measures.

Water and Sewer Utility operating revenues increased due to an increase in water usage. Capital Grant revenue decreased, as grant funds related to the sewer system have been utilized as construction of the new plant evolved. The Proprietary funds expenditures increased as the Town continues to make repairs to faulty equipment and allowances for design issues to a plant built in excess of current demands. Expenses have also increased due to changes being implemented to meet permitted requirements set by MDE to be in compliance. Design of the new sewer plant and extension of services to the Town of Barclay began in 2011. The project was still ongoing at the end of the fiscal year June 30, 2019 and will continue through FY 2020.

Condensed Government-wide Financial Information.

Required Components of Annual Financial Report

Management's Discussion and Analysis
Basic Financial Statements
Government-wide Financial Statements
Fund Financial Statements
Notes to the Financial Statements
Required Supplementary Information

Basic Financial Statements

The first two statements in the basic financial statements are the **Government-wide Financial Statements**. They provide both short-term and long-term information about the Town's financial status.

The next statements are the **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental fund statements and 2) the proprietary fund statements.

The next section of the basic financial statements is the "**notes**". The notes to the financial statements explain in detail some of the data contained in those statements. After the "notes", **required supplementary information** is provided to show details about the Town's governmental funds. Budgetary comparison information required by the U.S. GAAP also can be found in this part of the statements.

TOWN OF SUDLERSVILLE

Management Discussion and Analysis
June 30, 2019

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short-term and long-term information about the Town's financial status as a whole.

The two government-wide statements report the Town's net position and how it has changed. Net position is the difference between the Town's total assets and total liabilities. Measuring net position is one way to gauge the Town's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide a service. These include the water and sewer services offered by the Town of Sudlersville. The final category is the component unit. Although separate from the Town, the library is financially accountable to the Town.

Fund Financial Statements

The fund financial statements provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Sudlersville, like all other governmental units in Maryland, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the general statutes or the Town's budget ordinance.

All of the funds of the Town of Sudlersville can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds

Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left over at year end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and the governmental funds is described in a reconciliation that is a part of the fund financial statements. The Town of Sudlersville adopts an annual budget for its General Fund, as required by the general statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Commissioners about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance the current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classification as the legal budget document. The statement shows four columns: 1) the original budget; 2) the final budget as adopted by the Commission; 3) the actual revenues and expenditures in the General Fund; and 4) the difference or variance between the final budget and the actual revenues and expenditures.

TOWN OF SUDLERSVILLE

Management Discussion and Analysis
June 30, 2019

Proprietary Funds

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Sudlersville uses enterprise funds to account for its water and sewer activity operations.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Condensed Government-wide Financial Information
Comparing Current Year with Prior Years**

Statement of Net Position	Governmental Activities 06/30/2019	Business-Type Activities 06/30/2019
Assets:		
Cash	\$ 71,169	\$ 11,400
Other Assets	\$ 303,095	\$ 173,560
Capital Assets	\$ 1,207,882	\$ 17,707,272
Less: Depreciation	(\$ 785,744)	(\$ 3,851,080)
Liabilities:		
Current Liabilities	\$ 2,137	\$ 874,824
Long-term Liabilities	\$ - 0 -	\$ 4,456,256
Net Position:		
Investment in Capital Assets	\$ 422,138	\$ 8,926,684
Unrestricted Assets	\$ 372,127	(\$ 216,612)
Total Net Position	\$ 794,265	\$ 8,710,072

**Changes in Assets, Liabilities and Net Position
FY 2018 to FY 2019 – Primary Government**

	Total Assets	Total Liabilities	Total Net Position
2018	\$ 15,241,095	\$ 5,252,628	\$ 9,988,467
2019	\$ 14,837,554	\$ 5,333,217	\$ 9,504,337

	Total Revenues	Total Expenses	Change in Net Position
2018	\$ 764,446	\$ 1,042,543	(\$ 278,097)
2019	\$ 640,290	\$ 1,124,420	(\$ 484,130)

TOWN OF SUDLERSVILLE

Management Discussion and Analysis
June 30, 2019

**2-Year Comparison of Revenues
By Major Sources**

	2019	2018
Governmental Revenues		
Program Revenue: Charges for services	\$ 7,901	\$ 3,826
Program Revenue: Operating grants	\$ 23,567	\$ 22,090
General Revenue: Property taxes	\$ 86,226	\$ 85,588
General Revenue: Other taxes	\$ 46,447	\$ 34,634
General Revenue: Other revenues	\$ 23,009	\$ 20,941
Total Governmental Revenues	\$ 187,150	\$ 167,079
Business-type Revenues		
Program Revenue: Charges for services	\$ 453,101	\$ 396,258
General Revenue: Other revenues	\$ 39	\$ 10
Special item	\$ - 0 -	\$ 201,099
Total Business-type Revenues	\$ 453,140	\$ 597,367
Total Revenues – Primary Government	\$ 640,290	\$ 764,446

The Town of Sudlersville has a range of revenue sources, which usually tend to stabilize income over time. The 2019 revenue generally reflects that stability.

**2-Year Comparison of Expenses
by Major Function**

	2019	2018
Governmental Expenses		
General Government	\$ 70,712	\$ 91,824
Public Works	\$ 27,401	\$ 46,276
Park, Recreation, and Culture	\$ 51,237	\$ 56,198
Total Governmental Expenses	\$ 149,350	\$ 194,298
Business-type Expenses		
Water System	\$ 306,260	\$ 301,525
Sewer System	\$ 668,810	\$ 546,720
Total Business-type Expenses	\$ 975,070	\$ 848,245
Total Expenses – Primary Government	\$ 1,124,420	\$ 1,042,543

TOWN OF SUDLERSVILLE

Management Discussion and Analysis June 30, 2019

Changes in Net Position

Net position may serve, over time, as one useful indicator of a government's financial condition. The assets of the Town of Sudlersville exceeded liabilities by \$9,504,337 as of June 30, 2019. The Town's net position decreased by \$484,130, or 5.09%, as compared to 2018 due to increased costs from operating costs to meet environmental guidelines and sewer construction conflict with general contractor. This conflict has resulted in unsuccessful mediation and pending litigation to settle the conflict. Litigation is currently scheduled for the last week of January in Federal District Court, Baltimore, Maryland.

The net position reflects the Town's investment in capital assets (e.g. land, buildings, machinery, equipment and construction in progress, less any related debt still outstanding that was issued to acquire those items). The Town of Sudlersville uses these capital assets to provide services to its citizens. Although the Town of Sudlersville's investment in its capital assets is reported net of outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

Capital Assets

The Town of Sudlersville is in the middle of a major program of capital asset creation. A state mandated new wastewater treatment plant was designed and constructed. An extension of the wastewater system to nearby Town of Barclay is in the design and review process by Maryland Department of the Environment and USDA. The Town of Sudlersville's capital assets for its governmental and business-type activities as of June 30, 2019 totals \$14,278,330 (net of accumulated depreciation). These assets include buildings, roads, land, machinery and equipment, park facilities, and vehicles.

Long-term Debt

As of June 30, 2019, the Town of Sudlersville had total debt outstanding of \$4,763,410. This debt is primarily long-term low interest debt from the United States Department of Agriculture (USDA) to finance construction of the existing water system and the construction of the upgraded sewer system.

Budget Highlights for the Fiscal Year Ending June 30, 2019

Government Activities

Economic conditions are expected to continue to drive revenues down for fiscal year 2020 with further cuts in state and county shared revenues and grants. The Town has anticipated this with a substantially reduced General Fund budget. As the Town considers the future, they continue to review potential income producing fees not currently recognized by the Town. The Town is working with Queen Anne's County Economic Development to recognize Sudlersville as a potential location for new businesses.

Business-type Activities

The Commissioners continually monitor water usage and billing to ensure proper procedures are in place and assistance is available for water issues due to leaks. The staff is continually working on the meter reading system and assuring correct billing of usage to customers. Procedures have been developed to test billing for assurance of accuracy. The Town received recommended rate structure from SERCAP. Instead of adjusting the rates to the level necessary to be sustainable as well as proactive with future repairs; the Commissioners chose to gradually raise rates with annual reviews of rates versus expenses. Commissioners revised late fees to 10% of the unpaid balance, charged monthly. Water is shut off for all delinquent accounts not with an agreed payment plan.

TOWN OF SUDLERSVILLE

Management Discussion and Analysis
June 30, 2019

Commissioners revised the Water Ordinance to establish procedures and enforcement to protect the Town from issues due to property owners reconnecting to private wells causing a reduction in income from usage. The Town will look to Maryland Environmental Health and First State Inspection Agency regarding the inspection of these properties.

Analysis of Overall Financial Position and Results of Operations

Cash and Cash Equivalents – All Funds

	General Fund	Utility Fund	Total
2018	\$ 36,130	\$ 3,883	\$ 40,013
2019	\$ 71,169	\$ 11,400	\$ 82,569

The Town of Sudlersville has adequate cash reserves which are necessary to offset short-term fluctuations in revenue and also provide working capital for grant funded projects where the grants are not received until sometime after the disbursements are made. During fiscal year 2018, these cash reserves were depleted due to delay in receipt from funding agencies for reimbursement of disbursements made for capital projects and the Town is working to rebuild these reserves.

Budget vs. Actual

The general fund was stable during 2019 and was not amended during 2019. Revenues exceed budget due to greater income tax receipts and stated shared income. Cost controlling measures kept all departments under budget. There is ongoing activity regarding the construction and meeting permitted requirements by Maryland Department of the Environment of the sewer plant and the extension of sewer services to the Town of Barclay which are reflected in a continual increase in expenses during 2019. The expense increases in the proprietary fund reflect additional unforeseen expenses due to mediation and preparation for litigation due to conflict with the general contractor of the upgrade to the wastewater treatment plant and also reflect additional expenses due to repairs of equipment failures and design flaws at the new plant.

Description of Currently Known Facts, Decisions, and Conditions Expected to Have a Significant Effect on Next Year and the Future.

The reductions in the State of Maryland shared revenues and in Queen Anne’s County grants are expected to have a substantial impact on the Town’s revenues and available funds through fiscal 2020 and beyond. The Commissioners have addressed this by reductions in spending where possible and will continue to exercise care in spending as the Town moves forward as well as reviewing fee structure and missing income opportunities. The Town is working with legal advisement to update policies and fee structure regarding many aspects of the proprietary fund. The Town of Sudlersville is working with other nearby municipalities to determine utility needs and the creation of a regional system.

Contacting the Town of Sudlersville’s Financial Management

Information regarding the Town’s financial management is available by contacting the Clerk-Treasurer or at the Town Office, 200 South Church Street, Sudlersville, Maryland 21668 or by phone at (410) 438-3465.

Component Unit – Sudlersville Memorial Library

Information regarding the Sudlersville Memorial Library may be obtained by contacting the Board of Directors at 105 W. Main St. Sudlersville, Maryland 21668.

TOWN OF SUDLERSVILLE

Statement of Net Position
June 30, 2019

	Primary Government			Component Unit (Memorial Library)
	Governmental Activities	Business-Type Activities	Totals	
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 71,169	\$ 11,400	\$ 82,569	\$ 25,572
Investments	- 0 -	- 0 -	- 0 -	79,348
Service charges receivable	- 0 -	82,608	82,608	- 0 -
Accounts receivable	8,842	- 0 -	8,842	- 0 -
Due from other governments	16,967	144,238	161,205	- 0 -
TOTAL CURRENT ASSETS	96,978	238,246	335,224	104,920
CAPITAL ASSETS				
Land - nondepreciable	74,808	209,557	284,365	- 0 -
Construction in progress - nondepreciable	- 0 -	419,151	419,151	- 0 -
Buildings, infrastructure and equipment	1,133,074	17,078,564	18,211,638	89,532
Less: accumulated depreciation	(785,744)	(3,851,080)	(4,636,824)	(48,309)
TOTAL CAPITAL ASSETS	422,138	13,856,192	14,278,330	41,223
OTHER ASSETS				
Land - held for resale	- 0 -	224,000	224,000	- 0 -
Certificates of deposit	- 0 -	- 0 -	- 0 -	205,259
Advances to (from) other funds	277,286	(277,286)	- 0 -	- 0 -
TOTAL OTHER ASSETS	277,286	(53,286)	224,000	205,259
TOTAL ASSETS	796,402	14,041,152	14,837,554	351,402
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	2,137	567,670	569,807	- 0 -
Line of credit	- 0 -	121,501	121,501	- 0 -
Current portion of long term debt	- 0 -	185,653	185,653	- 0 -
TOTAL CURRENT LIABILITIES	2,137	874,824	876,961	- 0 -
LONG TERM LIABILITIES				
Due in more than one year	- 0 -	4,456,256	4,456,256	- 0 -
TOTAL LIABILITIES	2,137	5,331,080	5,333,217	- 0 -
NET POSITION				
Net investment in capital assets	422,138	8,926,684	9,348,822	41,223
Unrestricted	372,127	(216,612)	155,515	310,179
TOTAL NET POSITION	\$ 794,265	\$ 8,710,072	\$ 9,504,337	\$ 351,402

See accompanying notes to financial statements

TOWN OF SUDLERSVILLE

Statement of Activities
For the Year Ended June 30, 2019

Net (Expenses) Revenues and
Changes in Net Position

FUNCTIONS/PROGRAMS	Program Revenues				Governmental Activities	Primary Government Business-Type Activities	Total	Component Unit (Memorial Library)
	Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Expenses				
PRIMARY GOVERNMENT:								
GOVERNMENTAL ACTIVITIES								
General government	\$ 70,712	\$ 7,901	\$ -0-	\$ -0-	\$ (62,811)	\$ -0-	\$ (62,811)	\$ -0-
Public works	27,401	-0-	13,567	-0-	(13,834)	-0-	(13,834)	-0-
Parks, recreation and culture <i>Library</i>	51,237	-0-	10,000	-0-	(41,237)	-0-	(41,237)	-0-
Total Governmental Activities	149,350	7,901	23,567	-0-	(117,882)	-0-	(117,882)	-0-
BUSINESS-TYPE ACTIVITIES								
Water system	306,260	194,967	-0-	-0-	-0-	(111,293)	(111,293)	-0-
Sewer system	668,810	258,134	-0-	-0-	-0-	(410,676)	(410,676)	-0-
Total Business-Type Activities	975,070	453,101	-0-	-0-	-0-	(521,969)	(521,969)	-0-
TOTAL PRIMARY GOVERNMENT	\$ 1,124,420	\$ 461,002	\$ 23,567	\$ -0-	\$ (117,882)	\$ (521,969)	\$ (639,851)	\$ -0-
COMPONENT UNIT:								
Memorial Library	\$ 28,841	-0-	\$ 15,000	\$ -0-				(13,841)
TOTAL COMPONENT UNIT	\$ 28,841	-0-	\$ 15,000	\$ -0-				(13,841)
GENERAL REVENUES:								
Real and personal property taxes					86,226	-0-	86,226	-0-
State income taxes					46,447	-0-	46,447	-0-
Franchise fees					2,469	-0-	2,469	-0-
Investment income					644	39	683	5,087
Other income					19,896	-0-	19,896	276
Donations					-0-	-0-	-0-	9,395
TOTAL GENERAL REVENUES					155,682	39	155,721	14,758
CHANGE IN NET POSITION					37,800	(521,930)	(484,130)	917
NET POSITION - BEGINNING					756,465	9,232,002	9,988,467	350,485
NET POSITION - ENDING					\$ 794,265	\$ 8,710,072	\$ 9,504,337	\$ 351,402

See accompanying notes to financial statements

TOWN OF SUDLERSVILLE

Balance Sheet
Governmental Funds
June 30, 2019

	<u>General Fund</u>	
ASSETS		
Cash and cash equivalents	\$ 71,169	
Accounts receivable	8,842	
Due from other governments	16,967	
Advances to other funds	<u>277,286</u>	
TOTAL ASSETS		<u>\$ 374,264</u>
LIABILITIES		
Accounts payable and accrued liabilities	<u>\$ 2,137</u>	
Total Liabilities		\$ 2,137
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue from:		
Property taxes	4,141	
Income taxes	<u>11,790</u>	
		15,931
FUND BALANCES		
Nonspendable	277,286	
Assigned	25,652	
Unassigned	<u>53,258</u>	
TOTAL FUND BALANCES		<u>356,196</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES		<u>\$ 374,264</u>

See accompanying notes to financial statements

TOWN OF SUDLERSVILLE

Reconciliation of Balance Sheet - Governmental Fund to the Statement of Net Position
June 30, 2019

FUND BALANCE - GOVERNMENTAL FUNDS \$ 356,196

Amounts reported for Governmental Activities in the Statement of
Net Position are different because:

Capital assets used in Governmental Activities are not financial
resources and, therefore, are not reported in the governmental
funds.

Government capital assets	\$ 1,207,882	
Less: accumulated depreciation	<u>(785,744)</u>	
		422,138

Receivables that are measurable but not collected within 60 days
are not considered available for use in the near term,
and therefore, are not reported in the governmental funds.

Property taxes	4,141	
Income taxes	<u>11,790</u>	
		<u>15,931</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 794,265

TOWN OF SUDLERSVILLE

Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2019

	<u>General Fund</u>	
REVENUES		
Property taxes	\$ 82,085	
Income taxes	44,119	
Licenses and permits	10,370	
Intergovernmental - state	13,567	
Intergovernmental - county	10,000	
Rental income	18,060	
Investment earnings	644	
Other income	<u>1,836</u>	
TOTAL REVENUES		\$ 180,681
EXPENDITURES		
Current operating		
General government	61,002	
Public works	20,367	
Parks, recreation & culture	<u>31,310</u>	
TOTAL EXPENDITURES		<u>112,679</u>
EXCESS OF REVENUES OVER EXPENDITURES		68,002
FUND BALANCES - BEGINNING		<u>288,194</u>
FUND BALANCES - ENDING		<u>\$ 356,196</u>

See accompanying notes to financial statements

TOWN OF SUDLERSVILLE

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2019

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS \$ 68,002

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.

Depreciation expense for governmental assets	\$ (36,671)	
Capital outlays	<u>- 0 -</u>	
		(36,671)

Governmental funds report income that is both measurable and
received within 60 days of year end. Revenues from the following
sources were not received within the near term, and therefore
are not reported as revenue in the governmental funds.

Personal property taxes	4,141	
Income taxes	<u>2,328</u>	
		<u>6,469</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 37,800

TOWN OF SUDLERSVILLE

Statement of Net Position Proprietary Fund June 30, 2019

		Major Enterprise Fund Water and Sewer System
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 11,400	
Service charges receivable	82,608	
Due from other governments	144,238	
TOTAL CURRENT ASSETS		\$ 238,246
CAPITAL ASSETS		
Land - nondepreciable	209,557	
Construction in progress - nondepreciable	419,151	
Sewer system	10,466,658	
Water system	6,611,906	
Less: accumulated depreciation	(3,851,080)	
TOTAL CAPITAL ASSETS		13,856,192
OTHER ASSETS		
Land - held for resale		224,000
TOTAL ASSETS		14,318,438
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	567,670	
Line of credit	121,501	
Current portion of long-term liabilities	185,653	
TOTAL CURRENT LIABILITIES		874,824
NONCURRENT LIABILITIES		
Long term debt, net of current portion	4,456,256	
Advances from other funds	277,286	
TOTAL NONCURRENT LIABILITIES		4,733,542
TOTAL LIABILITIES		5,608,366
<u>NET POSITION</u>		
Net investment in capital assets	8,926,684	
Unrestricted	(216,612)	
TOTAL NET POSITION		\$ 8,710,072

See accompanying notes to financial statements

TOWN OF SUDLERSVILLE

Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Fund
For the Year Ended June 30, 2019

	Major Enterprise Fund		
	Water System	Sewer System	Total
OPERATING REVENUES			
Service fees	\$ 188,606	\$ 251,772	\$ 440,378
Penalties and interest fees	6,361	6,362	12,723
TOTAL OPERATING REVENUE	194,967	258,134	453,101
OPERATING EXPENSES			
Bad debts	1,983	1,983	3,966
Chemical and laboratory costs	2,949	34,587	37,536
Depreciation	171,129	218,632	389,761
Engineering	16	16	32
Insurance	3,477	1,705	5,182
Miscellaneous	992	334	1,326
Office expenses	1,547	2,893	4,440
Operator costs	25,943	52,600	78,543
Payroll and payroll taxes	12,310	12,310	24,620
Professional fees	2,409	9,115	11,524
Repairs and maintenance	11,364	48,886	60,250
Supplies and materials	10,245	37,372	47,617
Utilities	12,424	39,249	51,673
TOTAL OPERATING EXPENSES	256,788	459,682	716,470
OPERATING LOSS	(61,821)	(201,548)	(263,369)
NONOPERATING REVENUES (EXPENSES)			
Interest income	- 0 -	39	39
Professional services - litigation expenses	- 0 -	(146,898)	(146,898)
Interest expense	(49,472)	(62,230)	(111,702)
TOTAL NONOPERATING REVENUE (EXPENSE)	(49,472)	(209,089)	(258,561)
CHANGE IN NET POSITION	\$ (111,293)	\$ (410,637)	(521,930)
TOTAL NET POSITION - BEGINNING			9,232,002
TOTAL NET POSITION - ENDING			\$ 8,710,072

See accompanying notes to financial statements

TOWN OF SUDLERSVILLE

Statement of Cash Flows - Proprietary Fund
For the Year Ended June 30, 2019

		Major Enterprise Fund Water and Sewer System
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 492,499	
Cash payments to suppliers	(244,351)	
Cash payments to employees	(24,620)	
Cash payments for other expenses - litigation fees	(68,209)	
NET CASH FLOWS FROM OPERATING ACTIVITIES		\$ 155,319
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Advances from other funds	22,142	
NET CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		22,142
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES:		
Capital expenditures - WWTP	(52,889)	
Principal repayments on long-term liabilities	(37,513)	
Interest and administrative fees paid on long-term liabilities	(79,581)	
NET CASH FLOWS USED IN CAPITAL & RELATED FINANCING ACTIVITIES		(169,983)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Receipt of interest and other income	39	
NET CASH FLOWS FROM INVESTING ACTIVITIES		39
NET INCREASE IN CASH		7,517
CASH AND CASH EQUIVALENTS - BEGINNING		3,883
CASH AND CASH EQUIVALENTS - ENDING		<u>\$ 11,400</u>
Reconciliation of operating loss to net cash flows from operating activities:		
Operating loss		\$ (263,369)
Add depreciation expense	\$ 389,761	
Other expenses - litigation fees	(146,898)	
Decrease in current assets:		
Service charges receivable	39,398	
Increase in current liabilities:		
Accounts payable and accrued liabilities	136,427	
Total adjustments		418,688
Net cash flows from operating activities		<u>\$ 155,319</u>

See accompanying notes to financial statements

TOWN OF SUDLERSVILLE

Notes to Financial Statements
June 30, 2019

1. Summary of Significant Accounting Policies

The Town of Sudlersville, Maryland (the "Town") was incorporated in 1860 and is governed by five elected Commissioners, and provides such services as are authorized by its charter to advance the welfare, health, comfort, safety, and convenience of the Town and its inhabitants. The Town is located in Queen Anne's County, Maryland. A substantial portion of the Town's revenue is received from the property and income taxes related to the businesses and residents of the Town, and services provided by its Water and Sewer Systems.

In evaluating how to define the Town for financial reporting purposes, management has considered all potential component units. The basis for determining component units is the governing body's ability to exercise oversight responsibility or the existence of special financing relationships, regardless of whether the Town is able to exercise oversight responsibilities.

The following discretely presented component unit is reported in a separate column in the government-wide statements to emphasize that it is legally separate from the Town. The Sudlersville Memorial Library ("Library") was created July 1, 1973. The Library is governed by 9 elected board members to serve a two year term. A financial burden relationship exists between the Town and the Library in that the Town is to pay expenses relating to salaries and wages, utilities, building repairs and maintenance. The Library establishes days of operation and observance of holidays, subject to the approval of the Town.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - The financial statements of the Town are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to local governments. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements.

The accounts of the Town are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The government-wide statements are reported using the "economic resources" measurement focus and the accrual basis of accounting as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied, while grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Program revenues include: (1) charges for services which report fees and other charges to users of the Town's services and facilities; (2) operating grants and contributions which finance annual operating activities; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets, when applicable. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

TOWN OF SUDLERSVILLE

Notes to Financial Statements
June 30, 2019

1. Summary of Significant Accounting Policies (continued)

While government-wide and fund financial statements are presented separately, they are interrelated. The governmental activities column of the government-wide statements incorporates data from governmental funds, while business-type activities incorporate data from the Town's enterprise funds. Separate financial statements are provided for each major governmental and proprietary fund. There are no fiduciary funds held by the Town.

Governmental fund financial statements are reported using the "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included in the balance sheet. The Town's deferred outflows of resources and deferred inflows of resources are noncurrent. The statement of revenues, expenditures and changes in fund balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Available means collectible within the current period, or soon enough thereafter to pay current liabilities. The Town considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Major revenue sources susceptible to year-end accruals include: Income tax receipts, property taxes and capital grants. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). In general, all other revenues are considered to be measurable and available when cash is received.

Since the governmental funds financial statements are presented using a different measurement focus and basis of accounting than the government-wide statements, a reconciliation is presented on the page following each fund level statement that summarizes the adjustments necessary to convert the fund level statements into the government-wide presentation.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating income reported in proprietary fund financial statements include revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for services provided. Principal operating expenses are the costs of providing services, including administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as needed. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Short-term interfund loans are classified as "due to/from other funds." All short-term interfund receivables and payables at year end are planned to be eliminated in the subsequent year.

TOWN OF SUDLERSVILLE

Notes to Financial Statements
June 30, 2019

1. Summary of Significant Accounting Policies (continued)

Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." However, internal eliminations do not include water and sewage services provided to the Town Hall. Reimbursements are reported as reductions to expenses. Long-term interfund loans are classified as "advances to/from other funds." These funds were utilized by the utility fund to fund capital projects related to the water and wastewater system upgrades. Any residual balances outstanding between governmental activities and business-type activities are reported as "advances to (from) other funds."

Fund Types and Major Funds

The accounts of the Town are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. There are no non-major funds in either fund category.

The Town reports the following major governmental fund:

The General Fund - This is the primary operating fund of the Town. It accounts for all of the financial resources and the legally authorized activities of the Town except for those required to be accounted for in other specialized funds. The general fund accounts for the normal operating activities of the Town. These activities are financed primarily by taxes, grants from other governments and charges for services.

The Town reports the following major proprietary fund:

The Water and Sewer Fund - This fund accounts for the operation of the Town's water and sewer utilities. Activities of the fund include administration, operation and maintenance of the water and sewer system and billing and collection activities. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the Fund.

Budgetary Data - Formal budgetary accounting is employed as a management control for all funds of the Town. Annual operating budgets are adopted, after public hearings, by passing of a resolution prior to the start of each fiscal year. Transfers of appropriations between functions require approval of the Town Commissioners. The budget uses the same basis of accounting as used to reflect actual revenues and expenditures.

Cash and Cash Equivalents - Cash and Cash Equivalents may include demand deposits, money market accounts, funds held in the Maryland Local Government Investment Pool (MLGIP) and certificates of deposit with an initial maturity date of less than three months.

Investments - Consists of land held for resale by the primary government and certificates of deposit with an initial maturity date of greater than three months and marketable equity securities held by the Town's discretely presented component unit ("Library") reported at their fair values.

TOWN OF SUDLERSVILLE

Notes to Financial Statements
June 30, 2019

1. Summary of Significant Accounting Policies (continued)

Accounts Receivable - Receivables not expected to be collected within 60 days of year end will be reported as a deferred inflow of resources in the Balance Sheet – Governmental Funds, as they are not currently available to the Town. All receivables are reported at gross values. Allowances are reported when management has determined that collection of the receivable is not probable. No allowance for uncollectible accounts is deemed necessary as of June 30, 2019.

Other Receivable – Consists of personal property taxes billed and other penalties imposed by the Town. Of this amount, \$4,141 was not collected within 60 days of year end and accordingly, has been deferred in the general fund.

Service Charges Receivable – Water and sewer charges are recorded when billed, except that an amount is recorded for services rendered but not yet billed, as of the close of the fiscal year. The accrued amount is based on actual billings made subsequent to year end.

Due from Other Governments - Receivables from other governments primarily consist of amounts arising from transfer payments and amounts due from grantors for specific programs and capital projects and include local income taxes, admission and amusement taxes and highway user revenues collected on behalf of the Town by the State of Maryland and remitted to the Town. Of this amount, \$11,790 was not collected within 60 days of year end and accordingly, has been deferred in the general fund.

Capital Assets and Depreciation - The Town's property, buildings and facilities with an initial, individual cost of more than \$500 (\$5,000 for infrastructure) and an estimated useful life of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Proprietary capital assets are also reported in their fund financial statements. Donated capital assets received on or before June 15, 2015 are stated at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value.

The Town has been exempted from retroactively reporting its infrastructure assets. However, all future construction or major improvements to the roads, bridges, sidewalks, drainage and lighting systems for the Town will be capitalized and depreciated in a manner consistent with current policies for capital assets in the governmental and proprietary funds. The costs of normal maintenance and repairs which do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in nonoperating revenue or expense.

Estimated useful lives for depreciable assets are as follows:

Buildings and improvements	10 – 40 years
Infrastructure	10 – 15 years
Equipment	5 – 10 years
Water & Sewer systems	7 – 40 years
Library collection	7 years

TOWN OF SUDLERSVILLE

Notes to Financial Statements
June 30, 2019

1. Summary of Significant Accounting Policies (continued)

Deferred Outflows and Inflows of Resources - A *deferred outflow of resources* represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. Likewise, a *deferred inflow 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.

Net Position -

In the government-wide and proprietary fund financial statements, net position is classified in the following categories:

Net Investment in Capital Assets

This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balance of the debt that is attributable to the acquisition, construction or improvement of these assets reduce this category. For business-type activities total capital assets of \$13,856,192 is reduced by long term debt of \$4,763,410 and further reduced by \$166,098 for the amount of accounts payable related to the sewer system.

Restricted Net Position

This category represents the net position of the Town which has been restricted for a specific project or purpose by a third party. As of June 30, 2019, the Town did not have any assets to be reported in this category.

Unrestricted Net Position

This category represents the net position of the Town, which is not restricted for any project or other purpose by third parties.

Fund Balances-

In the governmental fund financial statements, fund balances are classified in the following categories:

Nonspendable

This category includes amounts that cannot be spent due to form, such as inventory, prepaid amounts, long term receivables or amounts that must be maintained intact legally or contractually. As of June 30, 2019, the Town had nonspendable funds of \$277,286.

Restricted

This category includes amounts constrained by an external party, constitutional provision or enabling legislation. As of June 30, 2019, the Town did not have any assets to be reported in this category.

Committed

This category includes amounts constrained for a specific purpose by the Town Commissioners using its highest level of decision making authority, prior to year-end. As of June 30, 2019, the Town did not have any assets to be reported in this category.

Assigned

This category includes amounts constrained by the intent to be used for a specific purpose by a governing board which has the authority to assign funds. As of June 30, 2019, the Town Commissioners have assigned \$25,652 for repairs and improvements to the Town's street and sidewalks.

TOWN OF SUDLERSVILLE

Notes to Financial Statements
June 30, 2019

1. Summary of Significant Accounting Policies (continued)

Unassigned

This category includes all funds which are not specifically classified as Nonspendable, Restricted, Committed or Assigned.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

New Accounting Pronouncements - During the year ended June 30, 2019, the Town implemented GASB Statement No. 88 *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*.

2. Cash and Cash Equivalents and Certificates of Deposit

Deposits are carried at cost plus accrued interest. The carrying amount of deposits is separately displayed on the balance sheet as "Cash and Cash Equivalents", and consists of demand deposits, funds held in the Maryland Local Government Investment Pool (MLGIP) and certificates of deposit with an initial maturity date of less than three months.

The Town is a participant in the MLGIP, which was established by the State of Maryland as an investment vehicle for short-term investment of funds by local municipalities. The MLGIP, under the control of the state treasurer, has been managed by a single financial institution. The MLGIP is operated in accordance with Rule 2a-7 (SEC-registered) of the Investment Company Act of 1940, as amended. The fair values is based on a share price of \$1.00 per share (Level 1). As of June 30, 2019, all pool holdings are in cash and cash equivalents.

Credit Risk - The Town has adopted a policy to be followed when investing public funds in accordance with the provisions of Section 17-101 of the Local Government Article of the Annotated Code of Maryland which prescribes the type of investments permissible for Maryland Municipalities. This policy requires that Town funds be invested in obligations for which the United States has pledged its full faith and credit, obligations insured by a federal agency (such as the FDIC), obligations collateralized by federal obligations, and portfolios created under the Maryland Local Government Investment Pool. The Town was in compliance with the provisions of the Annotated Code of Maryland as of June 30, 2019, which was adopted to mitigate credit risk for the Town.

Interest Rate and Credit Risk - The Town manages interest rate and credit risk by investing primarily in short term holdings, including demand deposits, certificates of deposit and MLGIP.

Custodial Credit Risk - The Town manages custodial credit risk through its use of permissible investments based on its compliance with the Annotated Code of Maryland as previously described. As such, uninsured or uncollateralized funds are not permitted. None of the Town's deposits are exposed to custodial credit risk. The Town's deposits are covered by a combination of insurance from the Federal Deposit Insurance Corporation and securities held by the pledging or financial institution's trust department or agent in the Town's name.

TOWN OF SUDLERSVILLE

Notes to Financial Statements
June 30, 2019

2. Cash and Cash Equivalents and Certificates of Deposit (continued)

Deposits by level of risk are:

	Carrying Amount	Bank Balance
Primary Government:		
Cash on hand	\$ 150	\$ - 0 -
FDIC Insured	56,767	78,792
MLGIP	25,652	25,652
Total	\$ 82,569	\$ 104,444

The Library also holds funds of \$205,259 in certificates of deposit with an initial maturity date of greater than three months. They have been included in the following analysis of deposits by level of risk, as they are fully insured by the FDIC.

	Carrying Amount	Bank Balance
Discretely presented component unit:		
FDIC Insured	\$ 230,831	\$ 231,006
Total deposits	\$ 230,831	\$ 231,006

3. Investments and Fair Value Measurements

The Town categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs where market data are not available and are developed using the best information available about the assumptions that market participants would use when pricing an asset or liability. The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Town believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurement at the reporting date.

Primary Government

The Town was the recipient of land that it is holding for resale. This land is not intended for use in the Town's operations and is reported as an other asset, land – held for resale. Fair value of the land was approximated at \$224,000 based on an appraisal (Level 3 inputs). As this investment is held for sale, the fair value measurement is nonrecurring.

Discretely Presented Component Unit

In addition to the certificates of deposit disclosed in Note 2, the Library also held marketable equity securities at June 30, 2019. The Library measures its investments at fair value on a recurring basis using Level 1 inputs. Valuation techniques utilized to determine fair value are consistently applied. The Library's policy is to invest in Level 1 assets, and accordingly, there are no transfers in the fair value hierarchy for the year ended June 30, 2019.

TOWN OF SUDLERSVILLE

Notes to Financial Statements
June 30, 2019

3. Investments and Fair Value Measurements (continued)

Fair value consists of the following at June 30, 2019:

	Cost	Unrealized Gain	Fair Value (Level 1)
Marketable Securities	\$ 35,733	\$ 43,615	\$ 79,348
Certificates of Deposit	<u>205,259</u>	<u>- 0 -</u>	<u>205,259</u>
	<u>\$ 240,992</u>	<u>\$ 43,615</u>	<u>\$ 284,607</u>

Market risk could occur and is dependent on the future changes in market prices of the various investments held.

4. Capital Assets

Capital asset activity for the Town of Sudlersville, Primary Government for the year ended June 30, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Land - nondepreciable	\$ 74,808	\$ - 0 -	\$ - 0 -	\$ 74,808
Buildings & improvements	666,612	- 0 -	- 0 -	666,612
Infrastructure	397,822	- 0 -	- 0 -	397,822
Equipment	<u>68,640</u>	<u>- 0 -</u>	<u>- 0 -</u>	<u>68,640</u>
Total	<u>1,207,882</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>1,207,882</u>
Less: Accumulated depreciation				
Buildings & improvements	294,100	\$ 29,637	\$ - 0 -	323,737
Infrastructure	386,333	7,034	- 0 -	393,367
Equipment	<u>68,640</u>	<u>- 0 -</u>	<u>- 0 -</u>	<u>68,640</u>
Total accumulated depreciation	<u>749,073</u>	<u>\$ 36,671</u>	<u>\$ - 0 -</u>	<u>785,744</u>
Governmental activities capital assets, net	<u>\$ 458,809</u>			<u>\$ 422,138</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 9,710
Public works	7,034
Parks, recreation and culture	<u>19,927</u>
Total depreciation expense	<u>\$ 36,671</u>

TOWN OF SUDLERSVILLE

Notes to Financial Statements
June 30, 2019

4. Capital Assets (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Land - nondepreciable	\$ 209,557	\$ - 0 -	\$ - 0 -	\$ 209,557
Construction in progress - Nondepreciable WWTP	411,501	7,650	- 0 -	419,151
Sewer system & equipment	10,466,658	- 0 -	- 0 -	10,466,658
Water system	<u>6,611,906</u>	<u>- 0 -</u>	<u>- 0 -</u>	<u>6,611,906</u>
Total	<u>17,699,622</u>	<u>\$ 7,650</u>	<u>\$ - 0 -</u>	<u>17,707,272</u>
Less: accumulated depreciation				
Sewer system & equipment	2,373,738	\$ 218,632	\$ - 0 -	2,592,370
Water system	<u>1,087,581</u>	<u>171,129</u>	<u>- 0 -</u>	<u>1,258,710</u>
Total accumulated depreciation	<u>3,461,319</u>	<u>\$ 389,761</u>	<u>\$ - 0 -</u>	<u>3,851,080</u>
Business-type Activities Capital Assets, Net	<u>\$ 14,238,303</u>			<u>\$ 13,856,192</u>

Depreciation expense was charged to business-type activities as follows:

Water system	\$ 171,129
Sewer system	<u>218,632</u>
 Total depreciation expense	 <u>\$ 389,761</u>

Capital asset activity for the Discretely Presented Component Unit, Sudlersville Memorial Library for the year ended June 30, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Library collection	\$ 42,594	\$ 6,023	\$ 5,632	\$ 42,985
Building & improvements	23,306	- 0 -	- 0 -	23,306
Equipment	<u>23,357</u>	<u>1,049</u>	<u>1,165</u>	<u>23,241</u>
Total	<u>89,257</u>	<u>\$ 7,072</u>	<u>\$ 6,797</u>	<u>89,532</u>
Less: accumulated depreciation	<u>45,698</u>	<u>\$ 9,408</u>	<u>\$ 6,797</u>	<u>48,309</u>
Sudlersville Memorial Library Capital Assets, Net	<u>\$ 43,559</u>			<u>\$ 41,223</u>

Depreciation expense for the Library for the year ended June 30, 2019 was \$9,408.

TOWN OF SUDLERSVILLE

Notes to Financial Statements
June 30, 2019

5. Line of Credit

On December 11, 2015, the Town obtained an unsecured revolving line of credit with a local financial institution in the amount of \$550,000, which upon repayment can be drawn on again up to a total draw not to exceed \$850,000, as additional funding for the wastewater treatment plant. In April 2017, the terms of the credit agreement were modified, reducing the line to \$200,000. It is anticipated that all repayments will be made from grant proceeds. The line requires monthly interest only payments at a fixed rate of 2.76% per annum. The line of credit contains acceleration provisions that in the event of default the full amount outstanding including accrued interest may become due and payable immediately. Defaults would be triggered by events such as bankruptcy or failure to pay principal and interest when due.

The line is payable upon demand and was in default as of June 30, 2019. However, the Town has been in contact with the lender to renegotiate the loan and continues to make monthly interest payments. As of the date of the financial statements, the lender has not demanded payment of the principal.

Short term debt activity for the year ended June 30, 2019 was as follows:

	Governmental Activities	Business-type Activities	Component Unit
Amount payable at beginning of year	\$ - 0 -	\$ 121,501	\$ - 0 -
Advances	- 0 -	- 0 -	- 0 -
Principal retirements	- 0 -	- 0 -	- 0 -
Amount payable at end of year	\$ - 0 -	\$ 121,501	\$ - 0 -

6. Long Term Debt

On April 13, 2011, the Town of Sudlersville, in accordance with Ordinance No. 2010-01, incurred indebtedness from the United States Department of Agriculture, acting through Rural Utilities Service (USDA), for the construction of a public water distribution system for the Town. The principal amount of the Bond was \$2,138,000. The Bond bears interest at 2.5% per annum. Principal and interest payments of \$21,188 are due quarterly on January 13, April 13, July 13, and October 13, with the final installment due on April 13, 2051. Payments of principal and interest will be made from revenues received by the Town from operation of the water system. The Town was unable to meet their payments and is in default. However, the Town has been in discussions with USDA, and in November 2018 signed a Workout Agreement to avoid acceleration of the debt (see Note 13). The total balance of this loan as of June 30, 2019 was \$1,870,193.

On August 20, 2015, the Town of Sudlersville incurred indebtedness from the USDA for the construction of a wastewater treatment system. The principal amount of the bond is \$2,430,000. The bond will be amortized over 40 years with a 2.125% fixed rate of interest. The first two payments made were interest only, due in August 2016 and 2017. Quarterly installments of principal and interest totaling of \$23,353 each were to commence in November 2017 and for each February, May, August and November thereafter through August 2055. Payments of principal and interest will be made from revenues received by the Town from operation of the wastewater treatment system. The Town has been unable to meet this payment schedule and is in default. However, the Town has been in discussions with USDA, and in November 2018 signed a Workout Agreement to avoid acceleration of the debt (see Note 13). The total balance of this loan as of June 30, 2019 was \$2,430,000.

TOWN OF SUDLERSVILLE

Notes to Financial Statements
June 30, 2019

6. Long Term Debt (continued)

On June 23, 2016, the Town of Sudlersville incurred indebtedness from USDA of \$250,000 as additional funding for the wastewater treatment plant construction. The bond is being amortized over 40 years with a 1.75% fixed rate of interest. The first two payments were made interest only, paid in June 2017 and 2018. Quarterly installments of principal and interest totaling of \$2,258 each commenced in September 2018 and for each December, March, June and September thereafter through June 2056. Payments of principal and interest will be made from revenues received by the Town from operation of the wastewater treatment system. The total balance on this loan as of June 30, 2019 was \$245,312.

In the event such revenues are insufficient to pay the principal and interest, the Town may levy and collect ad valorem taxes on all real and tangible personal property sufficient to provide for such payments when due. The Town's outstanding general obligation bonds contain acceleration provisions that in the event of default the full amount outstanding including accrued interest may become due and payable immediately or the lender may take possession of the facility. Defaults would be triggered by events such as bankruptcy or failure to pay principal and interest when due.

On January 6, 2016, the Town of Sudlersville incurred indebtedness of \$100,000 as additional funding for the Barclay Distribution System project. It is anticipated that all repayments will be made from grant proceeds. Monthly interest only payments at 3.0% were due beginning in March 2016. The principal balance of the note payable and any outstanding interest was to be repaid in October 2018, however the Town renegotiated the loan as of February 2019. Commencing February 1, 2019, monthly payments of principal and interest totaling \$966 are due through January 31, 2029. All other terms and conditions remained the same. The total balance on this loan as of June 30, 2019 was \$96,404.

The Town's outstanding note payable contains acceleration provisions that in the event of default the full amount outstanding including accrued interest may become due and payable immediately. Defaults would be triggered by events such as bankruptcy or failure to pay principal and interest when due.

The following is a summary of the bonds and notes payable as of June 30, 2019:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Unit</u>
General Obligation Bonds			
Amount payable at beginning of year	\$ - 0 -	\$ 4,579,422	\$ - 0 -
Advances	- 0 -	- 0 -	- 0 -
Principal retirements	- 0 -	(33,917)	- 0 -
Amount payable at end of year	<u>- 0 -</u>	<u>4,545,505</u>	<u>- 0 -</u>
Direct borrowings			
Amount payable at beginning of year	- 0 -	100,000	- 0 -
Advances	- 0 -	- 0 -	- 0 -
Principal retirements	- 0 -	(3,596)	- 0 -
Amount payable at end of year	<u>- 0 -</u>	<u>96,404</u>	<u>- 0 -</u>
Total long term debt	<u>\$ - 0 -</u>	<u>\$ 4,641,909</u>	<u>\$ - 0 -</u>

TOWN OF SUDLERSVILLE

Notes to Financial Statements
June 30, 2019

6. Long Term Debt (continued)

The annual debt service requirement for the above bonds and notes payable through maturity is as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 185,653	\$ 103,343	\$ 288,996
2021	97,705	101,078	198,783
2022	100,021	98,762	198,783
2023	102,396	96,387	198,783
2024	104,826	93,957	198,783
2025-2029	557,849	431,239	989,088
2030-2034	569,703	366,277	935,980
2035-2039	638,609	297,371	935,980
2040-2044	715,928	220,052	935,980
2045-2049	802,696	133,284	935,980
2050-2054	633,889	47,878	681,767
2055-2056	132,634	2,211	134,845
	<u>\$ 4,641,909</u>	<u>\$ 1,991,839</u>	<u>\$ 6,633,748</u>

Total interest expense for the year ended June 30, 2019 included as direct function expense in the proprietary activities was water system \$49,472 and sewer system \$62,230.

7. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Short-term interfund loans are classified as "due to/from other funds." All short-term interfund receivables and payables at year end are planned to be eliminated in the subsequent year. Net funds due to the general fund as of June 30, 2019 totaled \$-0-.

Long-term interfund loans are classified as "advances to/from other funds." These funds were primarily utilized by the utility fund to fund capital projects related to the water and wastewater system upgrades. Any residual balances outstanding between governmental activities and business-type activities are reported as "advances to other funds." Advances due to the general fund as of June 30, 2019 totaled \$277,286.

8. Property Tax

Property taxes on real estate are recorded as receivables and attach as an enforceable lien on property on July 1, the date levied. Semi-annual installment payments are mandatory for qualified properties unless the taxpayer chooses to pay in one installment. Qualified property is defined as "an owner-occupied principal residence". Under the semi-annual plan, one-half of the tax bill is due September 30 with the balance due on December 31. For all other properties, the bill is due in its entirety on September 30. After the due date, interest is charged on the delinquent portion. Queen Anne's County holds an annual property tax lien certificate sale the first Monday of June to collect all unpaid Town and County property taxes as of that date. Real Estate taxes not collected and remitted to the Town within sixty days subsequent to June 30, 2019 are immaterial.

Personal property taxes are billed annually by the Town, based on an assessment determined by the State of Maryland.

The tax rate for the fiscal year ended June 30, 2019 was \$0.167 and \$.47 per \$100 assessed value for real and personal property, respectively.

TOWN OF SUDLERSVILLE

Notes to Financial Statements
June 30, 2019

9. Operating Lease

The Town leases land for a communication tower that services the Town's residents. Monthly rental revenue under the lease is currently \$1,107 per month through December 1, 2019, with a 3% annual rental escalation. The initial lease term expired on December 1, 2012. However, the lease will automatically renew for successive five-year terms through November 30, 2072, unless either party terminates the lease. The current expiration date is December 1, 2022.

During the year ended June 30, 2017, the Town entered into an additional lease for the communication tower. Monthly rental revenue under the lease is currently \$378 per month through April 2020, with a 4% annual rental escalation. The initial lease term expires in April 2022. The lease will automatically renew for successive five-year terms unless either party terminates the lease.

Revenue recognized under these leases for the year ended June 30, 2019 totaled \$17,360.

Future minimum lease revenues are as follows:

<u>Years ending June 30,</u>	
2020	\$ 18,094
2021	18,683
2022	18,439
2023	<u>6,050</u>
Total	<u>\$ 61,266</u>

10. Utility Service Discounts

The Town has an agreement with the community fire company wherein the Town does not charge the fire company for its utility usage. The total amount of utility system usage forgiven for this organization for the year ended June 30, 2019 totaled \$2,691. The Town additionally waived fees of \$10,034 resulting from a water leak.

11. Risk Management

The Town is exposed to various risks of loss related to torts; damage to and destruction of assets; errors and omissions; employee health and accident; and natural disasters. The Town purchases commercial insurance to protect its interest in its property and equipment, insurance against employee dishonesty and liability protection. Insurance is provided through the Maryland Local Government Insurance Trust and by commercial insurance. The Trust is a total risk and cost sharing plan for all participants. In the event that the Trust's General Fund falls into a deficit that cannot be satisfied by transfer from the Trust's capital and surplus accounts, the Trustees determine a method to fund the deficit. The Trust agreement empowers the Trustees to assess an additional premium to each deficit-year participant. Debt issues could also be used to fund a deficit. During the year ended June 30, 2019, there was no significant reduction in insurance coverage. Settled claims have not exceeded this coverage for the past three fiscal years. The Town's workers compensation insurance premium is adjusted retroactively based on the ultimate costs of the experience to date of a group of entities. The unemployment insurance premium rate is adjusted annually based on experience to date of the Town.

TOWN OF SUDLERSVILLE

Notes to Financial Statements
June 30, 2019

12. Discretely Presented Component Unit

The Library is presented in the Government Wide financial statements as a "Discretely Presented Component Unit," in that the Town is responsible for paying certain expenses on behalf of the Library and provides its operating facilities. During the year ended June 30, 2019, the Town paid the following expenses:

Salaries and wages	\$	26,473
Utilities		2,673
Building repairs and maintenance		1,022
Insurance		<u>1,142</u>
Total	\$	<u>31,310</u>

Full financial information related to the Sudlersville Memorial Library may be obtained directly from the organization, upon request.

13. Contingencies

Most grants specify the types of expenditures for which the grants may be used. The expenditures made by the Town under some of these grants are subject to audit. To date, the Town has not been notified of any significant unallowable costs relating to its grants. In the opinion of management, adjustments for unallowable costs, if any, resulting from such audits will not have a material effect on the accompanying financial statements.

As part of accepting the Foxxtown Waterworks in March 2010, the Town agreed to reimburse the County for up to 80% of the total cost of the system valued at \$1,559,284. This agreement calls for reimbursements to be funded through revenues attributable to allocation, tap or connection charges to be assessed by the Town on any new development undertaken on lands annexed into the Town. The Town's obligation for reimbursement shall terminate at the earlier of (1) April 16, 2038 or (2) total reimbursement to the County of \$1,247,427. As of June 30, 2019, the Town has not annexed any new developments or collected any allocation, tap or connection charges which are to be considered for reimbursement to the County.

On December 23, 2016 a civil suit was filed in the US District Court seeking unpaid fees and damages of \$953,393 related to construction of the wastewater treatment plant. The prime contractor for the wastewater treatment plant construction project is the plaintiff in the case and is seeking damages for project delays and unpaid fees. The Town participated in mediation pursuant to the terms of the contract however as no resolution was reached through mediation, the litigation has proceeded. The Town intends to vigorously defend against this claim. The Town's estimated potential loss ranges from \$11,492 to \$685,000. The Town has accrued \$90,000 in unpaid retainage as of June 30, 2019, which is included as part of the plaintiff's claim.

As of November 30, 2018, the Town was in default with USDA and the Town signed a workout agreement with USDA regarding their obligations that are in default. To avoid acceleration and collection actions, the Town must meet certain identified actions by the specified completion dates. Actions include completing a rate study and increasing rates as well as converting to a monthly billing cycle, providing quarterly statements to USDA and working to secure additional revenue sources. As of June 30, 2019, the Town has completed the rate study and raised utility rates as well as converted to a monthly billing cycle. Additionally, the Town continues to make payments on their obligations as funding is available.

TOWN OF SUDLERSVILLE

Notes to Financial Statements June 30, 2019

14. Commitments

The Town has approximately \$144,238 in outstanding reimbursements for the \$8,638,145 wastewater treatment plant (WWTP) project which was placed into service during the year ended June 30, 2017. A portion of these costs are included in the lawsuit discussed in Note 13.

The Town agreed to amend the WWTP project to incorporate an extension of its wastewater service to include the Town of Barclay. Total estimated cost of this project extension was originally projected at \$1,774,271. As a result of construction delays and design changes, the cost is now estimated at approximately \$3,800,000. Costs associated with this expansion to date of \$419,151 have also been capitalized as Construction in Progress - WWTP.

To finance this extension of the system, the Town received a commitment on March 22, 2010 from the USDA Rural Development Office for a loan of \$821,000 and grant funds in the amount of \$953,271. The loan will be amortized over 40 years with a 2.5% fixed rate of interest. Payments will be made on a quarterly basis. The Town is also required to issue a general obligation bond for the total amount borrowed. Because of cost increases that created a projected shortfall in project financing, the expansion has not progressed during the current year. No loan or grant proceeds have been received as of June 30, 2019. However, a portion of the \$419,151 in costs incurred to date will be eligible for reimbursement from the USDA when the project begins.

On January 29, 2013, the Town also signed an Intergovernmental Agreement for Wastewater Service with the Town of Barclay (Barclay). This agreement outlines the terms under which the Town will provide services to Barclay. The Town will be the sole owner of all wastewater transmission systems located within the limits of Barclay and the remainder of the system required to provide service to Barclay. The term of this agreement is for 20 years, and shall automatically renew for an additional 20 years, unless terminated under specific circumstances by either party with 36 months written notice. Rates for services, once operation of the system commences, will be established by the Town after a Public Hearing. As of June 30, 2019 the system was not in operation, and no fees have been charged to Barclay.

15. Environmental Concerns and Asset Retirement Obligations

The Town operates a wastewater treatment plant. If contamination from the facility occurred, the Town could become liable for the costs of remediation.

No liability in accordance with GASB Statement No. 83 *Certain Asset Retirement Obligations* is reported in these financial statements for future retirement of the Town's wastewater treatment plant or water utility, as estimated costs are not currently determinable.

16. Deficit of Major Enterprise Fund Net Position and Going Concern

As indicated in the accompanying financial statements, the Water and Sewer Fund has a deficit in unrestricted net position of (\$216,612) as of June 30, 2019 and the water and sewer fund reported a decrease in net position of (\$521,930) for the year ended June 30, 2019. In addition, current liabilities including current portions of long-term obligations were almost four times larger than the balance of current assets, with cash balances totaling only \$11,400 as of June 30, 2019. The Town has defaulted on its long-term obligations as discussed in Note 6 and is party to a significant lawsuit seeking restitution from the Town as discussed in Note 13. These factors create an uncertainty about the Town's ability to continue as a going concern.

TOWN OF SUDLERSVILLE

Notes to Financial Statements
June 30, 2019

16. Deficit of Major Enterprise Fund Net Position and Going Concern (continued)

Management has developed a plan to increase revenue that included raising service charges and converted to a monthly billing cycle to smooth cash flows. Management is also working with funding agencies to complete the Barclay expansion project that will increase the number of users in the system. Land donated to the Town is being actively marketed for sale. In addition, as discussed in Note 13, the Town signed a workout agreement with USDA to avoid acceleration and collection action on their long-term obligations. The ability of the Town to continue as a going concern is dependent upon the plan's success. The financial statements do not include any adjustments that might be necessary if the Town is unable to continue as a going concern.

17. Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition through February 13, 2020, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF SUDLERSVILLE

Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2019

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 79,682	\$ 79,682	\$ 82,085	\$ 2,403
Income taxes	29,500	29,500	44,119	14,619
Licenses and permits	8,000	8,000	10,370	2,370
Intergovernmental - state	3,755	3,755	13,567	9,812
Intergovernmental - county	25,000	25,000	10,000	(15,000)
Investment earnings	50	50	644	594
Rental income	15,345	15,345	18,060	2,715
Miscellaneous revenues	7,620	7,620	1,836	(5,784)
TOTAL REVENUES	<u>168,952</u>	<u>168,952</u>	<u>180,681</u>	<u>11,729</u>
EXPENDITURES				
General government	91,175	91,175	61,002	30,173
Public works	41,370	41,370	20,367	21,003
Parks, recreation & culture	31,620	31,620	31,310	310
TOTAL EXPENDITURES	<u>164,165</u>	<u>164,165</u>	<u>112,679</u>	<u>51,486</u>
NET CHANGE IN FUND BALANCE	<u>\$ 4,787</u>	<u>\$ 4,787</u>	<u>\$ 68,002</u>	<u>\$ 63,215</u>

See accompanying notes to required supplementary information

TOWN OF SUDLERSVILLE

Notes to Required Supplementary Information June 30, 2019

Budgetary Information

Budgetary procedures established for the Town are as follows. Prior to June 1, the Clerk-Treasurer submits to the Commissioners a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. A public hearing is conducted after one week notice is given in a local newspaper. Prior to July 1, the budget is legally enacted through passage of a resolution by the Commissioners. Any transfer of funds between major appropriations must be approved by the Commissioners. Appropriations which are not expended lapse at the end of the fiscal year. Expenditures may not legally exceed appropriations for any fund for which a legally adopted budget is prepared at the fund level. The budget may only be amended with the approval of the Commissioners. This applies to both the fund and line item level. During the year ended June 30, 2018, the Commissioners adopted and approved Resolution 2018-01, which established the budget for Fiscal Year 2019. The budget was not amended.

The legal level of budgetary control is at the level of general classification of expenditure. The Town did not exceed its budget at June 30, 2019.

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*

To the Town Commissioners
Town of Sudlersville
Sudlersville, MD

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, the aggregate discretely presented component unit, and each major fund of the Town of Sudlersville (Town), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated February 13, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 have not been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Town's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness: Finding 2019 - 001.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies: Finding 2019 - 002 and Finding 2019 - 003.

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* (continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings and responses as item: Finding 2019 – 004.

Town of Sudlersville's Response to Findings

The Town's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Town of Sudlersville's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Weylich, Cronin & Serra, LLC

February 13, 2020
Hunt Valley, MD

TOWN OF SUDLERSVILLE

Schedule of Findings and Responses
June 30, 2019

Finding 2019 – 001: Material Misstatements (Adjustments) to the financial Statements

Criteria: Accounting principles generally accepted in the United States of America require the use of the accrual basis of accounting which reflects all short and long-term assets and liabilities of the Town.

Condition: During the audit, we identified material adjustments to the financial statements for the period under audit that were not initially identified by internal controls. Material adjustments were proposed for accounts receivable and related revenue, accounts payable and related expenses, and utility capital asset additions and depreciation. In addition, several outstanding invoices were not reflected in accounts payable for work performed during the fiscal year.

Cause: The Town maintains its books primarily on a cash basis as it is a small town with limited staff and requests assistance from its auditors including proposing year-end adjustments to convert the Town's records to the full accrual basis of accounting.

Effect: Balances of fixed assets, accounts receivable and payable, revenue and expenses were improperly reported prior to adjustments.

Recommendation: Revenues and expenses post year-end should be reviewed and adjusted to accounts receivable or payable as of June 30 as necessary. Capital additions for utility funds should be recorded to asset accounts rather than expense accounts. However, we understand the Town has done a cost benefit analysis and has determined it would not be cost effective to expand staff and will continue to rely on the auditors' assistance.

Management's Response: We are in agreement with the finding. Adjustments brought to our attention during the audit process were posted to the Town's records and are incorporated in the financial statements and audit report presented for June 30, 2019.

Finding 2019 – 002: Auditor Assistance with Preparation of the Financial Statements

Criteria: The preparation and fair presentation of the financial statements including the related notes is the responsibility of management and the Town.

Condition: The Town relies on the external auditor to assist in the preparation of the financial statements and related notes to the financial statements.

Cause: This is a small Town with limited staff. This is a common finding among towns of similar size to the Town of Sudlersville.

Effect: Potential material misstatements could go undetected in the financial statements for which management and the Town is ultimately responsible.

Recommendation: We believe the Town has an individual with sufficient skills, knowledge and experience to perform a detailed review of the financial statements and the proposed adjustments. We recommend that the Town obtain an annual detailed reporting and disclosure checklist applicable to governmental entities to assist in their review of the auditor provided statements.

Management's Response: We are in agreement with the finding. The Town will reevaluate their cost benefit analysis of Town staffing and training during fiscal year 2020.

TOWN OF SUDLERSVILLE

Schedule of Findings and Responses
June 30, 2019

Finding 2019 – 003: Monitoring Segregation of Duties and Management Override

Criteria: Adequate segregation of duties is required to reduce the risk of errors and irregularities.

Condition: The Town has limited staff which results in one or two individuals handling multiple aspects of a transaction.

Cause: The Town is unable to hire additional paid staff based on its annual budget. This is an inherent problem in towns similar in size to the Town of Sudlersville.

Effect: The potential risk for errors, irregularities or overriding of processes is higher when limited staff is involved in the process.

Recommendation: We understand that the Town has done a cost benefit analysis and has determined it would not be cost effective to expand staff. The Town has implemented policies to help mitigate this inherent risk. We recommend that close supervision by the Commissioners, such as monthly review and approval of receipts and disbursements, be continued to prevent and detect errors and irregularities. In addition, this review should be documented in the Town's files.

Management's Response: We are in agreement with the finding. The Town continually evaluates controls in place. The Town will reevaluate their cost benefit analysis of Town staffing, accountability, and responsibilities during fiscal year 2020.

Finding 2019 - 004: Default on Long-Term Obligations

Criteria: The Town is indebted to the U.S. Department of Agriculture for its wastewater system bond of \$2,430,000 and its water distribution system bond of \$1,870,193 as of June 30, 2019.

Condition: The Town was unable to make debt service payments as required under the terms of the wastewater system bond agreement and the water distribution system bond.

Cause: The Town is experiencing cash flow difficulties due to insufficient user charges, the stalled system expansion to bring in additional users and major litigation from the construction contractor and did not have the funding on hand to make the required payments. We understand the Town has made partial payments as funds are available.

Effect: The lender may take acceleration and collection actions against the Town.

Recommendation: We understand that in November 2018 the Town signed a workout agreement with USDA with certain targeted actions to avoid acceleration and collection actions. As such, we would like to take this opportunity to remind management the importance of meeting these deadlines.

Management's Response: We are in agreement with the finding and will instruct staff to make every effort to meet the required target goals.