

**BOROUGH OF TRAPPE  
FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2013**

# BOROUGH OF TRAPPE

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## INDEPENDENT AUDITORS' REPORT

To the Borough Council  
Borough of Trappe  
Trappe, Pennsylvania

We have audited the accompanying modified cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Borough of Trappe as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Borough'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 the modified cash basis of accounting described in Note 1, this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

### **Auditor's 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Borough of Trappe, as of December 31, 2013, and the respective changes in modified cash basis financial position, for the year then ended in accordance with the modified cash basis of accounting, as described in Note 1.

### **Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

### **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 11 and 27 through 28 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.

  
STYER ASSOCIATES  
Certified Public Accountants

June 4, 2014  
Souderton, Pennsylvania

**BOROUGH OF TRAPPE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2013**

As management of the Borough of Trappe (the "Borough"), we offer readers of the Borough's financial statements this narrative overview and analysis of the financial activities of the Borough for the year ended December 31, 2013. Please read it in conjunction with the Borough's basic financial statements, which follow this section.

**Financial Highlights**

- The assets of the Borough exceeded its liabilities at the close of the most recent year by \$2,917,689 (*net position*). Of this amount, \$1,410,752 (*unrestricted net position*) may be used to meet the Borough's ongoing obligations to citizens and creditors.
- The Borough's total net position increased by \$468,706 for the year ending December 31, 2013.
- As of the close of the current year, the Borough's governmental funds reported combined ending fund balances of \$1,522,856, an increase of \$141,947 in comparison with the prior year. 55% of the amount is *available for spending* at the Borough's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$832,286, or 69% of governmental fund expenditures.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Borough's basic financial statements. The Borough's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements:**

The *government-wide financial statements* are designed to provide the readers with a broad overview of the Borough's finances, in a manner similar to a private-sector business. The *statement of net position* presents information on all of the Borough's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of how the financial position of the Borough may be changing. Changes in net position may reflect a changing manner in which the Borough may have used previously accumulated funds.

**BOROUGH OF TRAPPE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2013**

**Government-Wide Financial Statements (Continued):**

The *statement of activities* presents information showing how the Borough's net position changed during the most recent fiscal year.

The governmental activities of the Borough include general government administration, public safety, and public works. The government-wide financial statements can be found on pages 12 through 13 of this report.

**Fund Financial Statements:**

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 Borough, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Borough's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

**Notes to the Financial Statements:**

The notes provide basic information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18 through 26 of this report.

**BOROUGH OF TRAPPE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2013**

**Other information:**

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning budgetary comparisons for the general fund. Required supplementary information can be found on pages 27 and 28 of this report.

**Government-Wide Financial Analysis:**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Borough, assets exceeded liabilities by \$2,917,689 at the close of the most recent fiscal year. A large portion of the Borough's net position \$1,394,833 (48% of total) reflects its investment in capital assets (e.g., land, buildings, improvements, machinery and equipment, and infrastructure). The Borough uses these capital assets to provide service to citizens; consequently, these assets are *not* available for future spending (i.e., the Borough's investment in capital assets are of a permanent nature as assets acquired are generally not sold or otherwise disposed of during their useful life).

The following table summarizes the Borough's Statement of Net Position:

**SUMMARY OF NET POSITION  
DECEMBER 31, 2013 AND 2012**

	<u>Governmental Activities</u>	<u>Governmental Activities</u>
	<u>2013</u>	<u>2012</u>
Current and other assets.....	\$ 1,522,856	\$ 1,380,943
Capital assets.....	<u>1,394,833</u>	<u>1,068,074</u>
Total assets.....	<u>2,917,689</u>	<u>2,449,017</u>
Other liabilities .....	<u>0</u>	<u>34</u>
Total liabilities .....	<u>0</u>	<u>34</u>
Net position:		
Invested in capital assets.....	1,394,833	1,068,074
Restricted .....	112,104	86,332
Unrestricted.....	<u>1,410,752</u>	<u>1,294,577</u>
Total net position .....	<u>2,917,689</u>	<u>2,448,983</u>
<b>TOTAL LIABILITIES AND NET POSITION.....</b>	<b><u>\$ 2,917,689</u></b>	<b><u>\$ 2,449,017</u></b>

At the end of the current fiscal year, the Borough is able to report positive balances in all categories of net position.

**BOROUGH OF TRAPPE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2013**

As noted previously, the Borough's net position increased by \$468,706.

The following table summarizes the Borough's Statement of Activities:

**CHANGES IN NET POSITION  
YEARS ENDED DECEMBER 31, 2013 AND 2012**

	Governmental <u>Activities</u>	Governmental <u>Activities</u>
	<u>2013</u>	<u>2012</u>
<b><u>Revenues:</u></b>		
Program revenues:		
Charges for services.....	\$ 150,928	\$ 102,897
Grants and contributions.....	116,264	116,286
General revenues:		
Property taxes .....	104,170	0
Earned income taxes .....	741,566	675,546
Other taxes .....	272,286	211,322
Investment earnings .....	<u>18,922</u>	<u>17,460</u>
Total Revenues .....	<u>1,404,136</u>	<u>1,123,511</u>
<b><u>Expenses:</u></b>		
General government.....	324,413	280,196
Public safety.....	108,828	94,522
Refuse .....	271,853	327,723
Public works .....	155,133	93,129
Recreation and parks.....	41,480	43,130
Other expenses.....	<u>33,723</u>	<u>41,306</u>
Total Expenses.....	<u>935,430</u>	<u>880,006</u>
<b>Increase in net position.....</b>	<b>468,706</b>	<b>243,505</b>
<b>NET POSITION – BEGINNING .....</b>	<b><u>2,448,983</u></b>	<b><u>2,205,478</u></b>
<b>NET POSITION – ENDING.....</b>	<b>\$ <u>2,917,689</u></b>	<b>\$ <u>2,448,983</u></b>

**BOROUGH OF TRAPPE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2013**

**Financial Analysis of the Borough's Funds**

As noted earlier, the Borough uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds:**

The focus of the Borough's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Borough's financing requirements. In particular unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the Borough's government funds reported an ending fund balance of \$1,522,856 an increase of \$141,947 in comparison with the prior year.

At the end of the current fiscal year, unassigned fund balance of the General Fund was \$832,286. As a measure of the General Fund's liquidity, the fund balance represents 69% of the total General Fund expenditures.

**Capital Asset and Debt Administration**

**Capital Assets:**

The Borough's investment in capital assets for its governmental activities as of December 31, 2013, amounts to \$1,394,833 (net of accumulated depreciation). This investment in capital assets includes buildings, improvements, machinery and equipment, and infrastructure.

Capital assets, net of accumulated depreciation, are illustrated below in the following table:

	<u>Governmental Activities</u>	<u>Governmental Activities</u>
	<u>2013</u>	<u>2012</u>
Infrastructure – work in progress.....	\$ 85,679	\$ 68,116
Buildings.....	415,125	442,095
Equipment.....	69,877	61,160
Infrastructure.....	<u>824,152</u>	<u>496,703</u>
Total.....	<u>\$ 1,394,833</u>	<u>\$ 1,068,074</u>

**BOROUGH OF TRAPPE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2013**

**Capital Assets (Continued):**

Additional information on the Borough's capital assets can be found in Note 4 on pages 22 through 24 of this report.

**Economic Factors and Next Year's Budgets and Rates**

Real Estate Tax was reenacted in 2013. The real estate tax of .47 mills remains the same for 2014. The 2014-2018 Budget assumes \$109,931 in annual real estate tax income.

Real Estate Transfer Tax includes a one-half percent (0.5%) tax on the sales price of real estate. This tax is assessed against improved properties (possessing structures) and unimproved properties (vacant land), and collected at the time of the sale of same. (Note: Real estate transfers in Trappe are subject to a two percent Real Estate Transfer Tax. One percent is paid to the Commonwealth, and one-half percent is paid to Montgomery County.) The amount of real estate transfer tax revenue received is directly related to the health of the local real estate market. This revenue increases in a robust real estate market, and falls in a down real estate market. The 2014 Budget assumes the real estate transfer taxes will slowly rebound and the Borough is increasing the projected receipts for this tax by one percent (1%) for 2014 and for each upcoming year. The real estate market will be monitored during the upcoming months, and the real estate transfer tax estimates for future budget years will be revised, as conditions warrant.

The Budget assumes real estate transfer taxes will be received from the 31-townhome Stearly development, per the below schedule:

- ▶ 8 townhomes projected to settle in 2015;
- ▶ 15 townhomes projected to settle in 2016; and,
- ▶ 8 townhomes projected to settle in 2017.

The Earned Income Tax is the Borough's primary revenue source. (Note: Trappe Borough residents currently pay 1.4% earned income tax, but 0.9% of that is collected for the Perkiomen Valley School District.) Earned income includes salaries, wages, net business profits and tips. Earned income does not include income received from Social Security, unemployment compensation, interest, dividends, pension plans, disability payments and distributions from 401(K) and like retirement accounts. The \$729,805 budgeted for 2014 is derived by adding approximately 2% to the actual receipts for the twelve months ended October 31, 2013. The budget assumes an annual three percent (3%) increase in earned income tax for the upcoming four years.

**BOROUGH OF TRAPPE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2013**

As required by Act 32, earned income tax paid by a majority of County residents was collected by a single entity (the "Tax Collection Officer") beginning January 1, 2012. Due to economies of scale, the commission rate to be paid to the Tax Collection Officer will remain at the same rate previously paid.

The Local Services Tax includes funds received from a \$52 per year tax paid by persons who work within the Borough limits. Individuals earning less than \$12,000 per year, and certain military personnel, are exempt from paying this tax. The \$66,792 budgeted for 2014 is derived by annualizing the first nine months of 2013. The budget for the upcoming four years allows for a .005% annual increase. The local services tax was formerly known as the emergency and municipal services tax. The 2014-2018 Budget assumes a collection fee of one and three quarter percent (1.75%) pursuant to the Montgomery County Tax Collection Committee's Agreement with Berkheimer.

In addition to permitting the construction of new residential and non-residential developments, Trappe Borough requires a permit to install residential plumbing, accessory structures, including decks, spas and pools. In 2012 the Borough implemented electrical, mechanical and roof permits. The permitting process ensures these improvements are both constructed to applicable building codes and installed pursuant to all other Borough regulations. The Borough believes most of the expense to review and issue a building or zoning permit should be assumed by the individual requesting a permit. In 2008 the Borough studied costs related to permits issued during the previous twelve months, then established permit fees to recapture at least 90% of these expenses. Because a sound permitting program offers recognized benefits to the entire community (i.e., the protection of property values, a reduced demand for emergency services), the Borough believes permit fees need not recover all expected permit costs. Permit fees are reviewed on an annual basis, relative to actual costs incurred during the previous twelve months, and fee adjustments are made, when warranted. The 2014 Budget assumes an increase from the 2013 actual amount for the 9 months ended September 30, 2013. The 2015 Budget assumes a substantial increase in building permit fees due to the expected building of 31 townhouses at the Stearly tract: 8 in 2015; 15 in 2016; and 8 in 2017. The estimated building costs are \$200,000 for each of the 31 townhomes to be constructed.

**BOROUGH OF TRAPPE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2013**

Another source of income is from fees paid by cable television providers for the use of the public right-of-ways (i.e., underground trenches in the roadway and overhead wires at utility poles) needed to transmit service to homes and businesses in the Borough. This fee is not assessed to satellite television providers, as these companies do not utilize public rights-of-way. As of 2009 two cable providers offered service in the Borough - Verizon and Comcast. The Borough has a franchise agreement with each provider, and each franchise agreement requires the provider to pay a fee equal to five percent of certain revenues, which include basic and premium subscription rates, equipment rentals and installation charges. Internet services are not subject to the fee. The Comcast Franchise Agreement was renewed in 2011 for an additional 12 years and will expire on December 28, 2022. The Borough joined an eleven-member consortium of Montgomery County communities to negotiate the new 12-year agreement. By joining forces the municipalities gained bargaining strength, and as such were able to secure more favorable agreement terms. The Verizon Franchise Agreement expires in 2021. The 2014 Budget was derived by adding the first two quarter statements for 2013 and doubling that amount. It is anticipated that cable revenues, and the franchise fees paid to the Borough, will increase during the upcoming four years. The Budget assumes a two percent (2%) annual fee increase in 2015 through 2018. The Trappe Television channel began operation in 2011. This did not add revenue nor did it add cable costs to broadcast the channel.

Interest earned on Trappe Borough funds is another source of income. To best protect the Borough, public funds are invested in low-risk securities, such as government-insured certificates of deposits. As a result, the interest rate earned is relatively modest. Due to reserves being utilized to fund the Road Program projects, the 2013 Budget assumed a \$5,450 decrease in interest income. The 2014-2018 interest income is expected to be lower due to three CD's maturing in 2014: (1) Superior Credit; (2) Continental Bank; and (3) Citadel and also due to reserves being utilized to fund the Road Program projects. The Borough officials continually assess interest rates and the availability of investment vehicles acceptable to Borough standards.

The Liquor License fee includes a \$200 annual fee that is assessed for each retail alcohol license in the Borough. Wholesale alcohol licenses (i.e., beer distributors) are not assessed for this fee. The Pennsylvania Liquor Control Board levies and collects the fee, and remits the funds to the Borough. As of 2009 there are two retail alcohol licenses in the Borough. The number of retail licenses, and the LCB fee, are not expected to change in the upcoming five years.

In 2013 the Borough received DEP grant monies in the amount of \$3,863. In addition the Borough was awarded a \$750 Grant from Kaboom for use in maintaining the Borough's parks. Due to the recent Recycling Grant funds received, the 2014-2018 Budget reflects \$3,700 per year in DEP grants.

**BOROUGH OF TRAPPE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2013**

The Borough also receives an annual \$35,000 contribution made by the Collegeville-Trappe Joint Public Works Department from revenues generated by telecommunication equipment leases at the West First and Seventh Avenue water towers. In 2013 Trappe Borough received an additional \$50,000 onetime distribution of cell phone tower rents.

During 2011 the Borough began selling discounted amusement park and ski resort tickets. The Borough sells these tickets on consignment and the money earned gets repaid to the Pennsylvania Recreation & Park Society. The Borough earns a minimal amount for processing these tickets which range from \$0.50 to \$1.00 per ticket. Likewise, the Borough began selling discounted Movie Tavern Tickets and Regal Cinema Movie Tickets at a profit of \$0.50 per ticket. The net proceeds are donated to the Trappe Volunteer Fire Company. The sale of these tickets is a service provided to the residents of the Borough and is well received.

Public Utility Realty Tax Assessment (PURTA) includes an annual assessment on certain public utility parcels in the Borough, pursuant to the Public Utility Realty Tax Act. The Pennsylvania Department of Revenue levies and collects the assessment, and remits the funds to the Borough. As of 2013 there remain two qualifying public utility parcels in the Borough. The number of qualifying parcels, and the PURTA assessment formula, are not expected to change in the upcoming five years. The 2014 -2018 Budget assumes \$1,000 annually.

**REQUESTS FOR INFORMATION:**

This financial report is designed to provide a general overview of the Borough's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Borough of Trappe, 525 West Main Street, Trappe, PA 19426.

**BOROUGH OF TRAPPE**  
**STATEMENT OF NET POSITION – MODIFIED CASH BASIS**  
**DECEMBER 31, 2013**

	Governmental Activities
<b><u>ASSETS</u></b>	
Cash .....	\$ 777,611
Certificates of deposit .....	745,245
Capital Assets:	
Infrastructure – work in progress .....	85,680
Other capital assets, net of depreciation .....	<u>1,309,153</u>
Total Capital Assets.....	<u>1,394,833</u>
<b>TOTAL ASSETS.....</b>	<b>\$ <u>2,917,689</u></b>
 <b><u>NET POSITION</u></b>	
Invested in capital assets.....	1,394,833
Restricted for:	
State liquid fuels funds .....	49,285
Open space .....	62,819
Unrestricted.....	<u>1,410,752</u>
<b>Total Net Position.....</b>	<b><u>2,917,689</u></b>
<b>TOTAL LIABILITIES AND NET POSITION .....</b>	<b>\$ <u>2,917,689</u></b>

The notes to the financial statements are an integral part of this statement.

**BOROUGH OF TRAPPE**  
**STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS**  
**YEAR ENDED DECEMBER 31, 2013**

	Program Revenues		Total
<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
General government.....	\$ 324,413	\$ 94,130	\$ 1,423
Public safety.....	108,828	46,444	33,010
Refuse collection.....	271,853		3,863
Public works .....	155,133	300	68,478
Recreation and parks.....	41,480	10,054	9,490
Insurance .....	<u>33,723</u>		<u>(33,723)</u>
Total Activities .....	<u>935,430</u>	<u>150,928</u>	<u>116,264</u>
<b><u>General Revenues</u></b>			
Taxes:			
Property taxes, levied for general purposes .....			104,170
Earned income taxes .....			741,566
Local services taxes .....			69,264
Real estate transfer taxes.....			117,751
Franchise fees .....			85,271
Investment earnings .....			<u>18,922</u>
Total General Revenues .....			<u>1,136,944</u>
<b>Change in Net Position .....</b>			<b>468,706</b>
<b>Net Position – Beginning .....</b>			<b><u>2,448,983</u></b>
<b>Net Position – Ending .....</b>			<b><u>\$ 2,917,689</u></b>

The notes to the financial statements are an integral part of this statement.

**BOROUGH OF TRAPPE**  
**STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCE**  
**MODIFIED CASH BASIS – GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2013**

	<u>General</u>	<u>Capital Projects Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS:</u></b>				
Cash.....	\$ 665,507	\$	\$ 112,104	\$ 777,611
Certificates of deposit.....	745,245			745,245
Due from other funds .....	<u>                    </u>	<u>578,466</u>	<u>                    </u>	<u>578,466</u>
<b>TOTAL ASSETS .....</b>	<b><u>\$ 1,410,752</u></b>	<b><u>\$ 578,466</u></b>	<b><u>\$ 112,104</u></b>	<b><u>\$ 2,101,322</u></b>
<b><u>LIABILITIES AND FUND BALANCES:</u></b>				
<b><u>Liabilities:</u></b>				
Due to other funds .....	\$ 578,466	\$	\$	\$ 578,466
Total Liabilities .....	<u>578,466</u>	<u>0</u>	<u>0</u>	<u>578,466</u>
<b><u>Fund Balances:</u></b>				
Restricted for:				
State liquid fuels funds.....			49,285	49,285
Open space .....			62,819	62,819
Assigned for:				
Capital expenditures.....		578,466		578,466
Unassigned .....	<u>832,286</u>	<u>                    </u>	<u>                    </u>	<u>832,286</u>
Total Fund Balances.....	<u>832,286</u>	<u>578,466</u>	<u>112,104</u>	<u>1,522,856</u>
<b>TOTAL LIABILITIES AND FUND BALANCES .....</b>	<b><u>\$ 1,410,752</u></b>	<b><u>\$ 578,466</u></b>	<b><u>\$ 112,104</u></b>	

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 funds.

Net Position of Governmental Activities	<u>1,394,833</u> <b><u>\$ 2,917,689</u></b>
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The notes to the financial statements are an integral part of this statement.

**BOROUGH OF TRAPPE**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES – MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2013**

	<u>General</u>	<u>Capital Projects Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Taxes and penalties .....	\$ 1,032,751	\$	\$	\$ 1,032,751
Charges for services .....	20,054			20,054
Intergovernmental revenues .....	39,046		68,478	107,524
Licenses and permits .....	129,535			129,535
Interest and rents .....	96,121	7,789	12	103,922
Fines and forfeitures.....	1,611			1,611
Miscellaneous.....	8,740			8,740
Total Revenues.....	<u>1,327,858</u>	<u>7,789</u>	<u>68,490</u>	<u>1,404,137</u>
<b>Expenditures:</b>				
General government .....	289,166		680	289,846
Public safety .....	108,828			108,828
Refuse collection .....	271,853			271,853
Public works.....	104,898		28,576	133,474
Recreation and parks .....	29,858		12,186	42,044
Capital outlays.....	381,146		1,276	382,422
Insurance .....	33,723			33,723
Total Expenditures .....	<u>1,219,472</u>		<u>42,718</u>	<u>1,262,190</u>
Excess (Deficiency) of Revenues Over Expenditures.....	<u>108,386</u>	<u>7,789</u>	<u>25,772</u>	<u>141,947</u>
<b>Other Financing Sources (Uses):</b>				
Operating transfers in.....		37,000		37,000
Operating transfers out.....	(37,000)			(37,000)
Total Other Financing Sources (Uses) .....	<u>(37,000)</u>	<u>37,000</u>		<u>0</u>
<b>Net Change in Fund Balances</b> .....	71,386	44,789	25,772	141,947
<b>FUND BALANCES – BEGINNING</b> .....	<u>760,900</u>	<u>533,677</u>	<u>86,332</u>	<u>1,380,909</u>
<b>FUND BALANCES – ENDING</b> .....	<u>\$ 832,286</u>	<u>\$ 578,466</u>	<u>\$ 112,104</u>	<u>\$ 1,522,856</u>

The notes to the financial statements are an integral part of this statement.

**BOROUGH OF TRAPPE**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL ACTIVITIES –**  
**MODIFIED CASH BASIS**  
**YEAR ENDED DECEMBER 31, 2013**

Net change in fund balances – total governmental funds \$ 141,947

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. This is the amount by which capital outlays (\$381,116) exceeded depreciation (\$54,357) in the current period. 326,759

Change in net position of governmental activities \$ 468,706

The notes to the financial statements are an integral part of this statement.

**BOROUGH OF TRAPPE**  
**STATEMENT OF FIDUCIARY NET POSITION – MODIFIED CASH BASIS**  
**DECEMBER 31, 2013**

<u>Assets:</u>	<u>Agency Fund</u>
Cash .....	\$ <u>11,496</u>
<b>TOTAL ASSETS</b> .....	<b>\$ <u>11,496</u></b>
 <u>Liabilities:</u>	
Escrow deposits .....	\$ <u>11,496</u>
<b>TOTAL LIABILITIES</b> .....	<b>\$ <u>11,496</u></b>

The notes to the financial statements are an integral part of this statement.

**BOROUGH OF TRAPPE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**Note 1 – Summary of Significant Accounting Policies:**

The Borough of Trappe is a municipal corporation incorporated under Article II of the Commonwealth of Pennsylvania Municipal Code Act of 1966, as amended. The Borough operates under a Borough Council form of government and provides such services as are authorized by its charter to advance the welfare, health, comfort, safety and convenience of the Borough and its inhabitants.

The Borough's financial statements are prepared in accordance with the modified cash basis of accounting. The Governmental Accounting Standards Board (GASB) is responsible for establishing regulations for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies used by the Borough are discussed below.

**Basis of Accounting:**

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

**Modified Cash Basis:**

The records of the Borough are maintained on the modified cash basis of accounting and the accompanying financial statements have been prepared on that basis. Except for capital asset purchases, all transactions are recognized as either revenues or expenses. Noncash transactions, except depreciation, are not recognized. The modified cash basis differs from generally accepted accounting principles primarily because certain revenues are recognized as received rather than when earned and certain expenses are recognized when paid rather than when the obligation is incurred.

**Reporting Entity:**

The financial statements of the Borough of Trappe include all government activities, organizations and functions for which the Borough exercises significant oversight responsibility. The criteria considered in determining governmental activities to be reported within the Borough's financial statements include the degree of oversight responsibility exercised by the Borough Council over a government organization, activity or function, the Borough's accountability for the activity's fiscal matters, its scope of public service and the nature of any special financing relationships which may exist between the Borough and a given government activity. There are no agencies or organizations that require reporting in the Borough financial statements.

**BOROUGH OF TRAPPE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

Related Organizations:

The Borough of Trappe appoints members to the governing board of the following:

1. Collegeville-Trappe Joint Public Works Department – three of the six members of the governing board are appointed by Trappe. The Department provides water service and public works service to the residents of Trappe.
2. Collegeville-Trappe Municipal Authority – three of the six members of the governing board are appointed by Trappe. The Authority provides sewer service to residents of Trappe.

The provisions have not been met regarding component units, therefore, the above organizations are not included in the financial statements of the Borough of Trappe.

Basic Financial Statements – Government-Wide Statements:

The Borough's basic financial statements include both government-wide (reporting the Borough as a whole) and fund financial statements (reporting the Borough's major funds). The Borough's public safety, parks, and recreation, public works, and general administrative services are classified as governmental activities.

In the government-wide Statement of Net Position, the governmental activities (a) are presented on a consolidated basis by column and (b) are reported on the modified cash basis of accounting, which recognizes all long term assets as well as long term debt and obligations. The Borough's net position are reported in three parts – Invested in capital assets, net of related debt; Restricted for state liquid fuels funds and open space funds; and Unrestricted net position.

The government-wide Statement of Activities reports both the gross and net cost of each of the Borough's functions (fire, public works, etc.). The functions are also supported by general government revenues (earned income taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (public works, etc.).

The net costs (by function) are normally covered by general revenue (earned income taxes, franchise fees, intergovernmental revenues, interest income, etc.).

The Borough does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Borough as an entity and the change in the Borough's net position resulting from the current year's activities.

**BOROUGH OF TRAPPE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**Note 1 – Summary of Significant Accounting Policies (Continued):**

Basic Financial Statements – Fund Financial Statements:

The financial transactions of the Borough are reported in individual fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the Borough:

1. Governmental Funds – The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Borough:
  - a. **General fund** is the general operating fund of the Borough. It is used to account for all financial resources except those required to be accounted for in another fund.
  - b. **Capital projects fund** is used to account for financial resources to be used for the acquisition of capital assets and equipment or construction of major capital facilities.
  - c. **Special revenue funds** are used to account for the proceeds of specific revenue sources (other than capital projects) that are legally or administratively restricted to expenditures for specified purposes. The Borough only has one **Special revenue fund** which is used to account for state liquid fuel funds and specific expenditures related to that revenue.
  - d. **Open space fund** is used to account for financial resources to be used for the purchase of open space or improvements to the parks of the Borough.

The **Special revenue and Open space funds** of the Borough are not major funds and are reported in the **Other governmental funds** column in the fund financial statement.

2. Fiduciary Funds – The funds are used to report assets held in a trustee or agency capacity for others and, therefore, are not available to support Borough programs.
  - a. **Agency fund** is used to account for funds posted by developers who have projects in progress in the Borough. The funds are used to pay legal, engineering, and administrative costs incurred by the Borough relating to those projects.

Cash and Cash Equivalents:

The Borough considers cash and cash equivalents to include cash on hand and demand deposits.

**BOROUGH OF TRAPPE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**Note 1 – Summary of Significant Accounting Policies (Continued):**

Budget:

The Borough Council adheres to the following procedures in establishing the budgets reflected in the financial statements:

1. Beginning at least 30 days prior to adoption of the budget, a proposed budget for the ensuing year shall be prepared in a manner designated by Council. The proposed budget shall be kept on file with the borough secretary and made available for public inspection for a period of 10 days.
2. Notice that the proposed budget is available for inspection must be published in a newspaper of general circulation in the Borough and posted during the 10 day period noted in item 1.
3. After 10 days, Council shall adopt the budget no later than December 31 and file it with the Pennsylvania Department of Community and Economic Development.
4. Annual budgets are generally adopted for the general fund.
5. For budgetary purposes, appropriations lapse at the end of each year.
6. The budget is prepared on the modified cash basis of accounting.
7. The budget was not amended during 2013.

**Note 2 – Deposits:**

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of governmental funds for investment purposes.

The Borough does not have a formal deposit and investment policy but adheres to state statutes and prudent business practice. Governmental funds' amounts are either maintained in demand deposits, highly liquid money market funds, and certificates of deposit. They are captioned as "cash" in the statement of net position. These amounts are stated at cost which approximates market. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the Borough.

**BOROUGH OF TRAPPE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**Note 2 – Deposits (Continued):**

Deposits:

Concentration of Credit Risk – At December 31, 2013, 36% of the balances shown as cash on the Borough’s balance sheets were held by PNC Bank; 16% were held by Superior Credit Union; 16% by Citadel Credit Union; 16% by TruMark Financial Credit Union; and 16% were held by Continental Bank.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a bank failure, the Borough’s deposits may not be returned to it. The Borough follows state statutes as they relate to custodial credit risk. As of December 31, 2013, the Borough’s total bank balances of \$1,917,454 were exposed to custodial credit risk as follows:

Balances subject to FDIC Insurance .....	\$ 745,000
Balances subject to NCUS Insurance .....	742,147
Balances uninsured and collateralized with securities held by PNC Bank and Superior Credit Union .....	<u>430,307</u>
<b>TOTAL .....</b>	<b><u>\$ 1,917,454</u></b>

**Note 3 – Certificates of Deposit:**

Certificates of deposit consisted of the following at December 31, 2013:

<u>Financial Institution</u>	<u>Maturity Date</u>	<u>Interest</u>	<u>Balance 12/31/13</u>
Superior Credit Union	1/2/14	2.25%	\$ 256,245
Citadel F.C.U.	3/5/14	2.28%	244,000
Continental Bank	1/7/14	1.99%	<u>245,000</u>
			<u>\$ 745,245</u>

The above certificates of deposit were not renewed when they matured.

**Note 4 – Capital Assets:**

Capital assets purchased or acquired with an original cost of \$2,000 or more and infrastructure construction of \$25,000 or more are reported at historical cost or estimated historical costs. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Capital assets are reported in the government-wide statement of net position, but are not reported in the fund financial statements. Capital assets are expensed in the fund financial statement.

**BOROUGH OF TRAPPE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**Note 4 – Capital Assets (Continued):**

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	15 – 30 years
Equipment	5 – 15 years
Infrastructure	25 years

**Changes in Capital Assets:**

The following is a summary of changes in capital assets for the year ended December 31, 2013:

	Primary Government			Ending Balance
	Beginning Balance	Increases	Decreases	
Capital assets not being depreciated:				
Infrastructure-work in progress	\$ 68,116	\$ 17,564	\$ _____	\$ 85,680
Capital assets:				
Buildings.....	606,331			606,331
Equipment.....	75,718	15,750		91,468
Infrastructure .....	<u>506,840</u>	<u>347,802</u>		<u>854,642</u>
Total Capital Assets at Historical Cost.....	<u>1,188,889</u>	<u>363,552</u>	<u>0</u>	<u>1,552,441</u>
Less accumulated depreciation:				
Building .....	(164,236)	(26,971)		(191,207)
Equipment.....	(14,558)	(7,033)		(21,591)
Infrastructure.....	<u>(10,137)</u>	<u>(20,353)</u>		<u>(30,490)</u>
Total Accumulated Depreciation .....	<u>(188,931)</u>	<u>(54,357)</u>	<u>0</u>	<u>(243,288)</u>
Other capital assets, net .....	<u>999,958</u>	<u>309,195</u>	<u>0</u>	<u>1,309,153</u>
 Total Capital Assets, Net .....	 <u>\$1,068,074</u>	 <u>\$ 326,759</u>	 <u>\$ _____</u>	 <u>\$ 1,394,833</u>

**Depreciation Expense:**

Depreciation expense was charged to functions of the Borough as follows:

General government.....	\$ 22,381
Public works .....	20,354
Recreation and parks.....	<u>11,622</u>
	<u>\$ 54,357</u>

**BOROUGH OF TRAPPE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**Note 4 – Capital Assets (Continued):**

Infrastructure work in progress at December 31, 2013 consists of the following:

Main Street Revitalization Survey and Engineering.....	\$ 55,092
Borough Line Road Project Engineering .....	28,800
Peck’s Trail Engineering .....	<u>1,788</u>
	<u>\$ 85,680</u>

**Note 5 – Government-Wide Net Position:**

Government-wide net position is divided into three components:

- Net investment in capital assets – consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.
- Restricted net position – consist of assets that are restricted by the Borough’s creditors (for example, through debt covenants), by state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.
- Unrestricted – all other net position is reported in this category.

**Note 6 – Fund Balance:**

In accordance with GASB 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Borough classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because they are not in spendable form or because of legal contractual constraints. Presently the Borough has no non-spendable fund balances.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors, grantors or amounts constrained due to enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the Borough through formal action of the Council. Presently the Borough has no committed fund balances.

**BOROUGH OF TRAPPE**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**Note 6 – Fund Balance (Continued):**

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by Borough Council.

Unassigned – includes positive fund balances within the General Fund which have not been classified within the above mentioned categories and negative fund balances in other governmental funds.

**Note 7 – Use of Restricted Resources:**

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Borough's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the Borough's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications-committed and then assigned fund balances if there are any before using unassigned fund balances.

**Note 8 – Real Estate Taxes:**

Beginning in 2013 the Borough adopted a real estate tax of .47 mills. Real estate taxes are levied in January. Liens are placed on uncollected taxes by January 15<sup>th</sup> of the following year. The Borough uses a tax collector to make collections throughout the year. Due to the Borough being on the modified cash basis, real estate taxes are recognized when collected.

**Note 9 – Earned Income Taxes:**

The Borough's main source of tax revenue is from earned income taxes. Borough residents currently pay a 1.4% earned income tax, but .9% of that is collected for the Perkiomen Valley School District.

**Note 10 – Interfund Activity:**

Interfund activity is reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. All other interfund transactions are treated as transfers. Transfers between governmental funds are netted as part of the reconciliations to the government-wide financial statements.

**BOROUGH OF TRAPPE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**Note 10 – Interfund Activity (Continued):**

Interfund receivables and payables at December 31, 2013 were as follows:

<u>Funds</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$	\$ 578,466
Capital Projects Fund	<u>578,466</u>	
<b>Total All Funds</b>	<b>\$ <u>578,466</u></b>	<b>\$ <u>578,466</u></b>

The above interfund receivables and payables are a result of pooling of cash in the General Fund to maximize investment earnings.

Individual fund operating transfers for the year ended December 31, 2013 were as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$	\$ 37,000
Capital Projects Fund	<u>37,000</u>	
<b>Total All Funds</b>	<b>\$ <u>37,000</u></b>	<b>\$ <u>37,000</u></b>

Transfers were made to move funds to the Municipal Services Capital Project Fund for future use.

**Note 11 – Contingent Liability: Collegetville-Trappe Joint Public Works Department (CTJPWD) Pension:**

In December, 2010, the Boroughs of Trappe and Collegetville entered into an agreement which includes a provision whereby each Borough agrees to assume 50% of the financial responsibility for the pension liability of each CTJPWD employee in the event Collegetville’s pension plan, which includes the CTJPWD employees, becomes “financially insolvent to make payments as required”. In addition, the agreement provides that in the event Collegetville’s pension plan is liquidated, any overfunded balance attributed to CTJPWD employees shall be paid equally to the Boroughs of Trappe and Collegetville.

As of the actuarial valuation date of January 1, 2013, the Collegetville’s pension plan has an unfunded liability of \$353,223. The Borough’s obligation if the plan were liquidated is estimated to be \$130,357.

## **SUPPLEMENTARY INFORMATION**

**BOROUGH OF TRAPPE**  
**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**  
**YEAR ENDED DECEMBER 31, 2013**

	Budget Original and Final	<u>Actual Amounts</u>	Variance Positive (Negative)
<b><u>Revenues:</u></b>			
Taxes and penalties .....	\$ 924,067	\$ 1,032,751	\$ 108,684
Charges of services.....	17,275	20,054	2,779
Intergovernmental revenues .....	34,275	39,046	4,771
License and permits.....	97,779	129,535	31,756
Interest and rents .....	44,550	96,121	51,571
Fines and forfeitures.....	1,100	1,611	511
Miscellaneous.....	<u>9,980</u>	<u>8,740</u>	<u>(1,240)</u>
Total Revenues .....	<u>1,129,026</u>	<u>1,327,858</u>	<u>198,832</u>
<b><u>Expenditures:</u></b>			
General government .....	378,781	289,166	89,615
Public safety .....	95,075	108,828	(13,753)
Refuse collection .....	277,700	271,853	5,847
Public works.....	262,700	104,898	157,802
Recreation and parks .....	34,803	29,858	4,945
Capital outlays.....	491,660	381,146	110,514
Insurance .....	<u>37,719</u>	<u>33,723</u>	<u>3,996</u>
Total Expenditures .....	<u>1,578,438</u>	<u>1,219,472</u>	<u>358,966</u>
<b>Excess (Deficiency) of Revenues Over Expenditures .....</b>	<u>(449,412)</u>	<u>108,386</u>	<u>557,798</u>
<b><u>Other Financing Sources (Uses):</u></b>			
Operating transfers out .....	<u>(37,000)</u>	<u>(37,000)</u>	<u>          </u>
Total Other Financing Sources (Uses).....	<u>(37,000)</u>	<u>(37,000)</u>	<u>          </u>
<b>Net Change in Fund Balance .....</b>	(486,412)	71,386	557,798
<b>FUND BALANCE - BEGINNING .....</b>	<u>760,900</u>	<u>760,900</u>	<u>0</u>
<b>FUND BALANCE - ENDING .....</b>	<u>\$ 274,488</u>	<u>\$ 832,286</u>	<u>\$ 557,798</u>

(See note to budgetary comparison schedule.)

**BOROUGH OF TRAPPE**  
**NOTE TO BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**  
**DECEMBER 31, 2013**

**Note 1 – Funds and Basis of Accounting:**

The Budgetary Comparison Schedule is presented for the General Fund of the Borough, the main governmental operating fund. It is prepared on the modified cash basis of accounting.