

**BOROUGH OF TRAPPE
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015**

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, 2015, 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.

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. 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 auditors' 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 auditors consider 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, 2015, 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 opinions are not modified with respect to that matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough of Trappe's basic financial statements. The management's discussion and analysis and budgetary comparison information on pages 3 through 12 and 28 through 29, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



STYER ASSOCIATES
Certified Public Accountants

June 8, 2016
Souderton, Pennsylvania

**BOROUGH OF TRAPPE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

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, 2015. 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 \$3,874,836 (*net position*). Of this amount, \$1,446,257 (*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 \$465,920 for the year ending December 31, 2015.
- As of the close of the current year, the Borough's governmental funds reported combined ending fund balances of \$1,528,205, a decrease of \$142,430 in comparison with the prior year. 63% 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 \$980,078, or 80% of general 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 how the Borough may have used previously accumulated funds.

**BOROUGH OF TRAPPE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

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 13 through 14 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 statement of assets, liabilities, and fund balance 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 19 through 27 of this report.

**BOROUGH OF TRAPPE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

Other information:

In addition to the basic financial statements and accompanying notes, this report also presents supplementary information concerning budgetary comparisons for the general fund. Supplementary information can be found on pages 28 and 29 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 \$3,874,836 at the close of the most recent fiscal year. A large portion of the Borough's net position, \$2,346,631 (61% 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, 2015 AND 2014**

	<u>Governmental Activities</u>	<u>Governmental Activities</u>
	<u>2015</u>	<u>2014</u>
Current and other assets.....	\$ 1,528,229	\$ 1,670,635
Capital assets.....	<u>2,346,631</u>	<u>1,738,281</u>
Total assets.....	<u>3,874,860</u>	<u>3,408,916</u>
Other liabilities	<u>24</u>	<u>0</u>
Total liabilities	<u>24</u>	<u>0</u>
Net position:		
Invested in capital assets.....	2,346,631	1,738,281
Restricted	81,948	154,930
Unrestricted.....	<u>1,446,257</u>	<u>1,515,705</u>
Total net position	<u>3,874,836</u>	<u>3,408,916</u>
TOTAL LIABILITIES AND NET POSITION.....	<u>\$ 3,874,860</u>	<u>\$ 3,408,916</u>

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, 2015**

As noted previously, the Borough's net position increased by \$465,920.

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

**CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2015 AND 2014**

	Governmental <u>Activities</u>	Governmental <u>Activities</u>
	<u>2015</u>	<u>2014</u>
<u>Revenues:</u>		
Program revenues:		
Charges for services.....	\$ 138,894	\$ 172,296
Grants and contributions.....	138,066	121,558
General revenues:		
Property taxes	113,155	105,727
Earned income taxes	762,193	767,259
Other taxes	274,536	266,463
Investment earnings	<u>7,420</u>	<u>8,777</u>
Total Revenues	<u>1,434,264</u>	<u>1,442,080</u>
<u>Expenses:</u>		
General government.....	340,070	342,149
Public safety.....	121,593	97,137
Refuse	215,983	215,977
Public works	219,706	211,024
Recreation and parks.....	32,191	44,151
Other expenses	<u>38,801</u>	<u>40,415</u>
Total Expenses	<u>968,344</u>	<u>950,853</u>
Increase in net position.....	465,920	491,227
NET POSITION – BEGINNING	<u>3,408,916</u>	<u>2,917,689</u>
NET POSITION – ENDING.....	<u>\$ 3,874,836</u>	<u>\$ 3,408,916</u>

**BOROUGH OF TRAPPE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

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 governmental funds reported an ending fund balance of \$1,528,205 a decrease of \$142,430 in comparison with the prior year.

At the end of the current fiscal year, unassigned fund balance of the General Fund was \$967,628. As a measure of the General Fund's liquidity, the fund balance represents 80% of the total General Fund expenditures.

Capital Assets

Capital Assets:

The Borough's investment in capital assets for its governmental activities as of December 31, 2015, amounts to \$2,346,631 (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:

	Governmental <u>Activities</u>	Governmental <u>Activities</u>
	<u>2015</u>	<u>2014</u>
Infrastructure – work in progress.....	\$ 68,927	\$ 56,879
Buildings.....	453,546	464,248
Equipment.....	51,611	60,744
Infrastructure.....	<u>1,772,547</u>	<u>1,156,410</u>
Total.....	<u>\$ 2,346,631</u>	<u>\$ 1,738,281</u>

Additional information on the Borough's capital assets can be found in Note 3 on pages 23 and 24 of this report.

**BOROUGH OF TRAPPE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

Economic Factors and Next Year's Budgets and Rates

Revenues

The Real Estate Tax of .47 mills has remained the same since its reintroduction in 2013. The 2016-2020 Budget assumes \$110,809 in real estate tax income for 2016 and thereafter increases property value and taxes one percent (1%) annually.

Real Estate Transfer Tax includes a one-half percent (0.5%) tax on the sales price of real estate in the Borough. 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 the Perkiomen Valley School District.) The amount of 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 2016 Budget assumes real estate transfer taxes of \$120,000 based on annualizing the actual receipts for the ten months ended October 31, 2015. The Borough is increasing the projected receipts of this tax by two percent (2%) for 2017 through 2020. The real estate market will be monitored and the Real Estate Transfer Tax estimates for future budget years will be revised, as conditions warrant.

The Budget also assumes Real Estate Transfer Taxes receipts from the 33-townhome Main Street Crossing development, per the below schedule:

- ▶ 14 townhomes projected to settle in 2016 and
- ▶ 19 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 \$775,000 budgeted for 2016 is derived by increasing the 12 months ending October 31, 2015 tax collected by approximately two percent (2%). The budget assumes an annual three percent (3%) increase in earned income tax for the following four years.

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 paid to the Tax Collection Officer decreased effective January 1, 2015 from 1.39% to 1.3%.

**BOROUGH OF TRAPPE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

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 \$62,500 budgeted for 2016 is approximately equal to the average of the actual collections for the 12 months ended October 31, 2015 and the annualized taxes collected for the first ten months of 2015. The budget for the subsequent four years allows for a half a percent (.005%) annual increase. The 2016-2020 Budget assumes a collection fee of one and three-quarter percent (1.75%), plus postage costs, pursuant to the current Montgomery County Tax Collection Committee's Agreement with Berkheimer

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 2016 Budget is derived by increasing the estimated 2015 income two percent (2%). It is anticipated that cable revenues, and the franchise fees paid to the Borough, will increase annually during the upcoming four years by a like percentage. The Trappe Television channel began operation in 2011. This did not add revenue nor did it add cable costs to broadcast the channel.

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 generally are reviewed on an annual basis, relative to actual costs incurred during the previous twelve months, and fee adjustments are made, when warranted.

**BOROUGH OF TRAPPE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

The 2016 Budget assumes a substantial increase in building permit fees due to the expected building of 33 townhouses at Main Street Crossing: 14 in 2016 and 19 in 2017. The estimated building costs are \$150,000 for each of the 33 townhomes to be constructed.

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. The budgets assume the following interest rates on opening balances in the general fund: 2016 .8%, 2017 1%, 2018 2% and 2019-2020 3%. 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 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 2015, there were two retail alcohol licenses in the Borough. The number of retail licenses, and the fee, are not expected to change in the upcoming five years.

The Borough receives an annual 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. The contribution is estimated to increase \$5,000 to \$65,000 in 2016 and remain at that level through 2020.

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

In 2014, the Borough received a DEP Recycling Grant in the amount of \$6,659. The grant anticipated for 2015 was not received until 2016 in the amount of \$5,119. The 2016-2020 Budget reflects \$3,700 per year in DEP Recycling Grants. Other grants are generally applied for, but not budgeted until awarded and approved by Trappe Council.

A \$38,000 grant from the Department of Environmental Protection was awarded to Trappe as partial funding for Rambo Park trail link to Main Street anticipated to be constructed in 2016.

**BOROUGH OF TRAPPE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

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 2015, 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 2016 - 2020 Budget assumes \$1,200 of annual receipts.

Expenditures

In 2015, Trappe Borough repaved East 7th Avenue at a cost of \$326,939 and a portion of Cherry Avenue for \$120,032. A large storm sewer was relined or replaced as required, from Clahor Avenue to a basin near 1st Avenue, at a cost of \$231,886. Due to the large amount of this item, \$193,036 of remaining Capital Project Funds were used. Lastly, some outside concrete paving and the heating and air conditioning system for the office area of Trappe Borough Hall were replaced at a cost of \$15,987. Total capital expenditures for the year were \$706,892.

The most costly projected expense of the Borough over the next five years is road maintenance. These expenditures are provided for in the General Fund, Liquid Fuels Fund and in 2015 from the Capital Reserve Fund. Some of the significant annual projected construction costs are as follows:

2016 - Joan Drive \$164,595

2016 - Linden Drive \$90,773

2016 - Trappe's share of Borough Line Road from North Borough Line Road to West 7th Avenue \$77,647

2016 - West 1st Avenue storm sewer line replacement \$55,695

2017 - Clahor Avenue from 3rd Avenue to Zvarick Road \$293,955

2017 - Betcher Road \$75,000

2018 - West 1st Avenue \$334,897

2019 - Ash Street, Holly Drive, Linden Street and Trappe's share of North Borough Line Road \$228,173.

Roads are evaluated at least annually and the five-year plan is modified based on noted road condition changes.

**BOROUGH OF TRAPPE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

The Borough has budgeted snow removal and related salt costs at \$93,220 for 2016, \$93,617 for 2017, \$94,025 for 2018, \$44,446 for 2019 and \$44,879 for 2022. Not every year will be as costly as recent years. As we cannot predict which years will be significantly lower in cost we show lower costs only in the two outer years of the planning horizon.

The Borough contracts with a private vendor for the collection and disposal of waste and recyclable materials at residential properties possessing four or fewer units. Including all contract option years, the Borough has a solid waste disposal contract through June 30, 2019. Projected expenses are as follows: \$215,983 for 2016, \$222,815 for 2017, \$232,518 for 2018, \$247,159 for 2019 and \$259,517 for 2020.

Salaries and Benefits include a Borough Manager, Secretary and a part time independently contracted Treasurer. Projected expenses are as follows: \$162,371 for 2016, \$170,524 for 2017, \$176,833 for 2018, \$183,486 for 2019 and \$190,514 for 2020.

Trappe Borough is the prime cash funding source of Trappe Fire Company No. 1's volunteer fire division. The average annual Trappe funding planned is as follows: 2016-2018 \$174,858 and 2019-2020 \$135,813. This includes an additional \$43,000 per year in 2016-2018 set aside for anticipated replacement of the fire division's radio system. These expenses could be less if other municipalities contribute a larger share of the fire capital and operating costs.

The 2016 budget total of \$173,357 includes an \$80,000 transfer to the municipal capital fund from the general fund, a \$38,000 direct contribution to the fire company, the annual Fire Relieve Association contribution funded by state taxes on insurance premiums of \$30,303 and \$25,054 of workers' compensation and vehicle liability insurance premiums.

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, 2015

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash	\$ 1,528,229
Capital Assets:	
Other capital assets, net of depreciation	<u>2,346,631</u>
Total Capital Assets.....	<u>2,346,631</u>
TOTAL ASSETS.....	\$ <u>3,874,860</u>
<u>LIABILITIES</u>	
Due to agency fund	\$ <u>24</u>
Total Liabilities	<u>24</u>
<u>NET POSITION</u>	
Invested in capital assets.....	2,346,631
Restricted for:	
State liquid fuels funds	18,894
Open space.....	63,054
Unrestricted.....	<u>1,446,257</u>
Total Net Position.....	<u>3,874,836</u>
TOTAL LIABILITIES AND NET POSITION	\$ <u>3,874,860</u>

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, 2015

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Total</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
General government.....	\$ 340,070	\$ 65,424	\$ 1,618	\$ (273,028)	
Public safety.....	121,593	66,203	30,003	(25,387)	
Refuse collection.....	215,983			(215,983)	
Public works	219,706	2,319	81,294	(136,093)	
Recreation and parks.....	32,191	4,948	16,355	(10,888)	
Insurance.....	38,801	8,796	<u>8,796</u>	(30,005)	
Total Activities	<u>968,344</u>	<u>138,894</u>	<u>138,066</u>	<u>(691,384)</u>	

General Revenues

Taxes:	
Property taxes, levied for general purposes	113,155
Earned income taxes	762,193
Local services taxes	69,383
Real estate transfer taxes.....	112,749
Franchise fees	92,404
Investment earnings	<u>7,420</u>
Total General Revenues.....	<u>1,157,304</u>

Change in Net Position

465,920

Net Position – Beginning

3,408,916

Net Position – Ending

\$ 3,874,836

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, 2015

	<u>General</u>	<u>Capital Projects Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS:</u>				
Cash.....	\$ 1,446,281	\$	\$ 81,948	\$ 1,528,229
Due from other funds	<u> </u>	<u>466,179</u>	<u> </u>	<u>466,179</u>
TOTAL ASSETS.....	<u>\$ 1,446,281</u>	<u>\$ 466,179</u>	<u>\$ 81,948</u>	<u>\$ 1,994,408</u>
<u>LIABILITIES AND FUND BALANCES:</u>				
<u>Liabilities:</u>				
Due to other funds.....	\$ 466,203	\$	\$	\$ 466,203
Total Liabilities	<u>466,203</u>	<u>0</u>	<u>0</u>	<u>466,203</u>
<u>Fund Balances:</u>				
Restricted for:				
State liquid fuels funds.....			18,894	18,894
Open space			63,054	63,054
Assigned for:				
Capital expenditures.....		466,179		466,179
Unassigned	<u>980,078</u>	<u> </u>	<u> </u>	<u>980,078</u>
Total Fund Balances.....	<u>980,078</u>	<u>466,179</u>	<u>81,948</u>	<u>1,528,205</u>
TOTAL LIABILITIES AND FUND BALANCES.....	<u>\$ 1,446,281</u>	<u>\$ 466,179</u>	<u>\$ 81,948</u>	

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>2,346,631</u>
	<u>\$ 3,874,836</u>

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, 2015

	<u>General</u>	<u>Capital Projects Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Taxes, penalties, and interest.....	\$ 1,057,480	\$	\$	\$ 1,057,480
Charges for services	12,778			12,778
Intergovernmental revenues	40,417		81,294	121,711
Licenses and permits	156,244			156,244
Interest and rents	64,184	3,174	62	67,420
Fines and forfeitures.....	2,277			2,277
Miscellaneous.....	16,155		200	16,355
Total Revenues.....	<u>1,349,535</u>	<u>3,174</u>	<u>81,556</u>	<u>1,434,265</u>
Expenditures:				
General government	310,273			310,273
Public safety	121,594			121,594
Refuse collection	215,983			215,983
Public works.....	122,445		34,538	156,983
Recreation and parks	26,169			26,169
Capital outlays.....	393,856	193,036	120,000	706,892
Insurance	38,801			38,801
Total Expenditures	<u>1,229,121</u>	<u>193,036</u>	<u>154,538</u>	<u>1,576,695</u>
Excess (Deficiency) of Revenues				
Over Expenditures	<u>120,414</u>	<u>(189,862)</u>	<u>(72,982)</u>	<u>(142,430)</u>
Other Financing Sources (Uses):				
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>
Net Change in Fund Balances	83,414	(152,862)	(72,982)	(142,430)
FUND BALANCES – BEGINNING.....	<u>896,664</u>	<u>619,041</u>	<u>154,930</u>	<u>1,670,635</u>
FUND BALANCES – ENDING	<u>\$ 980,078</u>	<u>\$ 466,179</u>	<u>\$ 81,948</u>	<u>\$ 1,528,205</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, 2015

Net change in fund balances – total governmental funds \$(142,430)

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 (\$706,892) exceeded depreciation (\$98,542) in the current period. 608,350

Change in net position of governmental activities \$ 465,920

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, 2015

<u>Assets:</u>	<u>Agency Fund</u>
Cash	\$ 9,384
Due from other funds	<u>24</u>
TOTAL ASSETS	<u>\$ 9,408</u>
<u>Liabilities:</u>	
Escrow deposits	\$ <u>9,408</u>
TOTAL LIABILITIES	<u>\$ 9,408</u>

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

BOROUGH OF TRAPPE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

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 governmental 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, 2015

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

Related Organizations:

The Borough of Trappe appoints members to the governing boards 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 is reported in three parts – Invested in capital assets; 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 (property and 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 (property and 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, 2015

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 statements.

2. Fiduciary Funds – These 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, demand deposits, bank savings and money market accounts, and certificate of deposit accounts.

BOROUGH OF TRAPPE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

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 2015.

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, 2015**

Note 2 – Deposits (Continued):

Deposits:

Concentration of Credit Risk – At December 31, 2015, 52% of the balances shown as cash on the Borough’s balance sheets were held by Customers Bank; 16% were held by First Cornerstone Bank; 16% by Citadel Credit Union; and 16% were held by Ambler Savings 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, 2015, the Borough’s total bank balances of \$1,656,798 were exposed to custodial credit risk as follows:

Balances subject to FDIC Insurance	\$ 743,387
Balances subject to NCUS Insurance	242,312
Balances uninsured and collateralized with letter of credit provided by Customers Bank.....	<u>671,099</u>
TOTAL	\$ <u>1,656,798</u>

Note 3 – 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.

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

BOROUGH OF TRAPPE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 3 – Capital Assets (Continued):

Changes in Capital Assets:

The following is a summary of changes in capital assets for the year ended December 31, 2015:

	Primary Government			Ending Balance
	Beginning Balance	Increases	Decreases	
Capital assets not being depreciated:				
Infrastructure-work in progress	\$ 56,879	\$ 12,048	\$ _____	\$ 68,927
Capital assets:				
Buildings	683,300	15,987		699,287
Equipment	91,468			91,468
Infrastructure	<u>1,228,564</u>	<u>678,857</u>		<u>1,907,421</u>
Total Capital Assets at Historical Cost	<u>2,003,332</u>	<u>694,844</u>	<u>0</u>	<u>2,698,176</u>
Less accumulated depreciation:				
Building	(219,052)	(26,689)		(245,741)
Equipment	(30,724)	(9,133)		(39,857)
Infrastructure	<u>(72,154)</u>	<u>(62,720)</u>		<u>(134,874)</u>
Total Accumulated Depreciation	<u>(321,930)</u>	<u>(98,542)</u>	<u>0</u>	<u>(420,472)</u>
Other capital assets, net	<u>1,681,402</u>	<u>596,302</u>	<u>0</u>	<u>2,277,704</u>
 Total Capital Assets, Net	 <u>\$1,738,281</u>	 <u>\$ 608,350</u>	 <u>\$ _____</u>	 <u>\$2,346,631</u>

Depreciation Expense:

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

General government	\$ 29,800
Public works	62,720
Recreation and parks	<u>6,022</u>
	<u>\$ 98,542</u>

Infrastructure work in progress at December 31, 2015 consists of the following:

Main Street Revitalization Survey and Engineering	\$ 55,092
West First Avenue Stormwater Engineering	12,048
Rambo Trail Engineering	<u>1,787</u>
	<u>\$ 68,927</u>

BOROUGH OF TRAPPE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 4 – 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 5 – 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’s non-spendable fund balances relate to prepaid payroll costs.

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.

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.

BOROUGH OF TRAPPE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note 6 – 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 7 – Real Estate Taxes:

Real estate taxes are levied in January at .47 mills. Liens are placed on uncollected taxes by January 15th 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 8 – 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 9 – 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.

Interfund receivables and payables at December 31, 2015 were as follows:

<u>Funds</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$	\$ 478,653
Capital Projects Fund	478,629	
Agency Fund	24	
Total All Funds	<u>\$ 478,653</u>	<u>\$ 478,653</u>

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

**BOROUGH OF TRAPPE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

Note 9 – Interfund Activity (Continued):

Individual fund operating transfers for the year ended December 31, 2015 were as follows:

Fund	Transfer In	Transfer Out
General Fund	\$	\$ 37,000
Capital Projects Fund	37,000	
Total All Funds	\$ 37,000	\$ 37,000

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

Note 10 – Contingent Liability: Collegeville-Trappe Joint Public Works Department (CTJPWD) Pension:

In December, 2010, the Boroughs of Trappe and Collegeville 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 Collegeville’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 Collegeville’s pension plan is liquidated, any overfunded balance attributed to CTJPWD employees shall be paid equally to the Boroughs of Trappe and Collegeville.

As of the actuarial valuation date of January 1, 2015, Collegeville’s pension plan had an unfunded liability of \$355,310. The Borough’s obligation if the plan were liquidated is estimated to be \$125,922.

Note 11 – Subsequent Event Litigation Settlement:

In March of 2016, the Borough settled litigation with College Woods Homeowners Association. The settlement requires the Borough to accept dedication of streets and emergency access easements and to pay the Homeowners Association \$53,000 for past expenses.

SUPPLEMENTARY INFORMATION

BOROUGH OF TRAPPE
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
YEAR ENDED DECEMBER 31, 2015

	Budget Original and Final	<u>Actual Amounts</u>	Variance Positive (Negative)
<u>Revenues:</u>			
Taxes, penalties, and interest.....	\$1,046,367	\$ 1,057,480	\$ 11,113
Charges for services	12,087	12,778	691
Intergovernmental revenues	36,363	40,417	4,054
Licenses and permits	138,120	156,244	18,124
Interest and rents	63,753	64,184	431
Fines and forfeitures.....	1,500	2,277	777
Miscellaneous.....	<u>8,593</u>	<u>16,155</u>	<u>7,562</u>
Total Revenues.....	<u>1,306,783</u>	<u>1,349,535</u>	<u>42,752</u>
<u>Expenditures:</u>			
General government	333,672	310,273	23,399
Public safety	104,366	121,594	(17,228)
Refuse collection.....	215,983	215,983	
Public works.....	124,358	122,445	1,913
Recreation and parks	36,008	26,169	9,839
Capital outlays.....	702,989	393,856	309,133
Insurance	<u>35,718</u>	<u>38,801</u>	<u>(3,083)</u>
Total Expenditures	<u>1,553,094</u>	<u>1,229,121</u>	<u>323,973</u>
Excess (Deficiency) of Revenues			
Over Expenditures	<u>(246,311)</u>	<u>120,414</u>	<u>366,725</u>
<u>Other Financing Sources (Uses):</u>			
Operating transfers out.....	<u>(37,000)</u>	<u>(37,000)</u>	
Total Other Financing Sources (Uses).....	<u>(37,000)</u>	<u>(37,000)</u>	
Net Change in Fund Balance	(283,311)	83,414	366,725
FUND BALANCE - BEGINNING	<u>896,664</u>	<u>896,664</u>	<u>0</u>
FUND BALANCE - ENDING	<u>\$ 613,353</u>	<u>\$ 980,078</u>	<u>\$ 366,725</u>

(See note to budgetary comparison schedule.)

BOROUGH OF TRAPPE
NOTE TO BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
DECEMBER 31, 2015

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.