

**BOROUGH OF PHOENIXVILLE**  
**ANNUAL FINANCIAL REPORT**  
*Year Ended December 31, 2017*



*Certified Public Accountants and Business Consultants*

## **INTRODUCTORY SECTION**

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## **FINANCIAL SECTION**

## ***Independent Auditors' Report***

To the Members of Council  
Borough of Phoenixville  
Phoenixville, Pennsylvania

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Borough of Phoenixville as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Borough of Phoenixville's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 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.

To the Members of Council  
Borough of Phoenixville  
Phoenixville, Pennsylvania

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Borough of Phoenixville as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 17, budgetary comparison information on page 59, pension plan information on pages 60 through 65 and postemployment benefits other than pension funding progress on page 66 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough of Phoenixville's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

To the Members of Council  
Borough of Phoenixville  
Phoenixville, Pennsylvania

The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Maullio LLP*

Oaks, Pennsylvania  
June 5, 2018

**BOROUGH OF PHOENIXVILLE**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2017

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This discussion and analysis of the Borough of Phoenixville's financial performance provides an overview of the Borough's financial activities for the fiscal year ended December 31, 2017. The intent of this discussion and analysis is to look at the Borough's financial performance as a whole. Please read it in conjunction with the Borough's basic financial statements, which begin on page 18.

**FINANCIAL HIGHLIGHTS**

- The assets of the Borough of Phoenixville exceeded its liabilities at the close of the most recent fiscal year by \$57,165,330 (representing its net position). Of this amount, \$21,078,682 (or its unrestricted net position) may be used to meet the government's ongoing obligations to its citizens and creditors.
- The Borough's total net position increased by \$3,106,659.
- As of December 31, 2017, the Borough's Governmental Funds reported combined ending fund balances of \$9,785,955, a decrease of \$1,341,067 as compared to the prior year. In 2017, the Borough internally funded the new Public Works Building and the LED Streetlights.
- The Borough's total Long-Term liabilities decreased by \$1,238,131 (as seen on page 44).
- The Borough, in 2017, segregated the parking and sanitation operations from governmental funds into separate enterprise funds in order to better reflect the purpose of the funds. For the solid waste fund, the Borough transferred \$780,807 of capital assets, \$1,041,869 of cash and cash equivalents, \$58,477 of accounts receivable, and \$(38,151) of accounts payable from governmental funds to the enterprise sanitation fund. For parking, the Borough transferred \$512,739 of capital assets from the general fund to the enterprise parking fund.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 18 and 19) provide information about the activities of the Borough as a whole and present a longer-term view of the Borough's finances. Fund financial statements start on page 20. For governmental activities, these statements explain how services were financed in the short term as well as what remains for future spending. The Governmental and Proprietary Funds financial statements also report the Borough's operations in more detail than the entity-wide statements by providing information about the Borough's most significant funds. The remaining statements provide financial information about activities for which the Borough acts solely as a trustee or agent for the benefit of those outside of the government.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The accompanying financial statements have been prepared in accordance with GASB Statement No. 34 and represent both entity-wide and fund level financial statements using both the accrual and modified accrual basis of accounting, respectively.

**BOROUGH OF PHOENIXVILLE**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2017

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**Entity-Wide Financial Statements**

The first two statements are entity-wide financial statements, the Statement of Net Position and the Statement of Activities. These provide both long-term and short-term information about the Borough's overall financial status.

The entity-wide statements report information about the Borough as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two entity-wide statements report the Borough's net position and how it has changed. Net position, the difference between the Borough's assets and liabilities, is one way to measure the Borough's financial health or position. In the long run, increases or decreases in the Borough's net position are an indication of whether its financial health is improving or deteriorating. To assess the overall health of the Borough, consideration must be made to additional nonfinancial factors, such as changes in the Borough's property tax base and the adequacy of Borough services.

Regarding the Borough's tax base, the Borough continues to experience targeted areas of new development and redevelopment of properties. Such development of a well-established Pennsylvania Borough is quite unusual and bodes well for the economic and fiscal base of the Borough.

The entity-wide financial statements of the Borough are divided into two categories:

- **Governmental Activities** - All of the Borough's basic services are included here, such as public safety, public works and administration. Property taxes and state grants and charges for services finance most of these activities.
- **Business-Type Activities** - The Borough runs a Waste Water Operations Fund, a Water Operations Fund, a Parking Operations Fund, and a Sanitation Operations Fund and charges fees to the customers of these enterprises for operational expenses.

**Fund Level Financial Statements**

The remaining statements are fund financial statements that focus on individual parts of the Borough's operations in more detail than the entity-wide statements. The Governmental Funds statements tell how the Borough's general services were financed in the short term as well as what remains for future spending. Proprietary Funds statements offer short term and long term information about the activities that the Borough operates like a business. Fiduciary Funds financial statements provide information about financial relationships where the Borough acts solely as a trustee or agent for the benefit of others.

- **Governmental Funds** - Most of the Borough's activities are reported in Governmental Funds, which focus on the determination of financial position and change in financial position, not on income determination. Governmental Funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Funds statements provide a detailed short-term view of the Borough's operations and the services it provides.

# BOROUGH OF PHOENIXVILLE

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2017

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Governmental Funds information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Borough's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and Governmental Funds is reconciled in the financial statements. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The Borough's Governmental Funds include the General Fund, the Debt Service Fund, the Pension Fund, the Recreation Fund, the Fire Fund and the Liquid Fuels Fund.

- **Proprietary Funds** - These funds are used to account for Borough activities that are similar to business operations in the private sector or where the reporting is on determining net income, financial position, changes in financial position and a significant portion of funding through user charges. When the Borough charges customers for services it provides, whether to outside customers or to other units in the Borough, these services generally are reported in the Proprietary Funds. The Borough's Proprietary Funds include the Water Fund, the Sewer Fund, the Parking Fund, and the Sanitation Fund.
- **Fiduciary Funds** - The Borough is the trustee, or fiduciary, for the Uniform (a.k.a. Police) and Non-Uniform Pension Plans and escrow funds. All of the Borough's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. These activities are excluded from the Borough's other financial statements because the Borough cannot use these assets to finance its operations.

### BUDGETING METHOD

The Borough continued budgeting as it did for the last couple of years; modified zero based budgeting and line item budgeting. Each department was required to justify any increases to the line items by listing specific new items or showing expected increases of cost of existing items. The Borough continued to allocate expenses to the sanitation, water, water distribution and waste water departments. The remaining administrative costs are reported in the General Fund in each of the respective administrative departments.

In addition, instead of using arbitrary percentages for allocating some expenses, mostly salaries and facility costs, the Borough did a time study of individuals who split their time between business-type activities and governmental activities. In doing so, the Borough allocated all administrative costs (legislative, executive, finance, information technology and main facility) to each department or business activity.

**BOROUGH OF PHOENIXVILLE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
**YEAR ENDED DECEMBER 31, 2017**

**ENTITY-WIDE FINANCIAL ANALYSIS OF THE BOROUGH**

The Borough's total net position as of December 31, 2017 was \$57,165,330. This represents an increase of \$ 3,106,659 over the prior year. While there was a \$4,501,643 increase in Business Type Activities, there was a decline in Governmental Activities of \$(1,394,984). Our analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the Borough's governmental and business-type activities.

**Table 1 - Statements of Net Position  
December 31, 2017 and 2016**

|   | 2017                       |                             |                      | 2016                       |                             |                      |
|---|----------------------------|-----------------------------|----------------------|----------------------------|-----------------------------|----------------------|
|   | Governmental<br>Activities | Business-Type<br>Activities | Totals               | Governmental<br>Activities | Business-Type<br>Activities | Totals               |
| <b>ASSETS</b>                             |                            |                             |                      |                            |                             |                      |
| Current and other assets                  | \$ 13,765,690              | \$ 13,825,628               | \$ 27,591,318        | \$ 13,934,666              | \$ 12,225,227               | \$ 26,159,893        |
| Capital assets                            | 23,356,100                 | 26,159,447                  | 49,515,547           | 22,392,337                 | 24,959,717                  | 47,352,054           |
| <b>TOTAL ASSETS</b>                       | <b>37,121,790</b>          | <b>39,985,075</b>           | <b>77,106,865</b>    | <b>36,327,003</b>          | <b>37,184,944</b>           | <b>73,511,947</b>    |
| <b>DEFERRED OUTFLOWS OF<br/>RESOURCES</b> |                            |                             |                      |                            |                             |                      |
| Deferred outflows of resources            | 1,525,878                  | 291,956                     | 1,817,834            | 1,487,429                  | 168,782                     | 1,656,211            |
| <b>LIABILITIES</b>                        |                            |                             |                      |                            |                             |                      |
| Long-term liabilities                     | 9,836,080                  | 7,716,839                   | 17,552,919           | 10,185,417                 | 8,605,633                   | 18,791,050           |
| Other liabilities                         | 1,650,686                  | 244,901                     | 1,895,587            | 782,862                    | 1,235,459                   | 2,018,321            |
| <b>TOTAL LIABILITIES</b>                  | <b>11,486,766</b>          | <b>7,961,740</b>            | <b>19,448,506</b>    | <b>10,968,279</b>          | <b>9,841,092</b>            | <b>20,809,371</b>    |
| <b>DEFERRED INFLOWS OF<br/>RESOURCES</b>  |                            |                             |                      |                            |                             |                      |
| Deferred inflows of resources             | 2,009,849                  | 301,014                     | 2,310,863            | 300,116                    | -                           | 300,116              |
| <b>NET POSITION</b>                       |                            |                             |                      |                            |                             |                      |
| Net investment in capital<br>assets       | 14,678,991                 | 18,722,034                  | 33,401,025           | 13,326,906                 | 16,616,990                  | 29,943,896           |
| Restricted                                | 2,685,623                  | -                           | 2,685,623            | 3,848,750                  | -                           | 3,848,750            |
| Unrestricted                              | 7,786,439                  | 13,292,243                  | 21,078,682           | 9,370,381                  | 10,895,644                  | 20,266,025           |
| <b>TOTAL NET<br/>POSITION</b>             | <b>\$ 25,151,053</b>       | <b>\$ 32,014,277</b>        | <b>\$ 57,165,330</b> | <b>\$ 26,546,037</b>       | <b>\$ 27,512,634</b>        | <b>\$ 54,058,671</b> |

**BOROUGH OF PHOENIXVILLE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
**YEAR ENDED DECEMBER 31, 2017**

**Table 2 - Changes in Net Position**  
**Years Ended December 31, 2017 and 2016**

|   | 2017                       |                             |                      | 2016                       |                             |                      |
|---|----------------------------|-----------------------------|----------------------|----------------------------|-----------------------------|----------------------|
|   | Governmental<br>Activities | Business-Type<br>Activities | Totals               | Governmental<br>Activities | Business-Type<br>Activities | Totals               |
| <b>REVENUES</b>                             |                            |                             |                      |                            |                             |                      |
| Program revenues                            |                            |                             |                      |                            |                             |                      |
| Charges for services                        | \$ 1,168,886               | \$ 9,147,016                | \$ 10,315,902        | \$ 3,371,853               | \$ 7,424,229                | \$ 10,796,082        |
| Operating grants and contributions          | 908,837                    | 195,016                     | 1,103,853            | 765,297                    | -                           | 765,297              |
| Capital grants and contributions            | 451,649                    | 2,355,741                   | 2,807,390            | 431,645                    | 897,696                     | 1,329,341            |
| General revenues                            |                            |                             |                      |                            |                             |                      |
| Real estate taxes                           | 4,179,087                  | -                           | 4,179,087            | 4,046,730                  | -                           | 4,046,730            |
| Real estate transfer taxes                  | 863,837                    | -                           | 863,837              | 457,007                    | -                           | 457,007              |
| Earned income tax                           | 3,043,714                  | -                           | 3,043,714            | 2,909,949                  | -                           | 2,909,949            |
| LST tax                                     | 270,028                    | -                           | 270,028              | 273,856                    | -                           | 273,856              |
| Per capita tax                              | 56,996                     | -                           | 56,996               | 54,954                     | -                           | 54,954               |
| Franchise fees                              | 366,338                    | -                           | 366,338              | 370,136                    | -                           | 370,136              |
| Fines and forfeits                          | 155,040                    | -                           | 155,040              | 151,313                    | -                           | 151,313              |
| Investment earnings                         | 22,264                     | 67,045                      | 89,309               | 54,859                     | 56,778                      | 111,637              |
| Grants not restricted to a specific program | 4,921                      | -                           | 4,921                | 5,892                      | -                           | 5,892                |
| Gain on sale of asset                       | -                          | 1,456                       | 1,456                | 236,010                    | -                           | 236,010              |
| <b>TOTAL REVENUES</b>                       | <b>11,491,597</b>          | <b>11,766,274</b>           | <b>23,257,871</b>    | <b>13,129,501</b>          | <b>8,378,703</b>            | <b>21,508,204</b>    |
| <b>EXPENSES</b>                             |                            |                             |                      |                            |                             |                      |
| General government                          | 1,523,693                  | -                           | 1,523,693            | 1,528,608                  | -                           | 1,528,608            |
| Public safety                               | 6,666,866                  | -                           | 6,666,866            | 6,476,277                  | -                           | 6,476,277            |
| Highways/streets                            | 1,316,397                  | -                           | 1,316,397            | 2,503,325                  | -                           | 2,503,325            |
| Sanitation                                  | -                          | -                           | -                    | 1,785,076                  | -                           | 1,785,076            |
| Culture and recreation                      | 722,073                    | -                           | 722,073              | 613,705                    | -                           | 613,705              |
| Interest on bonds                           | 243,107                    | -                           | 243,107              | 244,829                    | -                           | 244,829              |
| Water operations                            | -                          | 3,508,551                   | 3,508,551            | -                          | 3,353,374                   | 3,353,374            |
| Waste water operations                      | -                          | 2,019,292                   | 2,019,292            | -                          | 2,119,167                   | 2,119,167            |
| Parking operations                          | -                          | 152,095                     | 152,095              | -                          | -                           | -                    |
| Sanitation operations                       | -                          | 1,643,397                   | 1,643,397            | -                          | -                           | -                    |
| Capital contributions                       | 2,355,741                  | -                           | 2,355,741            | -                          | -                           | -                    |
| Transfers                                   | 58,704                     | (58,704)                    | -                    | -                          | -                           | -                    |
| <b>TOTAL EXPENSES</b>                       | <b>12,886,581</b>          | <b>7,264,631</b>            | <b>20,151,212</b>    | <b>13,151,820</b>          | <b>5,472,541</b>            | <b>18,624,361</b>    |
| <b>CHANGE IN NET POSITION</b>               | <b>(1,394,984)</b>         | <b>4,501,643</b>            | <b>3,106,659</b>     | <b>(22,319)</b>            | <b>2,906,162</b>            | <b>2,883,843</b>     |
| <b>NET POSITION, BEGINNING</b>              | <b>26,546,037</b>          | <b>27,512,634</b>           | <b>54,058,671</b>    | <b>26,568,356</b>          | <b>24,606,472</b>           | <b>51,174,828</b>    |
| <b>NET POSITION, ENDING</b>                 | <b>\$ 25,151,053</b>       | <b>\$ 32,014,277</b>        | <b>\$ 57,165,330</b> | <b>\$ 26,546,037</b>       | <b>\$ 27,512,634</b>        | <b>\$ 54,058,671</b> |

**BOROUGH OF PHOENIXVILLE**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2017

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**GOVERNMENTAL ACTIVITIES**

The net decrease of the Borough's Governmental Activities of \$(1,394,984) had minimal impact on the Borough's overall position as it was the result of capital contributions to business-type activities.

Governmental Activities bore an expense of \$12,886,581 year ending 2017. Taxes provided 73% (\$8,413,662) of the revenues that offset the corresponding expenses of these activities. Those who directly benefited from these programs contributed 10% (\$1,168,886). The remainder of the revenue base was generated from intergovernmental aid, investment earnings and various fines (see pages 11 and 19 for a detailed breakout).

A majority of revenues for the Borough is derived through taxes, charges for services and grants.

To further delineate:

- (a) Additional revenue generation of \$671,166 from 2016 to 2017 was due, in part, to an increase in the millage rate from 5.35 mills to 5.72 mills in 2017. Real Estate Transfer Tax revenues nearly doubled from \$457,007 to \$863,837.
- (b) Charges for Services declined due to the establishment of two enterprise funds in 2017. Both the Parking and Sanitation Funds were moved from the Governmental Activities (General Fund) and are now recognized as Business-Type Activities (Enterprise Funds). With this change, the Borough more accurately reflects those services that truly are fee based. Due to the extraction of these from the General Fund, there was a noticeable decrease. Conversely, the significant increase in the Enterprise Funds resulted.

**BOROUGH OF PHOENIXVILLE**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2017

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**BUSINESS-TYPE ACTIVITIES**

The net increase from the Borough's business-type activities was \$4,501,643 compared to \$2,906,162 the previous year as referenced in Table 2. As with the other Borough funds, the Borough continued the budgeting method for business-type activities as a modified zero based and line item budgeting.

The cost of all business-type activities was \$7,323,335 (compared to \$5,472,541 in 2016). Business-Type Activities are comprised of the Water, Wastewater, Parking, and Sanitation Funds and grants. In 2016, Sanitation and Parking activities were included in governmental activities. In 2017, revenue generation was increased due to the inclusion of the aforementioned activities. Sanitation expenses for 2017 were \$1,643,397. Parking added an additional \$152,000 to the Business Activity Fund. Additionally, the Borough transferred the assets associated with the movement of these two funds. Both Water and Wastewater Main Attachments decreased as the demand for these services were down. Infrastructure increased due to a rate increase from \$ 5.00 per unit per quarter to \$ 7.50 in 2017. Operating grants and contributions of \$195,016 consisted of a Recycling grant. Investment earnings contributed \$67,045 in revenue (Table 2).

**FINANCIAL ANALYSIS OF THE BOROUGH'S FUNDS**

Most of the Borough's activities are reported in Governmental Funds. Governmental Funds are reported using the modified accrual accounting method which measures cash and all other financial assets that can readily be converted to cash. Included here are the General, Debt Service, Pension/Retirement, Recreation, Fire, Highway Turn Back and Liquid Fuels Funds. The most prominent fund is the General Fund.

As of December 31, 2017, the combined total of the Borough's Governmental Funds was \$9,782,955. This represents a decrease of \$1,341,067 as compared to the prior year. Approximately 20% or \$2 million constitutes unassigned fund balance, which is available for spending at the Borough's discretion.

Government Finance Officer Associations Best Practices recommends that Government agencies should maintain in their unrestricted fund balance no less than two months of regular General Fund operation revenues or regular General Fund operating expenses. With a surplus of 24% of unrestricted general fund balance, the Borough more than surpasses that requirement.

The remainder of the fund balance is broken down into four categories: Nonspendable, restricted for, committed to and assigned to. The chart on page 20 shows items under each category.

**BOROUGH OF PHOENIXVILLE**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2017

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**GENERAL FUND**

The General Fund is the chief operating fund of the Borough of Phoenixville. As of December 31, 2017, the total fund balance in this fund was \$ 8,275,104 compared to the previous year's balance of \$10,096,625. This decrease can be attributed to the self-funding of the Public Works Building. In 2016, there were investments, in the form of certificates of deposit, totaling \$1,344,731 that matured during 2017. The proceeds were placed in a money market account so that the funds would be readily available for the Borough to utilize for projects.

**SPECIAL REVENUE FUNDS**

The Special Revenue Fund is comprised of several categories of funds that are restricted for specific purposes. Included here are the Debt Service, Retirement/Pension, Liquid Fuels, Recreation and Fire Funds. Revenue sources for these funds include grants from the Commonwealth of PA and local services tax restricted for fire protection. In the event of a shortfall, a transfer from the General Fund would transpire.

**Debt Service Fund**

On an annual basis, the Borough utilizes a portion of property taxes for debt reduction. In 2017, the Fund Balance that was assigned to debt service was \$12,092. (See page 68 for additional detail regarding this Fund).

**Retirement/Pension Fund**

The Commonwealth of Pennsylvania allotted \$536,017 to the Borough for its Uniform and Non-Uniform pension plans in 2017 (\$524,957 in 2016). The Borough was not required to contribute any additional monies in 2017 (compared to \$71,627 in the prior year) to the Uniform pension plan. The Borough was required to contribute \$6,972 to the Non-Uniform pension plan in current year (as compared to \$0 in the prior year). These additional funds were necessary in order to meet the minimum municipal obligation of the Borough.

**Liquid Fuels Fund**

The Borough received \$450,329 (compared to \$431,645 in the prior year) from the Commonwealth of Pennsylvania to pay for various expenses including roadway resurfacing, snow removal and capital purchases for the Public Works Department. For years ending 2018 and 2019, the Borough expects to receive similar funding amounts.

**Recreation Fund**

In 2017, \$483,242 was transferred into the Recreation Fund. A portion of the transfer may be derived from property taxes in the General Fund. The ending balance in the Recreation Fund was \$ 446,539. In 2017, a majority of the \$186,308 in revenue came from charges for services (\$185,747 for the year).

# **BOROUGH OF PHOENIXVILLE**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

**YEAR ENDED DECEMBER 31, 2017**

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### **Fire Fund**

The Borough received \$103,247 (compared to \$113,591 in the prior year) from the Commonwealth of Pennsylvania for volunteer firefighting. The operating expenditures from this fund for fire protection were \$709,870. The Borough entered into a Lease/Purchase arrangement for a new ladder truck in 2008. The ladder truck is leased for \$63,837 a year for a ten-year period. The Borough is also repaying the volunteer fire stations loans for one additional fire truck. This repayment consists of two loans: one payable to the Commonwealth of PA and one to Wells Fargo. Total Monthly payments amount to \$ 1,679.90, or a total of \$ 20,158 per annum. Both of these financial obligations will come to term by the middle of 2018.

### **Special Revenue Funds General**

Special Revenue Fund Balance at year end 2017 was \$1,507,851, up \$480,454 from the previous period. The primary reason for this increase rests with the fact that, in 2016, the Borough completed a large road project (Bridge Street), which resulted in large expenditures. In 2017, the expenditures were minimal in comparison (see page 68 for more detail).

## **PROPRIETARY FUNDS**

The Borough's *Proprietary Funds* provide the same type of information found in the entity-wide financial statements, but in more detail.

Unrestricted net position of the Waste Water, Water, Parking and Sanitation Funds at the end of the year is \$13,292,243 as compared to \$10,895,644 in the prior year, representing an increase in unrestricted net position of \$2,396,599. Factors contributing to the finances of these funds have already been addressed in the discussion of the Borough's business-type activities.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

The statement comparing the Borough's budget and actual results can be found on page 59.

### **Revenue**

The Borough balanced its original General Fund budget with funds from several types of sources.

- Real estate taxes, earned income taxes, real estate transfer taxes, and other taxes provided approximately 82% of General Fund revenues.
- Approximately 13% of the funds were generated by charges for services including building permits, fees and other charges.
- 3% of the funds came from other local governments and the State of Pennsylvania.
- 2% of the funds came from miscellaneous sources including interest earnings, business licenses and fines.

**BOROUGH OF PHOENIXVILLE**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2017

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**Expenditures**

The Borough maintained a conservative budget in 2017. The following statements are representative of the final 2017 budget.

- 13% of the General Fund budget is for General Government expenditures.
- 71% was for Public Safety including Police and Crossing Guards.
- 14% was budgeted for Public Works programs. The Public Works programs included new curbs and sidewalks for about one mile of one of the Borough's main streets.
- 2% was budgeted for Cultural and Recreation in the General Fund. This was used to cover the cost of Borough shade trees.

The tax millage rate was at 5.72 mills for the taxpayers in 2017.

Revenues ended the year above budget and expectations, as the Borough had revenues of \$822,633 above budget. Most of the increase was in taxes and intergovernmental.

Expenditures were over budget by \$2,713,437 mostly due to expenditures for the new public works building.

**DEBT ADMINISTRATION**

As of December 31, 2017, the Borough had total outstanding long-term bond debt of \$15,550,000 which represents a decrease in debt principal of \$1,205,000.

Other obligations included accrued vacation pay and severance for specific employees of the Borough. Detailed information regarding Long Term Obligations can be found in the Notes to Basic Financial Statements.

**THE BOROUGH'S FUTURE**

Future budgets should consider a number of important issues that include:

- Continued multi-year budgeting and/or projections;
- Focus on infrastructure;
- Concentration on the growth and stabilization within the Borough;

**BOROUGH OF PHOENIXVILLE**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2017

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**FINANCIAL MANAGEMENT**

The Borough of Phoenixville's financial report is designed to provide a general overview of the Borough's financial position and to show the Board's accountability for monies received. If there are any questions regarding this report or you wish to request additional financial information, please contact the Borough Manager at 351 Bridge Street, Phoenixville, PA 19460.

**BOROUGH OF PHOENIXVILLE**

## STATEMENT OF NET POSITION

DECEMBER 31, 2017

|   | <u>Governmental<br/>Activities</u> | <u>Business-Type<br/>Activities</u> | <u>Totals</u>               |
|---|------------------------------------|-------------------------------------|-----------------------------|
| <b>ASSETS</b>                                     |                                    |                                     |                             |
| Cash and cash equivalents                         | \$ 10,471,323                      | \$ 12,174,336                       | \$ 22,645,659               |
| Accounts receivable, net                          | 994,569                            | 1,466,706                           | 2,461,275                   |
| Grants receivable                                 | 750,000                            | -                                   | 750,000                     |
| Net pension asset                                 | 1,541,400                          | 142,187                             | 1,683,587                   |
| Inventories                                       | -                                  | 36,973                              | 36,973                      |
| Prepaid items                                     | 8,398                              | 5,426                               | 13,824                      |
| Capital assets                                    |                                    |                                     |                             |
| Land  | 3,935,548                          | 205,481                             | 4,141,029                   |
| Construction in progress                          | 2,590,880                          | 75,955                              | 2,666,835                   |
| Capital assets, net                               | <u>16,829,672</u>                  | <u>25,878,011</u>                   | <u>42,707,683</u>           |
| <b>TOTAL ASSETS</b>                               | <u><b>37,121,790</b></u>           | <u><b>39,985,075</b></u>            | <u><b>77,106,865</b></u>    |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>             |                                    |                                     |                             |
| Deferred outflows of resources - pension activity | <u>1,525,878</u>                   | <u>291,956</u>                      | <u>1,817,834</u>            |
| <b>LIABILITIES</b>                                |                                    |                                     |                             |
| Accounts payable and accrued expenses             | 1,439,656                          | 220,824                             | 1,660,480                   |
| Unearned revenues                                 | 179,032                            | -                                   | 179,032                     |
| Accrued interest                                  | 31,998                             | 24,077                              | 56,075                      |
| Long-term liabilities                             |                                    |                                     |                             |
| Portion due or payable within one year            |                                    |                                     |                             |
| Bonds payable                                     | 315,000                            | 910,000                             | 1,225,000                   |
| Capital lease                                     | 60,920                             | -                                   | 60,920                      |
| Compensated absences                              | 48,309                             | 27,940                              | 76,249                      |
| Portion due or payable after one year             |                                    |                                     |                             |
| Bonds payable                                     | 7,900,000                          | 6,425,000                           | 14,325,000                  |
| Bond premiums                                     | 401,189                            | 102,413                             | 503,602                     |
| Compensated absences                              | 434,779                            | 251,486                             | 686,265                     |
| Other postemployment benefits                     | <u>675,883</u>                     | <u>-</u>                            | <u>675,883</u>              |
| <b>TOTAL LIABILITIES</b>                          | <u><b>11,486,766</b></u>           | <u><b>7,961,740</b></u>             | <u><b>19,448,506</b></u>    |
| <b>DEFERRED INFLOWS OF RESOURCES</b>              |                                    |                                     |                             |
| Deferred inflows of resources - pension activity  | <u>2,009,849</u>                   | <u>301,014</u>                      | <u>2,310,863</u>            |
| <b>NET POSITION</b>                               |                                    |                                     |                             |
| Net investment in capital assets                  | 14,678,991                         | 18,722,034                          | 33,401,025                  |
| Restricted  | 2,685,623                          | -                                   | 2,685,623                   |
| Unrestricted                                      | <u>7,786,439</u>                   | <u>13,292,243</u>                   | <u>21,078,682</u>           |
| <b>TOTAL NET POSITION</b>                         | <u><b>\$ 25,151,053</b></u>        | <u><b>\$ 32,014,277</b></u>         | <u><b>\$ 57,165,330</b></u> |

*See accompanying notes to the basic financial statements.*

# BOROUGH OF PHOENIXVILLE

## STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

| Functions/Programs                    | Expenses             | Program Revenues     |                                    |                                  |
|---------------------------------------|----------------------|----------------------|------------------------------------|----------------------------------|
|                                       |                      | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| <b>GOVERNMENTAL ACTIVITIES</b>        |                      |                      |                                    |                                  |
| General government                    | \$ 1,523,693         | \$ 78,608            | \$ 646,697                         | \$ -                             |
| Public safety                         | 6,666,866            | 904,531              | 103,247                            | -                                |
| Public works                          | 1,316,397            | -                    | 106,648                            | 451,649                          |
| Culture and recreation                | 722,073              | 185,747              | 52,245                             | -                                |
| Interest on long-term debt            | 243,107              | -                    | -                                  | -                                |
| <b>TOTAL GOVERNMENTAL ACTIVITIES</b>  | <b>10,472,136</b>    | <b>1,168,886</b>     | <b>908,837</b>                     | <b>451,649</b>                   |
| <b>BUSINESS-TYPE ACTIVITIES</b>       |                      |                      |                                    |                                  |
| Water Fund                            | 3,508,551            | 4,130,566            | -                                  | -                                |
| Sewer Fund                            | 2,019,292            | 2,975,259            | -                                  | -                                |
| Parking Fund                          | 152,095              | 382,725              | -                                  | -                                |
| Sanitation Fund                       | 1,643,397            | 1,658,466            | 195,016                            | -                                |
| <b>TOTAL BUSINESS-TYPE ACTIVITIES</b> | <b>7,323,335</b>     | <b>9,147,016</b>     | <b>195,016</b>                     | <b>-</b>                         |
| <b>TOTAL BOROUGH ACTIVITIES</b>       | <b>\$ 17,795,471</b> | <b>\$ 10,315,902</b> | <b>\$ 1,103,853</b>                | <b>\$ 451,649</b>                |

### GENERAL REVENUES

#### Taxes

Property taxes, levied for general purposes

Franchise taxes

Public service taxes

#### Fees and fines

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Gain on sale of assets

### CAPITAL CONTRIBUTIONS

### TRANSFERS

TOTAL GENERAL REVENUES

CHANGE IN NET POSITION

NET POSITION AT BEGINNING OF YEAR

NET POSITION AT END OF YEAR

See accompanying notes to the basic financial statements.

| <u>Net (Expense) Revenue and Changes in Net Position</u> |   |                      |
|--|---|----------------------|
| <u>Governmental</u><br><u>Activities</u>                 | <u>Business-Type</u><br><u>Activities</u> | <u>Totals</u>        |
| \$ (798,388)   | \$ -                                      | \$ (798,388)         |
| (5,659,088)  | -   | (5,659,088)          |
| (758,100)  | -   | (758,100)            |
| (484,081)  | -   | (484,081)            |
| <u>(243,107)</u>   | <u>-</u>                                  | <u>(243,107)</u>     |
| <u>(7,942,764)</u>                                       | <u>-</u>                                  | <u>(7,942,764)</u>   |
| -  | 622,015                                   | 622,015              |
| -  | 955,967                                   | 955,967              |
| -  | 230,630                                   | 230,630              |
| <u>-</u>   | <u>210,085</u>                            | <u>210,085</u>       |
| <u>-</u>   | <u>2,018,697</u>                          | <u>2,018,697</u>     |
| <u>(7,942,764)</u>                                       | <u>2,018,697</u>                          | <u>(5,924,067)</u>   |
| 4,179,087  | -   | 4,179,087            |
| 366,338  | -   | 366,338              |
| 4,234,575  | -   | 4,234,575            |
| 155,040  | -   | 155,040              |
| 4,921  | -   | 4,921                |
| 22,264   | 67,045                                    | 89,309               |
| -  | 1,456                                     | 1,456                |
| (2,355,741)  | 2,355,741                                 | -                    |
| <u>(58,704)</u>  | <u>58,704</u>                             | <u>-</u>             |
| <u>6,547,780</u>   | <u>2,482,946</u>                          | <u>9,030,726</u>     |
| (1,394,984)  | 4,501,643                                 | 3,106,659            |
| <u>26,546,037</u>  | <u>27,512,634</u>                         | <u>54,058,671</u>    |
| <u>\$ 25,151,053</u>                                     | <u>\$ 32,014,277</u>                      | <u>\$ 57,165,330</u> |

**BOROUGH OF PHOENIXVILLE**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2017**

|   | General<br>Fund     | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|---------------------|--------------------------------|--------------------------------|
| <b>ASSETS</b>   |                     |                                |                                |
| Cash and cash equivalents   | \$ 8,905,755        | \$ 1,565,568                   | \$ 10,471,323                  |
| Taxes receivable, net   | 247,719             | -                              | 247,719                        |
| Due from escrow   | 200,000             | -                              | 200,000                        |
| Other receivables   | 538,237             | 44,868                         | 583,105                        |
| Prepaid items   | 7,954               | 444                            | 8,398                          |
|   | <u>9,899,665</u>    | <u>1,610,880</u>               | <u>11,510,545</u>              |
| <b>TOTAL ASSETS</b>   |                     |                                |                                |
|   | <u>\$ 9,899,665</u> | <u>\$ 1,610,880</u>            | <u>\$ 11,510,545</u>           |
| <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND<br/>FUND BALANCES</b>       |                     |                                |                                |
| <b>LIABILITIES</b>  |                     |                                |                                |
| Accounts payable and other current liabilities                                | \$ 1,336,627        | \$ 103,029                     | \$ 1,439,656                   |
| Escrows payable   | 36,255              | -                              | 36,255                         |
| Unearned revenues   | 3,960               | -                              | 3,960                          |
|   | <u>1,376,842</u>    | <u>103,029</u>                 | <u>1,479,871</u>               |
| <b>TOTAL LIABILITIES</b>  |                     |                                |                                |
|   | <u>1,376,842</u>    | <u>103,029</u>                 | <u>1,479,871</u>               |
| <b>DEFERRED INFLOWS OF RESOURCES</b>  |                     |                                |                                |
| Unavailable revenues, property taxes  | 247,719             | -                              | 247,719                        |
|   | <u>247,719</u>      | <u>-</u>                       | <u>247,719</u>                 |
| <b>FUND BALANCES</b>  |                     |                                |                                |
| Nonspendable, prepaid items   | 7,954               | 301                            | 8,255                          |
| Restricted for  |                     |                                |                                |
| Pedestrian Activated Warning Lights SRT                                       | 56,000              | -                              | 56,000                         |
| Traffic improvements  | 18,821              | -                              | 18,821                         |
| OPEB funding  | 375,000             | -                              | 375,000                        |
| Green Light Go LED Traffic Lights Grant                                       | 7,860               | -                              | 7,860                          |
| All Abilities Playground Grant  | 375,000             | -                              | 375,000                        |
| PRPC Regional Comprehensive Plan Match  | 12,698              | -                              | 12,698                         |
| Schuylkill Highlands - SRT Grant  | 11,000              | -                              | 11,000                         |
| Main Street Trestle - CDBG  | 75,000              | -                              | 75,000                         |
| Street Light Replacement Program  | 139,578             | -                              | 139,578                        |
| Recreation Center   | 313,375             | -                              | 313,375                        |
| Wayfinding Grant Match  | 74,000              | -                              | 74,000                         |
| Public works building   | 221,063             | -                              | 221,063                        |
| Street Paving   | 138,804             | -                              | 138,804                        |
| Grant CRP water main replacement  | 87,975              | -                              | 87,975                         |
| Road and street improvements  | -                   | 671,824                        | 671,824                        |
| VPP Pedestrian Accessibility Plan - Grant Match                               | 21,000              | -                              | 21,000                         |
| Committed to  |                     |                                |                                |
| Vehicle replacement   | 336,500             | -                              | 336,500                        |
| Recreation fund (PHUN)  | 140,000             | -                              | 140,000                        |
| Assigned to   |                     |                                |                                |
| Capital reserve   | 1,000,000           | -                              | 1,000,000                      |
| Operating reserve   | 2,816,276           | -                              | 2,816,276                      |
| Fire protection   | -                   | 286,573                        | 286,573                        |
| Debt service  | -                   | 12,092                         | 12,092                         |
| Recreation activities   | -                   | 446,238                        | 446,238                        |
| Pension   | -                   | 90,823                         | 90,823                         |
| Unassigned  | 2,047,200           | -                              | 2,047,200                      |
|   | <u>8,275,104</u>    | <u>1,507,851</u>               | <u>9,782,955</u>               |
| <b>TOTAL FUND BALANCES</b>  |                     |                                |                                |
|   | <u>8,275,104</u>    | <u>1,507,851</u>               | <u>9,782,955</u>               |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS<br/>OF RESOURCES AND FUND BALANCES</b> |                     |                                |                                |
|   | <u>\$ 9,899,665</u> | <u>\$ 1,610,880</u>            | <u>\$ 11,510,545</u>           |

See accompanying notes to the basic financial statements.

# BOROUGH OF PHOENIXVILLE

## RECONCILIATION OF TOTAL GOVERNMENTAL FUNDS BALANCES TO NET POSITION OF GOVERNMENTAL ACTIVITIES DECEMBER 31, 2017

---

|   |                      |
|---|----------------------|
| TOTAL GOVERNMENTAL FUNDS BALANCES   | \$ 9,782,955         |
| <p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. These assets consist of:</p>   |                      |
| Land  | 3,935,548            |
| Construction in progress  | 2,590,880            |
| Depreciable capital assets, net   | 16,829,672           |
| <p>Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in the fund financial statements but are reported in the statement of net position of the governmental activities. This is the amount of long-term grants receivable.</p> |                      |
|   | 750,000              |
| <p>Deferred inflows and outflows of resources related to pension activities are not financial resources and, therefore, are not reported in the Governmental Funds.</p>   |                      |
|   | (483,971)            |
| <p>Some of the Borough's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.</p>  |                      |
|   | 72,647               |
| <p>Net pension asset is not recorded as an asset in the Governmental Funds; however, this item is reported as an asset in the government-wide financial statements.</p>   |                      |
|   | 1,541,400            |
| <p>Bond premiums are not recorded as liabilities in the Governmental Funds, however, these items are recorded as a liability and amortized in the government-wide statements.</p>   |                      |
|   | (401,189)            |
| <p>Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:</p>  |                      |
| Accrued interest  | (31,998)             |
| Bonds payable in future years   | (8,215,000)          |
| Capital lease   | (60,920)             |
| Compensated absences  | (483,088)            |
| Other postemployment benefits   | (675,883)            |
| NET POSITION OF GOVERNMENTAL ACTIVITIES   | \$ <u>25,151,053</u> |

*See accompanying notes to the basic financial statements.*

**BOROUGH OF PHOENIXVILLE**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2017**

|   | General<br>Fund     | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|---------------------|--------------------------------|--------------------------------|
| <b>REVENUES</b>                         |                     |                                |                                |
| Taxes                                   | \$ 8,415,069        | \$ 67,734                      | \$ 8,482,803                   |
| Fees and fines                          | 155,040             | -                              | 155,040                        |
| Licenses and permits                    | 366,338             | -                              | 366,338                        |
| Intergovernmental                       | 292,889             | 1,090,913                      | 1,383,802                      |
| Charges for services                    | 962,281             | 185,747                        | 1,148,028                      |
| Investment earnings                     | 21,013              | 1,431                          | 22,444                         |
| Miscellaneous                           | 25,948              | -                              | 25,948                         |
| TOTAL REVENUES                          | <u>10,238,578</u>   | <u>1,345,825</u>               | <u>11,584,403</u>              |
| <b>EXPENDITURES</b>                     |                     |                                |                                |
| Current                                 |                     |                                |                                |
| General government                      | 637,182             | 542,992                        | 1,180,174                      |
| Public safety                           | 5,525,242           | 709,870                        | 6,235,112                      |
| Public works                            | 3,892,299           | 173,118                        | 4,065,417                      |
| Culture and recreation                  | 235,517             | 576,493                        | 812,010                        |
| Debt service                            |                     |                                |                                |
| Principal                               | -                   | 310,000                        | 310,000                        |
| Interest and other charges              | -                   | 264,053                        | 264,053                        |
| TOTAL EXPENDITURES                      | <u>10,290,240</u>   | <u>2,576,526</u>               | <u>12,866,766</u>              |
| EXCESS OF REVENUES OVER<br>EXPENDITURES | <u>(51,662)</u>     | <u>(1,230,701)</u>             | <u>(1,282,363)</u>             |
| <b>OTHER FINANCING SOURCES (USES)</b>   |                     |                                |                                |
| Interfund transfers in                  | 151,993             | 1,711,155                      | 1,863,148                      |
| Interfund transfers out                 | <u>(1,921,852)</u>  | <u>-</u>                       | <u>(1,921,852)</u>             |
| TOTAL OTHER FINANCING<br>SOURCES (USES) | <u>(1,769,859)</u>  | <u>1,711,155</u>               | <u>(58,704)</u>                |
| NET CHANGE IN FUND<br>BALANCES          | (1,821,521)         | 480,454                        | (1,341,067)                    |
| FUND BALANCES AT BEGINNING OF<br>YEAR   | <u>10,096,625</u>   | <u>1,027,397</u>               | <u>11,124,022</u>              |
| FUND BALANCES AT END OF<br>YEAR         | <u>\$ 8,275,104</u> | <u>\$ 1,507,851</u>            | <u>\$ 9,782,955</u>            |

*See accompanying notes to the basic financial statements.*

## BOROUGH OF PHOENIXVILLE

### RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2017

---

|  |                       |
|--|-----------------------|
| NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS   | \$ (1,341,067)        |
| Capital outlays are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$3,620,444) exceed depreciation (\$851,314) in the current period.   | 2,769,130             |
| The net effect of other transactions involving capital assets.   | (1,805,367)           |
| Bond premiums provide current financial resources to Governmental Funds. In the statement of net position, bond premiums are deferred and amortized.   | 20,187                |
| Because some property taxes will not be collected for several months after the Borough's fiscal year ends, they are not considered as "available" revenues in the Governmental Funds. Deferred tax revenues decreased by this amount this year.  | (87,536)              |
| Capital lease payments are recorded as debt service in the Governmental Funds. However, in the statement of activities, the amount of the lease is recorded as a liability with the principal portion of the lease payments applied against the liability.   | 58,135                |
| Repayment of bond principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net position.   | 310,000               |
| Interest on long-term debt in the statement of activities differs from the amount reported in the Governmental Funds because interest is recognized as an expenditure in the funds when it is due and, thus, requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. | 757                   |
| Capital contributions to business-type activities.   | (1,062,195)           |
| Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in Governmental Funds:  |                       |
| Other postemployment benefits  | (80,507)              |
| Net pension asset  | (218,043)             |
| Compensated absences   | 41,522                |
| CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES  | \$ <u>(1,394,984)</u> |

*See accompanying notes to the basic financial statements.*

**BOROUGH OF PHOENIXVILLE**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2017**

|   | <u>Water Fund</u>    | <u>Sewer Fund</u>    | <u>Parking Fund</u> | <u>Sanitation Fund</u> | <u>Total Proprietary Funds</u> |
|---|----------------------|----------------------|---------------------|------------------------|--------------------------------|
| <b>ASSETS</b>                                     |                      |                      |                     |                        |                                |
| <b>CURRENT ASSETS</b>                             |                      |                      |                     |                        |                                |
| Cash and cash equivalents                         | \$ 5,685,848         | \$ 4,910,056         | \$ 437,026          | \$ 1,141,406           | \$ 12,174,336                  |
| Accounts receivable, net                          | 822,680              | 618,380              | 838                 | 24,808                 | 1,466,706                      |
| Net pension asset                                 | 68,978               | 32,781               | 5,200               | 35,228                 | 142,187                        |
| Inventories                                       | 36,973               | -                    | -                   | -                      | 36,973                         |
| Prepaid items                                     | 3,658                | 1,022                | 77                  | 669                    | 5,426                          |
| TOTAL CURRENT ASSETS                              | <u>6,618,137</u>     | <u>5,562,239</u>     | <u>443,141</u>      | <u>1,202,111</u>       | <u>13,825,628</u>              |
| <b>CAPITAL ASSETS</b>                             |                      |                      |                     |                        |                                |
| Land  | 9,502                | 95,835               | 51,018              | 49,126                 | 205,481                        |
| Infrastructure                                    | 10,679,372           | -                    | 445,799             | -                      | 11,125,171                     |
| Construction in progress                          | 75,955               | -                    | -                   | -                      | 75,955                         |
| Buildings   | 11,797,681           | 19,664,623           | -                   | -                      | 31,462,304                     |
| Equipment and furniture                           | 1,377,195            | 1,590,567            | 181,745             | 2,316,709              | 5,466,216                      |
| Accumulated depreciation                          | <u>(11,988,839)</u>  | <u>(8,687,673)</u>   | <u>(165,913)</u>    | <u>(1,333,255)</u>     | <u>(22,175,680)</u>            |
| TOTAL CAPITAL ASSETS                              | <u>11,950,866</u>    | <u>12,663,352</u>    | <u>512,649</u>      | <u>1,032,580</u>       | <u>26,159,447</u>              |
| TOTAL ASSETS                                      | 18,569,003           | 18,225,591           | 955,790             | 2,234,691              | 39,985,075                     |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>             |                      |                      |                     |                        |                                |
| Deferred outflows of resources - pension activity | <u>141,634</u>       | <u>67,310</u>        | <u>10,677</u>       | <u>72,335</u>          | <u>291,956</u>                 |
| TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES    | <u>\$ 18,710,637</u> | <u>\$ 18,292,901</u> | <u>\$ 966,467</u>   | <u>\$ 2,307,026</u>    | <u>\$ 40,277,031</u>           |

*See accompanying notes to the basic financial statements.*

|   | <u>Water Fund</u>    | <u>Sewer Fund</u>    | <u>Parking Fund</u> | <u>Sanitation<br/>Fund</u> | <u>Total<br/>Proprietary<br/>Funds</u> |
|---|----------------------|----------------------|---------------------|----------------------------|--|
| <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES<br/>AND NET POSITION</b>  |                      |                      |                     |                            |  |
| <b>CURRENT LIABILITIES</b>  |                      |                      |                     |                            |  |
| Accounts payable and other liabilities                                  | \$ 119,210           | \$ 55,692            | \$ 807              | \$ 45,115                  | \$ 220,824                             |
| Accrued interest  | 5,356                | 18,721               | -                   | -                          | 24,077                                 |
| Current portion of long-term debt                                       | 405,000              | 505,000              | -                   | -                          | 910,000                                |
| Current portion of compensated absences                                 | <u>13,535</u>        | <u>8,950</u>         | <u>33</u>           | <u>5,422</u>               | <u>27,940</u>                          |
| TOTAL CURRENT LIABILITIES   | <u>543,101</u>       | <u>588,363</u>       | <u>840</u>          | <u>50,537</u>              | <u>1,182,841</u>                       |
| <b>NONCURRENT LIABILITIES</b>   |                      |                      |                     |                            |  |
| Bonds payable   | 1,280,000            | 5,145,000            | -                   | -                          | 6,425,000                              |
| Bond premium, net   | 81,931               | 20,482               | -                   | -                          | 102,413                                |
| Compensated absences  | <u>121,817</u>       | <u>80,562</u>        | <u>295</u>          | <u>48,812</u>              | <u>251,486</u>                         |
| TOTAL NONCURRENT LIABILITIES  | <u>1,483,748</u>     | <u>5,246,044</u>     | <u>295</u>          | <u>48,812</u>              | <u>6,778,899</u>                       |
| TOTAL LIABILITIES   | <u>2,026,849</u>     | <u>5,834,407</u>     | <u>1,135</u>        | <u>99,349</u>              | <u>7,961,740</u>                       |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                                    |                      |                      |                     |                            |  |
| Deferred inflows of resources - pension activity                        | <u>146,028</u>       | <u>69,398</u>        | <u>11,009</u>       | <u>74,579</u>              | <u>301,014</u>                         |
| <b>NET POSITION</b>   |                      |                      |                     |                            |  |
| Net investment in capital assets  | 10,183,935           | 6,992,870            | 512,649             | 1,032,580                  | 18,722,034                             |
| Unrestricted  | <u>6,353,825</u>     | <u>5,396,226</u>     | <u>441,674</u>      | <u>1,100,518</u>           | <u>13,292,243</u>                      |
| TOTAL NET POSITION  | <u>16,537,760</u>    | <u>12,389,096</u>    | <u>954,323</u>      | <u>2,133,098</u>           | <u>32,014,277</u>                      |
| TOTAL LIABILITIES, DEFERRED<br>INFLOWS OF RESOURCES AND<br>NET POSITION | <u>\$ 18,710,637</u> | <u>\$ 18,292,901</u> | <u>\$ 966,467</u>   | <u>\$ 2,307,026</u>        | <u>\$ 40,277,031</u>                   |

**BOROUGH OF PHOENIXVILLE**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2017**

|   | <u>Water Fund</u>    | <u>Sewer Fund</u>    | <u>Parking Fund</u> | <u>Sanitation Fund</u> | <u>Total Proprietary Funds</u> |
|---|----------------------|----------------------|---------------------|------------------------|--------------------------------|
| <b>OPERATING REVENUES</b>                     |                      |                      |                     |                        |                                |
| Charges for services                          | \$ 4,130,566         | \$ 2,975,259         | \$ 382,725          | \$ 1,658,466           | \$ 9,147,016                   |
| <b>OPERATING EXPENSES</b>                     |                      |                      |                     |                        |                                |
| Administration                                | 1,603,927            | 723,691              | 76,306              | 785,229                | 3,189,153                      |
| Salaries and wages                            | 569,575              | 177,719              | 9,991               | 334,652                | 1,091,937                      |
| Fuel and light                                | 186,257              | 164,133              | -                   | -                      | 350,390                        |
| Contracted services                           | 168,025              | 68,472               | 1,203               | 75,511                 | 313,211                        |
| Insurance claims and expenses                 | 242,338              | 221,215              | 20,247              | 281,409                | 765,209                        |
| Materials and supplies                        | 136,109              | 103,919              | 13,781              | 44,599                 | 298,408                        |
| Miscellaneous                                 | -                    | 7,070                | -                   | 627                    | 7,697                          |
| Bad debts                                     | -                    | -                    | -                   | 8,749                  | 8,749                          |
| Depreciation                                  | 560,756              | 397,508              | 30,567              | 112,621                | 1,101,452                      |
| <b>TOTAL OPERATING EXPENSES</b>               | <u>3,466,987</u>     | <u>1,863,727</u>     | <u>152,095</u>      | <u>1,643,397</u>       | <u>7,126,206</u>               |
| <b>OPERATING INCOME</b>                       | <u>663,579</u>       | <u>1,111,532</u>     | <u>230,630</u>      | <u>15,069</u>          | <u>2,020,810</u>               |
| <b>NONOPERATING REVENUES (EXPENSES)</b>       |                      |                      |                     |                        |                                |
| Interest and investment revenue               | 21,796               | 14,468               | 257                 | 30,524                 | 67,045                         |
| Intergovernmental revenue                     | -                    | -                    | -                   | 195,016                | 195,016                        |
| Gain on disposal of assets                    | 1,095                | -                    | -                   | 361                    | 1,456                          |
| Interest expense                              | (41,564)             | (155,565)            | -                   | -                      | (197,129)                      |
| <b>TOTAL NONOPERATING REVENUES (EXPENSES)</b> | <u>(18,673)</u>      | <u>(141,097)</u>     | <u>257</u>          | <u>225,901</u>         | <u>66,388</u>                  |
| <b>INCOME BEFORE TRANSFERS</b>                | 644,906              | 970,435              | 230,887             | 240,970                | 2,087,198                      |
| <b>CAPITAL CONTRIBUTIONS</b>                  | -                    | -                    | 512,739             | 1,843,002              | 2,355,741                      |
| <b>TRANSFERS</b>                              | <u>(148,487)</u>     | <u>(52,632)</u>      | <u>210,697</u>      | <u>49,126</u>          | <u>58,704</u>                  |
| <b>CHANGE IN NET POSITION</b>                 | 496,419              | 917,803              | 954,323             | 2,133,098              | 4,501,643                      |
| <b>NET POSITION AT BEGINNING OF YEAR</b>      | <u>16,041,341</u>    | <u>11,471,293</u>    | <u>-</u>            | <u>-</u>               | <u>27,512,634</u>              |
| <b>NET POSITION AT END OF YEAR</b>            | <u>\$ 16,537,760</u> | <u>\$ 12,389,096</u> | <u>\$ 954,323</u>   | <u>\$ 2,133,098</u>    | <u>\$ 32,014,277</u>           |

*See accompanying notes to the basic financial statements.*

**BOROUGH OF PHOENIXVILLE**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2017**

|  | <u>Water Fund</u>   | <u>Sewer Fund</u>   | <u>Parking Fund</u> | <u>Sanitation Fund</u> | <u>Total Proprietary Funds</u> |
|--|---------------------|---------------------|---------------------|------------------------|--------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                          |                     |                     |                     |                        |                                |
| Cash received from customers   | \$ 4,612,383        | \$ 2,951,466        | \$ 381,887          | \$ 1,633,658           | \$ 9,579,394                   |
| Payments to employees  | (2,151,312)         | (888,137)           | (90,837)            | (1,098,631)            | (4,228,917)                    |
| Payments to suppliers  | <u>(1,584,856)</u>  | <u>(773,183)</u>    | <u>(34,501)</u>     | <u>(366,449)</u>       | <u>(2,758,989)</u>             |
| NET CASH PROVIDED BY OPERATING ACTIVITIES                            | <u>876,215</u>      | <u>1,290,146</u>    | <u>256,549</u>      | <u>168,578</u>         | <u>2,591,488</u>               |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>      |                     |                     |                     |                        |                                |
| Acquisition, construction and improvements of capital assets         | (406,956)           | (205,809)           | (30,477)            | (364,394)              | (1,007,636)                    |
| Proceeds from sales of assets  | 1,095               | -                   | -                   | 361                    | 1,456                          |
| Principal paid on capital debt                                       | (400,000)           | (495,000)           | -                   | -                      | (895,000)                      |
| Interest paid on capital debt  | (50,823)            | (158,876)           | -                   | -                      | (209,699)                      |
| Proceeds from grant  | -                   | -                   | -                   | 195,016                | 195,016                        |
| Capital contribution from governmental activities                    | -                   | -                   | -                   | 1,062,195              | 1,062,195                      |
| Transfers (to) from other funds                                      | <u>(148,487)</u>    | <u>(52,632)</u>     | <u>210,697</u>      | <u>49,126</u>          | <u>58,704</u>                  |
| NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(1,005,171)</u>  | <u>(912,317)</u>    | <u>180,220</u>      | <u>942,304</u>         | <u>(794,964)</u>               |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                          |                     |                     |                     |                        |                                |
| Proceeds from sale of certificates of deposit                        | 822,914             | 342,727             | -                   | -                      | 1,165,641                      |
| Earnings on investments  | <u>26,123</u>       | <u>16,078</u>       | <u>257</u>          | <u>30,524</u>          | <u>72,982</u>                  |
| NET CASH PROVIDED BY INVESTING ACTIVITIES                            | <u>849,037</u>      | <u>358,805</u>      | <u>257</u>          | <u>30,524</u>          | <u>1,238,623</u>               |
| NET INCREASE IN CASH AND CASH EQUIVALENTS                            | 720,081             | 736,634             | 437,026             | 1,141,406              | 3,035,147                      |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR                       | <u>4,965,767</u>    | <u>4,173,422</u>    | <u>-</u>            | <u>-</u>               | <u>9,139,189</u>               |
| CASH AND CASH EQUIVALENTS AT END OF YEAR                             | <u>\$ 5,685,848</u> | <u>\$ 4,910,056</u> | <u>\$ 437,026</u>   | <u>\$ 1,141,406</u>    | <u>\$ 12,174,336</u>           |

See accompanying notes to the basic financial statements.

**BOROUGH OF PHOENIXVILLE**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2017**

|  | <u>Water Fund</u>     | <u>Sewer Fund</u>       | <u>Parking Fund</u>   | <u>Sanitation Fund</u> | <u>Total Proprietary Funds</u> |
|--|-----------------------|-------------------------|-----------------------|------------------------|--------------------------------|
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES        |                       |                         |                       |                        |                                |
| Operating income   | \$ 663,579            | \$ 1,111,532            | \$ 230,630            | \$ 15,069              | \$ 2,020,810                   |
| Adjustments to reconcile operating income to net cash provided by operating activities |                       |                         |                       |                        |                                |
| Depreciation   | 560,756               | 397,508                 | 30,567                | 112,621                | 1,101,452                      |
| Pension expense  | 25,550                | 12,850                  | (4,868)               | (32,984)               | 548                            |
| (Increase) decrease in   |                       |                         |                       |                        |                                |
| Accounts receivable  | 481,817               | (23,793)                | (838)                 | (24,808)               | 432,378                        |
| Inventories  | (21,597)              | -                       | -                     | -                      | (21,597)                       |
| Prepaid items  | (3,658)               | (1,022)                 | (77)                  | (669)                  | (5,426)                        |
| Increase (decrease) in   |                       |                         |                       |                        |                                |
| Accounts payable and other liabilities   | (826,872)             | (207,352)               | 807                   | 45,115                 | (988,302)                      |
| Compensated absences   | (3,360)               | 423                     | 328                   | 54,234                 | 51,625                         |
| <br>NET CASH PROVIDED BY OPERATING ACTIVITIES  | <br><u>\$ 876,215</u> | <br><u>\$ 1,290,146</u> | <br><u>\$ 256,549</u> | <br><u>\$ 168,578</u>  | <br><u>\$ 2,591,488</u>        |

*See accompanying notes to the basic financial statements.*

**BOROUGH OF PHOENIXVILLE**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**DECEMBER 31, 2017**

|   | <u>Pension<br/>Funds</u> | <u>Agency Fund</u>    |
|---|--------------------------|-----------------------|
| <b>ASSETS</b>                                     |                          |                       |
| Cash and cash equivalents                         | \$ <u>38,509</u>         | \$ <u>924,456</u>     |
| Investments                                       |                          |                       |
| Mutual funds, at fair value                       | 23,389,152               | -                     |
| Unallocated insurance contract, at contract value | <u>1,597,031</u>         | -                     |
| <b>TOTAL INVESTMENTS</b>                          | <u>24,986,183</u>        | <u>-</u>              |
| <br><b>TOTAL ASSETS</b>                           | <br><u>25,024,692</u>    | <br><u>\$ 924,456</u> |
| <b>LIABILITIES</b>                                |                          |                       |
| Accounts payable                                  | -                        | \$ 724,456            |
| Due to General Fund                               | <u>-</u>                 | <u>200,000</u>        |
| <br><b>TOTAL LIABILITIES</b>                      | <br><u>-</u>             | <br><u>\$ 924,456</u> |
| <b>NET POSITION</b>                               |                          |                       |
| Held in trust for benefits and other purposes     | \$ <u>25,024,692</u>     |                       |

*See accompanying notes to the basic financial statements.*

**BOROUGH OF PHOENIXVILLE**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2017**

|   | <u>Pension<br/>Funds</u> |
|---|--------------------------|
| ADDITIONS                                 |                          |
| Contributions                             |                          |
| Employer                                  | \$ 542,989               |
| Employee                                  | 76,280                   |
| TOTAL CONTRIBUTIONS                       | <u>619,269</u>           |
| Investment earnings                       |                          |
| Net increase in fair value of investments | 2,309,614                |
| Realized gains on sale of assets          | 665,027                  |
| Interest                                  | 65,535                   |
| Dividends                                 | 415,220                  |
| Investment activity expense               | (145,157)                |
| TOTAL INVESTMENT EARNINGS                 | <u>3,310,239</u>         |
| TOTAL ADDITIONS                           | <u>3,929,508</u>         |
| DEDUCTIONS                                |                          |
| Benefits                                  | 811,827                  |
| Administrative                            | 19,000                   |
| TOTAL DEDUCTIONS                          | <u>830,827</u>           |
| CHANGE IN NET POSITION                    | 3,098,681                |
| NET POSITION AT BEGINNING OF YEAR         | <u>21,926,011</u>        |
| NET POSITION AT END OF YEAR               | <u>\$ 25,024,692</u>     |

*See accompanying notes to the basic financial statements.*

**BOROUGH OF PHOENIXVILLE**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Borough of Phoenixville (the "Borough") complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

**Reporting Entity**

Financial accountability is defined in Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus--An Amendment of GASB Statements No. 14 and No 34*. The Borough is financially accountable for legally separate organizations if it appoints a voting majority of the organization's board and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Borough. The Borough also may be financially accountable if an organization is fiscally dependent on the Borough regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board.

The Borough has determined that no other outside agency meets the above criteria; therefore, no other agency has been included as a component unit in the Borough's financial statements. In addition, the Borough is not aware of any entity that would exercise such oversight which would result in the Borough being considered a component unit of the entity.

**Basis of Presentation**

**Government-Wide Financial Statements** - The statement of net position and the statement of activities display information about the Borough as a whole. These statements distinguish between activities that are governmental and those that are considered business-type. These statements exclude fiduciary activities such as Pension and Agency Funds.

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting as further defined under Proprietary Funds below. This is the same approach used in the preparation of the Proprietary Funds' financial statements but differs from the manner in which Governmental Funds financial statements are prepared. Therefore, Governmental Funds' financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the statements of Governmental Funds.

The government-wide statement of activities presents a comparison between expenses and program revenues for each different identifiable activity of the business-type activities of the Borough and for each governmental program. Expenses are those that are specifically associated with a service or program and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the Borough.

**BOROUGH OF PHOENIXVILLE**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Internal activity is limited to interfund transfers which are eliminated to avoid “doubling up” revenues and expenses. Net position is reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other purposes results from Special Revenue Funds and the restrictions on their net position use.

**Fund Financial Statements** - Fund financial statements report detailed information about the Borough. The focus of Governmental and Enterprise Funds financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The major Governmental Fund is presented in a single column on the Governmental Fund financial statements. Fiduciary Funds financial statements are presented by fund type.

The Borough reports the following major Governmental Fund:

- The *General Fund* is the Borough’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Borough reports the following Proprietary Funds:

- The *Water Fund* accumulates resources necessary for water supply to the Borough.
- The *Sewer Fund* accumulates resources necessary for the operation of the sewage collection system.
- The *Sanitation Fund* accumulates resources necessary to fund trash pickup services in the Borough.
- The *Parking Fund* accumulates resources for the operation of parking facilities and enforcement within the Borough.

**Governmental Funds** - All Governmental Funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. Major Governmental Funds of the Borough include the General Fund. All other Governmental Funds are grouped together and presented in a separate column as Other Governmental Funds. They include the Fire Fund, the Liquid Fuels Fund, the Debt Service Fund, the Recreation Fund and the Pension Fund.

**BOROUGH OF PHOENIXVILLE**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Revenue Recognition - In applying the "susceptible to accrual concept" under the modified accrual basis, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Borough considers property and earned income tax revenue to be available if collected within 60 days of the end of the fiscal period.

Revenues for state and federally funded projects are recognized at the time all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the Borough must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Borough on a reimbursement basis.

Property tax and earned income tax receivables collected after 60 days from year-end, though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, property and earned income tax receivables are recorded and deferred until they become available.

Other revenues, including certain other charges for services and miscellaneous revenues, are recorded as revenue when received in cash because they generally are not measurable until actually received.

Expenditure Recognition - The measurement focus of Governmental Funds accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and recorded when the related fund liability is incurred. However, principal and interest on general long-term debt which has not matured are recognized when paid. Further, as provided in GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, certain Governmental Funds' liabilities and expenditures, such as compensated absences, are recognized to the extent the liabilities mature (come due for payment) each period. Allocations of costs, such as depreciation and amortization, are not recognized in the Governmental Funds.

**Proprietary Funds** - Proprietary Funds are accounted for using the accrual basis of accounting. These funds account for operations financed primarily by user charges. The economic resource focus concerns determining costs as a means of maintaining capital investment and management control. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Allocations of certain costs, such as depreciation, are recorded in the Proprietary Funds. The Borough's only Proprietary Funds are Enterprise Funds.

These funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Proprietary Funds' principal ongoing operations. The principal operating revenues of the Borough's Enterprise Funds are user fees. Operating expenses for the Borough's Enterprise Funds include sewer disposal, solid waste disposal, salaries, recycling, supplies and administrative costs and depreciation. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fiduciary Funds**

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the Borough in a trustee capacity or as an agent for individuals, private organizations, other governments and other funds. These include Pension and Agency Funds. The Pension Funds account for the activities of the Police Pension Fund and the Municipal Pension Fund. Pension Funds are accounted for in essentially the same manner as Proprietary Funds since the measurement of the economic resources is critical. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The Agency Fund accounts for the escrow accounts held by the Borough.

**Budgets and Budgetary Accounting**

The Borough is required by state law to adopt annual budgets for the General Fund. The budget is presented on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles. The following procedures are followed in establishing the budgetary data reflected in the financial statements:

- Prior to November 15 of the preceding fiscal year, the Borough prepares a budget for the next succeeding calendar year beginning January 1. The operating budget includes proposed expenditures and the means of financing them.
- A meeting of the Borough Council members is then called for the purpose of adopting the proposed budget.
- Prior to December 31, the budget is legally enacted through passage of a resolution by the Borough Council.
- The budget must be filed with the Pennsylvania Department of Community and Economic Development by January 31.

Once a budget is approved, it can be amended at the function and fund level only by approval of a majority of the members of Borough Council. Amendments are presented to Borough Council at its regular meetings. Each amendment must have Borough Council approval. Such amendments are made before the fact, are reflected in the official minutes of the Borough Council and are not made after fiscal year-end as dictated by law.

The budget is controlled by the finance officer at the revenue and expenditure function/object level. Budgeted amounts are as amended by Borough Council. Individual amendments were not material in relation to the original appropriations. All budget appropriations lapse at year-end.

**BOROUGH OF PHOENIXVILLE**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Cash and Cash Equivalents**

The Borough's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition and no restrictions on withdrawal.

**Investments**

The Borough has adopted GASB Statements No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, No. 72, *Fair Value Measurement and Application* and No. 79 *Certain External Investment Pools and Pool Participants*. In accordance with these Statements, investments in marketable securities with readily determinable fair value and all investments in debt securities are reported at their fair values. Investments in qualifying external investment pools are reported at amortized cost basis.

**Receivables and Payables**

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the entity-wide financial statements as "internal balances."

**Allowance for Doubtful Accounts**

The Borough's policy is to establish an allowance for any unpaid balance greater than 90 days past due with no payments received in the last 12 months. As of December 31, 2017, the allowance for doubtful accounts was \$83,739 in the General Fund, \$38,418 in the Sanitation Fund, \$94,903 in the Water Fund and \$61,554 in the Sewer Fund.

**Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the entity-wide financial statements as well as in the Proprietary Funds financial statements. Capital assets are defined by the Borough as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. The Borough reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the entity-wide financial statements regardless of their amount. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the lives of the assets are not capitalized.

**BOROUGH OF PHOENIXVILLE**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Major outlays for capital assets and improvements are capitalized as projects are constructed, inclusive of ancillary costs.

Property, plant and equipment of the Borough are depreciated using the straight-line method over the following estimated useful lives:

|                            | <u>Years</u> |
|----------------------------|--------------|
| Buildings and improvements | 15-40        |
| Infrastructure             | 20-50        |
| Vehicles                   | 5-7          |
| Machinery and equipment    | 5-30         |

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Borough has one item that qualifies for reporting in this category. The deferred outflow of resources related to pensions is reported in the government-wide statement of net position and is the result of changes in plan assumptions, the net difference between projected and actual earnings on pension plan investments, and differences between expected and actual experience of the pension plan.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Borough has two items that qualify for reporting in this category. Unavailable revenues, which arise only under a modified accrual basis of accounting, are reported only in the Governmental Funds balance sheet. The Governmental Funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The deferred inflow of resources related to pensions is reported in the government-wide statement of net position and is the result of differences between expected and actual experience of the pension plan and the net difference between projected and actual earnings on pension plan investments.

**Compensated Absences**

Full-time employees are granted vacation benefits in varying amounts to specified maximums. Upon leaving employment at the Borough, employees are paid for their unused vacation days at their current pay rate. Sick leave accrues to full-time, non-uniform, permanent employees and can be carried over from year to year. However, at retirement or upon leaving the Borough, non-uniform employees with over ten years of service and hired prior to January 1, 2017, will be paid for all remaining sick leave at a rate of one day for every three days of unused sick time.

**BOROUGH OF PHOENIXVILLE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The liability for these compensated absences is recorded as long-term debt in the entity-wide and Proprietary Funds' financial statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, Governmental Funds report a liability for compensated absences only if they have matured. Historically, the General Fund has been responsible for liquidation of compensated absences associated with governmental activities. Compensated absences associated with business-type activities are liquidated from the fund in which the liability was generated.

**Long-Term Obligations**

In the entity-wide financial statements and Proprietary Funds' financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

Bond premiums and discounts are deferred and amortized over the life of the bonds.

In the fund financial statements, Governmental Fund Types report discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received and discounts paid on debt issuances are reported as other financing sources and uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures, except for refundings paid from proceeds, which are reported as other financing uses.

**Net Position Flow Assumption**

Sometimes the Borough will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and Proprietary Funds' financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Borough's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

In the fund financial statements, Governmental Fund Types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt are reported as other financing uses. Issuance costs, even if withheld from the actual net proceeds received, are reported as expenditures.

**BOROUGH OF PHOENIXVILLE**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fund Balance**

The Borough has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on the Borough's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- ***Nonspendable Fund Balance*** - Amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- ***Restricted Fund Balance*** - Amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government) through constitutional provisions or by enabling legislation.
- ***Committed Fund Balance*** - Amounts constrained to specific purposes by the Borough itself, using its highest level of decision-making authority (the Borough Council). To be reported as committed, amounts cannot be used for any other purpose unless the Borough takes the same highest level action to remove or change the constraint.
- ***Assigned Fund Balance*** - Amounts the Borough intends to use for a specific purpose. Intent can be expressed by Borough Council or by an official or body to which the Borough Council delegates the authority. The Borough Council has not delegated the authority to assign fund balance as of December 31, 2017.
- ***Unassigned Fund Balance*** - Amounts available for any purpose. Positive amounts are reported only in the General Fund.

Borough Council establishes (and modifies or rescinds) fund balance commitments by passage of a motion. Assigned fund balance is intended to be used by the Borough for specific purposes but does not meet the criteria to be classified as restricted or committed.

The Borough will typically use restricted fund balances first, followed by committed resources and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

**Restricted Net Position**

When both restricted and unrestricted resources are available for use, it is the Borough's policy to use restricted resources first and then unrestricted resources as they are needed. Administrative expenses are paid with the use of unrestricted resources.

**BOROUGH OF PHOENIXVILLE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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**NOTE B - TAXES**

For 2017, tax was levied on the assessed value of real estate at a total of 5.72 mills.

The taxable assessed valuation of property as of January 1, 2017, was \$765,068,872.

The real estate tax collection calendar is as follows:

|                       |                       |
|-----------------------|-----------------------|
| Initial billing.....  | March 1               |
| Discount period ..... | March 1 to April 30   |
| Face period .....     | May 1 to June 30      |
| Penalty period .....  | July 1 and thereafter |
| Lien date .....       | January 31            |

Other taxes levied in 2017 are as follows:

|                               |                    |
|-------------------------------|--------------------|
| Real estate transfer tax..... | 1% of sale price   |
| Earned income tax .....       | 1% of gross income |
| LST tax.....                  | \$52 per person    |

**NOTE C - DEPOSITS AND INVESTMENTS**

**Deposits**

***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 does not have a policy for custodial credit risk on deposits. The Borough is required by statute to deposit funds in depositories that are either banks, banking institutions, or trust companies located in the Commonwealth of Pennsylvania. To the extent that such deposits exceed federal insurance, the depositories must pledge as collateral obligations of the United States, the Commonwealth of Pennsylvania, or any political subdivision of the Commonwealth. Under Act 72 of 1971, as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit.

At December 31, 2017, the carrying amount of the Borough's deposits was \$23,608,624, and the bank balance was \$23,831,106. Of the bank balance, \$514,908 was covered by federal depository insurance, \$23,316,198 was exposed to custodial credit risk because it was uninsured and the collateral held by the depository's agent was not in the Borough's name.

See Notes H and I for pension deposit disclosures.

**BOROUGH OF PHOENIXVILLE**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017

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**NOTE C - DEPOSITS AND INVESTMENTS (Continued)**

A portion of the Borough's deposits is in the PLGIT program, of which are funds similar to mutual funds. GASB Statement No. 3, Paragraph 69, provides that certain types of cash and investments, such as cash investments in a State Treasurer's investment pool or mutual fund, cannot be assigned a credit risk category because the government does not own specific securities. Therefore, the PLGIT cash investments included in these statements will not be assigned a credit risk category. The carrying amount of these investments at December 31, 2017, is \$155,080 and is included in cash and cash equivalents. These assets maintain a stable net asset value of \$1 per share. All investments are monitored weekly by Standard & Poor's and are subject to an independent audit on an annual basis.

**Investments**

Statutes authorize the Borough to invest in: 1) obligations, participations and other instruments of any Federal agency, 2) repurchase agreements with respect to U.S. Treasury bills or obligations, 3) negotiable certificates of deposit, 4) bankers' acceptances, 5) commercial paper, 6) shares of an investment company registered under the Investment Company Act of 1940 whose shares are registered under the Securities Act of 1933, and 7) savings or demand deposits. The Borough also is authorized to invest in obligations of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities.

The Borough's governmental and proprietary funds did not hold any investments as of December 31, 2017. See Notes H and I for pension investment disclosures.

***Fair Value Measurements*** - The Borough categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are those that lack significant observable inputs. At December 31, 2017, the Borough's pension plans held \$23,389,152 in mutual funds, all of which are considered Level 1 investments.

In addition, the pension plans hold \$1,597,031 of investments in unallocated insurance contracts that are reported at contract value and are not categorized within the fair value hierarchy.

***Custodial Credit Risk*** - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Borough will not be able to recover the value of its investments or collateral security in the possession of an outside party. The Borough does not have a policy for custodial credit risk on deposits.

***Concentration Risk*** - The Borough does not have a policy that would limit the amount it may invest in any one issuer.

**BOROUGH OF PHOENIXVILLE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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**NOTE D - INTERFUND TRANSFERS**

Interfund transfers were as follows:

|                   | <u>Transfers<br/>In</u> | <u>Transfers<br/>Out</u> |
|-------------------|-------------------------|--------------------------|
| General Fund      | \$ 151,993              | \$ 1,921,852             |
| Fire Fund         | 590,627                 | -                        |
| Debt Service Fund | 568,311                 | -                        |
| Recreation Fund   | 483,242                 | -                        |
| Pension Fund      | 68,975                  | -                        |
| Parking Fund      | 210,697                 | -                        |
| Sanitation Fund   | 49,126                  | -                        |
| Water Fund        | -                       | 148,487                  |
| Sewer Fund        | -                       | 52,632                   |
|                   | <u>\$ 2,122,971</u>     | <u>\$ 2,122,971</u>      |

**BOROUGH OF PHOENIXVILLE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE E - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2017, was as follows:

|   | Balance<br>January 1,<br>2017 | Increases    | Decreases      | Capital<br>Contributions | Balance<br>December 31,<br>2017 |
|---|-------------------------------|--------------|----------------|--------------------------|---------------------------------|
| <b>GOVERNMENTAL ACTIVITIES</b>                  |                               |              |                |                          |                                 |
| Capital assets not being depreciated            |                               |              |                |                          |                                 |
| Land  | \$ 3,986,566                  | \$ -         | \$ -           | \$ (510,18)              | \$ 3,935,548                    |
| Construction in progress                        | 765,247                       | 2,320,127    | (494,494)      | -                        | 2,590,880                       |
| TOTAL CAPITAL ASSETS<br>NOT BEING DEPRECIATED   | 4,751,813                     | 2,320,127    | (494,494)      | (510,18)                 | 6,526,428                       |
| Capital assets being depreciated                |                               |              |                |                          |                                 |
| Buildings and improvements                      | 7,767,435                     | 49,013       | -              | -                        | 7,816,448                       |
| Infrastructure                                  | 12,795,876                    | 1,041,575    | -              | (445,799)                | 13,391,652                      |
| Vehicles  | 3,147,498                     | 154,830      | (78,115)       | (1,083,875)              | 2,140,338                       |
| Equipment and furniture                         | 2,570,893                     | 54,899       | (82,080)       | (1,457,001)              | 1,086,711                       |
| TOTAL CAPITAL ASSETS<br>BEING DEPRECIATED       | 26,281,702                    | 1,300,317    | (160,195)      | (2,986,675)              | 24,435,149                      |
| Accumulated depreciation                        |                               |              |                |                          |                                 |
| Buildings and improvements                      | (1,419,372)                   | (183,548)    | -              | -                        | (1,602,920)                     |
| Infrastructure                                  | (3,733,064)                   | (413,430)    | -              | 90,665                   | (4,055,829)                     |
| Vehicles  | (2,147,496)                   | (178,113)    | 60,788         | 851,971                  | (1,412,850)                     |
| Equipment and furniture                         | (1,341,246)                   | (76,223)     | 82,080         | 801,511                  | (533,878)                       |
| TOTAL ACCUMULATED<br>DEPRECIATION               | (8,641,178)                   | (851,314)    | 142,868        | 1,744,147                | (7,605,477)                     |
| TOTAL CAPITAL ASSETS<br>BEING DEPRECIATED, net  | 17,640,524                    | 449,003      | (17,327)       | (1,242,528)              | 16,829,672                      |
| GOVERNMENTAL ACTIVITIES<br>CAPITAL ASSETS, net  | \$ 22,392,337                 | \$ 2,769,130 | \$ (511,821)   | \$ (1,293,546)           | \$ 23,356,100                   |
| <b>BUSINESS-TYPE ACTIVITIES</b>                 |                               |              |                |                          |                                 |
| Capital assets not being depreciated            |                               |              |                |                          |                                 |
| Land  | \$ 154,463                    | \$ -         | \$ -           | \$ 510,18                | \$ 205,481                      |
| Construction in progress                        | 1,329,282                     | 75,955       | (1,329,282)    | -                        | 75,955                          |
| TOTAL CAPITAL ASSETS<br>NOT BEING DEPRECIATED   | 1,483,745                     | 75,955       | (1,329,282)    | 510,18                   | 281,436                         |
| Capital assets being depreciated                |                               |              |                |                          |                                 |
| Sewer collection system infrastructure          | 18,609,970                    | 1,054,654    | -              | -                        | 19,664,624                      |
| Water treatment plant infrastructure            | 21,808,345                    | 668,708      | -              | -                        | 22,477,053                      |
| Parking infrastructure                          | -                             | -            | -              | 445,799                  | 445,799                         |
| Vehicles  | 328,561                       | 16,459       | (244,132)      | 1,083,875                | 1,284,763                       |
| Equipment and furniture                         | 2,447,346                     | 421,140      | (144,035)      | 1,457,001                | 4,181,452                       |
| TOTAL CAPITAL ASSETS<br>BEING DEPRECIATED       | 43,194,222                    | 2,260,961    | (388,167)      | 2,986,675                | 48,053,691                      |
| Accumulated depreciation                        |                               |              |                |                          |                                 |
| Sewer collection system infrastructure          | (7,160,146)                   | (338,508)    | -              | -                        | (7,498,654)                     |
| Water treatment plant infrastructure            | (10,794,736)                  | (497,778)    | -              | -                        | (11,292,514)                    |
| Parking infrastructure                          | -                             | (11,114)     | -              | (90,665)                 | (101,779)                       |
| Vehicles  | (216,647)                     | (48,391)     | 244,132        | (851,971)                | (872,877)                       |
| Equipment and furniture                         | (1,546,719)                   | (205,661)    | 144,035        | (801,511)                | (2,409,856)                     |
| TOTAL ACCUMULATED<br>DEPRECIATION               | (19,718,248)                  | (1,101,452)  | 388,167        | (1,744,147)              | (22,175,680)                    |
| TOTAL CAPITAL ASSETS<br>BEING DEPRECIATED, net  | 23,475,974                    | 1,159,509    | -              | 1,242,528                | 25,878,011                      |
| BUSINESS-TYPE ACTIVITIES<br>CAPITAL ASSETS, net | \$ 24,959,719                 | \$ 1,235,464 | \$ (1,329,282) | \$ 1,293,546             | \$ 26,159,447                   |

**BOROUGH OF PHOENIXVILLE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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**NOTE E - CAPITAL ASSETS (Continued)**

Depreciation expense was charged to the following functions:

|                                     |                     |
|-------------------------------------|---------------------|
| GOVERNMENTAL ACTIVITIES             |                     |
| General government                  | \$ 234,020          |
| Public safety                       | 457,105             |
| Public works - highways and streets | 140,704             |
| Culture and recreation              | <u>19,485</u>       |
| TOTAL GOVERNMENTAL ACTIVITIES       | <u>\$ 851,314</u>   |
| BUSINESS-TYPE ACTIVITIES            |                     |
| Water                               | \$ 560,756          |
| Sewer                               | 397,508             |
| Parking                             | 30,567              |
| Sanitation                          | <u>112,621</u>      |
| TOTAL BUSINESS-TYPE ACTIVITIES      | <u>\$ 1,101,452</u> |

**NOTE F - CAPITAL LEASES - LESSEE**

The Borough previously entered into a lease agreement as lessee for financing the acquisition of a fire engine. During 2009, the Borough entered into lease agreements as lessee for financing the acquisition of an aerial fire truck and a street sweeper. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception date.

|  |                   |
|--|-------------------|
| Vehicles acquired through capital leases | \$ 853,228        |
| Accumulated depreciation                 | <u>(738,619)</u>  |
|  | <u>\$ 114,609</u> |

**BOROUGH OF PHOENIXVILLE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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**NOTE F - CAPITAL LEASES - LESSEE (Continued)**

Future minimum lease obligations and the net present value of these minimum lease payments are as follows:

| <u>Year Ending December 31,</u>            |    |                |
|--|----|----------------|
| 2018                                       | \$ | 63,837         |
| Amount representing interest               |    | <u>(2,917)</u> |
| PRESENT VALUE OF MINIMUM<br>LEASE PAYMENTS | \$ | <u>60,920</u>  |

Amortization of leased vehicles under capital assets is included with depreciation expense.

**NOTE G - LONG-TERM DEBT**

The general obligation bonds are allocated to both the business-type and governmental activities as follows:

|  |    |                   |
|--|----|-------------------|
| General Obligation Bonds, Series of 2012, issued at \$22,515,000 in February 2012, interest rates ranging from 2.00% to 4.00%, interest and principal payable semiannually from May 2012 through November 2037 | \$ | <u>15,550,000</u> |
|--|----|-------------------|

An analysis of debt service requirements including Sinking Fund requirements to maturity on these obligations is as follows:

| <u>Year Ending<br/>December 31,</u> | <u>Principal</u>     | <u>Interest</u>     |
|-------------------------------------|----------------------|---------------------|
| 2018                                | \$ 1,225,000         | \$ 448,600          |
| 2019                                | 985,000              | 424,100             |
| 2020                                | 980,000              | 404,400             |
| 2021                                | 1,010,000            | 384,800             |
| 2022                                | 1,025,000            | 364,600             |
| 2023 to 2027                        | 5,610,000            | 1,342,700           |
| 2028 to 2032                        | 2,160,000            | 700,013             |
| 2033 to 2037                        | <u>2,555,000</u>     | <u>306,925</u>      |
|                                     | <u>\$ 15,550,000</u> | <u>\$ 4,376,138</u> |

**BOROUGH OF PHOENIXVILLE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE G - LONG-TERM DEBT (Continued)**

Long-term liability activity for the year ended December 31, 2017, is as follows:

|   | Balance<br>January 1,<br>2017 | Additions        | Retirements         | Balance<br>December 31,<br>2017 | Due Within<br>One Year |
|---|-------------------------------|------------------|---------------------|---------------------------------|------------------------|
| <b>GOVERNMENTAL ACTIVITIES</b>            |                               |                  |                     |                                 |                        |
| General Obligation Bonds, Series of 2012  | \$ 8,525,000                  | \$ -             | \$ (310,000)        | \$ 8,215,000                    | \$ 315,000             |
| Capital lease                             | 119,055                       | -                | (58,135)            | 60,920                          | 60,920                 |
| Compensated absences                      | 524,610                       | -                | (41,522)            | 483,088                         | 48,309                 |
| Other postemployment benefits             | 595,376                       | 80,507           | -                   | 675,883                         | -                      |
| <b>TOTAL GOVERNMENTAL<br/>ACTIVITIES</b>  | <b>\$ 9,764,041</b>           | <b>\$ 80,507</b> | <b>\$ (409,657)</b> | <b>\$ 9,434,891</b>             | <b>\$ 424,229</b>      |
| <b>BUSINESS-TYPE ACTIVITIES</b>           |                               |                  |                     |                                 |                        |
| General Obligation Bonds, Series of 2012  | \$ 8,230,000                  | \$ -             | \$ (895,000)        | \$ 7,335,000                    | \$ 910,000             |
| Compensated absences                      | 227,801                       | 51,625           | -                   | 279,426                         | 27,942                 |
| Net pension liability                     | 35,105                        | -                | (35,105)            | -                               | -                      |
| <b>TOTAL BUSINESS-TYPE<br/>ACTIVITIES</b> | <b>\$ 8,492,906</b>           | <b>\$ 51,625</b> | <b>\$ (930,105)</b> | <b>\$ 7,614,426</b>             | <b>\$ 937,942</b>      |

For the year ended December 31, 2017, interest expense on long-term debt was \$440,236. Of this total, \$197,129 was charged to the following functions as direct expenses on the statement of activities:

| <u>Function</u> | <u>Interest</u>   |
|-----------------|-------------------|
| Water           | \$ 41,564         |
| Sewer           | 155,565           |
|                 | <u>\$ 197,129</u> |

**NOTE H - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN)**

**Summary of Significant Accounting Policies**

Police Pension Plan investments are carried at fair value as reported by the investment managers. Short-term investments are reported at cost, which approximates fair value. The plan's unallocated insurance contracts are valued at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to purchase annuities and pay administrative expenses charged by the insurance company. Funds under the contract that have been allocated and applied to purchase annuities are excluded from the plan's assets.

Financial information of the Borough's Police Pension Plan is presented on the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due as required by the Act. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

**BOROUGH OF PHOENIXVILLE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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**NOTE H - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (Continued)**

**Plan Description**

**Plan Administration** - The Borough administers the Police Pension Plan--a single-employer defined benefit pension plan, controlled by the provisions of Pennsylvania Act 600 that provides pensions for all regular, full-time sworn police officers.

Management of the plan is vested in the Phoenixville Borough Council. The Borough Council has delegated the responsibility for managing, investing and monitoring the Borough's Police Pension Fund assets to Principal Financial Group and SEI Private Trust Company.

**Plan Membership** - At December 31, 2017, plan membership consisted of the following:

|   |           |
|---|-----------|
| Inactive plan members or beneficiaries currently receiving benefits | 16        |
| Inactive plan members entitled to but not yet receiving benefits    | 2         |
| Active plan members   | <u>30</u> |
|   | <u>48</u> |

**Benefits Provided** - The plan provides retirement, disability and death benefits in accordance with Pennsylvania Act 600 as noted below:

- A member is eligible for normal retirement at age 50 with 25 years of continuous service. Participants are entitled to monthly pension payments equal to 50% of average monthly pay plus \$100 for service in excess of 25 years during their lifetime, with payments continuing after the member's death to the surviving spouse, or eligible child, equal to 50% of the initial amount payable to the member. A member becomes 100% vested in the benefit accrued after 12 or more years of continued service.
- Average monthly pay is based upon the last 36 months of employment. For participants hired on or before August 30, 1983, pay is defined as total W-2 compensation, excluding any lump sum payment for unused sick or vacation time. For participants hired after August 30, 1983, pay is defined as the salary rate.
- If a member continues working after normal retirement date, the pension does not start until the member actually retires. The late retirement benefit is the benefit accrued to the late retirement date.
- A participant is eligible for early retirement after completion of 20 years of service. The early retirement benefit is equal to the actuarial equivalent of the benefit accrued at the early retirement date.

**BOROUGH OF PHOENIXVILLE**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017

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**NOTE H - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (Continued)**

- An annual cost-of-living adjustment is made to retirees with a maximum total cost-of-living increase of 30% if employment terminates after January 1, 2002. Employees who retired prior to January 1, 2002, receive a maximum total cost-of-living increase of 15%.
- An active member is eligible for a disability benefit if the member is disabled in the line of duty. The disability pension is equal to 50% of the member's salary at the time disability occurs.
- If an active member is killed in the line of duty, a monthly death benefit is payable to the surviving spouse, or eligible child, equal to 100% of the member's monthly salary at the time of death.
- If a member is eligible for retirement at the time of death, a monthly death benefit is payable to the surviving spouse, or eligible child, equal to 50% of the monthly benefit the member would have been receiving had that member been retired at the time of death.
- If an actuarial study shows the plan to have sufficient assets to fund plan benefits, member contributions may be suspended. Contributions are currently suspended.

Benefit and contribution provisions are established by Pennsylvania law and may be amended only as allowed by Pennsylvania law.

The benefit provisions of the Borough's Police Pension Plan are established by Borough ordinances.

**Contributions** - Pennsylvania Act 205 of 1984 (as amended) requires that annual contributions be based upon the minimum municipal obligation (MMO), which is based on the plan's actuarial valuation. The MMO includes the normal cost, estimated administrative expenses and an amortization contribution of the unfunded actuarial accrued liability, less estimated member contributions, and a credit equal to 10% of the excess (if any) of the actuarial value of assets over the actuarial accrued liability. The state provides an allocation of funds, which must be used for pension funding. A financial requirement established by the MMO, which exceeds state and member contributions, must be funded by the employer.

In 2017, the MMO obligation for the plan was \$314,652. Contributions of \$318,252 were made by the Commonwealth of Pennsylvania.

Administrative costs, which may include, but are not limited to, investment management fees and actuarial services, are charged to the appropriate plan and funded by the General Fund, which is reimbursed as pension investments are liquidated.

**BOROUGH OF PHOENIXVILLE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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**NOTE H - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (Continued)**

**Investments**

**Investment Policy** - The plan's policy in regard to the allocation of invested assets is established and may be amended by the Borough Council through adoption of an ordinance. It is the policy of the Borough Council to pursue an investment strategy that reduces risk through prudent diversification of the portfolio across a broad selection of distinct asset classes. The plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the plan's adopted asset allocation policy as of December 31, 2017:

| <u>Asset Class</u>   | <u>Target Allocation</u> |
|----------------------|--------------------------|
| Domestic equity      | 42%                      |
| International equity | 23%                      |
| Fixed income         | 33%                      |
| Real estate          | 0%                       |
| Cash                 | 2%                       |
|                      | <u>100%</u>              |

**Concentrations** – No more than 5% of the Borough's investments are held in any one issuer.

**Rate of Return** - For the year ended December 31, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 15.31%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Net Pension Liability of the Borough**

The components of the net pension (asset) liability of the Borough at December 31, 2017, were as follows:

|  |                              |
|--|------------------------------|
| Total pension liability  | \$ 12,632,095                |
| Plan fiduciary net position  | <u>(13,805,866)</u>          |
| <b>NET PENSION (ASSET) LIABILITY</b>                                       | <b>\$ <u>(1,173,771)</u></b> |
| Plan fiduciary net position as a percentage of the total pension liability | <u>109.29%</u>               |

**BOROUGH OF PHOENIXVILLE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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**NOTE H - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (Continued)**

**Actuarial Assumptions** - The total pension liability was determined by an actuarial valuation as of December 31, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

|  |                    |
|--|--------------------|
| Inflation                              | 3%                 |
| Salary increases                       | 5% annual increase |
| Investment rate of return              | 7.25%              |
| Postretirement cost of living increase | 4%                 |

Mortality rates were based on the RP-2000 Mortality Table.

Due to the size of the plan, there have been no experience studies used to determine plan assumptions.

The long-term expected rate of return on plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation as of December 31, 2017 (see the plan's investment policy), are summarized in the following table:

| <u>Asset Class</u>   | <u>Long-Term<br/>Expected<br/>Real Rate<br/>of Return</u> |
|----------------------|---|
| Domestic equity      | 5.50%-7.50%   |
| International equity | 4.50%-6.50%   |
| Fixed income         | 1.00%-3.00%   |
| Real estate          | 4.50%-6.50%   |
| Cash                 | 0.00%-1.00%   |

**Discount Rate** - The discount rate is based on the long-term expected rate of return on plan investments that are expected to be used to finance the payments of benefits. The plan's fiduciary net position is projected to be sufficient to make projected benefit payments and the plan assets are expected to be invested using a strategy to achieve that return. The employer has always met the funding requirements of Pennsylvania Law Act 205 of 1984. Act 205 requires full funding of the entry age normal cost plus plan expenses, as well as amortization of the unfunded liability to ultimately achieve a 100% funded status.

**BOROUGH OF PHOENIXVILLE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE H - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (Continued)**

***Changes in the Net Pension Liability***

|   | Total<br>Pension<br>Liability<br>(a) | Plan<br>Fiduciary Net<br>Position<br>(b) | Net<br>Pension<br>(Asset) Liability<br>(a)-(b) |
|---|--------------------------------------|--|--|
|   | <u>(a)</u>                           | <u>(b)</u>                               | <u>(a)-(b)</u>                                 |
| BALANCES AT DECEMBER 31, 2016                         | \$ 11,824,672                        | \$ 12,041,079                            | \$ (216,407)                                   |
| Changes for the year                                  |                                      |  |  |
| Service cost  | 404,072                              | -  | 404,072  |
| Interest  | 866,484                              | -  | 866,484  |
| Changes of benefit terms                              | -                                    | -  | -  |
| Differences between expected<br>and actual experience | (244,904)                            | -  | (244,904)                                      |
| Changes of assumptions                                | 153,554                              | -  | 153,554  |
| Contributions   |                                      |  |  |
| Employer  | -                                    | 318,252                                  | (318,252)                                      |
| Member  | -                                    | -  | -  |
| Net investment income                                 | -                                    | 1,826,268                                | (1,826,268)                                    |
| Benefit payments                                      | (371,783)                            | (371,783)                                | -  |
| Administrative expense                                | -                                    | (7,950)                                  | 7,950  |
| NET CHANGES   | <u>807,423</u>                       | <u>1,764,787</u>                         | <u>(957,364)</u>                               |
| BALANCES AT DECEMBER 31, 2017                         | \$ <u>12,632,095</u>                 | \$ <u>13,805,866</u>                     | \$ <u>(1,173,771)</u>                          |

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate*** - The following presents the net pension liability of the Borough, calculated using the discount rate of 7.25%, as well as what the Borough's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate:

|                               | 1%<br>Decrease<br>(6.25%) | Current<br>Discount<br>Rate (7.25%) | 1%<br>Increase<br>(8.25%) |
|-------------------------------|---------------------------|-------------------------------------|---------------------------|
|                               | <u>(6.25%)</u>            | <u>Rate (7.25%)</u>                 | <u>(8.25%)</u>            |
| Net pension (asset) liability | \$ <u>623,991</u>         | \$ <u>(1,173,771)</u>               | \$ <u>(2,664,816)</u>     |

**BOROUGH OF PHOENIXVILLE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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**NOTE H - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (Continued)**

***Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*** - For the year ended December 31, 2017, the Borough recognized pension expense of \$392,140 for the Police Pension Plan. At December 31, 2017, the Borough reported deferred outflows of resources and deferred inflows of resources related to the Plan from the following sources:

|  | <u>Deferred<br/>Outflows of<br/>Resources</u> | <u>Deferred<br/>Inflows of<br/>Resources</u> |
|--|---|--|
| Difference between expected and actual experience                                | \$ -  | \$ 467,160                                   |
| Change of assumptions  | 346,805                                       | -  |
| Net difference between projected and actual earnings on pension plan investments | <u>424,216</u>                                | <u>764,414</u>                               |
|  | <u>\$ 771,021</u>                             | <u>\$ 1,231,574</u>                          |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ending<br/>December 31,</u> |             |
|-------------------------------------|-------------|
| 2018                                | \$ (15,616) |
| 2019                                | (15,616)    |
| 2020                                | (178,040)   |
| 2021                                | (211,163)   |
| 2022                                | (20,059)    |
| Thereafter                          | (20,059)    |

**BOROUGH OF PHOENIXVILLE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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**NOTE I - DEFINED BENEFIT PENSION PLAN (MUNICIPAL EMPLOYEES' PENSION PLAN)**

**Summary of Significant Accounting Policies**

Municipal Employees' Pension Plan investments are carried at fair value as reported by the investment managers. Short-term investments are reported at cost, which approximates fair value. The plan's unallocated insurance contracts are valued at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to purchase annuities and pay administrative expenses charged by the insurance company. Funds under the contract that have been allocated and applied to purchase annuities are excluded from the plan's assets.

Financial information of the Borough's Municipal Employees' Pension Plan is presented on the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due as required by the Act. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

**Plan Description**

**Plan Administration** - The Borough administers the Municipal Employees' Pension Plan--a single-employer defined benefit pension plan that provides pensions for all regular, full-time Municipal employees.

Management of the plan is vested in the Phoenixville Borough Council. The Borough Council has delegated the responsibility for managing, investing and monitoring the Borough's Municipal Employees' Pension Fund assets to Principal Financial Group and SEI Private Trust Company.

**Plan Membership** - At December 31, 2017, plan membership consisted of the following:

|   |     |
|---|-----|
| Inactive plan members or beneficiaries currently receiving benefits | 40  |
| Inactive plan members entitled to but not yet receiving benefits    | 8   |
| Active plan members   | 66  |
|   | 114 |

**Benefits Provided** - The plan provides retirement, disability and death benefits. A member is eligible for normal retirement on the first day of the month coincident with or following attainment of age 65. The normal retirement pension is payable monthly during the member's lifetime, with payments ceasing upon death. The amount of monthly pension is equal to 45% of average monthly compensation, reduced by 1/20<sup>th</sup> for each year of service less than 20 years. Average compensation is based upon the last 60 months of employment. If a member continues working after his normal retirement date, his pension does not start until he actually retires. If an active member suffers a service related disability, they are eligible for disability retirement. The disability retirement is payable monthly equal to the member's accrued pension at the time of disability, without reduction. If an active member dies before beginning to receive a retirement pension benefit, a monthly death benefit is payable to his surviving spouse equal to 50% of the member's accrued pension and is payable beginning on the date on which the participant first would have been eligible for retirement.

**BOROUGH OF PHOENIXVILLE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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**NOTE I - DEFINED BENEFIT PENSION PLAN (MUNICIPAL EMPLOYEES' PENSION PLAN)**  
**(Continued)**

Benefit and contribution provisions are established by Pennsylvania law and may be amended only as allowed by Pennsylvania law.

The benefit provisions of the Borough's plan are established by Borough ordinances.

**Contributions** - Pennsylvania Act 205 of 1984 (as amended) requires that annual contributions be based upon the minimum municipal obligation (MMO), which is based on the plan's actuarial valuation. The MMO includes the normal cost, estimated administrative expenses and an amortization contribution of the unfunded actuarial accrued liability, less estimated member contributions, and a credit equal to 10% of the excess (if any) of the actuarial value of assets over the actuarial accrued liability. The state provides an allocation of funds, which must be used for pension funding. A financial requirement established by the MMO, which exceeds state and member contributions, must be funded by the employer.

As a condition of participation, participants are required to make contributions to the plan. The amount of the contribution is equal to 2% of the participant's pay.

In 2017, the MMO obligation for the plan was \$224,737. Contributions of \$6,972 and \$217,765 were made by the Borough and the Commonwealth of Pennsylvania, respectively.

Administrative costs, which may include, but are not limited to, investment management fees and actuarial services, are charged to the appropriate plan and funded by the General Fund, which is reimbursed as pension investments are liquidated.

**Investments**

**Investment Policy** - The plan's policy in regard to the allocation of invested assets is established and may be amended by the Borough Council through adoption of an ordinance. It is the policy of the Borough Council to pursue an investment strategy that reduces risk through prudent diversification of the portfolio across a broad selection of distinct asset classes. The plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the plan's adopted asset allocation policy as of December 31, 2017:

| <u>Asset Class</u>   | <u>Target Allocation</u> |
|----------------------|--------------------------|
| Domestic equity      | 42%                      |
| International equity | 23%                      |
| Fixed income         | 33%                      |
| Real estate          | 0%                       |
| Cash                 | 2%                       |
|                      | <u>100%</u>              |

**BOROUGH OF PHOENIXVILLE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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**NOTE I - DEFINED BENEFIT PENSION PLAN (MUNICIPAL EMPLOYEES' PENSION PLAN)**  
**(Continued)**

**Concentrations** – No more than 5% of the Borough’s investments are in any one issuer.

**Rate of Return** - For the year ended December 31, 2017, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 15.22%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Net Pension Liability of the Borough**

The components of the net pension (asset) liability of the Borough at December 31, 2017, were as follows:

|   |                        |
|---|------------------------|
| Total pension liability   | \$ 10,709,009          |
| Plan fiduciary net position   | <u>(11,218,826)</u>    |
| NET PENSION (ASSET) LIABILITY   | <u>\$ (509,817)</u>    |
| <br>Plan fiduciary net position as a percentage of the<br>total pension liability | <br><br><u>104.76%</u> |

**Actuarial Assumptions** - The total pension liability was determined by an actuarial valuation as of December 31, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

|                           |                    |
|---------------------------|--------------------|
| Inflation                 | 3%                 |
| Salary increases          | 5% annual increase |
| Investment rate of return | 7.25%              |

Mortality rates were based on the RP-2000 Mortality Table.

Due to the size of the plan, there has been no experience studies used to determine plan assumptions.

The long-term expected rate of return on plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**BOROUGH OF PHOENIXVILLE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE I - DEFINED BENEFIT PENSION PLAN (MUNICIPAL EMPLOYEES' PENSION PLAN)**  
**(Continued)**

Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation as of December 31, 2017 (see the plan's investment policy), are summarized in the following table:

| <u>Asset Class</u>   | <u>Long-Term<br/>Expected<br/>Real Rate<br/>of Return</u> |
|----------------------|---|
| Domestic equity      | 5.50%-7.50%   |
| International equity | 4.50%-6.50%   |
| Fixed income         | 1.00%-3.00%   |
| Real estate          | 4.50%-6.50%   |
| Cash                 | 0.00%-1.00%   |

**Discount Rate** - The discount rate is based on the long-term expected rate of return on plan investments that are expected to be used to finance the payments of benefits. The plan's fiduciary net position is projected to be sufficient to make projected benefit payments and the plan assets are expected to be invested using a strategy to achieve that return. The employer has always met the funding requirements of Pennsylvania Law Act 205 of 1984. Act 205 requires full funding of the entry age normal cost plus plan expenses, as well as amortization of the unfunded liability to ultimately achieve a 100% funded status.

**Changes in the Net Pension Liability**

|   | Total<br>Pension<br>Liability<br>(a) | Plan<br>Fiduciary Net<br>Position<br>(b) | Net<br>Pension<br>(Asset) Liability<br>(a)-(b) |
|---|--------------------------------------|--|--|
| BALANCES AT DECEMBER 31, 2016                         | \$ 10,048,285                        | \$ 9,884,932                             | \$ 163,353                                     |
| Changes for the year                                  |                                      |  |  |
| Service cost  | 327,576                              | -  | 327,576  |
| Interest  | 738,847                              | -  | 738,847  |
| Changes of benefit terms                              | -                                    | -  | -  |
| Differences between expected<br>and actual experience | (525,427)                            | -  | (525,427)                                      |
| Changes of assumptions                                | 561,384                              | -  | 561,384  |
| Contributions   |                                      |  |  |
| Employer  | -                                    | 224,737                                  | (224,737)                                      |
| Member  | -                                    | 76,280                                   | (76,280)                                       |
| Net investment income                                 | -                                    | 1,485,583                                | (1,485,583)                                    |
| Benefit payments                                      | (441,656)                            | (441,656)                                | -  |
| Administrative expense                                | -                                    | (11,050)                                 | 11,050   |
| NET CHANGES   | <u>660,724</u>                       | <u>1,333,894</u>                         | <u>(673,170)</u>                               |
| BALANCES AT DECEMBER 31, 2017                         | <u>\$ 10,709,009</u>                 | <u>\$ 11,218,826</u>                     | <u>\$ (509,817)</u>                            |

**BOROUGH OF PHOENIXVILLE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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**NOTE I - DEFINED BENEFIT PENSION PLAN (MUNICIPAL EMPLOYEES' PENSION PLAN)**  
**(Continued)**

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate*** - The following presents the net pension liability of the Borough, calculated using the discount rate of 7.25%, as well as what the Borough's net pension would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate:

|                               | 1%<br>Decrease<br>(6.25%) | Current<br>Discount<br>Rate (7.25%) | 1%<br>Increase<br>(8.25%) |
|-------------------------------|---------------------------|-------------------------------------|---------------------------|
| Net pension liability (asset) | \$ <u>631,164</u>         | \$ <u>(509,817)</u>                 | \$ <u>(1,512,014)</u>     |

***Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*** – For the year ended December 31, 2017, the Borough recognized pension expense of \$369,438 for the Municipal Employees' Pension Plan. At December 31, 2017, the Borough reported deferred outflows of resources and deferred inflows of resources related to the Plan from the following sources:

|  | <u>Deferred<br/>Outflows of<br/>Resources</u> | <u>Deferred<br/>Inflows of<br/>Resources</u> |
|--|---|--|
| Difference between expected and actual experience                                | \$ 94,567                                     | \$ 459,749                                   |
| Change of assumptions  | 606,130                                       | -  |
| Net difference between projected and actual earnings on pension plan investments | <u>346,116</u>                                | <u>619,539</u>                               |
|  | <u>\$ 1,046,813</u>                           | <u>\$ 1,079,288</u>                          |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ending<br/>December 31,</u> |           |
|-------------------------------------|-----------|
| 2018                                | \$ 79,403 |
| 2019                                | 79,403    |
| 2020                                | (54,370)  |
| 2021                                | (150,390) |
| 2022                                | 4,495     |
| Thereafter                          | 8,985     |

**BOROUGH OF PHOENIXVILLE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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**NOTE J - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

**Plan Description**

The Borough provides health and insurance benefits to eligible employees and retired police officers and spouses through a single-employer defined benefit plan. The objective of the plan is to provide members with continued coverage in the Borough's medical plan after attainment of age 50 and completion of 25 years of service for police officers and after attainment of age 65 for eligible employees.

**Funding Policy**

To receive coverage upon retirement, the retiree is not required to pay a premium cost for coverage. The Borough is required to pay an actuarially determined amount to support its payment of the premium cost for coverage for each member. The costs of administering the plan are paid by the Borough.

**Annual OPEB Cost and Net OPEB Obligation**

The Borough's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The Borough has restricted a total of \$375,000 in funds at period ending 2017 for this obligation.

The components of the Borough's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the Borough's net OPEB obligation to the plan are as follows:

|  |            |
|--|------------|
| Normal cost  | \$ 47,665  |
| Amortization of unfunded actuarial accrued liability | 99,692     |
| ANNUAL REQUIRED CONTRIBUTION (ARC)                   | 147,357    |
| Interest on net OPEB obligation                      | 26,792     |
| Adjustment to ARC                                    | (36,551)   |
| ANNUAL OPEB COST                                     | 137,598    |
| Net OPEB contributions during the year               | (57,091)   |
| INCREASE IN NET OPEB OBLIGATION                      | 80,507     |
| Net OPEB obligation at beginning of year             | 595,376    |
| NET OPEB OBLIGATION AT END OF YEAR                   | \$ 675,883 |

**BOROUGH OF PHOENIXVILLE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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**NOTE J - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)**

**Three-Year Trend**

| <u>Year Ended<br/>December 31,</u> | <u>Annual<br/>OPEB Cost</u> | <u>Percentage<br/>of Annual<br/>OPEB Cost<br/>Contributed</u> | <u>Net OPEB<br/>Obligation</u> |
|------------------------------------|-----------------------------|---|--------------------------------|
| 2015                               | \$ 140,471                  | 37.0%   | \$ 508,633                     |
| 2016                               | 139,019                     | 37.6%   | 595,376                        |
| 2017                               | 137,598                     | 41.5%   | 675,883                        |

**Funded Status and Funding Progress**

As of January 1, 2015, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$1,623,878 and the actuarial value of assets was \$0, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$5,510,442, and the ratio of the UAAL to the covered payroll was 29.47%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2015 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets. Annual salary increases are assumed to be 5.0%. The UAAL is being amortized over future years as part of the annual contribution requirement.

**BOROUGH OF PHOENIXVILLE**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2017

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**NOTE K - EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

The General Fund incurred expenditures in excess of appropriations in the following amounts for the year ended December 31, 2017:

|                        |                     |
|------------------------|---------------------|
| GENERAL FUND           |                     |
| Public safety          | \$ 164,366          |
| Public works           | 2,797,894           |
| Culture and recreation | <u>90,517</u>       |
|                        | <u>\$ 3,052,777</u> |

The excess expenditures were covered by the available fund balance in the funds.

**NOTE L - CONTINGENT LIABILITIES**

The Borough is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Borough's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the Borough.

The Borough participates in state and county assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The Borough is potentially liable for any expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

**NOTE M - FUND RECATEGORIZATION**

Prior to 2017, the Borough reported the Sanitation Fund as a governmental fund. Due to the fact that user fees were not sufficient to recover all costs including depreciation, the fund was reliant on the General Fund for revenues. In 2017, the Borough recategorized the Sanitation Fund from a governmental fund to a proprietary fund when it became apparent that fund revenues from user fees were sufficient to cover all related costs. In accordance with this change, the Borough transferred \$780,807 of capital assets, \$1,041,869 of cash and cash equivalents, \$58,477 of accounts receivable and \$(38,151) of accounts payable from governmental activities to the proprietary Sanitation Fund. In addition, the Borough created a new proprietary fund, the Parking Fund, to accumulate resources for parking operations within the Borough. Parking-related activities were previously included in the General Fund; however, as parking operations became more of a business than a service, the Borough determined it was appropriate to segregate those activities to a separate proprietary fund. In accordance with this change, the Borough transferred \$512,739 of capital assets from governmental activities to the Parking Fund.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**BOROUGH OF PHOENIXVILLE**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**YEAR ENDED DECEMBER 31, 2017**

|   | Original<br>Budget   | Final<br>Budget      | Actual<br>Amounts   | Variance With<br>Final Budget<br>Positive<br>(Negative) |
|---|----------------------|----------------------|---------------------|---|
| <b>REVENUES</b>   |                      |                      |                     |   |
| Taxes   | \$ 7,793,984         | \$ 7,793,984         | \$ 8,415,069        | \$ 621,085  |
| Fees and fines  | 137,000              | 137,000              | 155,040             | 18,040  |
| Licenses and permits                                    | 379,000              | 379,000              | 366,338             | (12,662)  |
| Intergovernmental                                       | 8,500                | 8,500                | 292,889             | 284,389   |
| Charges for services                                    | 916,560              | 1,029,011            | 962,281             | (66,730)  |
| Investment earnings                                     | 8,200                | 8,200                | 21,013              | 12,813  |
| Miscellaneous   | 60,250               | 60,250               | 25,948              | (34,302)  |
| TOTAL REVENUES  | <u>9,303,494</u>     | <u>9,415,945</u>     | <u>10,238,578</u>   | <u>822,633</u>  |
| <b>EXPENDITURES</b>                                     |                      |                      |                     |   |
| General government                                      | 972,429              | 976,522              | 637,182             | 339,340   |
| Public safety   | 5,248,425            | 5,360,876            | 5,525,242           | (164,366)   |
| Public works  | 1,098,499            | 1,094,405            | 3,892,299           | (2,797,894)   |
| Culture and recreation                                  | 142,500              | 145,000              | 235,517             | (90,517)  |
| TOTAL EXPENDITURES                                      | <u>7,461,853</u>     | <u>7,576,803</u>     | <u>10,290,240</u>   | <u>(2,713,437)</u>                                      |
| EXCESS (DEFICIENCY) OF<br>REVENUES OVER<br>EXPENDITURES | <u>1,841,641</u>     | <u>1,839,142</u>     | <u>(51,662)</u>     | <u>(1,890,804)</u>                                      |
| <b>OTHER FINANCING SOURCES (USES)</b>                   |                      |                      |                     |   |
| Interfund transfers in                                  | -                    | -                    | 151,993             | 151,993   |
| Interfund transfers out                                 | (1,728,439)          | (1,728,439)          | (1,921,852)         | (193,413)   |
| TOTAL OTHER FINANCING<br>SOURCES (USES)                 | <u>(1,728,439)</u>   | <u>(1,728,439)</u>   | <u>(1,769,859)</u>  | <u>(41,420)</u>   |
| NET CHANGE IN FUND<br>BALANCE                           | 113,202              | 110,703              | (1,821,521)         | (1,932,224)   |
| FUND BALANCE AT BEGINNING OF YEAR                       | <u>10,096,625</u>    | <u>10,096,625</u>    | <u>10,096,625</u>   | <u>-</u>  |
| FUND BALANCE AT END<br>OF YEAR                          | <u>\$ 10,209,827</u> | <u>\$ 10,207,328</u> | <u>\$ 8,275,104</u> | <u>\$ (1,932,224)</u>                                   |

**BOROUGH OF PHOENIXVILLE**  
**SCHEDULE OF CHANGES IN THE NET POLICE**  
**PENSION PLAN LIABILITY AND RELATED RATIOS**  
**LAST FOUR FISCAL YEARS**

|  | <u>2017</u>           | <u>2016</u>          | <u>2015</u>          | <u>2014</u>           |
|--|-----------------------|----------------------|----------------------|-----------------------|
| <b>TOTAL PENSION LIABILITY</b>   |                       |                      |                      |                       |
| Service cost   | \$ 404,072            | \$ 399,309           | \$ 380,294           | \$ 336,874            |
| Interest   | 866,484               | 810,556              | 751,072              | 723,044               |
| Changes of benefit terms   | -                     | -                    | -                    | -                     |
| Differences between expected and actual experience                         | (244,904)             | -                    | (385,864)            | -                     |
| Changes of assumptions   | 153,554               | -                    | 322,782              | -                     |
| Benefit payments   | <u>(371,783)</u>      | <u>(331,934)</u>     | <u>(327,900)</u>     | <u>(314,537)</u>      |
| NET CHANGE IN TOTAL PENSION LIABILITY                                      | 807,423               | 877,931              | 740,384              | 745,381               |
| Total pension liability, beginning   | <u>11,824,672</u>     | <u>10,946,741</u>    | <u>10,206,357</u>    | <u>9,460,976</u>      |
| TOTAL PENSION LIABILITY, ENDING (a)  | <u>\$ 12,632,095</u>  | <u>\$ 11,824,672</u> | <u>\$ 10,946,741</u> | <u>\$ 10,206,357</u>  |
| <b>PLAN FIDUCIARY NET POSITION</b>   |                       |                      |                      |                       |
| Contributions  |                       |                      |                      |                       |
| Employer   | \$ 318,252            | \$ 316,607           | \$ 393,533           | \$ 280,262            |
| Member   | -                     | -                    | -                    | -                     |
| Net investment income  | 1,826,268             | 660,325              | 11,750               | 587,261               |
| Benefit payments, including refunds of member contributions                | (371,783)             | (331,934)            | (327,900)            | (314,537)             |
| Administrative expense   | (7,950)               | (7,650)              | (9,135)              | (49,213)              |
| Other  | -                     | -                    | -                    | -                     |
| NET CHANGE IN PLAN FIDUCIARY NET POSITION                                  | 1,764,787             | 637,348              | 68,248               | 503,773               |
| Plan fiduciary net position, beginning                                     | <u>12,041,079</u>     | <u>11,403,731</u>    | <u>11,335,483</u>    | <u>10,831,709</u>     |
| PLAN FIDUCIARY NET POSITION, ENDING (b)                                    | <u>\$ 13,805,866</u>  | <u>\$ 12,041,079</u> | <u>\$ 11,403,731</u> | <u>\$ 11,335,482</u>  |
| NET PENSION ASSET, ENDING (a)-(b)  | <u>\$ (1,173,771)</u> | <u>\$ (216,407)</u>  | <u>\$ (456,990)</u>  | <u>\$ (1,129,125)</u> |
| PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY | <u>109.29%</u>        | <u>101.83%</u>       | <u>104.17%</u>       | <u>111.06%</u>        |
| COVERED-EMPLOYEE PAYROLL   | <u>\$ 2,561,462</u>   | <u>\$ 2,296,154</u>  | <u>\$ 2,296,154</u>  | <u>\$ 2,464,671</u>   |
| NET PENSION ASSET AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL              | <u>-45.82%</u>        | <u>-9.42%</u>        | <u>-19.90%</u>       | <u>-45.81%</u>        |

**BOROUGH OF PHOENIXVILLE**  
**SCHEDULE OF POLICE PENSION PLAN CONTRIBUTIONS**  
**LAST FOUR FISCAL YEARS**

|  | <u>2017</u>         | <u>2016</u>         | <u>2015</u>         | <u>2014</u>         |
|--|---------------------|---------------------|---------------------|---------------------|
| ACTUARIALLY DETERMINED CONTRIBUTION                                  | \$ 314,652          | \$ 316,607          | \$ 344,034          | \$ 280,261          |
| CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION | <u>318,252</u>      | <u>316,607</u>      | <u>393,533</u>      | <u>280,262</u>      |
| CONTRIBUTION EXCESS  | <u>\$ (3,600)</u>   | <u>\$ -</u>         | <u>\$ (49,499)</u>  | <u>\$ (1)</u>       |
| COVERED-EMPLOYEE PAYROLL   | <u>\$ 2,561,462</u> | <u>\$ 2,296,154</u> | <u>\$ 2,296,154</u> | <u>\$ 2,464,671</u> |
| CONTRIBUTION AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL             | <u>12.42%</u>       | <u>13.79%</u>       | <u>17.14%</u>       | <u>11.37%</u>       |

**NOTES TO SCHEDULE**

Valuation date: January 1, 2015

Actuarially determined contribution rates are calculated as of January 1, two to four years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

|                               |  |
|-------------------------------|--|
| Actuarial cost method         | Entry age normal   |
| Amortization method           | Level dollar, closed   |
| Remaining amortization period | N/A years  |
| Asset valuation method        | Market value of assets as determined by Trustee                |
| Inflation                     | 3%   |
| Salary increases              | 5% annual increase   |
| Investment rate of return     | 7.25%  |
| Retirement age                | Latest of age 53, age at the completion of 25 years of service |
| Mortality                     | RP-2000 Table  |

**BOROUGH OF PHOENIXVILLE**  
**SCHEDULE OF POLICE PENSION PLAN INVESTMENT RETURNS**  
**LAST FOUR FISCAL YEARS**

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|   | <u>2017</u>   | <u>2016</u>  | <u>2015</u>  | <u>2014</u>  |
|---|---------------|--------------|--------------|--------------|
| ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF INVESTMENT EXPENSE | <u>15.31%</u> | <u>5.70%</u> | <u>0.08%</u> | <u>4.70%</u> |

**BOROUGH OF PHOENIXVILLE**  
**SCHEDULE OF CHANGES IN THE NET MUNICIPAL**  
**EMPLOYEES' PENSION PLAN LIABILITY AND RELATED RATIOS**  
**LAST FOUR FISCAL YEARS**

|  | <u>2017</u>          | <u>2016</u>          | <u>2015</u>         | <u>2014</u>         |
|--|----------------------|----------------------|---------------------|---------------------|
| <b>TOTAL PENSION LIABILITY</b>   |                      |                      |                     |                     |
| Service cost   | \$ 327,576           | \$ 298,325           | \$ 284,119          | \$ 275,389          |
| Interest   | 738,847              | 693,958              | 654,221             | 606,167             |
| Changes of benefit terms   | -                    | -                    | -                   | -                   |
| Differences between expected and actual experience                         | (525,427)            | -                    | 189,136             | -                   |
| Changes of assumptions   | 561,384              | -                    | 229,840             | -                   |
| Benefit payments   | <u>(441,656)</u>     | <u>(435,007)</u>     | <u>(373,898)</u>    | <u>(361,603)</u>    |
| NET CHANGE IN TOTAL PENSION LIABILITY                                      | 660,724              | 557,276              | 983,418             | 519,953             |
| Total pension liability, beginning   | <u>10,048,285</u>    | <u>9,491,009</u>     | <u>8,507,591</u>    | <u>7,987,638</u>    |
| TOTAL PENSION LIABILITY, ENDING (a)  | <u>\$ 10,709,009</u> | <u>\$ 10,048,285</u> | <u>\$ 9,491,009</u> | <u>\$ 8,507,591</u> |
| <b>PLAN FIDUCIARY NET POSITION</b>   |                      |                      |                     |                     |
| Contributions  |                      |                      |                     |                     |
| Employer   | \$ 224,737           | \$ 279,977           | \$ 245,824          | \$ 224,615          |
| Member   | 76,280               | 73,338               | 66,482              | 66,678              |
| Net investment income  | 1,485,583            | 549,021              | 15,770              | 488,631             |
| Benefit payments, including refunds of member contributions                | (441,656)            | (435,007)            | (373,898)           | (361,603)           |
| Administrative expense   | (11,050)             | (4,400)              | (12,400)            | (43,882)            |
| Other  | -                    | -                    | -                   | -                   |
| NET CHANGE IN PLAN FIDUCIARY NET POSITION                                  | 1,333,894            | 462,929              | (58,222)            | 374,439             |
| Plan fiduciary net position, beginning                                     | <u>9,884,932</u>     | <u>9,422,003</u>     | <u>9,480,225</u>    | <u>9,105,786</u>    |
| PLAN FIDUCIARY NET POSITION, ENDING (b)                                    | <u>\$ 11,218,826</u> | <u>\$ 9,884,932</u>  | <u>\$ 9,422,003</u> | <u>\$ 9,480,225</u> |
| NET PENSION (ASSET) LIABILITY, ENDING (a)-(b)                              | <u>\$ (509,817)</u>  | <u>\$ 163,353</u>    | <u>\$ 69,006</u>    | <u>\$ (972,634)</u> |
| PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY | <u>104.76%</u>       | <u>98.37%</u>        | <u>99.27%</u>       | <u>111.43%</u>      |
| COVERED-EMPLOYEE PAYROLL   | <u>\$ 3,720,157</u>  | <u>\$ 3,406,762</u>  | <u>\$ 3,406,762</u> | <u>\$ 3,329,098</u> |
| NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL          | <u>-13.70%</u>       | <u>4.79%</u>         | <u>2.03%</u>        | <u>-29.22%</u>      |

**BOROUGH OF PHOENIXVILLE**  
**SCHEDULE OF MUNICIPAL EMPLOYEES'**  
**PENSION PLAN CONTRIBUTIONS**  
**LAST FOUR FISCAL YEARS**

|  | <u>2017</u>         | <u>2016</u>         | <u>2015</u>         | <u>2014</u>         |
|--|---------------------|---------------------|---------------------|---------------------|
| ACTUARIALLY DETERMINED CONTRIBUTION                                  | \$ 224,737          | \$ 209,911          | \$ 245,824          | \$ 196,291          |
| CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION | <u>224,737</u>      | <u>279,977</u>      | <u>245,824</u>      | <u>224,615</u>      |
| CONTRIBUTION EXCESS  | <u>\$ -</u>         | <u>\$ (70,066)</u>  | <u>\$ -</u>         | <u>\$ (28,324)</u>  |
| COVERED-EMPLOYEE PAYROLL   | <u>\$ 3,720,157</u> | <u>\$ 3,406,762</u> | <u>\$ 3,406,762</u> | <u>\$ 3,329,098</u> |
| CONTRIBUTION AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL             | <u>6.04%</u>        | <u>8.22%</u>        | <u>7.22%</u>        | <u>6.75%</u>        |

**NOTES TO SCHEDULE**

Valuation date: January 1, 2015

Actuarially determined contribution rates are calculated as of January 1, two to four years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

|                               |   |
|-------------------------------|---|
| Actuarial cost method         | Entry age normal                                    |
| Amortization method           | Level dollar closed                                 |
| Remaining amortization period | N/A years   |
| Asset valuation method        | Market value of assets as determined by the Trustee |
| Inflation                     | 3%  |
| Salary increases              | 5% annual increase                                  |
| Investment rate of return     | 7.25%   |
| Retirement age                | Normal retirement age                               |
| Mortality                     | RP-2000 Table                                       |

**BOROUGH OF PHOENIXVILLE**  
SCHEDULE OF MUNICIPAL EMPLOYEES'  
PENSION PLAN INVESTMENT RETURNS  
LAST FOUR FISCAL YEARS

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|   | <u>2017</u>   | <u>2016</u>  | <u>2015</u>  | <u>2014</u>  |
|---|---------------|--------------|--------------|--------------|
| ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF INVESTMENT EXPENSE | <u>15.22%</u> | <u>5.76%</u> | <u>0.12%</u> | <u>4.62%</u> |

**BOROUGH OF PHOENIXVILLE**  
**POSTEMPLOYMENT BENEFITS OTHER THAN**  
**PENSION FUNDING PROGRESS**  
**YEAR ENDED DECEMBER 31, 2017**

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**SCHEDULE OF FUNDING PROGRESS**

| Actuarial<br>Valuation<br>Date<br>January 1, | (a)<br>Actuarial<br>Value of<br>Assets | (b)<br>Actuarial<br>Accrued<br>Liability<br>AAL -<br>Entry Age | (c)<br>Unfunded<br>AAL<br>(UAAL)<br>(b)-(a) | (d)<br>Funded<br>Ratio<br>(a)/(b) | (e)<br>Covered<br>Payroll | (f)<br>UAAL as a<br>Percentage<br>of Covered<br>Payroll<br>(c)/(e) |
|--|--|--|---|-----------------------------------|---------------------------|--|
| 2009   | \$ -                                   | \$ 1,783,951   | \$ 1,783,951                                | 0%                                | \$ 4,570,735              | 39.03%   |
| 2012   | -                                      | 2,073,525  | 2,073,525                                   | 0%                                | 5,017,257                 | 41.33%   |
| 2015   | -                                      | 1,623,878  | 1,623,878                                   | 0%                                | 5,510,442                 | 29.47%   |

## **SUPPLEMENTARY INFORMATION SECTION**

**BOROUGH OF PHOENIXVILLE**

COMBINING BALANCE SHEET

OTHER GOVERNMENTAL FUNDS

DECEMBER 31, 2017

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|  | <u>Fire Fund</u>  | <u>Liquid<br/>Fuels Fund</u> |
|--|-------------------|------------------------------|
| ASSETS   |                   |                              |
| Cash and cash equivalents                      | \$ 373,193        | \$ 635,085                   |
| Other receivables                              | 62                | 36,739                       |
| Prepaid expenses                               | <u>143</u>        | <u>-</u>                     |
| TOTAL ASSETS                                   | <u>\$ 373,398</u> | <u>\$ 671,824</u>            |
| LIABILITIES AND FUND BALANCES                  |                   |                              |
| LIABILITIES                                    |                   |                              |
| Accounts payable and other current liabilities | <u>\$ 86,825</u>  | <u>\$ -</u>                  |
| FUND BALANCES                                  |                   |                              |
| Nonspendable, prepaid expenses                 | -                 | -                            |
| Restricted for road and street improvements    | -                 | 671,824                      |
| Assigned to                                    |                   |                              |
| Fire protection                                | 286,573           | -                            |
| Debt service                                   | -                 | -                            |
| Recreation activities                          | -                 | -                            |
| Pension  | -                 | -                            |
| TOTAL FUND BALANCES                            | <u>286,573</u>    | <u>671,824</u>               |
| TOTAL LIABILITIES AND FUND BALANCES            | <u>\$ 373,398</u> | <u>\$ 671,824</u>            |

Special Revenue Funds

| <u>Debt<br/>Service Fund</u> | <u>Recreation<br/>Fund</u> | <u>Pension<br/>Fund</u> | <u>Total Other<br/>Governmental<br/>Funds</u> |
|------------------------------|----------------------------|-------------------------|---|
| \$ 12,092                    | \$ 454,375                 | \$ 90,823               | \$ 1,565,568                                  |
| -                            | 8,067                      | -                       | 44,868  |
| -                            | 301                        | -                       | 444   |
| \$ 12,092                    | \$ 462,743                 | \$ 90,823               | \$ 1,610,880                                  |
| \$ -                         | \$ 16,204                  | \$ -                    | \$ 103,029                                    |
| -                            | 301                        | -                       | 301   |
| -                            | -                          | -                       | 671,824                                       |
| -                            | -                          | -                       | 286,573                                       |
| 12,092                       | -                          | -                       | 12,092  |
| -                            | 446,238                    | -                       | 446,238                                       |
| -                            | -                          | 90,823                  | 90,823  |
| 12,092                       | 446,539                    | 90,823                  | 1,507,851                                     |
| \$ 12,092                    | \$ 462,743                 | \$ 90,823               | \$ 1,610,880                                  |

**BOROUGH OF PHOENIXVILLE**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
OTHER GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2017

|  | <u>Fire Fund</u>  | <u>Liquid<br/>Fuels Fund</u> |
|--|-------------------|------------------------------|
| REVENUES   |                   |                              |
| Taxes  | \$ 67,568         | \$ -                         |
| Intergovernmental                                    | 103,247           | 451,649                      |
| Charges for services                                 | -                 | -                            |
| Investment earnings                                  | 446               | 128                          |
|  | <u>171,261</u>    | <u>451,777</u>               |
| TOTAL REVENUES                                       |                   |                              |
| EXPENDITURES   |                   |                              |
| Current  |                   |                              |
| General government                                   | -                 | -                            |
| Public safety  | 709,870           | -                            |
| Public works   | -                 | 173,118                      |
| Culture and recreation                               | -                 | -                            |
| Debt service   |                   |                              |
| Principal  | -                 | -                            |
| Interest and other charges                           | -                 | -                            |
|  | <u>709,870</u>    | <u>173,118</u>               |
| TOTAL EXPENDITURES                                   |                   |                              |
| EXCESS (DEFICIENCY) OF REVENUES<br>OVER EXPENDITURES | (538,609)         | 278,659                      |
| OTHER FINANCING SOURCES                              |                   |                              |
| Interfund transfers in                               | <u>590,627</u>    | -                            |
| NET CHANGE IN FUND BALANCES                          | 52,018            | 278,659                      |
| FUND BALANCES AT BEGINNING OF YEAR                   | <u>234,555</u>    | <u>393,165</u>               |
| FUND BALANCES AT END OF YEAR                         | <u>\$ 286,573</u> | <u>\$ 671,824</u>            |

Special Revenue Funds

| <u>Debt<br/>Service Fund</u> | <u>Recreation<br/>Fund</u> | <u>Pension<br/>Fund</u> | <u>Total Other<br/>Governmental<br/>Funds</u> |
|------------------------------|----------------------------|-------------------------|---|
| \$ 45                        | \$ 55                      | \$ 66                   | \$ 67,734                                     |
| -                            | -                          | 536,017                 | 1,090,913                                     |
| -                            | 185,747                    | -                       | 185,747                                       |
| <u>229</u>                   | <u>506</u>                 | <u>122</u>              | <u>1,431</u>                                  |
| <u>274</u>                   | <u>186,308</u>             | <u>536,205</u>          | <u>1,345,825</u>                              |
| -                            | -                          | 542,992                 | 542,992                                       |
| -                            | -                          | -                       | 709,870                                       |
| -                            | -                          | -                       | 173,118                                       |
| -                            | 576,493                    | -                       | 576,493                                       |
| 310,000                      | -                          | -                       | 310,000                                       |
| <u>264,053</u>               | <u>-</u>                   | <u>-</u>                | <u>264,053</u>                                |
| <u>574,053</u>               | <u>576,493</u>             | <u>542,992</u>          | <u>2,576,526</u>                              |
| (573,779)                    | (390,185)                  | (6,787)                 | (1,230,701)                                   |
| <u>568,311</u>               | <u>483,242</u>             | <u>68,975</u>           | <u>1,711,155</u>                              |
| (5,468)                      | 93,057                     | 62,188                  | 480,454                                       |
| <u>17,560</u>                | <u>353,482</u>             | <u>28,635</u>           | <u>1,027,397</u>                              |
| <u>\$ 12,092</u>             | <u>\$ 446,539</u>          | <u>\$ 90,823</u>        | <u>\$ 1,507,851</u>                           |

**BOROUGH OF PHOENIXVILLE**

## COMBINING SCHEDULE OF FIDUCIARY NET POSITION

## FIDUCIARY FUNDS

DECEMBER 31, 2017

|   | Pension Funds                 |                             | Totals                      |
|---|-------------------------------|-----------------------------|-----------------------------|
|   | Non-Uniformed<br>Pension Fund | Police<br>Pension Fund      |                             |
| ASSETS  |                               |                             |                             |
| Cash and cash equivalents                                   | \$ <u>20,758</u>              | \$ <u>17,751</u>            | \$ <u>38,509</u>            |
| Investments   |                               |                             |                             |
| Mutual funds, at fair value                                 | 10,372,367                    | 13,016,785                  | 23,389,152                  |
| Unallocated insurance contract,<br>at contract value        | <u>825,702</u>                | <u>771,329</u>              | <u>1,597,031</u>            |
| TOTAL INVESTMENTS   | <u>11,198,069</u>             | <u>13,788,114</u>           | <u>24,986,183</u>           |
| TOTAL ASSETS  | \$ <u><u>11,218,827</u></u>   | \$ <u><u>13,805,865</u></u> | \$ <u><u>25,024,692</u></u> |
| NET POSITION  |                               |                             |                             |
| Held in trust for pension benefits<br>and pool participants | \$ <u><u>11,218,827</u></u>   | \$ <u><u>13,805,865</u></u> | \$ <u><u>25,024,692</u></u> |

**BOROUGH OF PHOENIXVILLE**

## COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION

## FIDUCIARY FUNDS

YEAR ENDED DECEMBER 31, 2017

|  | Pension Funds                 |                        | Totals               |
|--|-------------------------------|------------------------|----------------------|
|  | Non-Uniformed<br>Pension Fund | Police<br>Pension Fund |                      |
| ADDITIONS                                    |                               |                        |                      |
| Contributions                                |                               |                        |                      |
| Employer                                     | \$ 224,737                    | \$ 318,252             | \$ 542,989           |
| Employee                                     | 76,280                        | -                      | 76,280               |
| TOTAL<br>CONTRIBUTIONS                       | <u>301,017</u>                | <u>318,252</u>         | <u>619,269</u>       |
| Investment earnings                          |                               |                        |                      |
| Net increase in fair value of<br>investments | 1,047,627                     | 1,261,987              | 2,309,614            |
| Realized gains on sale of assets             | 284,251                       | 380,776                | 665,027              |
| Interest                                     | 34,007                        | 31,528                 | 65,535               |
| Dividends                                    | 184,506                       | 230,714                | 415,220              |
| Investment management expense                | (66,420)                      | (78,737)               | (145,157)            |
| TOTAL INVESTMENT<br>EARNINGS                 | <u>1,483,971</u>              | <u>1,826,268</u>       | <u>3,310,239</u>     |
| TOTAL ADDITIONS                              | <u>1,784,988</u>              | <u>2,144,520</u>       | <u>3,929,508</u>     |
| DEDUCTIONS                                   |                               |                        |                      |
| Benefits                                     | 440,043                       | 371,784                | 811,827              |
| Administrative                               | 11,050                        | 7,950                  | 19,000               |
| TOTAL DEDUCTIONS                             | <u>451,093</u>                | <u>379,734</u>         | <u>830,827</u>       |
| CHANGE IN NET<br>POSITION                    | 1,333,895                     | 1,764,786              | 3,098,681            |
| NET POSITION AT BEGINNING<br>OF YEAR         | <u>9,884,932</u>              | <u>12,041,079</u>      | <u>21,926,011</u>    |
| NET POSITION AT<br>END OF YEAR               | <u>\$ 11,218,827</u>          | <u>\$ 13,805,865</u>   | <u>\$ 25,024,692</u> |