

BOROUGH OF PHOENIXVILLE
ANNUAL FINANCIAL REPORT
Year Ended December 31, 2018



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, 2018, 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

Emphasis of Matter

For the year ended December 31, 2018, the Borough of Phoenixville adopted new accounting guidance, implementing Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

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, 2018, 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, budgetary comparison information, pension plan information and postemployment benefits other than pension information 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.

Maullie LLP

Oaks, Pennsylvania
May 14, 2019

BOROUGH OF PHOENIXVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2018

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, 2018. 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 \$58,419,618 (representing its net position). Of this amount, \$19,879,191 (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 \$2,911,195.
- As of December 31, 2018, the Borough's Governmental Funds reported combined ending fund balances of \$10,357,519, an increase of \$574,564 as compared to the prior year. While there was a recognized increase in fund balance, the Borough has restricted these funds for future OPEB liability, traffic improvements, the Phoenixville Hospital assessment appeal, road and street improvements, to name a few.
- The Borough's total Long-Term liabilities increased by \$2,475,472 (as seen on page 43).
- With the Borough segregating Sanitation and Parking into Enterprise Funds in 2017, comparative data denotes an increase in each fund by \$195,213 and \$258,846, respectively.

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, 2018

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, 2018

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, 2018

ENTITY-WIDE FINANCIAL ANALYSIS OF THE BOROUGH

The Borough's total net position as of December 31, 2018 was \$58,419,618. This represents an increase of \$2,911,195 over the prior year. While there was a \$2,338,708 increase in Business Type Activities, there was also an increase in Governmental Activities of \$572,487. 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, 2018 and 2017

	2018			2017		
	Governmental Activities	Business-Type Activities	Totals	Governmental Activities	Business-Type Activities	Totals
ASSETS						
Current and other assets	\$ 12,033,964	\$ 14,585,622	\$ 26,619,586	\$ 13,765,690	\$ 13,825,628	\$ 27,591,318
Capital assets	23,596,909	27,055,996	50,652,905	23,356,100	26,159,447	49,515,547
TOTAL ASSETS	35,630,873	41,641,618	77,272,491	37,121,790	39,985,075	77,106,865
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflows of resources	2,749,722	492,395	3,242,117	1,525,878	291,956	1,817,834
LIABILITIES						
Long-term liabilities	12,404,305	7,566,905	19,971,210	9,836,080	7,716,839	17,552,919
Other liabilities	834,401	506,008	1,340,409	1,650,686	244,901	1,895,587
TOTAL LIABILITIES	13,238,706	8,072,913	21,311,619	11,486,766	7,961,740	19,448,506
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows of resources	659,249	124,122	783,371	2,009,849	301,014	2,310,863
NET POSITION						
Net investment in capital assets	15,315,907	20,538,897	35,854,804	14,678,991	18,722,034	33,401,025
Restricted	2,685,623	-	2,685,623	2,685,623	-	2,685,623
Unrestricted	6,481,110	13,398,081	19,879,191	7,786,439	13,292,243	21,078,682
TOTAL NET POSITION	\$ 24,482,640	\$ 33,936,978	\$ 58,419,618	\$ 25,151,053	\$ 32,014,277	\$ 57,165,330

BOROUGH OF PHOENIXVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2018

Table 2 - Changes in Net Position
Years Ended December 31, 2018 and 2017

	2018			2017		
	Governmental Activities	Business-Type Activities	Totals	Governmental Activities	Business-Type Activities	Totals
REVENUES						
Program revenues						
Charges for services	\$ 1,559,670	\$ 9,461,075	\$ 11,020,745	\$ 1,168,886	\$ 9,147,016	\$ 10,315,902
Operating grants and contributions	996,230	127,793	1,124,023	908,837	195,016	1,103,853
Capital grants and contributions	473,526	521,500	995,026	451,649	2,355,741	2,807,390
General revenues						
Real estate taxes	4,691,331	-	4,691,331	4,179,087	-	4,179,087
Real estate transfer taxes	650,997	-	650,997	863,837	-	863,837
Earned income tax	3,182,108	-	3,182,108	3,043,714	-	3,043,714
LST tax	280,520	-	280,520	270,028	-	270,028
Per capita tax	39,706	-	39,706	56,996	-	56,996
Franchise fees	342,973	-	342,973	366,338	-	366,338
Fines and forfeits	161,168	-	161,168	155,040	-	155,040
Investment earnings	30,636	69,539	100,175	22,264	67,045	89,309
Grants not restricted to a specific program	-	-	-	4,921	-	4,921
Gain on sale of asset	-	16,300	16,300	-	1,456	1,456
TOTAL REVENUES	12,408,865	10,196,207	22,605,072	11,491,597	11,766,274	23,257,871
EXPENSES						
General government	1,896,231	-	1,896,231	1,523,693	-	1,523,693
Public safety	7,269,585	-	7,269,585	6,666,866	-	6,666,866
Highways/streets	1,908,689	-	1,908,689	1,316,397	-	1,316,397
Sanitation	-	-	-	-	-	-
Culture and recreation	524,977	-	524,977	722,073	-	722,073
Interest on bonds	236,896	-	236,896	243,107	-	243,107
Water operations	-	3,688,673	3,688,673	-	3,508,551	3,508,551
Waste water operations	-	2,178,458	2,178,458	-	2,019,292	2,019,292
Parking operations	-	248,517	248,517	-	152,095	152,095
Sanitation operations	-	1,741,851	1,741,851	-	1,643,397	1,643,397
Capital contributions	-	-	-	2,355,741	-	2,355,741
Transfers	-	-	-	58,704	(58,704)	-
TOTAL EXPENSES	11,836,378	7,857,499	19,693,877	12,886,581	7,264,631	20,151,212
CHANGE IN NET POSITION	\$ 572,487	\$ 2,338,708	\$ 2,911,195	\$ (1,394,984)	\$ 4,501,643	\$ 3,106,659

BOROUGH OF PHOENIXVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2018

GOVERNMENTAL ACTIVITIES

The Borough recognized an increase in Governmental Activities of \$572,487.

Governmental Activities bore an expense of \$11,836,378 for the year ending 2018. Taxes provided 71% (\$8,844,662) of the revenues that offset the corresponding expenses of these activities. Those who directly benefited from these programs contributed 13% (\$1,559,670). 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 \$564,024 from 2017 to 2018 was due, in part, to an increase in the millage rate from 5.72 mills to 5.91 mills in 2018. EIT collections increased by \$138,392. The Borough in conjunction with Keystone Collection Group has been diligently monitoring this category along with LST in order to capture the growing population in the Borough.
- (b) Charges for Services increased \$390,784 due to increases in Large Project Permits, General Construction Permits and a reimbursement from Delaware Valley Workers' Compensation Insurance Trust relating to the Borough's Workers Compensation.

BOROUGH OF PHOENIXVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2018

BUSINESS-TYPE ACTIVITIES

The net increase from the Borough's business-type activities was \$2,338,708 compared to \$4,501,643 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 \$7,857,499 (compared to \$7,323,335 in 2017). Business-Type Activities are comprised of the Water, Wastewater, Parking, and Sanitation Funds. The largest increases occurred within the Water and Sewer Departments. Water expenses rose primarily due to increased operational expenses. Waste Water rose due to administration expense increasing. Operating grants and contributions of \$127,793 consisted of a Recycling grant. Investment earnings contributed \$69,539 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, 2018, the combined total of the Borough's Governmental Funds was \$10,357,519. This represents an increase of \$574,564 as compared to the prior year. Approximately 26% or \$2.7 million constitutes unassigned fund balance.

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 32% 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 in Note K shows items under each category.

BOROUGH OF PHOENIXVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2018

GENERAL FUND

The General Fund is the chief operating fund of the Borough of Phoenixville. As of December 31, 2018, the total fund balance in this fund was \$ 8,565,785 compared to the previous year's balance of \$8,275,104. The Borough recognized a decrease in expenditures due to the completion of the Public Works Building, compared to 2017 where the Borough self-funded the construction of this building.

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 2018, the Fund Balance that was assigned to debt service was \$12,509. (See page 70 for additional detail regarding this Fund).

Retirement/Pension Fund

The Commonwealth of Pennsylvania allotted \$608,970 to the Borough for its Uniform and Non-Uniform pension plans in 2018 (\$536,017 in 2017). The Borough was required to contribute an additional \$120,446 in 2018 to the Uniform pension plan (as compared to \$0 in the prior year). The Borough was required to contribute \$302 to the Non-Uniform pension plan in current year (as compared to \$6,972 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 \$473,526 (compared to \$450,329 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 2019 and 2020, the Borough expects to receive similar funding amounts.

Recreation Fund

In 2018, \$572,852 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 \$546,359. In 2018, a majority of the \$200,893 in revenue came from charges for services (\$199,800 for the year).

BOROUGH OF PHOENIXVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2018

Fire Fund

The Borough received \$90,503 (compared to \$103,247 in the prior year) from the Commonwealth of Pennsylvania for volunteer firefighting. The operating expenditures from this fund for fire protection were \$820,823. In 2018, the Borough paid the remainder of the corresponding debt associated with the fire trucks. Finance Committee and Council approved the early payoff of these vehicles which resulted in an interest savings of approximately \$ 10,000.

Special Revenue Funds General

Special Revenue Fund Balance at year end 2018 was \$1,791,734, up \$283,883 from the previous period. The primary reason for this increase rests with the fact that, the Borough received a refund from Del Val as noted previously. Every two years the Borough receives a rebate from Del Val as it relates to the Fire Departments Workers Compensation.

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 \$13,398,081 as compared to \$13,292,243 in the prior year, representing an increase in unrestricted net position of \$105,838. 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 62.

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 81% of General Fund revenues.
- Approximately 15% 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.
- 1% 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, 2018

Expenditures

The Borough maintained a conservative budget in 2018. The following statements are representative of the final 2018 budget.

- 12% of the General Fund budget is for General Government expenditures.
- 69% was for Public Safety including Police and Crossing Guards.
- 16% 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.
- 3% 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 5.91 mills for the taxpayers in 2018.

Revenues ended the year above budget and expectations, as the Borough had revenues of \$821,048 above budget. Most of the increase was in taxes and intergovernmental.

Expenditures were over budget by \$788,055 due to the recognition of expenditures associated with the construction of the new public works building (now completed), the recreation center bid and design package, completion of the sidewalks at Reeves Park and additional expenses in public safety.

DEBT ADMINISTRATION

As of December 31, 2018, the Borough had total outstanding long-term bond debt of \$14,325,000 which represents a decrease in debt principal of \$1,225,000.

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, 2018

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, 2018

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and cash equivalents	\$ 10,149,701	\$ 12,849,770	\$ 22,999,471
Accounts receivable, net	1,125,540	1,703,360	2,828,900
Grants receivable	750,000	-	750,000
Inventories	-	27,127	27,127
Prepaid items	8,723	5,365	14,088
Capital assets			
Land	3,935,548	205,481	4,141,029
Construction in progress	390,169	114,573	504,742
Capital assets, net	19,271,192	26,735,942	46,007,134
TOTAL ASSETS	<u>35,630,873</u>	<u>41,641,618</u>	<u>77,272,491</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources - OPEB activity	142,804	37,495	180,299
Deferred outflows of resources - pension activity	2,606,918	454,900	3,061,818
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>2,749,722</u>	<u>492,395</u>	<u>3,242,117</u>
LIABILITIES			
Accounts payable and accrued expenses	801,711	484,225	1,285,936
Unearned revenues	1,460	-	1,460
Accrued interest	31,230	21,783	53,013
Long-term liabilities			
Portion due or payable within one year			
Bonds payable	320,000	665,000	985,000
Compensated absences	55,362	31,496	86,858
Portion due or payable after one year			
Bonds payable	7,580,000	5,760,000	13,340,000
Bond premiums	381,002	92,099	473,101
Compensated absences	498,262	283,505	781,767
Net pension liability	1,441,147	289,793	1,730,940
Other postemployment benefits	2,128,532	445,012	2,573,544
TOTAL LIABILITIES	<u>13,238,706</u>	<u>8,072,913</u>	<u>21,311,619</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - pension activity	659,249	124,122	783,371
NET POSITION			
Net investment in capital assets	15,315,907	20,538,897	35,854,804
Restricted	2,685,623	-	2,685,623
Unrestricted	6,481,110	13,398,081	19,879,191
TOTAL NET POSITION	<u>\$ 24,482,640</u>	<u>\$ 33,936,978</u>	<u>\$ 58,419,618</u>

See accompanying notes to the basic financial statements.

BOROUGH OF PHOENIXVILLE

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2018

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES				
General government	\$ 1,896,231	\$ 215,681	\$ 724,471	\$ -
Public safety	7,269,585	1,144,189	90,503	-
Public works	1,908,689	-	171,897	473,526
Culture and recreation	524,977	199,800	9,359	-
Interest on long-term debt	236,896	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	<u>11,836,378</u>	<u>1,559,670</u>	<u>996,230</u>	<u>473,526</u>
BUSINESS-TYPE ACTIVITIES				
Water Fund	3,688,673	4,172,420	-	521,500
Sewer Fund	2,178,458	3,014,181	-	-
Parking Fund	248,517	506,289	-	-
Sanitation Fund	1,741,851	1,768,185	127,793	-
TOTAL BUSINESS-TYPE ACTIVITIES	<u>7,857,499</u>	<u>9,461,075</u>	<u>127,793</u>	<u>521,500</u>
TOTAL BOROUGH ACTIVITIES	<u>\$ 19,693,877</u>	<u>\$ 11,020,745</u>	<u>\$ 1,124,023</u>	<u>\$ 995,026</u>

GENERAL REVENUES

Taxes

Property taxes, levied for general purposes

Franchise taxes

Public service taxes

Fees and fines

Unrestricted investment earnings

Gain on sale of assets

TOTAL GENERAL REVENUES

CHANGE IN NET POSITION

NET POSITION AT BEGINNING OF YEAR, restated

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>	<u>Business-Type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Totals</u>
\$ (956,079)	\$ -	\$ (956,079)
(6,034,893)	-	(6,034,893)
(1,263,266)	-	(1,263,266)
(315,818)	-	(315,818)
<u>(236,896)</u>	<u>-</u>	<u>(236,896)</u>
<u>(8,806,952)</u>	<u>-</u>	<u>(8,806,952)</u>
-	1,005,247	1,005,247
-	835,723	835,723
-	257,772	257,772
-	154,127	154,127
<u>-</u>	<u>2,252,869</u>	<u>2,252,869</u>
<u>(8,806,952)</u>	<u>2,252,869</u>	<u>(6,554,083)</u>
4,664,150	-	4,664,150
342,973	-	342,973
4,180,512	-	4,180,512
161,168	-	161,168
30,636	69,539	100,175
-	16,300	16,300
<u>9,379,439</u>	<u>85,839</u>	<u>9,465,278</u>
572,487	2,338,708	2,911,195
<u>23,910,153</u>	<u>31,598,270</u>	<u>55,508,423</u>
<u>\$ 24,482,640</u>	<u>\$ 33,936,978</u>	<u>\$ 58,419,618</u>

BOROUGH OF PHOENIXVILLE

BALANCE SHEET

GOVERNMENTAL FUNDS

DECEMBER 31, 2018

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 8,305,548	\$ 1,844,153	\$ 10,149,701
Taxes receivable, net	123,274	-	123,274
Due from escrow	200,000	-	200,000
Other receivables	756,852	45,414	802,266
Prepaid items	8,266	457	8,723
	<u>8,266</u>	<u>457</u>	<u>8,723</u>
TOTAL ASSETS	<u>\$ 9,393,940</u>	<u>\$ 1,890,024</u>	<u>\$ 11,283,964</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES			
Accounts payable and other current liabilities	\$ 703,421	\$ 98,290	\$ 801,711
Unearned revenues	1,460	-	1,460
TOTAL LIABILITIES	<u>704,881</u>	<u>98,290</u>	<u>803,171</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenues, property taxes	123,274	-	123,274
	<u>123,274</u>	<u>-</u>	<u>123,274</u>
FUND BALANCES			
Nonspendable, prepaid items	8,266	309	8,575
Restricted (Note K)	2,164,964	759,880	2,924,844
Committed (Note K)	611,500	-	611,500
Assigned (Note K)	3,075,059	1,031,545	4,106,604
Unassigned	2,705,996	-	2,705,996
TOTAL FUND BALANCES	<u>8,565,785</u>	<u>1,791,734</u>	<u>10,357,519</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 9,393,940</u>	<u>\$ 1,890,024</u>	<u>\$ 11,283,964</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, 2018

TOTAL GOVERNMENTAL FUNDS BALANCES \$ 10,357,519

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. These assets consist of:

Land	3,935,548
Construction in progress	390,169
Depreciable capital assets, net	19,271,192

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.

750,000

Deferred inflows and outflows of resources related to pension and OPEB activities are not financial resources and, therefore, are not reported in the Governmental Funds.

2,090,473

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.

123,274

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.

(381,002)

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Accrued interest	(31,230)
Bonds payable in future years	(7,900,000)
Net pension liability	(1,441,147)
Compensated absences	(553,624)
Other postemployment benefits	(2,128,532)

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 24,482,640

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, 2018

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 8,696,724	\$ 70,130	\$ 8,766,854
Fees and fines	161,168	-	161,168
Licenses and permits	349,523	-	349,523
Intergovernmental	317,388	1,172,999	1,490,387
Charges for services	1,099,634	199,800	1,299,434
Investment earnings	27,884	2,752	30,636
Miscellaneous	73,335	153,805	227,140
TOTAL REVENUES	<u>10,725,656</u>	<u>1,599,486</u>	<u>12,325,142</u>
EXPENDITURES			
Current			
General government	717,068	729,416	1,446,484
Public safety	5,627,859	820,823	6,448,682
Public works	1,743,792	385,542	2,129,334
Culture and recreation	556,931	596,296	1,153,227
Debt service			
Principal	-	315,000	315,000
Interest and other charges	-	257,851	257,851
TOTAL EXPENDITURES	<u>8,645,650</u>	<u>3,104,928</u>	<u>11,750,578</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>2,080,006</u>	<u>(1,505,442)</u>	<u>574,564</u>
OTHER FINANCING SOURCES (USES)			
Interfund transfers in	-	1,789,325	1,789,325
Interfund transfers out	(1,789,325)	-	(1,789,325)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,789,325)</u>	<u>1,789,325</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	290,681	283,883	574,564
FUND BALANCES AT BEGINNING OF YEAR	<u>8,275,104</u>	<u>1,507,851</u>	<u>9,782,955</u>
FUND BALANCES AT END OF YEAR	<u>\$ 8,565,785</u>	<u>\$ 1,791,734</u>	<u>\$ 10,357,519</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, 2018

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 574,564
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 (\$1,359,721) exceed depreciation (\$897,301) in the current period.	462,420
The net effect of other transactions involving capital assets.	(221,611)
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.	50,627
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.	60,920
Repayment of bond principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net position.	315,000
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.	768
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	(68,945)
Net pension liability	(550,907)
Compensated absences	(70,536)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 572,487</u>

See accompanying notes to the basic financial statements.

BOROUGH OF PHOENIXVILLE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2018

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Parking Fund</u>	<u>Sanitation Fund</u>	<u>Total Proprietary Funds</u>
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 5,277,415	\$ 5,586,102	\$ 704,272	\$ 1,281,981	\$ 12,849,770
Accounts receivable, net	1,057,846	635,752	2,049	7,713	1,703,360
Inventories	27,127	-	-	-	27,127
Prepaid items	3,540	1,026	143	656	5,365
TOTAL CURRENT ASSETS	<u>6,365,928</u>	<u>6,222,880</u>	<u>706,464</u>	<u>1,290,350</u>	<u>14,585,622</u>
CAPITAL ASSETS					
Land	9,502	95,835	51,018	49,126	205,481
Infrastructure	11,976,656	-	484,942	-	12,461,598
Construction in progress	84,608	29,965	-	-	114,573
Buildings	11,797,681	19,664,623	-	-	31,462,304
Equipment and furniture	1,733,895	1,574,577	181,745	2,439,361	5,929,578
Accumulated depreciation	<u>(12,517,378)</u>	<u>(9,032,895)</u>	<u>(197,052)</u>	<u>(1,370,213)</u>	<u>(23,117,538)</u>
TOTAL CAPITAL ASSETS	<u>13,084,964</u>	<u>12,332,105</u>	<u>520,653</u>	<u>1,118,274</u>	<u>27,055,996</u>
TOTAL ASSETS	19,450,892	18,554,985	1,227,117	2,408,624	41,641,618
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows of resources - OPEB activity	18,088	8,369	2,194	8,844	37,495
Deferred outflows of resources - pension activity	<u>219,468</u>	<u>101,519</u>	<u>26,659</u>	<u>107,254</u>	<u>454,900</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	237,556	109,888	28,853	116,098	492,395
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u>\$ 19,688,448</u>	<u>\$ 18,664,873</u>	<u>\$ 1,255,970</u>	<u>\$ 2,524,722</u>	<u>\$ 42,134,013</u>

See accompanying notes to the basic financial statements.

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Parking Fund</u>	<u>Sanitation Fund</u>	<u>Total Proprietary Funds</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION					
CURRENT LIABILITIES					
Accounts payable and other liabilities	\$ 405,265	\$ 37,893	\$ 7,145	\$ 33,922	\$ 484,225
Accrued interest	4,335	17,448	-	-	21,783
Current portion of long-term debt	145,000	520,000	-	-	665,000
Current portion of compensated absences	14,944	10,375	173	6,004	31,496
TOTAL CURRENT LIABILITIES	<u>569,544</u>	<u>585,716</u>	<u>7,318</u>	<u>39,926</u>	<u>1,202,504</u>
NONCURRENT LIABILITIES					
Bonds payable	1,135,000	4,625,000	-	-	5,760,000
Bond premium, net	73,680	18,419	-	-	92,099
Compensated absences	134,506	93,388	1,563	54,048	283,505
Other postemployment benefits	214,684	99,328	26,035	104,965	445,012
Net pension liability	139,811	64,673	16,983	68,326	289,793
TOTAL NONCURRENT LIABILITIES	<u>1,697,681</u>	<u>4,900,808</u>	<u>44,581</u>	<u>227,339</u>	<u>6,870,409</u>
TOTAL LIABILITIES	<u>2,267,225</u>	<u>5,486,524</u>	<u>51,899</u>	<u>267,265</u>	<u>8,072,913</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows of resources - pension activity	<u>55,801</u>	<u>25,811</u>	<u>15,240</u>	<u>27,270</u>	<u>124,122</u>
NET POSITION					
Net investment in capital assets	11,731,284	7,168,686	520,653	1,118,274	20,538,897
Unrestricted	<u>5,634,138</u>	<u>5,983,852</u>	<u>668,178</u>	<u>1,111,913</u>	<u>13,398,081</u>
TOTAL NET POSITION	<u>17,365,422</u>	<u>13,152,538</u>	<u>1,188,831</u>	<u>2,230,187</u>	<u>33,936,978</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 19,688,448</u>	<u>\$ 18,664,873</u>	<u>\$ 1,255,970</u>	<u>\$ 2,524,722</u>	<u>\$ 42,134,013</u>

BOROUGH OF PHOENIXVILLE
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2018

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Parking Fund</u>	<u>Sanitation Fund</u>	<u>Total Proprietary Funds</u>
OPERATING REVENUES					
Charges for services	\$ 4,172,420	\$ 3,014,181	\$ 506,289	\$ 1,768,185	\$ 9,461,075
Intergovernmental	521,500	-	-	127,793	649,293
TOTAL OPERATING REVENUES	<u>4,693,920</u>	<u>3,014,181</u>	<u>506,289</u>	<u>1,895,978</u>	<u>10,110,368</u>
OPERATING EXPENSES					
Administration	1,671,889	874,631	152,074	890,726	3,589,320
Salaries and wages	667,108	223,428	11,851	323,554	1,225,941
Fuel and light	168,833	178,172	-	-	347,005
Contracted services	222,717	78,824	1,232	58,432	361,205
Insurance claims and expenses	223,304	207,010	35,150	274,369	739,833
Materials and supplies	172,432	92,032	17,071	60,015	341,550
Miscellaneous	-	685	-	1,565	2,250
Bad debts	-	-	-	5,628	5,628
Depreciation	528,839	378,036	31,139	127,562	1,065,576
TOTAL OPERATING EXPENSES	<u>3,655,122</u>	<u>2,032,818</u>	<u>248,517</u>	<u>1,741,851</u>	<u>7,678,308</u>
OPERATING INCOME	<u>1,038,798</u>	<u>981,363</u>	<u>257,772</u>	<u>154,127</u>	<u>2,432,060</u>
NONOPERATING REVENUES (EXPENSES)					
Interest and investment revenue	23,106	16,773	1,074	28,586	69,539
Gain on disposal of assets	-	3,800	-	12,500	16,300
Interest expense	(33,551)	(145,640)	-	-	(179,191)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(10,445)</u>	<u>(125,067)</u>	<u>1,074</u>	<u>41,086</u>	<u>(93,352)</u>
CHANGE IN NET POSITION	1,028,353	856,296	258,846	195,213	2,338,708
NET POSITION AT BEGINNING OF YEAR, restated	<u>16,337,069</u>	<u>12,296,242</u>	<u>929,985</u>	<u>2,034,974</u>	<u>31,598,270</u>
NET POSITION AT END OF YEAR	<u>\$ 17,365,422</u>	<u>\$ 13,152,538</u>	<u>\$ 1,188,831</u>	<u>\$ 2,230,187</u>	<u>\$ 33,936,978</u>

See accompanying notes to the basic financial statements.

BOROUGH OF PHOENIXVILLE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2018

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Parking Fund</u>	<u>Sanitation Fund</u>	<u>Total Proprietary Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 3,937,254	\$ 2,996,809	\$ 505,078	\$ 1,785,280	\$ 9,224,421
Payments to employees	(2,288,266)	(1,064,150)	(152,582)	(1,189,139)	(4,694,137)
Payments to suppliers	<u>(491,267)</u>	<u>(576,421)</u>	<u>(47,181)</u>	<u>(411,189)</u>	<u>(1,526,058)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,157,721</u>	<u>1,356,238</u>	<u>305,315</u>	<u>184,952</u>	<u>3,004,226</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition, construction and improvements of capital assets	(1,662,937)	(46,789)	(39,143)	(213,256)	(1,962,125)
Proceeds from sales of assets	-	3,800	-	12,500	16,300
Principal paid on capital debt	(405,000)	(505,000)	-	-	(910,000)
Interest paid on capital debt	(42,823)	(148,976)	-	-	(191,799)
Proceeds from grant	<u>521,500</u>	<u>-</u>	<u>-</u>	<u>127,793</u>	<u>649,293</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,589,260)</u>	<u>(696,965)</u>	<u>(39,143)</u>	<u>(72,963)</u>	<u>(2,398,331)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of certificates of deposit	-	-	-	-	-
Earnings on investments	<u>23,106</u>	<u>16,773</u>	<u>1,074</u>	<u>28,586</u>	<u>69,539</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>23,106</u>	<u>16,773</u>	<u>1,074</u>	<u>28,586</u>	<u>69,539</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(408,433)	676,046	267,246	140,575	675,434
CASH AND CASH EQUIVALENTS AT BEGINNING 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>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 5,277,415</u>	<u>\$ 5,586,102</u>	<u>\$ 704,272</u>	<u>\$ 1,281,981</u>	<u>\$ 12,849,770</u>

See accompanying notes to the basic financial statements.

BOROUGH OF PHOENIXVILLE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2018

	<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	\$ 1,038,798	\$ 981,363	\$ 257,772	\$ 154,127	\$ 2,432,060
Proceeds from grant	(521,500)	-	-	(127,793)	(649,293)
Adjustments to reconcile operating income to net cash provided by operating activities					
Depreciation	528,839	378,036	31,139	127,562	1,065,576
Pension expense	40,728	19,658	10,432	21,326	92,144
OPEB adjustment	(4,095)	(1,895)	(497)	(2,003)	(8,490)
(Increase) decrease in					
Accounts receivable	(235,166)	(17,372)	(1,211)	17,095	(236,654)
Inventories	9,846	-	-	-	9,846
Prepaid items	118	(4)	(66)	13	61
Increase (decrease) in					
Accounts payable and other liabilities	286,055	(17,799)	6,338	(11,193)	263,401
Compensated absences	14,098	14,251	1,408	5,818	35,575
	<u>14,098</u>	<u>14,251</u>	<u>1,408</u>	<u>5,818</u>	<u>35,575</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,157,721</u>	<u>\$ 1,356,238</u>	<u>\$ 305,315</u>	<u>\$ 184,952</u>	<u>\$ 3,004,226</u>

See accompanying notes to the basic financial statements.

BOROUGH OF PHOENIXVILLE
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2018

	<u>Pension Funds</u>	<u>Agency Fund</u>
ASSETS		
Cash and cash equivalents	\$ -	\$ 1,352,351
Investments		
Mutual funds, at fair value	21,851,318	-
Unallocated insurance contract, at contract value	1,501,324	-
TOTAL INVESTMENTS	<u>23,352,642</u>	<u>-</u>
TOTAL ASSETS	<u>23,352,642</u>	<u>\$ 1,352,351</u>
LIABILITIES		
Accounts payable	-	\$ 1,152,351
Other liabilities	82,399	-
Due to General Fund	<u>-</u>	<u>200,000</u>
TOTAL LIABILITIES	<u>82,399</u>	<u>\$ 1,352,351</u>
NET POSITION		
Held in trust for benefits and other purposes	<u>\$ 23,270,243</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, 2018

	<u>Pension Funds</u>
ADDITIONS	
Contributions	
Employer	\$ 729,718
Employee	<u>82,315</u>
TOTAL CONTRIBUTIONS	<u>812,033</u>
Investment earnings	
Net increase in fair value of investments	(2,765,863)
Realized gains on sale of assets	624,437
Interest	55,680
Dividends	447,193
Investment activity expense	<u>(92,098)</u>
TOTAL INVESTMENT EARNINGS	<u>(1,730,651)</u>
TOTAL ADDITIONS	<u>(918,618)</u>
DEDUCTIONS	
Benefits	826,131
Administrative	<u>9,700</u>
TOTAL DEDUCTIONS	<u>835,831</u>
CHANGE IN NET POSITION	(1,754,449)
NET POSITION AT BEGINNING OF YEAR	<u>25,024,692</u>
NET POSITION AT END OF YEAR	<u>\$ 23,270,243</u>

See accompanying notes to the basic financial statements.

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

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
YEAR ENDED DECEMBER 31, 2018

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
YEAR ENDED DECEMBER 31, 2018

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.

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

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
YEAR ENDED DECEMBER 31, 2018

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, 2018, the allowance for doubtful accounts was \$48,285 in the General Fund, \$44,046 in the Sanitation Fund, \$45,378 in the Water Fund and \$27,598 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
YEAR ENDED DECEMBER 31, 2018

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 two items that qualify 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. The deferred outflow of resources related to OPEB is reported in the government-wide statement of net position and is the result of changes in plan assumptions and contributions subsequent to the measurement date.

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, 2018, 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
YEAR ENDED DECEMBER 31, 2018

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
YEAR ENDED DECEMBER 31, 2018

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. See Note K.
- ***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. See Note K.
- ***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, 2018. See Note K.
- ***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
YEAR ENDED DECEMBER 31, 2018

NOTE B - TAXES

For 2018, tax was levied on the assessed value of real estate at a total of 5.91 mills.

The taxable assessed valuation of property as of January 1, 2018, was \$770,504,898.

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 2018 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, 2018, the carrying amount of the Borough's deposits was \$24,351,822, and the bank balance was \$24,581,429. Of the bank balance, \$514,908 was covered by federal depository insurance, \$24,066,521 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 G and H for pension deposit disclosures.

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

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, 2018, is \$157,605 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, 2018. The following table reflects investments held by the Pension Trust Funds as of December 31, 2018:

	Fair Value	Maturities		
		0-5 Years	5-10 Years	More Than 10 Years
Mutual funds - Domestic equities	\$ 10,480,543	\$ 10,480,543	\$ -	\$ -
Mutual funds - International equities	5,324,803	5,324,803	-	-
Mutual funds - Domestic fixed income	6,045,972	6,045,972	-	-
	<u>\$ 21,851,318</u>	<u>\$ 21,851,318</u>	<u>\$ -</u>	<u>\$ -</u>

See Notes G and H for pension investment policies.

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, 2018, the Borough’s pension plans held \$21,851,318 in mutual funds, all of which are considered Level 1 investments.

In addition, the pension plans hold \$1,501,324 of investments in unallocated insurance contracts that are reported at contract value and are not categorized within the fair value hierarchy.

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

NOTE C - DEPOSITS AND INVESTMENTS (Continued)

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.

NOTE D - INTERFUND TRANSFERS

Interfund transfers were as follows:

	Transfers In	Transfers Out
	<u> </u>	<u> </u>
General Fund	\$ -	\$ 1,789,325
Fire Fund	600,804	-
Debt Service Fund	572,852	-
Recreation Fund	495,223	-
Pension Fund	120,446	-
	<u>\$ 1,789,325</u>	<u>\$ 1,789,325</u>

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

NOTE E - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018, was as follows:

	Balance January 1, 2018	Increases	Decreases	Balance December 31, 2018
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 3,935,548	\$ -	\$ -	\$ 3,935,548
Construction in progress	2,590,880	317,628	(2,518,339)	390,169
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	<u>6,526,428</u>	<u>317,628</u>	<u>(2,518,339)</u>	<u>4,325,717</u>
Capital assets being depreciated				
Buildings and improvements	7,816,448	2,483,018	-	10,299,466
Infrastructure	13,391,652	282,838	-	13,674,490
Vehicles	2,140,338	164,018	(66,113)	2,238,243
Equipment and furniture	1,086,711	408,947	(38,000)	1,457,658
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>24,435,149</u>	<u>3,338,821</u>	<u>(104,113)</u>	<u>27,669,857</u>
Accumulated depreciation				
Buildings and improvements	(1,602,920)	(223,111)	-	(1,826,031)
Infrastructure	(4,055,829)	(437,693)	-	(4,493,522)
Vehicles	(1,412,850)	(147,045)	66,113	(1,493,782)
Equipment and furniture	(533,878)	(89,452)	38,000	(585,330)
TOTAL ACCUMULATED DEPRECIATION	<u>(7,605,477)</u>	<u>(897,301)</u>	<u>104,113</u>	<u>(8,398,665)</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	<u>16,829,672</u>	<u>2,441,520</u>	<u>-</u>	<u>19,271,192</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net	<u>\$ 23,356,100</u>	<u>\$ 2,759,148</u>	<u>\$ (2,518,339)</u>	<u>\$ 23,596,909</u>
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 205,481	\$ -	\$ -	\$ 205,481
Construction in progress	75,955	114,573	(75,955)	114,573
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	<u>281,436</u>	<u>114,573</u>	<u>(75,955)</u>	<u>320,054</u>
Capital assets being depreciated				
Sewer collection system infrastructure	19,664,624	-	-	19,664,624
Water treatment plant infrastructure	22,477,053	1,297,284	-	23,774,337
Parking infrastructure	445,799	39,143	-	484,942
Vehicles	1,284,763	247,007	(123,418)	1,408,352
Equipment and furniture	4,181,452	339,773	-	4,521,225
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>48,053,691</u>	<u>1,923,207</u>	<u>(123,418)</u>	<u>49,853,480</u>
Accumulated depreciation				
Sewer collection system infrastructure	(7,498,654)	(321,790)	-	(7,820,444)
Water treatment plant infrastructure	(11,292,214)	(449,582)	-	(11,741,796)
Parking infrastructure	(101,779)	(11,182)	-	(112,961)
Vehicles	(872,877)	(65,191)	123,418	(814,650)
Equipment and furniture	(2,409,856)	(217,831)	-	(2,627,687)
TOTAL ACCUMULATED DEPRECIATION	<u>(22,175,380)</u>	<u>(1,065,576)</u>	<u>123,418</u>	<u>(23,117,538)</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	<u>25,878,311</u>	<u>857,631</u>	<u>-</u>	<u>26,735,942</u>
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, net	<u>\$ 26,159,747</u>	<u>\$ 972,204</u>	<u>\$ (75,955)</u>	<u>\$ 27,055,996</u>

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

NOTE E - CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following functions:

GOVERNMENTAL ACTIVITIES		
General government		\$ 74,670
Public safety		583,920
Public works - highways and streets		180,927
Culture and recreation		<u>57,784</u>
TOTAL GOVERNMENTAL ACTIVITIES		\$ <u>897,301</u>
BUSINESS-TYPE ACTIVITIES		
Water		\$ 528,839
Sewer		378,036
Parking		31,139
Sanitation		<u>127,562</u>
TOTAL BUSINESS-TYPE ACTIVITIES		\$ <u>1,065,576</u>

NOTE F - 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>\$ 14,325,000</u>
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An analysis of debt service requirements including Sinking Fund requirements to maturity on these obligations is as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 985,000	\$ 424,100
2020	980,000	404,400
2021	1,010,000	384,800
2022	1,025,000	364,600
2023	1,055,000	333,850
2024 to 2028	4,960,000	1,174,400
2029 to 2033	2,230,000	631,838
2034 to 2037	<u>2,080,000</u>	<u>209,550</u>
	\$ <u>14,325,000</u>	\$ <u>3,927,538</u>

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

NOTE F - LONG-TERM DEBT (Continued)

Long-term liability activity for the year ended December 31, 2018, is as follows:

	Balance January 1, 2018	Additions	Retirements	Balance December 31, 2018	Due Within One Year
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds, Series of 2012	\$ 8,215,000	\$ -	\$ (315,000)	\$ 7,900,000	\$ 320,000
Capital lease	60,920	-	(60,920)	-	-
Compensated absences	483,088	70,536	-	553,624	55,362
Net pension (asset) liability	(1,541,400)	2,982,547	-	1,441,147	-
Other postemployment benefits	1,916,783	211,749	-	2,128,532	-
TOTAL GOVERNMENTAL ACTIVITIES	\$ 9,134,391	\$ 3,264,832	\$ (375,920)	\$ 12,023,303	\$ 375,362
BUSINESS-TYPE ACTIVITIES					
General Obligation Bonds, Series of 2012	\$ 7,335,000	\$ -	\$ (910,000)	\$ 6,425,000	\$ 665,000
Compensated absences	279,426	35,575	-	315,001	31,496
Net pension liability	(142,187)	431,980	-	289,793	-
Other postemployment benefits	416,007	29,005	-	445,012	-
TOTAL BUSINESS-TYPE ACTIVITIES	\$ 7,888,246	\$ 496,560	\$ (910,000)	\$ 7,474,806	\$ 696,496

For the year ended December 31, 2018, interest expense on long-term debt was \$428,695. Of this total, \$191,799 was charged to the following functions as direct expenses on the statement of activities:

<u>Function</u>	<u>Interest</u>
Water	\$ 42,823
Sewer	148,976
	<u>\$ 191,799</u>

NOTE G - 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
YEAR ENDED DECEMBER 31, 2018

NOTE G - 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, 2018, 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
YEAR ENDED DECEMBER 31, 2018

NOTE G - 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 2018, the MMO obligation for the plan was \$401,509. Contributions of \$120,446 and \$281,063 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.

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

NOTE G - 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, 2018:

<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, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was -7.72%. 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, 2018, were as follows:

Total pension liability	\$ 13,616,230
Plan fiduciary net position	<u>(12,872,659)</u>
NET PENSION (ASSET) LIABILITY	<u>\$ 743,571</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>94.54%</u>

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

NOTE G - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (Continued)

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of January 1, 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, 2018 (see the plan's investment policy), are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
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
YEAR ENDED DECEMBER 31, 2018

NOTE G - DEFINED BENEFIT PENSION PLAN (POLICE PENSION PLAN) (Continued)

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability (a)-(b)
	<u>(a)</u>	<u>(b)</u>	<u>(a)-(b)</u>
BALANCES AT DECEMBER 31, 2017	\$ 12,632,095	\$ 13,805,866	\$ (1,173,771)
Changes for the year			
Service cost	424,276	-	424,276
Interest	933,058	-	933,058
Changes of benefit terms	-	-	-
Differences between expected and actual experience	-	-	-
Changes of assumptions	-	-	-
Contributions			
Employer	-	401,509	(401,509)
Member	-	-	-
Net investment income	-	(957,617)	957,617
Benefit payments	(373,199)	(373,199)	-
Administrative expense	-	(3,900)	3,900
NET CHANGES	<u>984,135</u>	<u>(933,207)</u>	<u>1,917,342</u>
BALANCES AT DECEMBER 31, 2018	<u>\$ 13,616,230</u>	<u>\$ 12,872,659</u>	<u>\$ 743,571</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% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
	<u>(6.25%)</u>	<u>Rate (7.25%)</u>	<u>(8.25%)</u>
Net pension (asset) liability	\$ <u>2,653,220</u>	\$ <u>743,571</u>	\$ <u>(841,575)</u>

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

NOTE G - 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, 2018, the Borough recognized pension expense of \$735,693 for the Police Pension Plan. At December 31, 2018, the Borough reported deferred outflows of resources and deferred inflows of resources related to the Plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 389,300
Change of assumptions	289,004	-
Net difference between projected and actual earnings on pension plan investments	<u>1,222,901</u>	<u>-</u>
	<u>\$ 1,511,905</u>	<u>\$ 389,300</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 December 31,</u>	
2019	\$ 376,269
2020	213,845
2021	180,723
2022	371,826
2023	(20,059)

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

NOTE H - 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, 2018, plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	38
Inactive plan members entitled to but not yet receiving benefits	9
Active plan members	68
	<hr/>
	115
	<hr/>

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 1/20th 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
YEAR ENDED DECEMBER 31, 2018

NOTE H - 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 2018, the MMO obligation for the plan was \$225,321. Contributions of \$302 and \$327,907 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, 2018:

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

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

NOTE H - 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, 2018, the annual money-weighted rate of return on plan investments, net of plan investment expense, was -8.16%. 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, 2018, were as follows:

Total pension liability	\$ 11,384,953
Plan fiduciary net position	<u>(10,397,584)</u>
NET PENSION (ASSET) LIABILITY	<u>\$ 987,369</u>

Plan fiduciary net position as a percentage of the total pension liability	<u>91.33%</u>
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Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of January 1, 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
YEAR ENDED DECEMBER 31, 2018

NOTE H - 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, 2018 (see the plan's investment policy), are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	5.50%-7.50%
International equity	4.50%-6.50%
Fixed income	1.00%-3.00%
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 Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability (a)-(b)
BALANCES AT DECEMBER 31, 2017	\$ 10,709,009	\$ 11,218,826	\$ (509,817)
Changes for the year			
Service cost	343,955	-	343,955
Interest	784,921	-	784,921
Changes of benefit terms	-	-	-
Differences between expected and actual experience	-	-	-
Changes of assumptions	-	-	-
Contributions			
Employer	-	328,209	(328,209)
Member	-	82,315	(82,315)
Net investment income	-	(773,034)	773,034
Benefit payments	(452,932)	(452,932)	-
Administrative expense	-	(5,800)	5,800
NET CHANGES	<u>675,944</u>	<u>(821,242)</u>	<u>1,497,186</u>
BALANCES AT DECEMBER 31, 2018	\$ <u>11,384,953</u>	\$ <u>10,397,584</u>	\$ <u>987,369</u>

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

NOTE H - 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% Decrease <u>(6.25%)</u>	Current Discount Rate (7.25%)	1% Increase <u>(8.25%)</u>
Net pension liability (asset)	\$ <u>2,174,487</u>	\$ <u>987,369</u>	\$ <u>(56,135)</u>

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – For the year ended December 31, 2018, the Borough recognized pension expense of \$637,078 for the Municipal Employees' Pension Plan. At December 31, 2018, the Borough reported deferred outflows of resources and deferred inflows of resources related to the Plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 63,044	\$ 394,071
Change of assumptions	497,650	-
Net difference between projected and actual earnings on pension plan investments	<u>989,219</u>	<u>-</u>
	<u>\$ 1,549,913</u>	<u>\$ 394,071</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 December 31,</u>	
2019	\$ 396,333
2020	262,560
2021	166,540
2022	321,425
2023	4,495
Thereafter	4,490

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

NOTE I - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description

Plan Administration - The Borough's post-employment healthcare plan is a single-employer defined benefit healthcare plan. The plan provides medical insurance and life insurance benefits to eligible retirees. Spouses and other dependents are not covered under the plan. The Borough Council assigns the authority to establish and amend benefit provisions. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement No. 75.

Benefits Provided

Eligibility for Benefits:

Police Officers who were hired before January 1, 2006 and have completed 10 years of service are eligible for medical, prescription drug, dental, and vision benefits. Police Officers who were hired after January 1, 2006 and have completed 20 years of service are eligible for medical benefits.

Non-uniform employees hired prior to January 1, 1985 are eligible for postretirement benefits. Those who were hired after January 1, 1985 are not eligible for postretirement benefits.

Any employee retiring through the Borough shall be eligible for Life Insurance.

Medical Benefits Payable upon Retirement:

Police Officers may elect medical, prescription drug, dental, and vision coverage for the member and spouse by paying the full premiums.

Non-uniform employees hired prior to January 1, 1985, may receive full paid medical and prescription drug under the HMO 65 Plan (a Medicare Advantage Plan) upon retirement and attainment of age 65. Vision is also paid for by the Borough for the member only. Spouses may elect coverage by paying the full premiums. Those hired after January 1, 1985, are not eligible for any postemployment health benefits.

Once a Non-uniform retiree reaches Medicare age, the member must move to the HMO 65 Plan (a Medicare Advantage Plan) provided. If the member reaches Medicare age prior to the spouse, the spouse may continue coverage under the group HMO Plan until Medicare age by paying the full premium. Upon reaching Medicare age, the spouse must move to the HMO 65 Plan and continue to pay the full premium.

Life Insurance Benefits Payable upon Retirement:

Police Officers retired prior to January 1, 2011, will be provided with a \$5,000 policy while Police Officers retiring between January 1, 2011 and December 31, 2016 will be provided with an \$8,000 policy. Officers retired on or after January 1, 2017 will be provided with a \$10,000 life insurance policy. Retired Non-uniform employees are provided with a \$10,000 policy.

BOROUGH OF PHOENIXVILLE
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 YEAR ENDED DECEMBER 31, 2018

NOTE I - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

	<u>Non-Uniform</u>	<u>Police</u>	<u>Total</u>
Inactive plan members or beneficiaries currently receiving benefits	25	9	34
Inactive plan members entitled to but not yet receiving benefits	-	3	3
Active plan members	<u>67</u>	<u>30</u>	<u>97</u>
	<u>92</u>	<u>42</u>	<u>134</u>

Total OPEB Liability

The Borough's total OPEB liability of \$2,573,544 was measured as of December 31, 2018, and was determined by an actuarial valuation as of January 1, 2018.

Actuarial assumptions and other inputs - The total OPEB liability in the January 1, 2018, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.0%
Salary increases	5% annual increase
Discount rate	3.16%
Healthcare cost trend rates	6.0% in 2018, and 5.5% in 2019 through 2021. Rates gradually decrease from 5.4% in 2022 to 3.8% in 2075 and later.

The discount rate was based on the S&P Municipal Bond 20-Year High Grade Rate Index at January 1, 2018.

Mortality rates were based on the IRS 2017 Static Combined Table for Small Plans. Incorporated into the table are rates for annuitants projected 7 years and rates for non-annuitants projected 15 years using Scale AA to reflect mortality improvement.

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

NOTE I - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Changes in the Total OPEB Liability of the Borough

	Non-Uniform OPEB Liability (a)	Police OPEB Liability (a)	Total OPEB Liability (a)
	<u>(a)</u>	<u>(a)</u>	<u>(a)</u>
BALANCES AT DECEMBER 31, 2017	\$ 1,417,392	\$ 915,398	\$ 2,332,790
Changes for the year			
Service cost	16,710	50,580	67,290
Interest	52,122	35,773	87,895
Changes of benefit terms	-	6,947	6,947
Differences between expected and actual experience	-	-	-
Changes of assumptions	83,881	51,832	135,713
Benefit payments	(53,889)	(3,202)	(57,091)
Other changes	-	-	-
NET CHANGES	<u>98,824</u>	<u>141,930</u>	<u>240,754</u>
BALANCES AT DECEMBER 31, 2018	<u>\$ 1,516,216</u>	<u>\$ 1,057,328</u>	<u>\$ 2,573,544</u>

Changes of assumptions and other inputs reflect a change in the discount rate from 3.71% in 2017 to 3.16% in 2018.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate - The following represents the total OPEB liability of the Borough, as well as what the Borough's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.16%) or 1-percentage point higher (4.16%) than the current discount rate:

	<u>1% Decrease (2.16%)</u>		<u>Current Discount Rate (3.16%)</u>	
	<u>Non-Uniform</u>	<u>Police</u>	<u>Non-Uniform</u>	<u>Police</u>
Total OPEB liability	\$ <u>1,709,651</u>	\$ <u>1,180,741</u>	\$ <u>1,516,216</u>	\$ <u>1,057,328</u>

Sensitivity of the total OPEB Liability to Changes in the Healthcare Cost Trend Rates - The following represents the total OPEB liability of the Borough, as well as what the Borough's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>		<u>Current Discount Rate</u>	
	<u>Non-Uniform</u>	<u>Police</u>	<u>Non-Uniform</u>	<u>Police</u>
Total OPEB liability	\$ <u>1,388,957</u>	\$ <u>938,012</u>	\$ <u>1,516,216</u>	\$ <u>1,057,328</u>



<u>1% Increase (4.16%)</u>	
<u>Non-Uniform</u>	<u>Police</u>
\$ <u>1,354,420</u>	\$ <u>949,137</u>

<u>1% Increase</u>	
<u>Non-Uniform</u>	<u>Police</u>
\$ <u>1,665,505</u>	\$ <u>1,196,721</u>

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

NOTE I - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

OPEB Expense and Deferred Outflows of Resource and Deferred Inflows of Resources Related to OPEB – For the year ended December 31, 2018, the Borough recognized OPEB expense of \$177,211. At December 31, 2018, the Borough reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Non-Uniform

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ -
Change of assumptions	74,561	-
Benefit payments subsequent to the measurement date (1/1/2018)	<u>53,186</u>	<u>-</u>
	<u>\$ 127,747</u>	<u>\$ -</u>

Police

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ -
Change of assumptions	46,073	-
Benefit payments subsequent to the measurement date (1/1/2018)	<u>6,479</u>	<u>-</u>
	<u>\$ 52,552</u>	<u>\$ -</u>

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

NOTE I - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

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

<u>Year Ending December 31,</u>	<u>Non-Uniform</u>	<u>Police</u>
2019	\$ 9,320	\$ 5,759
2020	9,320	5,759
2021	9,320	5,759
2022	9,320	5,759
2023	9,320	5,759
Thereafter	<u>27,961</u>	<u>17,278</u>
	<u>\$ 74,561</u>	<u>\$ 46,073</u>

NOTE J - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The General Fund incurred expenditures in excess of appropriations in the following amounts for the year ended December 31, 2018:

GENERAL FUND	
Public safety	\$ 216,267
Public works	473,047
Culture and recreation	<u>340,931</u>
	<u>\$ 1,030,245</u>

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

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

NOTE K - FUND BALANCE DESIGNATIONS

Designations of fund balance are as follows for the year ending December 31, 2018:

	General Fund	Other Governmental Funds	Total Governmental Funds
RESTRICTED FOR			
Pedestrian Activated Warning Lights SRT	\$ 56,000	\$ -	\$ 56,000
Traffic improvements	162,571	-	162,571
OPEB funding	500,000	-	500,000
Streetscapes Engineering	73,550	-	73,550
All Abilities Playground Grant	375,000	-	375,000
Retainage - Public Works Building	16,086	-	16,086
BAC Downtown	3,834	-	3,834
Fire Truck Donation	75,000	-	75,000
Street Light Replacement Program	48,017	-	48,017
Main Street Trestle - CDBG	148,586	-	148,586
Wayfinding Grant	77,100	-	77,100
Wheatland Street Parking Lot	47,768	-	47,768
Street Paving	138,804	-	138,804
Phoenixville Hospital	140,728	-	140,728
Phoenixville Downtown Projects	2,504	-	2,504
Phoenix First	7,666	-	7,666
PECO Butterfly Garden	3,750	-	3,750
MTF Northern Relief	37,000	-	37,000
Stage User Fees	2,025	-	2,025
CRP Waterline Replacement	87,975	-	87,975
Municbid	40,000	-	40,000
Recreation Center	100,000	-	100,000
Road and street improvements	-	759,880	759,880
VPP Pedestrian Accessibility Plan - Grant Match	21,000	-	21,000
TOTAL RESTRICTED	\$ 2,164,964	\$ 759,880	\$ 2,924,844
COMMITTED TO			
Vehicle replacement	\$ 401,500	\$ -	\$ 401,500
Recreation fund (PHUN)	210,000	-	210,000
TOTAL COMMITTED	\$ 611,500	\$ -	\$ 611,500
ASSIGNED TO			
Capital reserve	\$ 1,000,000	\$ -	\$ 1,000,000
Operating reserve	2,075,059	-	2,075,059
Fire protection	-	381,912	381,912
Debt service	-	12,509	12,509
Recreation activities	-	546,050	546,050
Pension	-	91,074	91,074
TOTAL ASSIGNED	\$ 3,075,059	\$ 1,031,545	\$ 4,106,604

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

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 - PRIOR PERIOD RESTATEMENT

The Borough implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The objective of GASB Statement No. 75 is to improve accounting and financial reporting by state and local governments for other postemployment benefit (OPEB) plans. GASB Statement No. 75 states that the Borough must record any unfunded liability of their OPEB plans.

For the government-wide governmental activities, the Borough has treated the beginning of year net OPEB liability of \$1,916,783 as having been recognized in the period incurred. As part of the implementation, the previously recognized liability for other postemployment benefits under GASB 45 in the amount of \$675,883 will be reversed. The Borough has adjusted beginning net position for the governmental activities from \$25,151,053 to \$23,910,153.

For the government-wide business-type activities and the proprietary fund sewer fund, water fund, sanitation fund and parking fund, the Borough has treated the beginning of year net OPEB liability of \$416,007 as having been recognized in the period incurred. There was no previously recognized obligation for other postemployment benefits under GASB 45 for the government-wide business-type activities and propriety funds. The Borough has adjusted beginning net position for the government-wide business-type activities and the proprietary fund sewer fund from \$32,014,277 to \$31,598,270.

REQUIRED SUPPLEMENTARY INFORMATION

BOROUGH OF PHOENIXVILLE
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	Variance With Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 8,098,913	\$ 8,098,913	\$ 8,696,724	\$ 597,811
Fees and fines	130,500	130,500	161,168	30,668
Licenses and permits	366,500	366,500	349,523	(16,977)
Intergovernmental	8,300	8,300	317,388	309,088
Charges for services	1,122,533	1,262,015	1,099,634	(162,381)
Investment earnings	8,380	8,380	27,884	19,504
Miscellaneous	30,000	30,000	73,335	43,335
TOTAL REVENUES	<u>9,765,126</u>	<u>9,904,608</u>	<u>10,725,656</u>	<u>821,048</u>
EXPENDITURES				
General government	936,776	959,258	717,068	242,190
Public safety	5,251,592	5,411,592	5,627,859	(216,267)
Public works	1,222,834	1,270,745	1,743,792	(473,047)
Culture and recreation	216,000	216,000	556,931	(340,931)
TOTAL EXPENDITURES	<u>7,627,202</u>	<u>7,857,595</u>	<u>8,645,650</u>	<u>(788,055)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>2,137,924</u>	<u>2,047,013</u>	<u>2,080,006</u>	<u>32,993</u>
OTHER FINANCING SOURCES (USES)				
Interfund transfers in	-	-	151,993	151,993
Interfund transfers out	(2,137,924)	(2,137,924)	(1,941,318)	196,606
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,137,924)</u>	<u>(2,137,924)</u>	<u>(1,789,325)</u>	<u>348,599</u>
NET CHANGE IN FUND BALANCE	-	(90,911)	290,681	381,592
FUND BALANCE AT BEGINNING OF YEAR	<u>8,275,104</u>	<u>8,275,104</u>	<u>8,275,104</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 8,275,104</u>	<u>\$ 8,184,193</u>	<u>\$ 8,565,785</u>	<u>\$ 381,592</u>

BOROUGH OF PHOENIXVILLE
SCHEDULES OF CHANGES IN THE NET POLICE
PENSION PLAN LIABILITY AND RELATED RATIOS
LAST FIVE FISCAL YEARS

	2018	2017	2016	2015	2014
TOTAL PENSION LIABILITY					
Service cost	\$ 424,276	\$ 404,072	\$ 399,309	\$ 380,294	\$ 336,874
Interest	933,058	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	(373,199)	(371,783)	(331,934)	(327,900)	(314,537)
NET CHANGE IN TOTAL PENSION LIABILITY	984,135	807,423	877,931	740,384	745,381
Total pension liability, beginning	12,632,095	11,824,672	10,946,741	10,206,357	9,460,976
TOTAL PENSION LIABILITY, ENDING (a)	<u>\$ 13,616,230</u>	<u>\$ 12,632,095</u>	<u>\$ 11,824,672</u>	<u>\$ 10,946,741</u>	<u>\$ 10,206,357</u>
PLAN FIDUCIARY NET POSITION					
Contributions					
Employer	\$ 401,509	\$ 318,252	\$ 316,607	\$ 393,533	\$ 280,262
Member	-	-	-	-	-
Net investment income	(957,617)	1,826,268	660,325	11,750	587,261
Benefit payments, including refunds of member contributions	(373,199)	(371,783)	(331,934)	(327,900)	(314,537)
Administrative expense	(3,900)	(7,950)	(7,650)	(9,135)	(49,213)
Other	-	-	-	-	-
NET CHANGE IN PLAN FIDUCIARY NET POSITION	(933,207)	1,764,787	637,348	68,248	503,773
Plan fiduciary net position, beginning	13,805,866	12,041,079	11,403,731	11,335,483	10,831,709
PLAN FIDUCIARY NET POSITION, ENDING (b)	<u>\$ 12,872,659</u>	<u>\$ 13,805,866</u>	<u>\$ 12,041,079</u>	<u>\$ 11,403,731</u>	<u>\$ 11,335,482</u>
NET PENSION (ASSET) LIABILITY, ENDING (a)-(b)	<u>\$ 743,571</u>	<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>94.54%</u>	<u>109.29%</u>	<u>101.83%</u>	<u>104.17%</u>	<u>111.06%</u>
COVERED PAYROLL	<u>\$ 2,698,871</u>	<u>\$ 2,561,462</u>	<u>\$ 2,296,154</u>	<u>\$ 2,296,154</u>	<u>\$ 2,464,671</u>
NET PENSION (ASSET) LIABILITY AS A PERCENTAGE OF COVERED PAYROLL	<u>27.55%</u>	<u>-45.82%</u>	<u>-9.42%</u>	<u>-19.90%</u>	<u>-45.81%</u>

This schedule is intended to show information for ten years. All available information is displayed. Additional information will be displayed as it becomes available.

BOROUGH OF PHOENIXVILLE
SCHEDULES OF POLICE PENSION PLAN CONTRIBUTIONS
LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
ACTUARIALLY DETERMINED CONTRIBUTION	\$ 401,509	\$ 314,652	\$ 316,607	\$ 344,034	\$ 280,261
CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION	<u>401,509</u>	<u>318,252</u>	<u>316,607</u>	<u>393,533</u>	<u>280,262</u>
CONTRIBUTION EXCESS	<u>\$ -</u>	<u>\$ (3,600)</u>	<u>\$ -</u>	<u>\$ (49,499)</u>	<u>\$ (1)</u>
COVERED PAYROLL	<u>\$ 2,698,871</u>	<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 PAYROLL	<u>14.88%</u>	<u>12.42%</u>	<u>13.79%</u>	<u>17.14%</u>	<u>11.37%</u>

NOTES TO SCHEDULES

Valuation date: January 1, 2015 January 1, 2013

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	Entry age normal
Amortization method	Level dollar, closed	Level dollar, closed
Remaining amortization period	N/A years	N/A years
Asset valuation method	Market value of assets as determined by Trustee	Market value of assets as determined by Trustee
Inflation	3%	3%
Salary increases	5% annual increase	5% annual increase
Investment rate of return	7.25%	7.50%
Retirement age	Latest of age 53, age at the completion of 25 years of service	Latest of age 53, age at the completion of 25 years of service
Post-retirement cost of living increase	4%	4%
Mortality	RP-2000 Table	RP-2000 Table

Assumption Changes

For the January 1, 2015 valuation, the investment rate of return was lowered to 7.25% from 7.50%.

This schedule is intended to show information for ten years. All available information is displayed. Additional information will be displayed as it becomes available.

BOROUGH OF PHOENIXVILLE
SCHEDULES OF POLICE PENSION PLAN INVESTMENT RETURNS
LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF INVESTMENT EXPENSE	<u><u>-7.72%</u></u>	<u><u>15.31%</u></u>	<u><u>5.70%</u></u>	<u><u>0.08%</u></u>	<u><u>4.70%</u></u>

This schedule is intended to show information for ten years. Aavailable information is displayed. Additional information will be displayed as it becomes available.

BOROUGH OF PHOENIXVILLE
SCHEDULES OF CHANGES IN THE NET MUNICIPAL
EMPLOYEES' PENSION PLAN LIABILITY AND RELATED RATIOS
LAST FIVE FISCAL YEARS

	2018	2017	2016	2015	2014
TOTAL PENSION LIABILITY					
Service cost	\$ 343,955	\$ 327,576	\$ 298,325	\$ 284,119	\$ 275,389
Interest	784,921	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	(452,932)	(441,656)	(435,007)	(373,898)	(361,603)
NET CHANGE IN TOTAL PENSION LIABILITY	675,944	660,724	557,276	983,418	519,953
Total pension liability, beginning	10,709,009	10,048,285	9,491,009	8,507,591	7,987,638
TOTAL PENSION LIABILITY, ENDING (a)	<u>\$ 11,384,953</u>	<u>\$ 10,709,009</u>	<u>\$ 10,048,285</u>	<u>\$ 9,491,009</u>	<u>\$ 8,507,591</u>
PLAN FIDUCIARY NET POSITION					
Contributions					
Employer	\$ 328,209	\$ 224,737	\$ 279,977	\$ 245,824	\$ 224,615
Member	82,315	76,280	73,338	66,482	66,678
Net investment income	(773,034)	1,485,583	549,021	15,770	488,631
Benefit payments, including refunds of member contributions	(452,932)	(441,656)	(435,007)	(373,898)	(361,603)
Administrative expense	(5,800)	(11,050)	(4,400)	(12,400)	(43,882)
Other	-	-	-	-	-
NET CHANGE IN PLAN FIDUCIARY NET POSITION	(821,242)	1,333,894	462,929	(58,222)	374,439
Plan fiduciary net position, beginning	11,218,826	9,884,932	9,422,003	9,480,225	9,105,786
PLAN FIDUCIARY NET POSITION, ENDING (b)	<u>\$ 10,397,584</u>	<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>\$ 987,369</u>	<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>91.33%</u>	<u>104.76%</u>	<u>98.37%</u>	<u>99.27%</u>	<u>111.43%</u>
COVERED PAYROLL	<u>\$ 4,104,270</u>	<u>\$ 3,720,157</u>	<u>\$ 3,406,762</u>	<u>\$ 3,406,762</u>	<u>\$ 3,329,098</u>
NET PENSION (ASSET) LIABILITY AS A PERCENTAGE OF COVERED PAYROLL	<u>24.06%</u>	<u>-13.70%</u>	<u>4.79%</u>	<u>2.03%</u>	<u>-29.22%</u>

This schedule is intended to show information for ten years. All available information is displayed. Additional information will be displayed as it becomes available.

BOROUGH OF PHOENIXVILLE
SCHEDULES OF MUNICIPAL EMPLOYEES'
PENSION PLAN CONTRIBUTIONS
LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
ACTUARIALLY DETERMINED CONTRIBUTION	\$ 225,321	\$ 224,737	\$ 209,911	\$ 245,824	\$ 196,291
CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION	<u>328,209</u>	<u>224,737</u>	<u>279,977</u>	<u>245,824</u>	<u>224,615</u>
CONTRIBUTION EXCESS	<u>\$ (102,888)</u>	<u>\$ -</u>	<u>\$ (70,066)</u>	<u>\$ -</u>	<u>\$ (28,324)</u>
COVERED PAYROLL	<u>\$ 4,104,270</u>	<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 PAYROLL	<u>8.00%</u>	<u>6.04%</u>	<u>8.22%</u>	<u>7.22%</u>	<u>6.75%</u>

NOTES TO SCHEDULES

Valuation date: January 1, 2015 January 1, 2013

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	Entry age normal
Amortization method	Level dollar closed	Level dollar closed
Remaining amortization period	N/A years	N/A years
Asset valuation method	Market value of assets as determined by the Trustee	Market value of assets as determined by the Trustee
Inflation	3%	3%
Salary increases	5% annual increase	5% annual increase
Investment rate of return	7.25%	7.50%
Retirement age	Normal retirement age	Normal retirement age
Mortality	RP-2000 Table	RP-2000 Table

Assumption Changes

For the January 1, 2015 valuation, the investment rate of return was lowered to 7.25% from 7.50%.

This schedule is intended to show information for ten years. All available information is displayed. Additional information will be displayed as it becomes available.

BOROUGH OF PHOENIXVILLE
SCHEDULES OF MUNICIPAL EMPLOYEES'
PENSION PLAN INVESTMENT RETURNS
LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF INVESTMENT EXPENSE	<u>-8.16%</u>	<u>15.22%</u>	<u>5.76%</u>	<u>0.12%</u>	<u>4.62%</u>

This schedule is intended to show information for ten years. All available information is displayed. Additional information will be displayed as it becomes available.

BOROUGH OF PHOENIXVILLE
SCHEDULE OF CHANGES IN THE BOROUGH'S
NET OPEB PLAN LIABILITY AND RELATED RATIOS
LAST FISCAL YEAR

TOTAL OPEB LIABILITY	
Service cost	\$ 67,290
Interest	87,895
Changes of benefit terms	6,947
Differences between expected and actual experience	-
Changes of assumptions	135,713
Benefit payments	<u>(57,091)</u>
NET CHANGE IN TOTAL OPEB LIABILITY	240,754
TOTAL OPEB LIABILITY, BEGINNING	<u>2,332,790</u>
TOTAL OPEB LIABILITY, ENDING (a)	<u><u>\$ 2,573,544</u></u>
COVERED PAYROLL	<u><u>\$ 6,181,622</u></u>
NET OPEB LIABILITY AS A PERCENTAGE OF COVERED PAYROLL	<u><u>41.63%</u></u>

NOTES TO SCHEDULE

Changes in assumptions: In 2018 the discount rate was changed from 3.71% to 3.16%.

This schedule is intended to show information for ten years, all available information is displayed. Additional information will be displayed as it becomes available.

SUPPLEMENTARY INFORMATION SECTION

BOROUGH OF PHOENIXVILLE
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
DECEMBER 31, 2018

	<u>Fire Fund</u>	<u>Liquid Fuels Fund</u>
ASSETS		
Cash and cash equivalents	\$ 461,402	\$ 723,216
Other receivables	118	36,664
Prepaid expenses	<u>148</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 461,668</u>	<u>\$ 759,880</u>
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable and other current liabilities	<u>\$ 79,756</u>	<u>\$ -</u>
FUND BALANCES		
Nonspendable, prepaid expenses	-	-
Restricted for road and street improvements	-	759,880
Assigned to		
Fire protection	381,912	-
Debt service	-	-
Recreation activities	-	-
Pension	-	-
TOTAL FUND BALANCES	<u>381,912</u>	<u>759,880</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 461,668</u>	<u>\$ 759,880</u>

Special Revenue Funds

<u>Debt Service Fund</u>	<u>Recreation Fund</u>	<u>Pension Fund</u>	<u>Total Other Governmental Funds</u>
\$ 12,509	\$ 555,952	\$ 91,074	\$ 1,844,153
-	8,632	-	45,414
-	309	-	457
\$ 12,509	\$ 564,893	\$ 91,074	\$ 1,890,024
\$ -	\$ 18,534	\$ -	\$ 98,290
-	309	-	309
-	-	-	759,880
-	-	-	381,912
12,509	-	-	12,509
-	546,050	-	546,050
-	-	91,074	91,074
12,509	546,359	91,074	1,791,734
\$ 12,509	\$ 564,893	\$ 91,074	\$ 1,890,024

BOROUGH OF PHOENIXVILLECOMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2018

	<u>Fire Fund</u>	<u>Liquid Fuels Fund</u>
REVENUES		
Taxes	\$ 70,130	\$ -
Intergovernmental	90,503	473,526
Charges for services	-	-
Investment earnings	920	72
Miscellaneous	153,805	-
TOTAL REVENUES	<u>315,358</u>	<u>473,598</u>
EXPENDITURES		
Current		
General government	-	-
Public safety	820,823	-
Public works	-	385,542
Culture and recreation	-	-
Debt service		
Principal	-	-
Interest and other charges	-	-
TOTAL EXPENDITURES	<u>820,823</u>	<u>385,542</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(505,465)	88,056
OTHER FINANCING SOURCES		
Interfund transfers in	<u>600,804</u>	-
NET CHANGE IN FUND BALANCES	95,339	88,056
FUND BALANCES AT BEGINNING OF YEAR	<u>286,573</u>	<u>671,824</u>
FUND BALANCES AT END OF YEAR	<u>\$ 381,912</u>	<u>\$ 759,880</u>

Special Revenue Funds

<u>Debt Service Fund</u>	<u>Recreation Fund</u>	<u>Pension Fund</u>	<u>Total Other Governmental Funds</u>
\$ -	\$ -	\$ -	\$ 70,130
-	-	608,970	1,172,999
-	199,800	-	199,800
416	1,093	251	2,752
-	-	-	153,805
<u>416</u>	<u>200,893</u>	<u>609,221</u>	<u>1,599,486</u>
-	-	729,416	729,416
-	-	-	820,823
-	-	-	385,542
-	596,296	-	596,296
315,000	-	-	315,000
257,851	-	-	257,851
<u>572,851</u>	<u>596,296</u>	<u>729,416</u>	<u>3,104,928</u>
(572,435)	(395,403)	(120,195)	(1,505,442)
<u>572,852</u>	<u>495,223</u>	<u>120,446</u>	<u>1,789,325</u>
417	99,820	251	283,883
<u>12,092</u>	<u>446,539</u>	<u>90,823</u>	<u>1,507,851</u>
<u>\$ 12,509</u>	<u>\$ 546,359</u>	<u>\$ 91,074</u>	<u>\$ 1,791,734</u>

BOROUGH OF PHOENIXVILLE
COMBINING SCHEDULE OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2018

	Pension Funds		Totals
	Non-Uniformed Pension Fund	Police Pension Fund	
ASSETS			
Investments			
Mutual funds, at fair value	\$ 9,657,170	\$ 12,194,148	\$ 21,851,318
Unallocated insurance contract, at contract value	<u>775,912</u>	<u>725,412</u>	<u>1,501,324</u>
TOTAL INVESTMENTS	<u>10,433,082</u>	<u>12,919,560</u>	<u>23,352,642</u>
TOTAL ASSETS	<u><u>\$ 10,433,082</u></u>	<u><u>\$ 12,919,560</u></u>	<u><u>\$ 23,352,642</u></u>
LIABILITIES AND NET POSITION			
LIABILITIES			
Other liabilities	\$ 35,498	\$ 46,901	\$ 82,399
NET POSITION			
Held in trust for pension benefits and pool participants	<u>10,397,584</u>	<u>12,872,659</u>	<u>23,270,243</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 10,433,082</u></u>	<u><u>\$ 12,919,560</u></u>	<u><u>\$ 23,352,642</u></u>

BOROUGH OF PHOENIXVILLE

COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION

FIDUCIARY FUNDS

YEAR ENDED DECEMBER 31, 2018

	Pension Funds		
	Non-Uniformed Pension Fund	Police Pension Fund	Totals
ADDITIONS			
Contributions			
Employer	\$ 328,209	\$ 401,509	\$ 729,718
Employee	82,315	-	82,315
TOTAL CONTRIBUTIONS	<u>410,524</u>	<u>401,509</u>	<u>812,033</u>
Investment earnings			
Net decrease in fair value of investments	(1,210,414)	(1,555,449)	(2,765,863)
Realized gains on sale of assets	281,277	343,160	624,437
Interest	28,824	26,856	55,680
Dividends	196,886	250,307	447,193
Investment management expense	<u>(69,608)</u>	<u>(22,490)</u>	<u>(92,098)</u>
NET INVESTMENT INCOME	<u>(773,035)</u>	<u>(957,616)</u>	<u>(1,730,651)</u>
TOTAL ADDITIONS	<u>(362,511)</u>	<u>(556,107)</u>	<u>(918,618)</u>
DEDUCTIONS			
Benefits	452,932	373,199	826,131
Administrative	<u>5,800</u>	<u>3,900</u>	<u>9,700</u>
TOTAL DEDUCTIONS	<u>458,732</u>	<u>377,099</u>	<u>835,831</u>
CHANGE IN NET POSITION	(821,243)	(933,206)	(1,754,449)
NET POSITION AT BEGINNING OF YEAR	<u>11,218,827</u>	<u>13,805,865</u>	<u>25,024,692</u>
NET POSITION AT END OF YEAR	<u>\$ 10,397,584</u>	<u>\$ 12,872,659</u>	<u>\$ 23,270,243</u>