

**BOROUGH OF TARENTUM**  
**ANNUAL FINANCIAL REPORT**  
**YEAR ENDED DECEMBER 31, 2015**



***MERGE & HILL, P.C.***  
Certified Public Accountants

**BOROUGH OF TARENTUM, PENNSYLVANIA**  
**ANNUAL FINANCIAL REPORT**  
**Year Ended December 31, 2015**

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Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

To Borough Council and Borough Manager  
Borough of Tarentum, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Borough of Tarentum, Pennsylvania (the Borough), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Borough's basic financial statements as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Basis for Adverse Opinion on Governmental Activities**

As discussed in Note (1) I. to the financial statements, management has not recorded capital assets in governmental activities prior to January 1, 2004 and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those capital assets be capitalized and depreciated, which would increase the assets, net position, and expenses of the governmental activities. Historical cost records for the Borough's capital assets are incomplete or not available for the government funds. The amount by which this departure would affect the assets, net position, and expenses of the governmental activities has not been determined.

### **Adverse Opinion**

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on Governmental Activities" paragraph, the financial statements referred to above do not present fairly the financial position of the governmental activities of the Borough of Tarentum, Pennsylvania, as of December 31, 2015, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Qualified Opinion on Business-Type Activities Fund Financial Statements and Government-wide financial statements**

As discussed in Note (1) I. to the financial statements, the business-type activities water fund capital assets reported in their fund financial statements and government-wide financial statements reflect respective assets acquired prior to January 1, 1981 at their actual cash value basis rather than historical costs. Assets acquired subsequent to December 31, 1980 are reflected at cost. The amount by which this departure would affect the assets, fund balances, and expenses of the water fund has not been determined.

### **Qualified Opinion**

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on Business-Type Activities Fund Financial Statements and Government-wide financial statements" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the water fund of the Borough of Tarentum, as of December 31, 2015, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Unmodified Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund other than the Water Fund of the Borough of Tarentum, as of December 31, 2015, 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.

## **Other Matters**

### *Required Supplementary Information*

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the 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. Our opinion on the financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the Police Pension Plan, Non-uniformed Employees' Pension Plan and budgetary comparison information on pages 48 through 59 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 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.

*Merge & Hill, P.C.*

Tarentum, Pennsylvania

November 21, 2016

BOROUGH OF TARENTUM, PENNSYLVANIA  
Government-wide Statement of Net Position  
December 31, 2015

	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Current Assets:			
Cash and Cash Equivalents	\$ 90,431	\$ 190,020	\$ 280,451
Restricted Cash	123,633	774,818	898,451
Receivables:			
Taxes	634,597		634,597
Accounts - Customers - Net	38,544	506,691	545,235
Due from Other Funds	649	77,779	78,428
Other	49,008		49,008
Inventory		21,062	21,062
Total Current Assets	936,862	1,570,370	2,507,232
Noncurrent Assets:			
Capital Assets:			
Construction in Progress		181,016	181,016
Property, Plant and Equipment	4,708,856	8,449,184	13,158,040
Accumulated Depreciation		(5,084,339)	(5,084,339)
Total Capital Assets	4,708,856	3,545,861	8,254,717
Total Assets	5,645,718	5,116,231	10,761,949
<u>Deferred Outflows of Resources</u>			
Deferred Debt Expense, Net		289,220	289,220
Deferred Outflows Related to Pension	444,663		444,663
Total Deferred Outflows of Resources	444,663	289,220	733,883
Total Assets & Deferred Outflows of Resources	6,090,381	5,405,451	11,495,832
<u>Liabilities</u>			
Current Liabilities:			
Accounts Payable	63,773	407,567	471,340
Accrued Payroll and Withholdings	39,731	18,078	57,809
Due to Other Funds	77,779		77,779
Compensated Absences	77,097	27,620	104,717
Other	2,300		2,300
Sales Tax Payable		4,022	4,022
Interest Payable	576	66,290	66,866
Customer Deposits		89,920	89,920
Current Portion of Long Term Debt	88,609	244,133	332,742
Total Current Liabilities	349,865	857,630	1,207,495
Noncurrent Liabilities:			
Long Term Debt	177,505	4,475,265	4,652,770
Net Pension Liability	619,923		619,923
Total Noncurrent Liabilities	797,428	4,475,265	5,272,693
Total Liabilities	1,147,293	5,332,895	6,480,188

BOROUGH OF TARENTUM, PENNSYLVANIA  
Government-wide Statement of Net Position  
December 31, 2015

	Governmental Activities	Business-type Activities	Total
<u>Deferred Inflows of Resources</u>			
Fees Collected in Advance	7,810		7,810
Deferred Inflows Related to Pension	132,013		132,013
Total Deferred Inflows of Resources	139,823		139,823
Total Liabilities & Deferred Inflows of Resources	1,287,116	5,332,895	6,620,011
<u>Net Position</u>			
Net Investment in Capital Assets	4,442,742	412,648	4,855,390
Restricted for:			
Public Works - Highways	8,214		8,214
Unrestricted	352,309	(340,092)	12,217
Total Net Position	4,803,265	72,556	4,875,821
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$6,090,381	\$ 5,405,451	\$11,495,832

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

BOROUGH OF TARENTUM, PENNSYLVANIA  
Government-wide Statement of Activities  
For the Year Ended December 31, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Government Activities:					
General Government	\$ 148,750	\$ 3,761	\$	\$	\$ (144,989)
Public Safety:					
Police	1,011,495	98,353		17,655	(895,487)
Fire	93,143		19,284		(73,859)
Code Enforcement	52,663	18,300			(34,363)
Other	67,590	29,848			(37,742)
Public Works - Sanitation	307,924	507,701	679		200,456
Public Works - Highways	623,414	23,633	112,977		(486,804)
Other Public Works - Parking		25,545			25,545
Culture and Recreation	59,246	161			(59,085)
Community Development	20,899			4,100	(16,799)
Interest on Long-Term Debt	11,759				(11,759)
Miscellaneous	153,596				(153,596)
Refunds of Prior Year Revenues	18,586				(18,586)
Total Government Activities	<u>2,569,065</u>	<u>707,302</u>	<u>132,940</u>	<u>21,755</u>	<u>(1,707,068)</u>
Business-type Activities:					
Water Utilities	1,379,201	1,338,233			(40,968)
Electric Utilities	3,585,944	4,089,754			503,810
Total Business-type Activities	<u>4,965,145</u>	<u>5,427,987</u>			<u>462,842</u>
 Total	 <u>\$ 7,534,210</u>	 <u>\$6,135,289</u>	 <u>\$ 132,940</u>	 <u>\$ 21,755</u>	 <u>\$ (1,244,226)</u>



BOROUGH OF TARENTUM, PENNSYLVANIA  
Government-wide Statement of Activities (Continued)  
For the Year Ended December 31, 2015

	Governmental Activities	Business-type Activities	Total
Changes in Net Assets:			
Net (Expense) Revenue	\$ (1,707,068)	\$ 462,842	\$ (1,244,226)
General Revenues:			
Taxes:			
Real Estate	590,946		590,946
Earned Income	318,858		318,858
Local Services Tax	59,227		59,227
Mechanical Devices Tax	30,100		30,100
Real Estate Transfer	19,308		19,308
Per Capita	8,223		8,223
Business Privilege	7,445		7,445
Licenses and Permits	60,563		60,563
Interest and Rents	78,022		78,022
Intergovernmental Revenues	290,394		290,394
Miscellaneous	14,433		14,433
Transfers	767,185	(767,185)	
Total General Revenues and Transfers	2,244,704	(767,185)	1,477,519
Changes in Net Position	537,636	(304,343)	233,293
Net Position - Beginning, as Restated	4,265,629	376,899	4,642,528
Net Position - Ending	\$ 4,803,265	\$ 72,556	\$ 4,875,821

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

BOROUGH OF TARENTUM, PENNSYLVANIA

Balance Sheet

Governmental Funds

December 31, 2015

	General	Liquid Fuels	Totals Governmental Funds
<u>Assets</u>			
Cash and Cash Equivalents	\$ 80,912	\$ 9,519	\$ 90,431
Restricted Cash - EPA Sewer and Equipemnt Funds	123,633		123,633
Receivables:			
Taxes	634,597		634,597
Accounts - Customers, Net	38,544		38,544
Due from Other Funds	649		649
Other	49,008		49,008
Total Assets	<u>927,343</u>	<u>9,519</u>	<u>936,862</u>
<u>Liabilities</u>			
Accounts Payable	62,468	1,305	63,773
Accrued Payroll and Withholdings	39,731		39,731
Due to Other Funds	77,779		77,779
Compensated Absences	77,097		77,097
Other	2,300		2,300
Total Liabilities	<u>259,375</u>	<u>1,305</u>	<u>260,680</u>
<u>Deferred Inflows of Resources</u>			
Taxes Receivable	545,694		545,694
Fees Collected in Advance	7,810		7,810
Total Deferred Inflows of Resources	<u>553,504</u>		<u>553,504</u>
<u>Fund Balances</u>			
Restricted:			
Public Works - Highways		8,214	8,214
Unassigned	114,464		114,464
Total Fund Balances	<u>114,464</u>	<u>8,214</u>	<u>122,678</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 927,343</u>	<u>\$ 9,519</u>	<u>\$ 936,862</u>

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

BOROUGH OF TARENTUM, PENNSYLVANIA  
Balance Sheet  
Governmental Funds  
December 31, 2015

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

Total Fund Balance, Governmental Funds	\$ 122,678
Capital Assets used in Governmental activities are not financial resources and therefore are not reported in the funds	4,708,856
Deferred Outflows and Inflows of Resources related to pensions are applicable to future periods and, therefore, are not reported in funds	
Deferred Outflows of Resources Related to Pensions	444,663
Deferred Inflows of Resources Related to Pensions	(132,013)
Liabilities for earned revenues considered Deferred Inflows of Resources in fund statements	545,694
Other long term liabilities (accrued interest) are not due and payable in the current period and therefore are not reported in the funds	(576)
Long-term Liabilities used in Governmental activities are not financial uses and therefore are not reported in the funds:	
Long-term Debt	(266,114)
Net Pension Liability	<u>(619,923)</u>
Net Position of Governmental Activities	<u><u>\$4,803,265</u></u>

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

BOROUGH OF TARENTUM, PENNSYLVANIA  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended December 31, 2015

	General	Liquid Fuels	Total Governmental Funds
<u>Revenues</u>			
Taxes	\$ 1,160,158	\$	\$ 1,160,158
Licenses and Permits	68,381		68,381
Fines and Forfeits	49,613		49,613
Interest and Rents	78,022	132	78,154
Intergovernmental	177,128	112,845	289,973
Charges for Services	649,709		649,709
Miscellaneous	7,051		7,051
Total Revenues	<u>2,190,062</u>	<u>112,977</u>	<u>2,303,039</u>
<u>Expenditures</u>			
Current:			
General Government	150,209	10	150,219
Public Safety:			
Police	973,994		973,994
Fire	93,143		93,143
Code Enforcement	52,663		52,663
Other	67,590		67,590
Public Works - Sanitation	307,924		307,924
Public Works - Highways	738,215	104,855	843,070
Culture and Recreation	59,246		59,246
Community Development	78,843		78,843
Debt Service	105,578		105,578
Miscellaneous	205,956		205,956
Total Expenditures	<u>2,833,361</u>	<u>104,865</u>	<u>2,938,226</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(643,299)</u>	<u>8,112</u>	<u>(635,187)</u>
<u>Other Financing Sources (Uses)</u>			
Interfund Operating Transfers in	767,185		767,185
Refund of Prior Year Expenditures	1,014		1,014
Insurance Reimbursement	9,884		9,884
Miscellaneous	(262)		(262)
Refund of Prior Year Revenues	(18,586)		(18,586)
Net Other Financing Sources (Uses)	<u>759,235</u>		<u>759,235</u>
Net Change in Total Fund Balances	115,936	8,112	124,048
Fund Balances (Deficit), Beginning	<u>(1,471)</u>	<u>102</u>	<u>(1,369)</u>
Fund Balances, Ending	<u>\$ 114,465</u>	<u>\$ 8,214</u>	<u>\$ 122,679</u>

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

BOROUGH OF TARENTUM, PENNSYLVANIA  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended December 31, 2015

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

Net Change in Fund Balances - Total Governmental Funds	\$ 124,048
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are not allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital outlay expenditures which were capitalized.	298,650
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Governmental funds report Borough pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.	(4,460)
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The issuance of long-term debt provides current financial resources to Governmental Funds, while the repayment of the principal of long-term debt consumes the current financial resources of Government Funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items:

Principle Payments on Long-Term Debt	\$ 93,639	
Decrease in Accrued Interest Payable	<u>180</u>	93,819

Some tax revenues will not be collected for several months after the Borough's year end. These are not considered "available" revenues in the Governmental Funds until received. The recognition of unavailable deferred revenue consist of real estate taxes.	<u>25,579</u>
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Change in Net Position of Governmental Activities	<u><u>\$ 537,636</u></u>
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The notes to the financial statements are an integral part of this statement.

BOROUGH OF TARENTUM, PENNSYLVANIA  
Statement of Fund Net Position  
Proprietary Funds  
December 31, 2015

	Business-Type Activities - Enterprise Funds		
	Water Fund	Power Fund	Totals
<u>Assets</u>			
Current Assets:			
Cash and Cash Equivalents	\$ 149,706	\$ 40,314	\$ 190,020
Restricted Cash - Loan Proceeds	774,818		774,818
Accounts Receivable, Net	166,737	339,954	506,691
Due from General Fund	9,682	68,097	77,779
Inventory		21,062	21,062
Total Current Assets	<u>1,100,943</u>	<u>469,427</u>	<u>1,570,370</u>
Noncurrent Assets:			
Capital Assets:			
Construction in Progress	181,016		181,016
Property, Plant, and Equipment	5,345,536	3,103,648	8,449,184
Accumulated Depreciation	(3,340,961)	(1,743,378)	(5,084,339)
Total Noncurrent Assets	<u>2,185,591</u>	<u>1,360,270</u>	<u>3,545,861</u>
Total Assets	<u>3,286,534</u>	<u>1,829,697</u>	<u>5,116,231</u>
<u>Deferred Outflows of Resources</u>			
Deferred Debt Expense, Net	<u>176,424</u>	<u>112,796</u>	<u>289,220</u>
<u>Liabilities</u>			
Current Liabilities:			
Accounts Payable	161,855	245,712	407,567
Wages Payable	16,064	2,014	18,078
Compensated Absences	24,286	3,334	27,620
Sales Tax Payable		4,022	4,022
Interest Payable	40,188	26,102	66,290
Customer Deposits	89,920		89,920
Current Portion of Long Term Debt	119,646	124,487	244,133
Total Current Liabilities	<u>451,959</u>	<u>405,671</u>	<u>857,630</u>
Noncurrent Liabilities:			
Long Term Debt	<u>2,604,539</u>	<u>1,870,726</u>	<u>4,475,265</u>
Total Liabilities	<u>3,056,498</u>	<u>2,276,397</u>	<u>5,332,895</u>
<u>Net Position</u>			
Net Investment in Capital Assets	412,648		412,648
Unrestricted	(6,188)	(333,904)	(340,092)
Total Net Position (Deficit)	<u>\$ 406,460</u>	<u>\$ (333,904)</u>	<u>\$ 72,556</u>

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

BOROUGH OF TARENTUM, PENNSYLVANIA  
Statement of Revenues, Expenses, and Changes in Fund Net Position  
Proprietary Funds  
Year Ended December 31, 2015

	Business-Type Activities - Enterprise Funds		
	Water Fund	Power Fund	Totals
<u>Operating Revenues</u>			
Charges for Services:			
Electric Sales	\$	\$ 4,051,607	\$ 4,051,607
Water Charges	1,301,655		1,301,655
Pole Attachment Fees		14,119	14,119
Meter Readings	5,581		5,581
Total Operating Revenues	<u>1,307,236</u>	<u>4,065,726</u>	<u>5,372,962</u>
<u>Operating Expenses</u>			
Distribution	169,717	3,064,043	3,233,760
Public Works - Street Lighting/Traffic Control		100,142	100,142
Plant	671,712		671,712
Administration	159,039	157,171	316,210
Depreciation	235,640	171,406	407,046
Total Operating Expenses	<u>1,236,108</u>	<u>3,492,762</u>	<u>4,728,870</u>
Operating Income	<u>71,128</u>	<u>572,964</u>	<u>644,092</u>
<u>Nonoperating Revenues (Expenses)</u>			
Interest Income	788	101	889
Other Revenue	30,209	23,927	54,136
Interest Expense	(141,285)	(92,026)	(233,311)
Amortization Expense	(1,808)	(1,156)	(2,964)
Total Nonoperating Revenues (Expenses)	<u>(112,096)</u>	<u>(69,154)</u>	<u>(181,250)</u>
<u>Income (Loss) Before Transfers</u>	<u>(40,968)</u>	<u>503,810</u>	<u>462,842</u>
Transfer to General Fund	<u>(95,499)</u>	<u>(671,686)</u>	<u>(767,185)</u>
<u>Change in Net Position</u>	<u>(136,467)</u>	<u>(167,876)</u>	<u>(304,343)</u>
<u>Total Net Position (Deficit), Beginning</u>	<u>542,927</u>	<u>(166,028)</u>	<u>376,899</u>
<u>Total Net Position (Deficit), Ending</u>	<u>\$ 406,460</u>	<u>\$ (333,904)</u>	<u>\$ 72,556</u>

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

BOROUGH OF TARENTUM, PENNSYLVANIA  
Statement of Cash Flows  
Proprietary Funds  
Year Ended December 31, 2015

	Business Type Activities - Enterprise Funds		
	Water Fund	Power Fund	Totals
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Customers	\$ 1,233,412	\$ 4,076,835	\$ 5,310,247
Cash Payments to Suppliers, Vendors and Professionals	(405,583)	(3,258,886)	(3,664,469)
Cash Payments to Employees for Services	(397,931)	(59,188)	(457,119)
Other Payments on Behalf of Employees for Services	(124,291)	(14,885)	(139,176)
Other Revenues	14,401	14,910	29,311
<u>Net Cash Provided by Operating Activities</u>	<u>320,008</u>	<u>758,786</u>	<u>1,078,794</u>
<u>Cash Flows from Noncapital Financing Activities:</u>			
Payments to (from) General Fund	(9,682)	21,359	11,677
Transfer to General Fund	(95,499)	(671,686)	(767,185)
Payments from Water Fund		7,910	7,910
Payments to Power Fund	(7,910)		(7,910)
<u>Net Cash Used by</u> <u>Noncapital Financing Activities</u>	<u>(113,091)</u>	<u>(642,417)</u>	<u>(755,508)</u>
<u>Cash Flows from Capital and Related Financing Activities</u>			
Acquisition and Construction of Capital Assets	(61,645)	(1,469)	(63,114)
Principal Paid on Long Term Debt	(117,321)	(122,438)	(239,759)
Interest Paid on Long Term Debt	(140,325)	(91,461)	(231,786)
<u>Net Cash Used from Capital and</u> <u>Related Financing Activities</u>	<u>(319,291)</u>	<u>(215,368)</u>	<u>(534,659)</u>
<u>Cash Flows from Investing Activities:</u>			
Interest Income	788	101	889
<u>Net Cash Provided by Investing Activities</u>	<u>788</u>	<u>101</u>	<u>889</u>
Net Decrease in Cash and Cash Equivalents	(111,586)	(98,898)	(210,484)
Cash and Cash Equivalents at January 1	1,036,110	139,212	1,175,322
Cash and Cash Equivalents at December 31	<u>\$ 924,524</u>	<u>\$ 40,314</u>	<u>\$ 964,838</u>
<u>Reconciliation of Cash and Cash Equivalents</u> <u>to the Statement of Net Position</u>			
Cash and Cash Equivalents	\$ 149,706	\$ 40,314	\$ 190,020
Restricted Cash - Loan Proceeds	774,818		774,818
	<u>\$ 924,524</u>	<u>\$ 40,314</u>	<u>\$ 964,838</u>

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



BOROUGH OF TARENTUM, PENNSYLVANIA  
Statement of Cash Flows  
Proprietary Funds  
Year Ended December 31, 2015

	Business-Type Activities - Enterprise Funds		
	Water Fund	Power Fund	Totals
<u>Reconciliation of Operating Income to Net</u>			
<u>Cash Provided by Operating Activities:</u>			
Operating Income	\$ 71,128	\$ 572,964	\$ 644,092
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	235,640	171,406	407,046
Other Revenue	30,209	23,927	54,136
Changes in Assets and Liabilities:			
(Increase) Decrease in Accounts Receivable	(87,192)	10,052	(77,140)
Increase (Decrease) in Accounts Payable	63,330	(19,844)	43,486
Increase in Wages Payable	2,955	459	3,414
Decrease in Sales Tax Payable		(261)	(261)
Increase in Compensated Absences	4,078	83	4,161
Decrease in Customer Deposits	(140)		(140)
Total Adjustments	<u>248,880</u>	<u>185,822</u>	<u>434,702</u>
Net Cash Provided by Operating Activities	<u>\$ 320,008</u>	<u>\$ 758,786</u>	<u>\$ 1,078,794</u>

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

BOROUGH OF TARENTUM, PENNSYLVANIA  
Statement of Fiduciary Net Position  
Fiduciary Funds  
December 31, 2015

	Police Pension Trust Fund	Agency Funds	Total Fiduciary Funds
<u>Assets</u>			
Cash and Cash Equivalents	\$ 48,024	\$ 6,340	\$ 54,364
Receivables:			
Accrued Income	2,549		2,549
Investments, at Fair Value:			
Fixed Income	736,368		736,368
Equities	1,440,086		1,440,086
	<u>2,176,454</u>		<u>2,176,454</u>
<u>Total Assets</u>	<u>2,227,027</u>	<u>6,340</u>	<u>2,233,367</u>
<u>Liabilities</u>			
Accounts Payable		213	213
Due to General Fund	649		649
Due to Depositors		6,127	6,127
<u>Total Liabilities</u>	<u>649</u>	<u>6,340</u>	<u>6,989</u>
Net Position-Restricted for Pension Benefits	<u>\$ 2,226,378</u>	<u>\$</u>	<u>\$ 2,226,378</u>

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

BOROUGH OF TARENTUM, PENNSYLVANIA  
Statement of Changes in Fiduciary Net Position  
Fiduciary Funds  
Year Ended December 31, 2015

	Police Pension Trust Fund
<u>Additions:</u>	
Contributions:	
Employer	\$ 81,285
Total Contributions	<u>81,285</u>
Investment Income:	
Interest	10,078
Dividends	53,124
Capital Gain Distributions	13,804
Loss on Sale of Investments	(30,555)
Net Appreciation in Fair Value of Investments	<u>21,243</u>
	67,694
Less: Investment Expense	<u>(7,436)</u>
Net Investment Income	<u>60,258</u>
Total Additions	141,543
<u>Deductions:</u>	
Benefits	169,912
Administrative Fees	<u>4,349</u>
Total Deductions	<u>174,261</u>
Change in Net Assets	(32,718)
Net Assets Held in Trust for Pension Benefits:	
Beginning of Year	<u>2,259,096</u>
End of Year	<u><u>\$ 2,226,378</u></u>

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

## **(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **A. General Statement**

The Borough of Tarentum was incorporated March 7, 1842, under the provisions of the Commonwealth of Pennsylvania P.L.320. The Borough operates under a Council-Mayor form of government and provides the following services as authorized by its charter: Public safety- police and fire, highways and streets, culture-recreation, public improvements, planning and zoning, water and electric service, sanitation, health and social services, and general administrative services.

The financial statements of the Borough have been prepared to conform with Accounting Principles Generally Accepted in the United States of America ("GAAP") as applied to government units except for the recording of capital assets and depreciation as described in Note (1) I. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant of these policies.

### **B. Financial Reporting Entity**

The Borough's basic financial statements include the accounts of all Borough operations. The criteria for including organizations as component units within the Borough's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the Borough holds the corporate powers of the organization
- the Borough appoints a voting majority of the organization's board
- the Borough is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the Borough
- there is fiscal dependency by the organization on the Borough

Based on the aforementioned criteria, the Borough has no component units.

### **C. Basis of Presentation**

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the activities of the Borough except for Fiduciary Funds. As a general rule the effect of Interfund activity has been eliminated from the government-wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

BOROUGH OF TARENTUM, PENNSYLVANIA  
Notes to the Financial Statements  
For Year Ended December 31, 2015

The statement of activities demonstrates the degree to which the direct expenses of the given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

The Borough segregates transactions related to certain functions or activities in separate funds in order to aid financial management and demonstrate legal compliance. Separate statements are presented for governmental, proprietary activities, and fiduciary funds. These statements present each major fund as a separate column on the fund financial statements.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The Borough has presented the following major governmental funds:

General Fund - the main operating fund of the Borough. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from General Fund.

Liquid Fuels Fund – established as a special revenue fund to hold and account for the Borough's share of Pennsylvania's liquid fuels tax allocation to be used for highway expenditures.

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determination of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The Borough has presented the following major proprietary funds:

Water Fund – used to account for the provision of water service to the residents of the Borough. Activities of the fund include administration, operations and maintenance of the water system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest

BOROUGH OF TARENTUM, PENNSYLVANIA  
Notes to the Financial Statements  
For Year Ended December 31, 2015

for water debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

Power Fund – used to account for the provision of electric service to the residents of the Borough. Activities of the fund include administration, operations and maintenance of the electric system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for electric debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### Other Fund Types

The Borough also reports the following fund types:

Pension Trust Fund – report fiduciary resources held in trust and the receipt, investment, and distribution of retirement contributions. The Borough's pension trust fund contains the police pension plan. Pension trust fund recognizes employer and participant contributions in the period in which contributions are due and the Borough has made a formal commitment to provide the contributions. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Agency Fund – accounts for fiduciary assets held by the Borough in a custodial capacity as an agent on behalf of others. The Borough's agency fund is the recreation fund.

#### D. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds and fiduciary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net

BOROUGH OF TARENTUM, PENNSYLVANIA  
Notes to the Financial Statements  
For Year Ended December 31, 2015

total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Borough considers revenues as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, except for interest payable accrued at the debt issuance date for which cash is received with the debt proceeds, as well as expenditures related to compensated absences are recorded only when payment has matured and will be payable shortly after year-end.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year-end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received, as they are deemed immaterial.

E. Budgetary Control

Annual budgets are adopted for all governmental funds. Beginning at least thirty days prior to the adoption of the budget a proposed budget or annual estimate of revenues and expenditures for the ensuing year shall be prepared in a manner designated by the Borough council. The proposed budget shall be kept on file with the Borough secretary, and by the secretary be made available for public inspection for a period of ten days. After the expiration of the ten days, council shall make such revision in the budget as shall be deemed advisable. Council must complete and adopt by motion of council, the budget no later than December thirty-first of the year prior to the budget year. The council in its reasonable discretion may, in any year, by motion, modify the budget after its final adoption. New appropriations, supplementary appropriations and transfers from one appropriation to another may be made during the fiscal year provided it is within the current year's revenues, or the money thereof promptly made available through borrowing as allowed by law.

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: personal services, other services and charges, supplies, capital outlay, transfers, and debt service. The budgets for the operating funds are prepared on the accrual basis. The required supplementary information of the Schedules of Revenues, Changes in Fund Balance – Budget and Actual present a comparison of budgetary data to actual results.

F. Cash and Investments

The Borough considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments are reported at fair value, which is determined using selected bases. Securities traded on a national or international exchange are valued at the last reported sale price at current exchange rates. Managed funds related to the retirement systems not listed on an established market are reported at estimated fair value as determined by the respective fund managers based on quoted sales prices of the underlying securities. Cash deposits are reported at carrying amount which reasonably estimates fair value. The composition of pension trust investments, additional cash and investment information, and fair values are presented in Note (2).

G. Inventories

The inventories in the power fund consist of supplies. They are recorded at cost using the first-in/first-out method. The cost of these inventories is expensed when consumed rather than when purchased.

H. Transactions between Funds

Legally authorized transfers are treated as Interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

I. Capital Assets and Depreciation

Historical cost records for the Borough's property, plant, equipment, and infrastructure are incomplete or not available for the governmental funds and are not reported in the government-wide financial statements except for additions subsequent to December 31 2003. Generally accepted accounting principles and Governmental Accounting Standards Board pronouncements require that the cost of property, plant, equipment, and infrastructure be depreciated over the estimated useful lives of the assets. The effect of this departure from generally accepted accounting principles and Governmental Accounting Standards Board pronouncements on the financial statements has not been determined.

Proprietary capital assets are reported in their fund financial statements and government-wide-financial statements. Donated assets are stated at fair value on the date donated. The Borough generally capitalizes assets with cost of \$2,500 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized.



# BOROUGH OF TARENTUM, PENNSYLVANIA

## Notes to the Financial Statements

For Year Ended December 31, 2015

Prior to December 31, 1980, the major general fixed assets in the Enterprise Water Fund were recorded on an "actual cash value basis" contained in a current insurance appraisal report and are included in the accompanying statements at those values. All fixed assets acquired after January 1, 1981 are reported at cost. As such, these funds are not prepared in conformity with generally accepted accounting principles.

Proprietary fund capital assets are depreciated over the estimated useful lives using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and Improvements	15 to 20 years
Machinery and Equipment	5 to 30 years
Vehicles	3 to 5 years

Construction in progress represents cost of \$181,016 associated with the water fund water tank improvements.

### J. 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 and so will not be recognized as an expense of expenditure until then. The Borough has two items that meets this criterion for this category, a deferred debt expense for Water and Electric Refunding Bonds and pension costs. 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 and so will not be recognized as revenue until then. The Borough has two items that meets the criterion for this category – prepaid fees on utility bills and pension costs.

### K. Compensated Absences

Full-time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the Borough. Generally, after one year of service, employees are entitled to all accrued vacation leave upon termination. The estimated liabilities include required salary-related payments. Compensated absences are reported as accrued in the government-wide and proprietary financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees and are included in wages and benefits payable.

L. Net Position/Fund Balances

Net Position

Net position in government-wide and proprietary fund financial statements are classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

Fund Balances

In the government fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

- Nonspendable fund balance-amounts that are not in a spendable form (such as prepaid insurance) or are required to be maintained intact.
- Restricted fund balance-amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance-amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.
- Assigned fund balance-amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- Unassigned fund balance-amounts that are available for any purpose.

Borough Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by Borough Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

BOROUGH OF TARENTUM, PENNSYLVANIA  
Notes to the Financial Statements  
For Year Ended December 31, 2015

M. Deficit Net Position

Power Fund - deficit net position of \$(333,904) is the result of interfund transfers to the General Fund.

N. Accounting Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from the estimates.

O. Long-term Debt and Deferred Debt Expense

In the government-wide and proprietary financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt is capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method. The governmental fund financial statements recognize the proceeds of debt as other financing sources of the current period. Issuance costs are reported as expenditures if incurred.

**(2) DEPOSITS AND INVESTMENTS**

A. 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 deposit policy for custodial credit risk. As of December 31, 2015, \$1,143,199 of the Borough's bank balance of \$1,393,199 was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank's trust department not in the Borough's name	<u>\$1,143,199</u>
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Under Act No. 72 of the 1971 Session of the Pennsylvania General Assembly, financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of federal depository insurance limits.

BOROUGH OF TARENTUM, PENNSYLVANIA  
Notes to the Financial Statements  
For Year Ended December 31, 2015

In addition to the deposits noted above, included in cash and cash equivalents are short term investments similar to money market funds of \$201. The fair value of the Borough's investments is the same as their carrying amount.

These funds are invested with the Pennsylvania Local Government Investment Trust (PLGIT). All participant deposits are invested directly in a portfolio of securities, which are held by a third party custodian in accordance with GASB requirements.

The Trust invests in two basic types of federal securities: obligations backed by the full faith and credit of the United States Government, and short-term obligations of the United States Government or its agencies or instrumentalities (which may or may not be backed by the full faith and credit of the United States Government).

The Trust, and the investment market as a whole, views obligations of the United States Government and its agencies and instrumentalities as very safe investments.

The Trust also utilizes repurchase agreements in investing in these federal securities. A repurchase agreement involves the sale of securities to the Trust under an agreement in which the seller agrees to repurchase the securities on a particular date for a particular price. The price establishes the yield the Trust will earn on the transaction.

The Trust takes several important steps to enhance the safety of the repurchase agreements. First, the Trust enters into repurchase agreements only with dealers in U.S. Government securities who are recognized as "primary dealers" by the Federal Reserve System or with commercial banks having assets in excess of \$1 billion. Second, the securities being purchased must be the type of federal securities described above. Third, the securities being purchased must have a market value at least equal to the amount of the repurchase agreement investment plus the accrued yield on the investment. This market value is checked daily and the seller is required to provide additional securities or money if the value of the securities declines below the amount required under the repurchase agreement. Fourth, all the securities are delivered to an account of the Trust at the Trust's custodian or at another custodian agreed to be the Trust and the seller.

The Trust does not engage in "reverse" repurchase agreements and does not invest in any exotic derivatives.

The Trust is authorized to invest in full faith and credit obligations of the Commonwealth of Pennsylvania and its agencies, instrumentalities backed by the full faith and credit of the Commonwealth of Pennsylvania, or not backed by the full faith and credit of the Commonwealth if otherwise authorized for investment by the statute creating any agency or instrumentality of the Commonwealth issuing such obligations and of any political subdivision of the Commonwealth or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

The Trust is also authorized to invest in certificates of deposit which are insured by the Federal Deposit Insurance Corporation or which are collateralized as provided by law. When collateral is required for certificates of deposit in excess of insurance limits, the requirements of Act 72 of 1971, as amended, will be followed with respect to pooling, custody and type of collateral. Although Act 72 might permit the collateral to be valued as a percentage of face value and not market value, the Trust requires that the depository agree to value collateral at its market value if market value is less than face value. In 2000, Act 72 was amended to permit a depository to obtain a letter of credit from a Federal Home Loan Bank in lieu of pledging collateral.

Finally, the Trust may invest in certain investment companies registered under the Investment Company Act of 1940, provided the only investments of that company are in instruments which are authorized investments of the Trust, the investment company is managed to maintain a constant net asset value and the investment company is rated in the highest category by a nationally recognized rating agency.

**B. Investments**

Investments held by the police pension trust fund are stated at fair value as quoted by the trustees of the fund, PNC Bank.

**Interest Rate Risk**

The Borough meets with its advisors on a regular basis as a means of managing its exposure to fair value losses arising from increasing interest rates.

**(3) RESTRICTED CASH**

Restricted cash in the general fund consist of EPA sewer surcharge collected on water bills and grant funds held for police equipment purchases.

Restricted cash in the water fund consist of proceeds from debt issuance for capital projects.

**(4) RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND DEFERRED REVENUE**

**A. Enterprise Receivables and Uncollectible Accounts**

Significant receivables include amounts due from customers primarily for utility services. The general fund and enterprise funds report accounts receivable net of allowance for uncollectible accounts and revenues net of uncollectible. The allowance amount is estimated using accounts receivable past due. Related amounts are shown in the following table:

BOROUGH OF TARENTUM, PENNSYLVANIA  
Notes to the Financial Statements  
For Year Ended December 31, 2015

	General Fund	Enterprise Funds		
	Refuse	Water Fund	Power Fund	Total
Accounts Receivable	\$ 44,244	\$ 173,237	\$ 361,554	\$ 579,035
Less: Allowance for Uncollectibles	5,700	6,500	21,600	33,800
Net Accounts Receivable	<u>\$ 38,544</u>	<u>\$ 166,737</u>	<u>\$ 339,954</u>	<u>\$ 545,235</u>

B. Property taxes receivable, deferred revenue, and property tax calendar

Property taxes are assessed and collected by an elected tax collector. In the last months of the year the county (appraisal district) estimates the tax roll to the Borough. The Borough Council then sets the tax rates to be applied to the tax roll. The county generates the final tax roll in February of the current year. The school district prints the bills for the elected tax collector and then the tax collector bills the taxpayers by March 1 of each year. A discount of 2% of the gross tax is available for taxes paid on or before April 30<sup>th</sup>. The face amount is payable until June 30. After June 30, a 10% penalty is added to the face.

The tax rate assessed for 2015 is 5.48 mills for general borough purposes on the dollar of the valuation assessed for county purposes of real property located in the Borough.

According to the county property assessment records, the 2015 taxable assessed value of real property located in the Borough was \$107,486,930.

In the governmental fund financial statements, property taxes receivable are recorded in the year they are billed. At year-end, the receivables represent delinquent taxes. If delinquent taxes are not paid within 60 days of year-end, they are recorded as deferred revenue.

In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the Borough regardless of when cash is received.

**(5) CAPITAL ASSETS**

A. Changes in Capital Assets

As explained in Note (1) I., historical cost records are incomplete or not available for governmental funds.

BOROUGH OF TARENTUM, PENNSYLVANIA  
Notes to the Financial Statements  
For Year Ended December 31, 2015

The following table provides a summary of changes in capital assets for the business-type activities consisting of the water and electric funds:

	<b>Buildings</b>	<b>Infrastructure and other Improvements other than Buildings</b>	<b>Furniture, Machinery and Equipment</b>	<b>Totals</b>
<b>Water Fund</b>				
Balance, December 31, 2014	\$ 1,004,851	\$ 2,916,359	\$ 1,403,816	\$ 5,325,026
Increases	1,469	15,251	3,790	20,510
Decreases				
Balance, December 31, 2015	<u>1,006,320</u>	<u>2,931,610</u>	<u>1,407,606</u>	<u>5,345,536</u>
<b>Accumulated Depreciation</b>				
Balance, December 31, 2014	858,419	1,428,559	818,343	3,105,321
Increases	11,555	103,514	120,571	235,640
Decreases				
Balance, December 31, 2015	<u>869,974</u>	<u>1,532,073</u>	<u>938,914</u>	<u>3,340,961</u>
Capital Assets, Net	<u>136,346</u>	<u>1,399,537</u>	<u>468,692</u>	<u>2,004,575</u>
	<b>Buildings</b>	<b>Infrastructure and other Improvements other than Buildings</b>	<b>Furniture, Machinery and Equipment</b>	<b>Totals</b>
<b>Power Fund</b>				
Balance, December 31, 2014	42,259	2,759,740	300,180	3,102,179
Increases	1,469			1,469
Decreases				
Balance, December 31, 2015	<u>43,728</u>	<u>2,759,740</u>	<u>300,180</u>	<u>3,103,648</u>
<b>Accumulated Depreciation</b>				
Balance, December 31, 2014	16,572	1,317,612	237,788	1,571,972
Increases	1,381	159,174	10,851	171,406
Decreases				
Balance, December 31, 2015	<u>17,953</u>	<u>1,476,786</u>	<u>248,639</u>	<u>1,743,378</u>
Capital Assets, Net	<u>25,775</u>	<u>1,282,954</u>	<u>51,541</u>	<u>1,360,270</u>
<b>Business-Type Activities</b>				
Capital Assets, Net	<u>\$ 162,121</u>	<u>\$ 2,682,491</u>	<u>\$ 520,233</u>	<u>\$ 3,364,845</u>

## (6) LONG-TERM OBLIGATIONS

### A. Capital Leases

The Borough has entered into agreements to lease certain equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

The first agreement was executed on December 27, 2011 to lease water and electric meters and requires 20 semiannual payments of \$72,813 starting December 1, 2012. The second agreement was executed on April 12, 2012 to lease a 2008 fire truck and requires 84 monthly payments of \$4,798. The third agreement was executed on May 4, 2012 to lease street lights and requires 84 monthly payments of \$3,008. The fourth agreement was executed on July 25, 2013 to lease a street sweeper and requires 60 monthly payments of \$2,670. The fifth agreement was executed on April 18, 2013 to lease a Ford F550 Truck and requires 60 monthly payments of \$1,260. The sixth agreement was executed on April 28, 2014 to lease a police vehicle and requires 36 monthly payments of \$631. In all agreements, title passes to the Borough at the end of the lease term.

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2015 were as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ 294,016
2017	288,971
2018	260,353
2019	179,858
2020	145,626
2021-2022	218,439
Total Minimum Lease Payments	1,387,263
Less: Amount Representing Interest	116,751
Present Value of the Minimum Lease Payments	<u>\$ 1,270,512</u>



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**B. General Obligation Bonds:**

Serviced by the Water and Power Fund:

\$4,045,000 General Obligation Bonds, Series of 2011, to refinance General Obligation Note Series of 1998 and fund Water Fund projects, payable in annual installments of \$45,000 to \$255,000 through September 2041 (61% Water Fund and 39% Power Fund) with interest computed at rates ranging from 2.000% to 5.625% and is payable semi-annually commencing September 1, 2011 and continuing March 1, and September 1 each year through 2041. \$3,715,000

Annual debt service requirements to maturity for long-term obligations are as follows:

<b><u>Year</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2016	\$ 75,000	\$ 192,338	\$ 267,338
2017	80,000	190,275	270,275
2018	80,000	187,875	267,875
2019	85,000	185,075	270,075
2020	85,000	181,675	266,675
2021-2025	500,000	845,594	1,345,594
2026-2030	635,000	706,544	1,341,544
2031-2035	835,000	517,731	1,352,731
2036-2040	1,085,000	261,038	1,346,038
2041	255,000	14,344	269,344
Total	<u>\$ 3,715,000</u>	<u>\$ 3,282,489</u>	<u>\$ 6,997,489</u>

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C. Changes in Long-term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2015:

	Balance January 1, 2015	Issued	Retired	Balance December 31, 2015	Due Within One Year
<u>Governmental Activities</u>					
Lease Purchase-Street Sweeper	\$ 104,820	\$	\$ 28,536	\$ 76,284	\$ 29,645
Lease Purchase-Fire Truck	229,689		49,702	179,987	51,625
Lease Purchase-Police Vehicle	4,234		4,234		
Lease Purchase-Police Vehicle	4,082		4,082		
Lease Purchase-Police Vehicle	16,929		7,086	9,843	7,339
Compensated Absences	65,892	77,097	65,892	77,097	77,097
Total Governmental Activities	425,646	77,097	159,532	343,211	165,706
<u>Business-type Activities</u>					
General Obligation Note					
Series 2011	3,790,000		75,000	3,715,000	75,000
Lease Purchase-Water and					
Electric Meters	963,842		115,607	848,235	119,348
Lease Purchase - Street Lights	157,630		35,385	122,245	35,563
Lease Purchase - Water Truck	47,685		13,767	33,918	14,222
Compensated Absences	23,460	27,620	23,460	27,620	27,620
Total Business-type Activities	4,982,617	27,620	263,219	4,747,018	271,753
Total Government	\$ 5,408,263	\$ 104,717	\$ 422,751	\$ 5,090,229	\$ 437,459

**(7) BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY**

A. Receivables and Payables

Outstanding balances between funds reported as “due to/from other funds” are for payments made by one fund on behalf of another fund.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as “internal balances.”

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The following schedule reports receivable and payables within the reporting entity at year-end:

Due From:	Due To:			Total Due From
	Business-type Activities		Governmental Activities	
	Water Fund	Power Fund	General Fund	
Governmental Activities:				
General Fund	\$ 9,682	\$ 68,097	\$	\$ 77,779
Fiduciary Funds:				
Police Pension Trust Fund			649	649
Total Due to	<u>\$ 9,682</u>	<u>\$ 68,097</u>	<u>\$ 649</u>	<u>\$ 78,428</u>

**B. Transfers and Payments**

Transfers and payments within the reporting entity are for the purpose of subsidizing operating functions.

The governmental-wide statement of activities eliminates transfers reported within the segregated governmental and business-type activities columns. Only transfers between the two columns appear in this statement.

The following schedule reports transfers and payments within the reporting entity:

Transfers From	Transfers To
	Governmental Activities
	General Fund
Business-type Activities:	
Water Fund	\$ 95,499
Power Fund	\$ 671,686
Total Transfers to	<u>\$ 767,185</u>

**(8) PRIOR PERIOD ADJUSTMENT**

The prior year net position at December 31, 2014 on the Government-wide Statement of Activities for the Governmental Activities was restated due to the implementation of pension reporting standard Government Accounting Standard Board (GASB) No.68.

Net Position, Beginning of Year as Previously Stated	\$ 4,568,442
Decrease Due to GASB 68 Implementation:	
Police	27,651
Nonuniformed	(330,464)
Net Position, Beginning of Year, as Restated	<u>4,265,629</u>

## (9) RETIREMENT PLANS

### A. Police Pension Plan

#### 1. Plan descriptions

The Borough reporting entity participates in a single-employer, defined benefit, public employee retirement system which is the police pension plan. Assets are held separately and may be used only for the payment of benefits to the members of the plan, as shown below.

The police pension plan provides retirement benefits and disability benefits when the disability is incurred in the line of duty for substantially all full-time police officers. Unless otherwise indicated, the police pension plan information in this note is provided as of the latest actuarial valuation, January 1, 2015.

Actuarial valuations are performed bi-annually in accordance with Pennsylvania Act 205 and Act 600, which covers police pension plans. For additional information relating to basis of accounting and reported investment values, see Notes (1) C. and (2).

Memberships of the plan is as follows:

Active members	7
Retirees and beneficiaries currently receiving benefits	4
Terminated plan members entitled to but not yet receiving benefits	<u>1</u>
Total	<u>12</u>

#### 2. Contributions

Required contributions are determined by the plan's Minimum Municipal Obligation (MMO), which is required by Act 205. The MMO is based on actuarial calculations performed by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The plan may also be eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program which must be used for pension funding. Any funding requirements established by the MMO in excess of employee contributions and state aid must be paid by the municipality in accordance with Act 205.

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Administrative costs, including the investment manage, custodial trustee, and actuarial services are charged to the plan and funded through investment earnings.

### 3. Net Pension Liability

The Borough Police Pension's net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarially determined contribution rates are calculated as of January 1 for the odd valuation year at least two years prior to the end of the fiscal year in which the contributions were reported. Therefore, the actuarially determined contribution for calendar year 2015 is based upon the January 1, 2015 actuarial valuation

The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to periods included in the measurement:

Valuation Date	1/1/2015
Actuarial Cost Method	Entry age normal
Amortization Method	Funding adjustment is 10% of unfunded actuarial accrued liability
Asset Valuation Method	Method described in Act 2015, Section 201(A) Asset Corridor +/- 20%
Actuarial Assumptions:	
Interest Rate	7.0% Pre-Retirement 7.0% Post-Retirement
Projected Salary Increases	5.00% Pre-Retirement
Rates of Withdrawal Mortality	2015 IRS OPTCOMB

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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return Net of Investment Expense &amp; Inflation *</u>	
		<u>Before Inflation</u>	<u>After Inflation Removed</u>
Domestic Equities	52%	7.62%	5.62%
International Equities	13%	9.14%	7.14%
Fixed Income	35%	2.50%	0.50%
Total	100%	6.03%	4.03%
Inflation Rate (Long-Term)	2%		
Long Term	10 Years		

#### 4. Discount Rate

The discount rate used to measure the Total Pension Liability was 7.00%.

The actuary has assumed that the employees will not continue to contribute to the Plan and the employer will continue the historical and legally required practice of contributing to the Plan based on an Actuarially Determined Contribution, reflecting a payment equal to annual Normal Cost, the expected Administrative Expenses, and an amount necessary to amortize the remaining Unfunded Actuarial Liability as a level dollar amount over a closed period. See the latest Act 205 Form for details on the closed period. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

#### 5. Changes in Borough's Net Pension Liability

Changes in the Borough's net position liability for the year ended December 31, 2015 were as follows:

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Period - Beginning	1/1/2015
Period - Ending	12/31/2015

A. Expense

1. Service Cost	91,768
2. Interest on the Total Pension Liability	153,749
3. Current-Period Benefit Changes	0
4. Employee Contributions	0
(made negative for addition here)	
5. Projected Earnings on Plan Investments	(156,249)
(made negative for addition here)	
6. Pension Plan Administrative Expense	10,949
7. Other Changes in Plan Fiduciary Net Position	0
8. Recognition of Outflow (Inflow) of Resources	
due to Liabilities	516
9. Recognition of Outflow (Inflow) of Resources	
due to Assets	37,634
10. Total Pension Expense	<u>138,367</u>

B. Reconciliation of Net Pension Liability

1. Net Pension Liability Beginning of Year	(27,651)
2. Pension Expense	138,367
3. Employer Contributions (State & Municipal)	(81,285)
4. Deferred Investment Experience (Inflows)/Outflows	150,535
5. Deferred Liability Experience (Inflows)/Outflows	6,041
6. Deferred Assumption Changes (Inflows)/Outflows	0
7. Net Pension Liability End of Year	<u>186,007</u>

6. Sensitivity of the Net Pension Liability to Changes in the Discount Rate

Changes in the discount rate affect the measurement of the total pension liability. Lower discount rates produce a higher total pension liability and higher discount rates produce a lower total pension liability. Because the discount rate does not affect the measurement of assets, the percentage change in the net pension liability can be very significant for a relatively small change in the discount rate. The table below shows the sensitivity of the net pension liability to the discount rate with two additional measures, plus and minus one percent from the rate used for disclosure

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**Sensitivity of Net Pension Liability to the Single Discount Rate Assumption**

<u>Measurement Date</u>	<u>1% Decrease</u>	<u>Current Single Discount Rate Assumption</u>	<u>1% Increase</u>
1/1/2015	6.00%	7.00%	8.00%
A. Total Pension Liability	2,549,145	2,231,859	1,967,542
B. Plan Fiduciary Net Position	2,259,510	2,259,510	2,259,510
C. Net Pension Liability = (A)-(B)	289,635 88.6%	(27,651) 101.2%	(291,968) 114.8%
1/1/2016	6.00%	7.00%	8.00%
A. Total Pension Liability	2,756,076	2,413,034	2,127,261
B. Plan Fiduciary Net Position	2,227,027	2,227,027	2,227,027
C. Net Pension Liability = (A)-(B)	529,049 80.8%	186,007 92.3%	(99,766) 104.7%

**7. Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources**

For the year ended December 31, 2015, the Borough recognized pension expense of \$138,367. At December 31, 2015, the Borough reported deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>
Differences Between Expected and Actual Non-Investment Experience	\$ 6,041
Difference Between Expected and Actual Investment Earnings	150,535
<b>Total</b>	<u><u>\$ 156,576</u></u>



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Deferred Outflows of Resources by year to be recognized in future pension expense:

Year Ending December 31	Deferred Outflows of Resources
2016	\$ 38,150
2017	38,150
2018	38,150
2019	38,149
2020	516
2021	516
2022	516
2023	516
2024	516
2025	516
2026	516
2027	365
Total	\$ 156,576

B. Nonuniformed Pension Plan

1. Plan Descriptions

General: The Nonuniformed pension plan is a single-employer defined benefit pension plan controlled by the provisions of Ordinance No. 07-09 adopted pursuant to Act 15 of 1974. The plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report (CAFR). The CAFR is available on the PMRS Website. A copy can be obtained by contacting the PMRS accounting office.

The accounting and financial reporting information is the first report under Government Accounting Standards Board Statement (GASB) 68. The Measurement Date for the Net Pension Liability (NPL) is December 31, 2014, which is no earlier than the end of the Borough's prior fiscal year as allowed by Paragraph 20 of GASB 68.

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With an initial Measurement Date of December 31, 2014 under GASB 68, any contributions between the Measurement Date and the Reporting Date would be reported as deferred outflows to offset the cash outflow reported. The final Total Pension Liability (TPL) for the Employer is measured as of December 31, 2014 based upon the actuarial valuation of the same date. The beginning of year TPL as of December 31, 2013 is based upon the actuarial valuation one year prior and then projected to this date. It is our understanding that there were no significant events during this projection period. In alternating years, the beginning of year TPL will be based upon the actuarial valuation on the same date, and the end of year TPL will be based upon the actuarial valuation date one year prior and then projected to the measurement date.

Plan Membership: Membership of the plan consisted of the following at December 31, 2014:

Active Employees	18
Inactive Employees or Beneficiaries currently Receiving Benefits	17
Inactive Employees entitled to but not yet receiving benefits	<u>2</u>
Total Participant Count	<u>37</u>

Benefit Provisions: The plan provides retirement, disability and death benefits to plan members and their beneficiaries. Cost-of-living allowances are provided at the discretion of the plan.

## 2. Contributions

Required contributions are determined by the plan's Minimum Municipal Obligation (MMO), which is required by Act 205. The MMO is based on actuarial calculations performed by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

In accordance with the plan's governing Ordinance or Resolution as applicable, members are required to contribute 3.5% of compensation to the plan. The Borough's contribution rate and required contribution for the year ended December 31, 2014 were 6.69% and \$56,979, respectively. Actual contribution for the year equaled \$57,059, or 100% of required contribution.

The plan may also be eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program which must be used for pension funding. Any funding requirements established by the MMO in excess of employee

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contributions and state aid must be paid by the municipality in accordance with Act 205.

Administrative costs, including the investment manage, custodial trustee, and actuarial services are charged to the plan and funded through investment earnings.

**3. Net Pension Liability**

The Borough's net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarially determined contribution rates are calculated as of January 1 for the odd valuation year at least two years prior to the end of the fiscal year in which the contributions were reported. Therefore, the actuarially determined contribution for calendar year 2014 is based upon the January 1, 2011 actuarial valuation

The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to periods included in the measurement:

Actuarial Cost Method:	Entry Age
Amortization Period:	Level Dollar based upon the amortization periods in Act 205
Asset Valuation Method:	Based upon the Municipal reserves
Discount Rate:	5.50%
Inflation:	3.0%
Salary Increases:	Age related scale with merit and inflation component
COLA Increases:	3% for those eligible for COLA
Pre-retirement Mortality:	Males – PR2000 with 1 year set back, Females – PR2000 with 5 year set back
Post-Retirement Mortality:	Sex distinct RP-2000 Combined healthy mortality

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The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2013- January 1, 2015.

Long-Term Expected Rate of Return on Plan Assets

The PMRS System's long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return are developed for each major asset class, for the portfolio as a whole and at different levels of probability or confidence. There are four steps to the method:

1. Expected future real rates of return are based primarily on the 20 year historic nominal rates of return as reflected by applicable return indexes and may be adjusted for specific asset classes if, in the Board's opinion, any such asset classes are expected in the future to significantly vary from its 20 year historical returns. These nominal rates of return further assume that investment expenses will be offset by the additional return performance derived from active investment management.
2. The nominal rates of return by asset class are adjusted by a constant rate of expected future annual inflation rate of 3% to produce real rates of return.
3. The real rates of return are further adjusted by weighting each asset class using the PMRS portfolio target asset allocations. The results from steps 1 through 3 are shown in the chart below labeled "System Nominal and Real Rates of Return by Asset Class."
4. These weighted real rates of return are then subjected to a probability simulation to understand the likelihood of success in achieving various portfolio return levels. Based on the most recent asset allocation study conducted by Dahab Associates, the minimum acceptable confidence level for the Board has been determined to be 70%. The chart below labeled "Confidence Levels for System Nominal and Real Rates of Return" identifies simulated portfolio returns at various confidence levels.

System Nominal and Real Rates of Return by Asset Class

Asset Class	Target Asset Allocation	Nominal Rate of Return	Long-Term Expected Real Rate of Return
Domestic Equities (large capitalized firms)	25%	11.7%	8.7%
Domestic Equities (small capitalized firms)	15%	11.4%	8.4%
International Equities (international developed markets)	15%	7.6%	4.6%
International Equities (emerging markets)	10%	11.1%	8.1%
Real Estate	20%	9.7%	6.7%
Fixed Income	15%	2.0%	-1.0%
Total Portfolio	100%	9.2%	6.2%

Confidence Levels for System Nominal and Real Rates of Return

<b>Confidence Interval</b>	<b>Nominal Rate of Return</b>	<b>Long-Term Expected Real Rate of Return</b>
95%	4.7%	1.7%
90%	5.7%	2.7%
85%	6.4%	3.4%
80%	6.9%	3.9%
75%	7.4%	4.4%
70%	7.8%	4.8%
50%	9.2%	6.2%

Based on the four part analysis, the Board established the System's Long-Term Expected Rate of Return at 7.5%

In addition to determining the System's Long-Term Expected Rate of Return, PMRS also develops a Long-Term Expected Rate of Return for individual participating municipalities. The Long-Term Expected Rate of Return for individual participating municipalities is also referred to as the Regular Interest Rate. Under the laws of the Commonwealth of Pennsylvania (Act 15 of 1974), the Board is obligated to apply the Regular Interest Rate to each of the individual participating municipalities' actuarial asset accounts held by PMRS. Therefore, under the law, the Long-Term Expected Rate of Return for individual participating municipalities is equal to the Regular Interest Rate. The rationale for the difference between the System's long-term expected rate of return and the individual participating municipalities' regular interest rate is described section below labeled "Discount Rate." As of December 31, 2014, this rate is equal to 5.5%.

The System's policy in regards to the investment income allocation on invested assets is established and may be amended by the PMRS Board. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of PMRS.

#### 4. Discount Rate

The discount rate used to measure the Total Pension Liability was 5.50%.

The actuary has assumed that the employees will continue to contribute to the Plan at the current rate and the employer will continue the historical and legally required

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practice of contributing to the Plan based on an Actuarially Determined Contribution, reflecting a payment equal to annual Normal Cost, the expected Administrative Expenses, and an amount necessary to amortize the remaining Unfunded Actuarial Liability as a level dollar amount over a closed period. See the latest Act 205 Form for details on the closed period.

The Actuary has not performed a formal cash flow projection as described under Paragraph 41 of GASB Statement 67. However, Paragraph 43 allows for alternative methods to confirm the sufficiency of the Net Position if the evaluation "can be made with sufficient reliability without a separate projection of cash flows into and out of the pension plan..." In their professional judgment, adherence to the actuarial funding policy described above will result in the pension plan's projected Fiduciary Net Position being greater than or equal to the benefit payment projected for each future period.

Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

#### 5. Changes in Borough's Net Pension Liability

Changes in the Borough's net position liability for the year ended December 31, 2014 were as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at 12/31/2013	\$ 4,825,179	\$ 4,494,715	\$ 330,464
Changes for the year:			
Service Cost	103,232		103,232
Interest	264,281		264,281
Differences Between Expected and Actual Experience	235,900		235,900
Contributions - Employer		57,059	(57,059)
Contributions - Member		34,715	(34,715)
PMRS Investment Income		253,659	(253,659)
Market Value Investment Income		165,016	(165,016)
Benefit Payments	(243,327)	(243,327)	
PMRS Administrative Expense		(760)	760
Additional Administrative Expense		(9,728)	9,728
Net Changes	360,086	256,634	103,452
Balances at 12/31/2014	\$ 5,185,265	\$ 4,751,349	\$ 433,916

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6. Sensitivity of the Net Pension Liability to Changes in the Discount Rate

According to Governmental Accounting Standards Board (GASB) Statements No. 67 and 68, PMRS is required to allocate/distribute all funds to the respective participating employers for financial reporting purposes, to determine the respective employer "plan fiduciary net position." PMRS has determined that net investment income or loss and administrative expenses will be allocated to the employer/municipality accounts pro-rata based on their beginning Fiduciary Net Position balance adjusted for cash flows throughout the year. The "Additional administrative expenses" are the expenses in excess of the "PMRS administrative expense" (i.e. \$20 per participant expense paid by each plan). The "PMRS investment income" is based upon the regular and excess interest used to credit accounts annually. The "Market value investment income" reflects the investment income/loss during the year net of PMRS investment income and the income/loss due to the difference between expected and actual asset values, including the impact from allocation of assets in support of the underlying retiree liabilities.

Changes in the discount rate affect the measurement of the TPL. Lower discount rates produce a higher TPL and higher discount rates produce a lower TPL. Because the discount rate does not affect the measurement of assets, the percentage change in the NPL can be very significant for a relatively small change in the discount rate. The table below shows the sensitivity of the NPL to the discount rate with two additional measures, plus and minus one percent from the rate used for disclosure.

	<b>1% Decrease 4.5%</b>	<b>Discount Rate 5.50%</b>	<b>1% Increase 6.50%</b>
Total Pension Liability	\$ 5,725,641	\$ 5,185,265	\$ 4,722,399
Plan Fiduciary Net Position	4,751,349	4,751,349	4,751,349
Net Pension Liability	<u>\$ 974,292</u>	<u>\$ 433,916</u>	<u>\$ (28,950)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	83.0%	91.6%	100.6%

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7. Plan Fiduciary Net Position

Detailed information about the Plan's Fiduciary Net Position is available in the separately issued PMRS financial report.

8. Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

For the year ended December 31, 2015, the Borough recognized pension expense of \$46,745. At December 31, 2015, the Borough reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$188,720	\$0
Net difference between projected and actual earnings on pension plan investments		132,013
Total	<u>\$188,720</u>	<u>\$132,013</u>

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

Year End December 31	
2015	14,177
2016	14,177
2017	14,177
2018	14,176
2019	0

The recognition period for experience and assumption change gains/losses is 5.00 years.



**(10) OTHER POST-EMPLOYMENT BENEFITS**

In addition to pension benefits described in Note (7) the Borough provides certain post-employment benefits to eligible retirees as provided in Borough police and non-uniform employee agreements.

All retired police officers and non-uniform employees shall be provided a life insurance policy with a death benefit of five thousand (\$5,000). The Borough funds the benefit on a pay-as-you-go-basis.

The Borough will pay the premium for the continuation of the existing health care plan for non-uniforms employees eligible for early retirement. The continuation of said benefit shall be provided for a period not to exceed three (3) years from eligibility age 62 to the employee's 65<sup>th</sup> birthday. The Borough funds the benefit on a pay-as-you-go basis.

**(11) MAJOR CUSTOMERS AND ECONOMIC DEPENDENCY**

A major percentage of total water fund billing stems from one customer. During 2015 this customer accounted for annual billings of \$384,067, which represents approximately 30% of total billings. In addition, one customer accounted for power fund revenues in 2015 of \$501,699 or 12% of total revenues.

**(12) RISK MANAGEMENT**

The Borough is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the Borough to purchase commercial insurance for the risks of loss to which it is exposed, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

**(13) SUBSEQUENT EVENT**

The Borough has issued General Obligation Bonds, Series of 2016 in the amount of \$2,730,000 dated April 26, 2016 with interest rates ranging from 0.700% to 4.080%. The General Obligation Bonds are to provide funds for the refunding of the General Obligation Bonds, Series of 2011 and also to fund capital projects.

**REQUIRED SUPPLEMENTARY INFORMATION**  
**(UNAUDITED)**

BOROUGH OF TARENTUM, PENNSYLVANIA  
Required Supplementary Information  
Police Pension Plan  
(Unaudited)

Schedule of Changes in Net Pension Liability

	Measurement Year Ending 12/31/2015
A. <u>Total Pension Liability</u>	
Service Cost	\$ 91,768
Interest Cost	153,749
Differences between Expected and Actual Experience	6,557
Benefit Payments	(70,899)
Net Change in Total Pension Liability	181,175
 Total Pension Liability - Beginning	 2,231,859
Total Pension Liability - Ending	<u>\$ 2,413,034</u>
 B. <u>Plan Fiduciary Net Position</u>	
Contributions - Employer	\$ 81,285
Investment Income	(31,920)
Benefit Payments	(70,899)
Administrative Expense	(3,700)
Additional Administrative Expense	(7,249)
 Net Change in Plan Fiduciary Net Position	 (32,483)
 Plan Fiduciary Net Position - Beginning	 2,259,510
Plan Fiduciary Net Position - Ending	<u>\$ 2,227,027</u>
 C. Net Pension Liability - Ending	 <u>\$ 186,007</u>
 D. Plan Fiduciary Net Position as a % of the Total Pension Liability= B/A	 92.29%
 E. Covered-Employee Payroll	 \$ 516,580
 F. Net Pension Liability as a % of Covered-Employee Payroll	 36.01%

Notes to Schedule:

Drawn from the January 1, 2013 actuarial valuation

Includes drop accounts (if any) undistributed as of valuation date.

BOROUGH OF TARENTUM, PENNSYLVANIA  
 Required Supplementary Information  
 Police Pension Plan  
 (Unaudited)

An Actuarially Determined Contribution is a contribution amount determined in accordance with Actuarial Standards of Practice. The Actuarially Determined Contribution provided is based upon the Minimum Municipal Obligation as defined in ACT 205 which confirms to these standards.

Schedule of Employer Contributions

	<u>2015</u>
Actuarially Determined Contribution	\$ 81,285
Contributions in Relating to the Actuarially Determined Contribution	<u>81,285</u>
Contribution Deficiency/(Excess)	<u>\$</u>
Covered-Employee Payroll	\$ 516,581
Contributions as a Percentage of Covered- Employee Payroll	15.74%

BOROUGH OF TARENTUM, PENNSYLVANIA  
 Required Supplementary Information  
 Pennsylvania Municipal Retirement System  
 Nonuniformed Employees Pension Plan  
 (Unaudited)

Schedule of Changes in Net Pension Liability

	Measurement Year Ending 12/31/2014
<b>A. <u>Total Pension Liability</u></b>	
Service Cost (Beginning of Year)	\$ 103,232
Interest (Includes Interest on Service Cost)	264,281
Differences between Expected and Actual Experience	235,900
Benefit Payments, Including Refunds of Member Contributions	(243,327)
Net Change in Total Pension Liability	<u>360,086</u>
Total Pension Liability - Beginning	<u>4,825,179</u>
Total Pension Liability - Ending	<u><u>\$ 5,185,265</u></u>
<b>B. <u>Plan Fiduciary Net Position</u></b>	
Contributions - Employer	\$ 57,059
Contributions - Member	34,715
PMRS Investment Income	253,659
Market Value Investment Income	165,016
Benefit Payments, Including Refunds of Member Contributions	(243,327)
PMRS Administrative Expense	(760)
Additional Administrative Expense	(9,728)
Net Change in Plan Fiduciary Net Position	<u>256,634</u>
Plan Fiduciary Net Position - Beginning	<u>4,494,715</u>
Plan Fiduciary Net Position - Ending	<u><u>\$ 4,751,349</u></u>
<b>C. Net Pension Liability - Ending</b>	<u><u>\$ 433,916</u></u>

Notes to Schedule:

Plan Changes: Please refer to the Plan's Act 205 filing  
 Assumption Changes: None

BOROUGH OF TARENTUM, PENNSYLVANIA  
 Required Supplementary Information  
 Pennsylvania Municipal Retirement System  
 Nonuniformed Employees Pension Plan  
 (Unaudited)

An Actuarially Determined Contribution is a contribution amount determined in accordance with Actuarial Standards of Practice. The Actuarially Determined Contribution provided is based upon the Minimum Municipal Obligation as defined in ACT 205 which conforms to these standards.

Schedule of Employer Contributions	
	<u>2014</u>
Actuarially Determined Contribution	\$ 56,979
Contributions in Relating to the Actuarially Determined Contribution	<u>57,059</u>
Contribution Deficiency/(Excess)	<u>\$ (80)</u>
Covered-Employee Payroll	\$ 851,737
Contributions as a Percentage of Covered- Employee Payroll	6.69%

## BOROUGH OF TARENTUM, PENNSYLVANIA

## General Fund

## Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

Year Ended December 31, 2015

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Real Estate	\$ 520,000	\$ 520,000	\$ 552,105	\$ 32,105
Regional Asset District Sales Tax	145,000	145,000	151,630	6,630
Per Capita	8,250	8,250	8,001	(249)
Real Estate Transfer	12,000	12,000	19,308	7,308
Earned Income	350,000	350,000	318,858	(31,142)
Local Services	40,000	40,000	59,227	19,227
Mechanical Devices	18,800	18,800	30,100	11,300
Business Privilege	4,000	4,000	7,445	3,445
Penalty and Interest	10,100	10,100	13,484	3,384
Total Taxes	<u>1,108,150</u>	<u>1,108,150</u>	<u>1,160,158</u>	<u>52,008</u>
Licenses and Permits:				
Cable Television Franchise	55,000	55,000	60,563	5,563
Street and Curb Permits	5,000	5,000	4,600	(400)
Demolition Permits	100	100	504	404
Soliciting Permits	50	50	50	
Sign Permit	500	500	2,664	2,164
Total Licenses and Permits	<u>60,650</u>	<u>60,650</u>	<u>68,381</u>	<u>7,731</u>
Fines and Forfeits:				
Magistrate	60,000	60,000	39,004	(20,996)
County Clerk	4,500	4,500	7,107	2,607
Restitutions	500	500	127	(373)
Commonwealth of PA	2,000	2,000	1,020	(980)
Parking Tickets	4,000	4,000	2,355	(1,645)
Total Fines and Forfeits	<u>71,000</u>	<u>71,000</u>	<u>49,613</u>	<u>(21,387)</u>
Interest and Rents:				
Interest Income	250	250	259	9
Rent - Radio Equipment	30,418	30,418	29,695	(723)
Rent - Comcast Lease	15,209	15,209	15,209	
Rent - Boat Docks	18,500	18,500	18,700	200
Rent - Tax Office	1,500	1,500	1,500	
Rent - Borough Property			9,565	9,565
Rebates and Commissions			3,094	3,094
Total Interest and Rent	<u>65,877</u>	<u>65,877</u>	<u>78,022</u>	<u>12,145</u>

## BOROUGH OF TARENTUM, PENNSYLVANIA

## General Fund

## Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

Year Ended December 31, 2015

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
Revenues (continued):				
Intergovernmental :				
Federal Grants	\$	\$	\$ 14,300	\$ 14,300
State Grants			679	679
County Grants			4,100	4,100
Public Utility Reality Tax	1,000	1,000	1,289	289
Alcoholic Beverage Licenses	2,250	2,250	2,050	(200)
General Municipal Pension System Aid	127,798	127,798	129,388	1,590
Foreign Fire Insurance	19,218	19,218	19,284	66
Payment in Lieu of Taxes	1,500	1,500	4,043	2,543
Marcellus Shale Impact Fee			1,995	1,995
Total Intergovernmental	<u>151,766</u>	<u>151,766</u>	<u>177,128</u>	<u>25,362</u>
Charges for Services:				
Public Hearing Fees	200	200	850	650
Real Estate Tax Liens	1,500	1,500	1,020	(480)
Sale of Zoning Copies	15	15	15	-
Lien Letters	1,500	1,500	2,580	1,080
Copies of Municipal Records	10	10	161	151
Copies of Accident Reports	1,500	1,500	2,385	885
Building Permits	3,000	3,000	5,417	2,417
Occupancy Permits	8,000	8,000	8,800	800
School Crossing Guards	15,000	15,000	29,848	14,848
Parking Meters	5,000	5,000	5,765	765
Parking Permits	20,000	20,000	19,780	(220)
PENNDOT Maintenance Contract	10,183	10,183	17,683	7,500
Solid Waste Collection/Trash	390,000	390,000	370,964	(19,036)
Delinquent Fee	5,000	5,000	1,944	(3,056)
NSF Check Fees	250	250	226	(24)
Contracted Street Services			1,350	1,350
Police Services			46,354	46,354
EPA Surcharge Fee	137,400	137,400	134,567	(2,833)
Total Charges for Services	<u>598,558</u>	<u>598,558</u>	<u>649,709</u>	<u>51,151</u>
Other Operating Revenues:				
Donation from Private Sources			3,605	3,605
Miscellaneous Income	500	500	3,446	2,946
Total Other Operating Revenues	<u>500</u>	<u>500</u>	<u>7,051</u>	<u>6,551</u>
Total Revenues	<u>\$2,056,501</u>	<u>\$ 2,056,501</u>	<u>\$ 2,190,062</u>	<u>\$ 133,561</u>



## BOROUGH OF TARENTUM, PENNSYLVANIA

## General Fund

## Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

Year Ended December 31, 2015

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
Expenditures:				
General Government:				
Council:				
Personal Services	\$ 3,768	\$ 3,768	\$ 3,723	\$ 45
Supplies	100	100	43	57
Services and Charges	6,026	6,026	3,874	2,152
Total Council	<u>9,894</u>	<u>9,894</u>	<u>7,640</u>	<u>2,254</u>
Mayor:				
Personal Services	538	538	545	(7)
Services and Charges	1,000	1,000	405	595
Total Mayor	<u>1,538</u>	<u>1,538</u>	<u>950</u>	<u>588</u>
Financial Administration:				
Services and Charges	<u>6,250</u>	<u>6,250</u>	<u>7,146</u>	<u>(896)</u>
Tax Collection:				
Personal Services	14,533	14,533	14,760	(227)
Supplies	250	250	141	109
Services and Charges	6,065	6,065	7,035	(970)
Capital Charges			1,103	(1,103)
Total Tax Collection	<u>20,848</u>	<u>20,848</u>	<u>23,039</u>	<u>(2,191)</u>
Solicitor/Legal Services:				
Services and Charges	<u>6,100</u>	<u>6,100</u>	<u>8,334</u>	<u>(2,234)</u>
Manager:				
Personal Services	31,001	31,001	29,603	1,398
Services and Charges	1,304	1,304	1,580	(276)
Total Manager	<u>32,305</u>	<u>32,305</u>	<u>31,183</u>	<u>1,122</u>
Office Staff:				
Personal Services	38,410	38,410	39,689	(1,279)
Supplies	1,250	1,250	1,583	(333)
Services and Charges	14,330	14,330	20,117	(5,787)
Total Office Staff	<u>53,990</u>	<u>53,990</u>	<u>61,389</u>	<u>(7,399)</u>
Information Technology:				
Services and Charges	<u>150</u>	<u>150</u>	<u>312</u>	<u>(162)</u>

## BOROUGH OF TARENTUM, PENNSYLVANIA

## General Fund

## Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

Year Ended December 31, 2015

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
Expenditures (continued):				
General Government (continued):				
Buildings:				
Supplies	\$ 500	\$ 500	\$ 767	\$ (267)
Services and Charges	9,730	9,730	8,031	1,699
Capital Charges	1,000	1,000	1,418	(418)
Total Buildings	11,230	11,230	10,216	1,014
Total General Government	142,305	142,305	150,209	(7,904)
Public Safety:				
Police:				
Personal Services	853,514	853,514	890,822	(37,308)
Supplies	43,500	43,500	32,967	10,533
Services and Charges	67,900	67,900	50,205	17,695
Capital Charges	24,781	24,781		24,781
Total Police	989,695	989,695	973,994	15,701
Fire:				
Supplies	9,000	9,000	9,000	-
Services and Charges	39,517	39,517	30,360	9,157
Contributions and Subsidies	53,718	53,718	53,783	(65)
Capital Charges	57,576	57,576		57,576
Total Fire	159,811	159,811	93,143	66,668
Code Enforcement:				
Personal Services	57,663	57,663	38,998	18,665
Supplies	3,700	3,700	2,500	1,200
Services and Charges	11,208	11,208	11,165	43
Total Code Enforcement	72,571	72,571	52,663	19,908
Zoning:				
Supplies	250	250		250
Services and Charges	50,000	50,000	38,675	11,325
Total Zoning	50,250	50,250	38,675	11,575
Emergency Management:				
Services and Charges	500	500	4,241	(3,741)
Animal Enforcement:				
Services and Charges	2,500	2,500	2,650	(150)
Crossing Guards:				
Personal Services	25,009	25,009	20,984	4,025
Services and Charges	3,762	3,762	1,040	2,722
Total Crossing Guards	28,771	28,771	22,024	6,747
Total Public Safety	1,304,098	1,304,098	1,187,390	116,708

## BOROUGH OF TARENTUM, PENNSYLVANIA

## General Fund

## Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

Year Ended December 31, 2015

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
Expenditures (continued):				
Public Works - Sanitation:				
Solid Waste Collection and Disposal:				
Services and Charges	\$300,000	\$300,000	\$307,924	\$ (7,924)
Total Public Works - Sanitation	300,000	300,000	307,924	(7,924)
Public Works - Highways:				
Street - General Services:				
Personal Services	457,373	457,373	471,471	(14,098)
Supplies	42,300	42,300	25,840	16,460
Services and Charges	46,335	46,335	18,317	28,018
Capital Charges	25,000	25,000	129,837	(104,837)
Total Street - General Services	571,008	571,008	645,465	(74,457)
Cleaning of Streets:				
Supplies	3,000	3,000	1,574	1,426
Services and Charges	5,000	5,000	9,873	(4,873)
Capital Charges	32,040	32,040		32,040
Total Cleaning of Streets	40,040	40,040	11,447	28,593
Winter Maintenance:				
Supplies	30,000	30,000	46,872	(16,872)
Services and Charges	2,500	2,500	2,255	245
Capital Charges	5,000	5,000		5,000
Total Winter Maintenance	37,500	37,500	49,127	(11,627)
Traffic Control Devices:				
Supplies	2,500	2,500	3,564	(1,064)
Sewers:				
Services and Charges	21,000	21,000	12,639	8,361
Repairs of Tools and Machinery:				
Services and Charges	500	500	2,123	(1,623)
Maintenance and Repairs of Roads:				
Supplies	50,000	50,000	10,601	39,399
Services and Charges			575	(575)
Total Maintenance and Repairs of Roads	50,000	50,000	11,176	38,824
Highway Construction Projects:				
Capital Charges			2,675	(2,675)
Total Public Works - Highway	722,548	722,548	738,216	(15,668)

## BOROUGH OF TARENTUM, PENNSYLVANIA

## General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
Year Ended December 31, 2015

	Budgeted Amounts		Actual	Variance - Positive (Negative)
	Original	Final		
Expenditures (continued):				
Public Works - Other Services:				
Parking Facilities:				
Supplies	\$ 100	\$ 100	\$	\$ 100
Total Parking Facilities	100	100		100
Total Public Works - Other Services	100	100		100
Culture and Recreation:				
Recreation Board:				
Contribution			8,180	(8,180)
Parks:				
Supplies	1,000	1,000	6,326	(5,326)
Services and Charges	19,600	19,600	33,710	(14,110)
Total Parks	20,600	20,600	40,036	(19,436)
Libraries:				
Contributions and Subsidies	8,000	8,000	8,000	-
Civil Celebrations:				
Supplies	2,000	2,000	3,030	(1,030)
Total Culture and Recreation	30,600	30,600	59,246	(28,646)
Community Development:				
Community Development:				
Supplies			1,607	(1,607)
Services and Charges			29,813	(29,813)
Capital Charges	25,000	25,000	47,423	(22,423)
Total Community Development	25,000	25,000	78,843	(53,843)
Debt Service:				
Principal			93,639	(93,639)
Interest			11,939	(11,939)
Total Debt Service			105,578	(105,578)
Employer Paid Benefits:				
Retirement Fund Contributions	99,387	99,387	99,407	(20)
Retiree Insurance	42,451	42,451	34,962	7,489
Unemployment Compensation	6,500	6,500	7,064	(564)
Total Employer Paid Benefits	148,338	148,338	141,433	6,905
Insurances:				
Services and Charges	30,912	30,912	64,523	(33,611)

## BOROUGH OF TARENTUM, PENNSYLVANIA

## General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
Year Ended December 31, 2015

	Budgeted Amounts			Variance - Positive (Negative)
	Original	Final	Actual	
Total Expenditures	\$2,703,901	\$ 2,703,901	\$2,833,362	\$ (129,461)
Deficiency of				
Revenues over Expenditures	(647,400)	(647,400)	(643,300)	4,100
Other Financing Sources (Uses):				
Interfund Operating Transfers in:				
Water Fund	108,450	108,450	95,499	(12,951)
Power Fund	542,250	542,250	671,686	129,436
Refunds of Prior Year Expenditures			1,014	1,014
Insurance Reimbursements			9,884	9,884
Miscellaneous			(262)	(262)
Refund of Prior Years Revenues	(3,300)	(3,300)	(18,586)	(15,286)
Total Other Financing Sources	647,400	647,400	759,235	111,835
Net Change in Fund Balances			115,935	115,935
Fund Balance (Deficit), Beginning of Year			(1,471)	(1,471)
Fund Balance, End of Year	\$	\$	\$ 114,464	\$ 114,464

## BOROUGH OF TARENTUM, PENNSYLVANIA

## Liquid Fuels Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
Year Ended December 31, 2015

	Budgeted Amounts			Variance - Positive (Negative)
	Original	Final	Actual	
Revenues:				
Interest:				
Interest Income	\$	\$	\$ 132	\$ 132
Intergovernmental :				
Liquid Fuels Tax Allocation	119,528	119,528	112,845	(6,683)
Total Revenues	119,528	119,528	112,977	(6,551)
Expenditures:				
General Government:				
Financial Administration:				
Services and Charges			10	(10)
Total General Government			10	(10)
Public Works - Highways:				
Winter Maintenance:				
Supplies			13,932	(13,932)
Services and Charges			2,398	(2,398)
Capital Charges	119,528	119,528	88,525	31,003
Total Public Works - Highways	119,528	119,528	104,855	14,673
Total Expenditures	119,528	119,528	104,865	14,663
Net Change in Fund Balance			8,112	8,112
Fund Balance at Beginning of Year			102	102
Fund Balance at End of Year	\$	\$	\$ 8,214	\$ 8,214