

Borough of Baldwin

Primary Government
Financial Statements and
Required Supplementary Information

Year Ended December 31, 2015 with
Independent Auditor's Report

MaherDuessel
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

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BOROUGH OF BALDWIN

YEAR ENDED DECEMBER 31, 2015

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BOROUGH OF BALDWIN

YEAR ENDED DECEMBER 31, 2015

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Independent Auditor's Report

Members of Council
Borough of Baldwin

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Baldwin (Borough), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Borough's primary government 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 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 Opinions on Governmental Activities and Discretely Presented Component Units

As described in Note 2, the Borough prepares its statement of net position and statement of activities for governmental activities using the modified accrual basis of accounting. Accounting principles generally accepted in the United States of America require the preparation of these government-wide financial statements using the full-accrual basis of accounting, including capitalizing and depreciating capital assets, recognizing long-term debt and post-employment benefit obligations, and allocating certain expenses by function. The amount by which this departure would affect the assets, deferred outflows,

liabilities, deferred inflows, net position, revenues, and expenses of the governmental activities has not been determined.

The financial statements referred to above do not include financial data for the Borough's legally separate component unit (Baldwin Public Library). Accounting principles generally accepted in the United States of America require financial data for that component unit to be reported with the financial data of the Borough's primary government unless the Borough also issues financial statements for the financial reporting entity that include the financial data for its component unit. The Borough has not issued such reporting entity financial statements. The amount by which this departure would affect the assets, liabilities, net position, revenues, and expenses of the government-wide financial statements has not been determined.

Adverse Opinions on Governmental Activities and Discretely Presented Component Units

In our opinion, because of the significance of the matter discussed in the first paragraph of the "Basis for Adverse Opinions" section, the financial statements referred to above do not present fairly the financial position of the governmental activities of the Borough, 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.

In addition, in our opinion, because of the significance of the matter discussed in the second paragraph of the "Basis for Adverse Opinions" section, the financial statements referred to above do not present fairly the financial position of the discretely presented component unit of the Borough 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.

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, each major fund, and the aggregate remaining fund information for the Borough as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the pension and other post-employment benefit information as listed in the table of contents be presented to supplement the financial statements. Such 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 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 financial statements, and other knowledge we obtained during our audit of the 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. The Borough has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the financial statements.

Maher Duessel

Pittsburgh, Pennsylvania
April 22, 2016

BOROUGH OF BALDWIN

STATEMENT OF NET POSITION

DECEMBER 31, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets and Deferred Outflows of Resources			
Assets:			
Current assets:			
Cash and cash equivalents	\$ 521,416	\$ 2,248,757	\$ 2,770,173
Cash and cash equivalents - restricted	3,467,498	9,663,864	13,131,362
Taxes receivable, net	1,115,918	-	1,115,918
Accounts receivable - sewage, net	-	464,195	464,195
Other receivables	13,356	16,153	29,509
Prepaid expenses	189,553	39,384	228,937
Internal balances	(436,630)	436,630	-
Total current assets	<u>4,871,111</u>	<u>12,868,983</u>	<u>17,740,094</u>
Noncurrent assets:			
Infrastructure	-	12,899,325	12,899,325
Swimming pool	-	892,185	892,185
Machinery and equipment	-	560,614	560,614
Construction in progress	-	649,594	649,594
Accumulated depreciation	-	(4,638,070)	(4,638,070)
Total noncurrent assets	-	10,363,648	10,363,648
Total Assets	<u>4,871,111</u>	<u>23,232,631</u>	<u>28,103,742</u>
Deferred Outflows of Resources:			
Deferred charges on refunding	-	248,919	248,919
Total Assets and Deferred Outflows of Resources	<u>\$ 4,871,111</u>	<u>\$ 23,481,550</u>	<u>\$ 28,352,661</u>
Liabilities, Deferred Inflows of Resources, and Net Position			
Liabilities:			
Current liabilities:			
Accounts payable	\$ 248,814	\$ 470,746	\$ 719,560
Accrued payroll	-	9,079	9,079
Long-term debt - current portion	-	505,460	505,460
Other liabilities	186,544	-	186,544
Total current liabilities	<u>435,358</u>	<u>985,285</u>	<u>1,420,643</u>
Noncurrent liabilities:			
Long-term debt - long-term portion	-	20,595,000	20,595,000
Less discount on bonds	-	(329,220)	(329,220)
Total noncurrent liabilities	-	20,265,780	20,265,780
Total Liabilities	<u>435,358</u>	<u>21,251,065</u>	<u>21,686,423</u>
Deferred Inflows of Resources:			
Unavailable revenue	474,200	-	474,200
Total Liabilities and Deferred Inflows of Resources	<u>909,558</u>	<u>21,251,065</u>	<u>22,160,623</u>
Net Position:			
Net investment in capital assets	-	(494,809)	(494,809)
Restricted:			
Supplies and street lighting	30,806	-	30,806
Capital improvements	3,458,888	-	3,458,888
Unrestricted	471,859	2,725,294	3,197,153
Total Net Position	<u>3,961,553</u>	<u>2,230,485</u>	<u>6,192,038</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 4,871,111</u>	<u>\$ 23,481,550</u>	<u>\$ 28,352,661</u>

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

BOROUGH OF BALDWIN

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2015

Functions/Programs	Program Revenues			Net (Expense) Revenue and Change in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:						
General government	\$ 817,439	\$ 171,254	\$ -	\$ (646,185)	\$ -	\$ (646,185)
Public safety - police	3,625,837	170,478	17,374	(3,437,985)	-	(3,437,985)
Public safety - fire	350,048	-	103,947	(246,101)	-	(246,101)
Public safety - other	293,750	-	-	(293,750)	-	(293,750)
Public works - sanitation	1,377,690	-	10,455	(1,367,235)	-	(1,367,235)
Public works - highways	2,029,869	-	515,078	(1,514,791)	-	(1,514,791)
Culture and recreation - library	180,000	-	-	(180,000)	-	(180,000)
Culture and recreation - other	110,168	14,060	-	(96,108)	-	(96,108)
Capital outlay	235,453	-	-	(235,453)	-	(235,453)
Debt service	250,704	-	-	(250,704)	-	(250,704)
Insurance and employee benefits	1,293,483	-	266,617	(1,026,866)	-	(1,026,866)
Total governmental activities	10,564,441	355,792	913,471	(9,295,178)	-	(9,295,178)
Business-Type Activities:						
Swimming pool	182,075	46,556	-	-	(135,519)	(135,519)
Sewer system	4,744,068	4,995,492	-	-	251,424	251,424
Total business-type activities	4,926,143	5,042,048	-	-	115,905	115,905
Total Primary Government	\$ 15,490,584	\$ 5,397,840	\$ 913,471	(9,295,178)	115,905	(9,179,273)
General revenues:						
Taxes:						
Property taxes, levied for general purposes				5,411,385	-	5,411,385
Earned income taxes				2,388,100	3,110	2,391,210
Other taxes levied for general purposes				413,498	-	413,498
County sales tax (Act 77)				568,247	-	568,247
Cable franchise fees				418,680	-	418,680
PURTA and alcohol beverage tax				14,892	-	14,892
Investment earnings				27,859	-	27,859
Refund of prior year expenditures (revenues), net				9,043	-	9,043
Bond issue proceeds				3,670,000	-	3,670,000
Capital lease proceeds				235,453	-	235,453
Other				57,662	-	57,662
Transfers				(182,749)	182,749	-
Total general revenues				13,032,070	185,859	13,217,929
Change in Net Position						
Net Position:						
Beginning of year				224,661	1,928,721	2,153,382
End of year				\$ 3,961,553	\$ 2,230,485	\$ 6,192,038

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

BOROUGH OF BALDWIN
BALANCE SHEET - GOVERNMENTAL FUNDS

DECEMBER 31, 2015

	General Fund	Capital Improvements Fund	Other Governmental Highway Aid Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 487,132	\$ 6,050	\$ 28,234	\$ 521,416
Cash and cash equivalents - restricted	-	3,467,498	-	3,467,498
Taxes receivable, net	1,115,918	-	-	1,115,918
Other receivables	13,356	-	-	13,356
Prepaid expenses	189,553	-	-	189,553
Due from other funds	-	-	2,572	2,572
Total Assets	\$ 1,805,959	\$ 3,473,548	\$ 30,806	\$ 5,310,313
Liabilities, Deferred Inflows of Resources, and Fund Balance				
Liabilities:				
Accounts payable	\$ 248,814	\$ -	\$ -	\$ 248,814
Other liabilities	186,544	-	-	186,544
Due to other funds	424,542	14,660	-	439,202
Total Liabilities	859,900	14,660	-	874,560
Deferred Inflows of Resources:				
Unavailable revenues	474,200	-	-	474,200
Total Liabilities and Deferred Inflows of Resources	1,334,100	14,660	-	1,348,760
Fund Balance:				
Nonspendable - prepaids	189,553	-	-	189,553
Restricted:				
Supplies and street lighting	-	-	30,806	30,806
Capital improvements	-	3,458,888	-	3,458,888
Unassigned	282,306	-	-	282,306
Total Fund Balance	471,859	3,458,888	30,806	3,961,553
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 1,805,959	\$ 3,473,548	\$ 30,806	\$ 5,310,313

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

BOROUGH OF BALDWIN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2015

	General Fund	Capital Improvements Fund	Other Governmental Highway Aid Fund	Total Governmental Funds
Revenues:				
Taxes	\$ 8,781,230	\$ -	\$ -	\$ 8,781,230
Licenses and permits	418,920	-	-	418,920
Fines and forfeitures	85,163	-	-	85,163
Interest and rents	19,591	16,687	31	36,309
Intergovernmental	482,969	-	453,999	936,968
Charges for services	260,924	-	-	260,924
Other	46,546	2,326	-	48,872
Total revenues	<u>10,095,343</u>	<u>19,013</u>	<u>454,030</u>	<u>10,568,386</u>
Expenditures:				
Current:				
General government	817,439	-	-	817,439
Public safety - police	3,625,837	-	-	3,625,837
Public safety - fire	350,048	-	-	350,048
Public safety - other	293,750	-	-	293,750
Public works - sanitation	1,377,690	-	-	1,377,690
Public works - highway	1,587,563	-	442,306	2,029,869
Culture and recreation - library	180,000	-	-	180,000
Culture and recreation - other	110,168	-	-	110,168
Capital outlay	235,453	-	-	235,453
Debt service	143,377	77,283	-	220,660
Insurance and employee benefits	1,293,483	-	-	1,293,483
Total expenditures	<u>10,014,808</u>	<u>77,283</u>	<u>442,306</u>	<u>10,534,397</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>80,535</u>	<u>(58,270)</u>	<u>11,724</u>	<u>33,989</u>
Other Financing Sources (Uses):				
Refund of prior year expenditures	83,608	-	-	83,608
Refunds of prior year revenues	(74,565)	-	-	(74,565)
Bonds issued	-	3,670,000	-	3,670,000
Discount on bonds	-	(30,044)	-	(30,044)
Proceeds from fixed asset disposition	1,200	-	-	1,200
Proceeds from capital lease obligation	235,453	-	-	235,453
Operating transfers in	81,597	-	-	81,597
Operating transfers out	(135,500)	(128,846)	-	(264,346)
Total other financing sources (uses)	<u>191,793</u>	<u>3,511,110</u>	<u>-</u>	<u>3,702,903</u>
Net Change in Fund Balance	<u>272,328</u>	<u>3,452,840</u>	<u>11,724</u>	<u>3,736,892</u>
Fund Balance:				
Beginning of year	<u>199,531</u>	<u>6,048</u>	<u>19,082</u>	<u>224,661</u>
End of year	<u>\$ 471,859</u>	<u>\$ 3,458,888</u>	<u>\$ 30,806</u>	<u>\$ 3,961,553</u>

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

BOROUGH OF BALDWIN
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED DECEMBER 31, 2015

	Budget			Variance with Final Budget
	Original	Final	Actual	
Revenues:				
Taxes	\$ 8,598,945	\$ 8,598,945	\$ 8,781,230	\$ 182,285
Licenses and permits	397,240	397,240	418,920	21,680
Fines and forfeitures	91,250	91,250	85,163	(6,087)
Interest and rents	9,850	9,850	19,591	9,741
Intergovernmental	453,500	453,500	482,969	29,469
Charges for services	247,575	247,575	260,924	13,349
Other	16,500	16,500	46,546	30,046
Total revenues	9,814,860	9,814,860	10,095,343	280,483
Expenditures:				
General government	784,540	784,540	817,439	(32,899)
Public safety - police	3,821,567	3,821,567	3,625,837	195,730
Public safety - fire	354,000	354,000	350,048	3,952
Public safety - other	272,463	272,463	293,750	(21,287)
Public works - sanitation	1,082,000	1,082,000	1,377,690	(295,690)
Public works - highway	1,626,856	1,626,856	1,587,563	39,293
Culture and recreation - library	180,000	180,000	180,000	-
Culture and recreation - other	181,800	181,800	110,168	71,632
Capital outlay	-	- A	235,453	(235,453)
Debt service	250,000	250,000	143,377	106,623
Insurance and employee benefits	1,229,634	1,229,634	1,293,483	(63,849)
Total expenditures	9,782,860	9,782,860	10,014,808	(231,948)
Excess (Deficiency) of Revenues Over Expenditures	32,000	32,000	80,535	48,535
Other Financing Sources (Uses):				
Refund of prior year expenditures	67,000	67,000	83,608	16,608
Refunds of prior year revenues	(24,000)	(24,000)	(74,565)	(50,565)
Proceeds from fixed asset disposition	-	-	1,200	1,200
Proceeds from capital lease obligation	-	- A	235,453	235,453
Operating transfers in	-	-	81,597	81,597
Operating transfers out	(75,000)	(75,000)	(135,500)	(60,500)
Total other financing sources (uses)	(32,000)	(32,000)	191,793	223,793
Net Change in Fund Balance	\$ -	\$ -	272,328	\$ 272,328
Fund Balance:				
Beginning of year				199,531
End of year				\$ 471,859

A - Capital leases are accounted for as an other financing source and expenditures in the year the lease was entered into for the full value of the lease. The Borough does not budget for the full amount of the capital lease.

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

BOROUGH OF BALDWIN

STATEMENT OF NET POSITION PROPRIETARY FUNDS

DECEMBER 31, 2015

	Sewer System Fund	Swimming Pool Fund	Other Enterprise	
			Swimming Pool Fund	Total
Assets and Deferred Outflows of Resources				
Assets:				
Current assets:				
Cash and cash equivalents	\$ 2,246,467	\$ 2,290	\$ 2,248,757	
Cash and cash equivalents - restricted	9,663,864	-	9,663,864	
Accounts receivable - sewage, net	464,195	-	464,195	
Accounts receivable - other	16,153	-	16,153	
Prepays	39,384	-	39,384	
Due from other funds	449,336	-	449,336	
Total current assets	<u>12,879,399</u>	<u>2,290</u>	<u>12,881,689</u>	
Noncurrent assets:				
Sewer infrastructure	12,899,325	-	12,899,325	
Swimming pool	-	892,185	892,185	
Equipment	560,614	-	560,614	
Construction in progress	649,594	-	649,594	
Accumulated depreciation	(3,809,236)	(828,834)	(4,638,070)	
Total noncurrent assets	<u>10,300,297</u>	<u>63,351</u>	<u>10,363,648</u>	
Total Assets	<u>23,179,696</u>	<u>65,641</u>	<u>23,245,337</u>	
Deferred Outflows of Resources:				
Deferred charges on refunding	<u>248,919</u>	<u>-</u>	<u>248,919</u>	
Total Assets and Deferred Outflows of Resources				
	<u>\$ 23,428,615</u>	<u>\$ 65,641</u>	<u>\$ 23,494,256</u>	
Liabilities and Net Position				
Liabilities:				
Current liabilities:				
Accounts payable	\$ 469,761	\$ 985	\$ 470,746	
Accrued payroll	1,290	7,789	9,079	
Long-term debt - current portion	505,460	-	505,460	
Due to other funds	-	12,706	12,706	
Total current liabilities	<u>976,511</u>	<u>21,480</u>	<u>997,991</u>	
Noncurrent liabilities:				
Long-term debt - long-term portion	20,595,000	-	20,595,000	
Less discount on bonds	(329,220)	-	(329,220)	
Total Noncurrent Liabilities	<u>20,265,780</u>	<u>-</u>	<u>20,265,780</u>	
Total Liabilities	<u>21,242,291</u>	<u>21,480</u>	<u>21,263,771</u>	
Net Position:				
Net investment in capital assets	(558,160)	63,351	(494,809)	
Unrestricted	2,744,484	(19,190)	2,725,294	
Total Net Position	<u>2,186,324</u>	<u>44,161</u>	<u>2,230,485</u>	
Total Liabilities and Net Position				
	<u>\$ 23,428,615</u>	<u>\$ 65,641</u>	<u>\$ 23,494,256</u>	

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

BOROUGH OF BALDWIN

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2015

	Sewer System Fund	Other Enterprise Swimming Pool Fund	Total
Operating Revenues:			
User charges	\$ 4,660,671	\$ 46,556	\$ 4,707,227
Tap-in fees	6,010	-	6,010
Other	228,811	-	228,811
Total operating revenues	<u>4,895,492</u>	<u>46,556</u>	<u>4,942,048</u>
Operating Expenses:			
Administration	817,631	151,247	968,878
Engineering services	153,789	-	153,789
Maintenance	191,266	30,474	221,740
Depreciation	366,301	354	366,655
Insurance and employee benefits	135,209	-	135,209
Sanitation - ALCOSAN	1,674,921	-	1,674,921
Sanitation - Pleasant Hills	616,813	-	616,813
Total operating expenses	<u>3,955,930</u>	<u>182,075</u>	<u>4,138,005</u>
Net Operating Income (Loss)	<u>939,562</u>	<u>(135,519)</u>	<u>804,043</u>
Non-operating Revenues (Expenses):			
Bond issuance costs	(99,474)	-	(99,474)
Shared contracted intergovernmental services	100,000	-	100,000
Interest income	3,109	1	3,110
Interest expense	(688,664)	-	(688,664)
Total non-operating revenues (expenses)	<u>(685,029)</u>	<u>1</u>	<u>(685,028)</u>
Income (Loss) before Transfers	<u>254,533</u>	<u>(135,518)</u>	<u>119,015</u>
Other Financing Sources (Uses):			
Transfers in	-	199,205	199,205
Transfers out	(16,456)	-	(16,456)
Total other financing sources (uses)	<u>(16,456)</u>	<u>199,205</u>	<u>182,749</u>
Change in Net Position	<u>238,077</u>	<u>63,687</u>	<u>301,764</u>
Net Position:			
Beginning of year	<u>1,948,247</u>	<u>(19,526)</u>	<u>1,928,721</u>
End of year	<u>\$ 2,186,324</u>	<u>\$ 44,161</u>	<u>\$ 2,230,485</u>

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

BOROUGH OF BALDWIN

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2015

	Sewer System Fund	Other Enterprise Swimming Pool Fund	Total
Cash Flows From Operating Activities:			
Cash received from user charges	\$ 4,615,034	\$ 46,556	\$ 4,661,590
Cash received from other sources	228,811	-	228,811
Cash paid for operations and maintenance	(3,802,097)	(194,166)	(3,996,263)
Net cash provided by (used in) operating activities	<u>1,041,748</u>	<u>(147,610)</u>	<u>894,138</u>
Cash Flows From Capital and Related Financing Activities:			
Purchase of capital assets	(252,138)	(63,705)	(315,843)
Cash received from shared contracted intergovernmental services	100,000	-	100,000
Proceeds from issuance of debt	5,893,853	-	5,893,853
Costs from issuance of debt	(99,474)	-	(99,474)
Payment to refunded bonds escrow	(5,698,919)	-	(5,698,919)
Principal debt service payments	(293,124)	-	(293,124)
Interest debt service payments	(688,664)	-	(688,664)
Net cash provided by (used in) capital and related financing activities	<u>(1,038,466)</u>	<u>(63,705)</u>	<u>(1,102,171)</u>
Cash Flows From Investing Activities:			
Interest and dividends	<u>3,109</u>	<u>1</u>	<u>3,110</u>
Cash Flows From Non-Capital Financing Activities:			
Transfers (to) from other funds	<u>7,510</u>	<u>211,911</u>	<u>219,421</u>
Net Increase (Decrease) in Cash and Cash Equivalents	13,901	597	(1,870,891)
Cash and Cash Equivalents:			
Beginning of year	<u>11,896,430</u>	<u>1,693</u>	<u>11,898,123</u>
End of year	<u>\$ 11,910,331</u>	<u>\$ 2,290</u>	<u>\$ 10,027,232</u>
Reconciliation of Net Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:			
Net operating income (loss)	\$ 939,562	\$ (135,519)	\$ 804,043
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	366,301	354	366,655
Amortization expense	8,665	-	8,665
Change in assets and liabilities:			
Accounts receivable - sewage	(35,494)	-	(35,494)
Accounts receivable - other	(16,153)	-	(16,153)
Prepaid expenses	(39,384)	-	(39,384)
Accrued payroll	(14,179)	360	(13,819)
Accounts payable	(167,570)	(12,805)	(180,375)
Net cash provided by (used in) operating activities	<u>\$ 1,041,748</u>	<u>\$ (147,610)</u>	<u>\$ 894,138</u>

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

BOROUGH OF BALDWIN

STATEMENT OF NET POSITION FIDUCIARY FUNDS

DECEMBER 31, 2015

	Police Pension Fund	Service Employees Pension Fund	Total
Assets			
Cash and cash equivalents	\$ 1,510	\$ 1,499	\$ 3,009
Investments:			
Equity mutual funds	7,211,482	1,552,714	8,764,196
Alternative funds	1,792,730	390,620	2,183,350
Bond funds	3,961,944	844,731	4,806,675
Total Assets	\$ 12,967,666	\$ 2,789,564	\$ 15,757,230
Net Position			
Restricted for pension benefits	\$ 12,967,666	\$ 2,789,564	\$ 15,757,230
Net Position	\$ 12,967,666	\$ 2,789,564	\$ 15,757,230

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

BOROUGH OF BALDWIN

STATEMENT OF CHANGES IN NET POSITION FIDUCIARY FUNDS

YEAR ENDED DECEMBER 31, 2015

	Police Pension Fund	Service Employees Pension Fund	Total
Additions:			
Contributions:			
Employer, including state aid	\$ 863,379	\$ 104,941	\$ 968,320
Plan members	202,289	31,075	233,364
Other income	-	462	462
Total contributions	<u>1,065,668</u>	<u>136,478</u>	<u>1,202,146</u>
Investment earnings:			
Net appreciation (depreciation) in fair value of investments	(1,512,924)	(266,700)	(1,779,624)
Interest and dividends	<u>748,737</u>	<u>187,060</u>	<u>935,797</u>
Total investment earnings	<u>(764,187)</u>	<u>(79,640)</u>	<u>(843,827)</u>
Total additions	<u>301,481</u>	<u>56,838</u>	<u>358,319</u>
Deductions:			
Benefits	855,971	124,519	980,490
Administrative expenses	<u>54,717</u>	<u>22,753</u>	<u>77,470</u>
Total deductions	<u>910,688</u>	<u>147,272</u>	<u>1,057,960</u>
Change in Net Position	(609,207)	(90,434)	(699,641)
Net Position:			
Beginning of year	<u>13,576,873</u>	<u>2,879,998</u>	<u>16,456,871</u>
End of year	<u>\$ 12,967,666</u>	<u>\$ 2,789,564</u>	<u>\$ 15,757,230</u>

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

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

1. THE REPORTING ENTITY

The Borough of Baldwin (Borough) was incorporated under the laws of the Commonwealth of Pennsylvania in 1952 and operates under an elected Mayor-Council form of government. Members of Council (Council) appoint a Borough Secretary to administer the day-to-day operations of the Borough. The major functions of the Borough include public safety, maintenance of the Borough infrastructure, sanitation and sewage control, maintenance of parks and other recreational facilities for use by Borough residents, and general administrative functions necessary to facilitate Borough resident needs and responsibilities.

Consistent with applicable guidance, the criteria used by the Borough to evaluate the possible inclusion of related entities within its reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given situation, the Borough reviews the applicability of the following criteria:

The Borough is financially accountable for:

1. Organizations that make up the legal municipal entity.
2. Legally separate organizations if the Council appoints a voting majority of the organizations' governing body and the Borough is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Borough.
 - a. Impose its Will - If the Borough can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.
 - b. Financial Benefit or Burden - Exists if the Borough (1) is entitled to the organization's resources, (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization, or (3) is obligated in some manner for the debt of the organization.
3. Organizations that are fiscally dependent on the Borough. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the Borough.

Component Unit

The following separately administered organization meets the criteria for inclusion in the Borough's reporting entity.

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

Baldwin Public Library

The Baldwin Public Library (Library) is a non-profit educational institution. The Library is primarily funded through public donations and an annual subsidy from the Borough. The Borough contributed \$180,000 to the Library during 2015. All members of the Library Board must be approved and appointed by the Council. Although the Library qualifies for inclusion in the Borough's financial reporting entity, Borough management has opted to exclude the Library from these primary government financial statements. Separate financial statements for the Library are available at the Library.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the Borough. For the most part, the effect of inter-fund activity has been removed from these 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.

Separate fund financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The business-type information on the government-wide financial statements is reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements and the governmental-type activities on the government-wide statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Governmental-type activities reported under this focus and basis of accounting is not in accordance with generally accepted accounting principles (GAAP). Revenues are recognized as soon as they are both

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Borough considers revenues to be available if they are collected within sixty days from the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under the accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, earned income taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent they have been collected within sixty days of year end.

The Borough reports the following major governmental funds:

The *General Fund* is the Borough's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

The *Capital Improvements Fund* is used to account for disbursements related to capital projects within the Borough.

Additionally, the Borough reports on the following governmental fund:

The *Highway Aid Fund* is established and restricted under Act 655 of the Commonwealth of Pennsylvania. Funding is received from the Commonwealth of Pennsylvania and is restricted in use for the maintenance, repair, and construction of roads, streets, and bridges for which the Borough is responsible.

The Borough reports the following major proprietary fund:

The *Sewer System Fund* is used to account for resources derived from sewer billings to Borough residents and related disbursements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing goods and services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Borough's proprietary funds are charges to customers for sales and services.

Additionally, the Borough reports on the following proprietary fund:

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

The *Swimming Pool Fund* is used to account for resources derived from the swimming pool user fees and related disbursements.

Additionally, the Borough reports the following fiduciary funds:

The *Pension Trust Funds* are used to account for assets held by the Borough in a trustee capacity for employee retirement. These funds were established to provide pension benefits for the Borough's eligible policemen and service employees.

Revenue Classification on the Government-Wide Statement of Activities

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Amounts reported as program revenues include 1) charges to customers for services provided and rents, 2) operating grants, and 3) capital grants. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Use of Restricted and Unrestricted Resources

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

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Borough considers all investments with maturities of three months or less when purchased as cash.

Investments

Investments are reported at fair value. Funds are invested in accordance with the Borough's investment policy guidelines as described in Note 3.

Allowance for Doubtful Accounts

Receivables are reported at their net value. Where appropriate, receivables are reduced by the estimated portion that is expected to be uncollectible. At December 31, 2015, the Borough reported an allowance for doubtful accounts in the General Fund of \$371,998 related to real estate taxes and in the Sewer Fund of \$99,096 related to sewer charges. Sewer receivables also include sewer charges based on billings made during the following month and unbilled charges

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and sewer infrastructure assets, are reported in the applicable proprietary fund and business-type activities columns in the government-wide financial statements. Capital assets are defined by the Borough as land, buildings, equipment, and infrastructure valued at more than \$15,000 and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Borough are depreciated using the straight-line method over the following estimated useful lives:

Sewer infrastructure	40 years
Swimming pool	30 years
Parks and playgrounds	20 years
Equipment	5-10 years

Compensated Absences

In accordance with the terms of its various collective bargaining unit agreements, the Borough is responsible to pay eligible employees up to 100 days (police) and 75 days (service employees) of accumulated unused sick days at their daily rate of pay upon separation of service from the Borough. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee retirements. As of December 31, 2015, the value of accumulated sick days to be paid in future years is \$785,032.

Long-term Obligations

In the business-type activities on the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

are reported as liabilities in the applicable business-type activities or proprietary fund type statements of net position. Bond premiums and discounts are amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements and governmental-type activities on the government-wide statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. The amount of long-term obligations related to governmental activities, while not reported on the government-wide statements, are included in Note 6.

Fund Balance

In the fund financial statements, governmental funds report fund balance in categories based on the level of restriction placed upon the funds. These levels are as follows:

- Nonspendable - This category represents funds that are not in spendable form and includes prepaid expenses.
- Restricted - This category represents funds that are limited in use due to constraints on purpose and circumstances of spending that are legally enforceable by outside parties.
- Committed - This category represents funds that are limited in use due to constraints on purpose and circumstances of spending imposed by the Council. Such commitment is made via a Council resolution and must be made prior to the end of the fiscal year. Removal of this commitment requires a Council resolution. The Borough currently does not have any committed funds.
- Assigned - This category represents intentions of the Council to use the funds for specific purposes.
- Unassigned - This category represents all other funds not otherwise defined.

The Borough's policy is to use funds in the order of the most restrictive to the least restrictive.

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ than those estimates.

Budgets and Budgetary Accounting

Formal budgetary accounting is employed as a management control for all funds. Annual operating budgets are adopted each fiscal year through the passage of an annual budget ordinance. The same basis of accounting is used to reflect actual revenues and expenditures/expenses recognized on a GAAP basis, with exception of capital leases. Capital leases are accounted for as an other financing source and expenditure in the year the lease is entered into for the full value of the lease. The difference between the basis used and that which is consistent with GAAP is not material.

The Borough may, in its reasonable discretion, modify the budget after its final adoption provided such modifications are within the current year's revenues or such additional monies as required therefore are promptly made available through borrowing as allowed by law.

All annual appropriations lapse at year-end. The level of control (level at which expenditures cannot legally exceed appropriations) over expenditures in budgeted funds is by department.

Interfund Receivables, Payables, and Transfers

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds."

Individual fund receivable and payable balances at December 31, 2015, as well as interfund transfers for the year ended December 31, 2015, were as follows:

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

Fund	Transfer In	Transfer Out	Due To	Due From
Governmental activities:				
General Fund	\$ 81,597	\$ 135,500	\$ 424,542	\$ -
Capital Improvements Fund	-	128,846	14,660	-
Highway Aid Fund	-	-	-	2,572
Business-type activities:				
Swimming Pool Fund	199,205	-	12,706	-
Sewer System Fund	-	16,456	-	449,336
Total	<u>\$ 280,802</u>	<u>\$ 280,802</u>	<u>\$ 451,908</u>	<u>\$ 451,908</u>

Transactions between funds that are not expected to be repaid are accounted for as transfers. In those cases when repayment is expected within the next fiscal year, the transactions are accounted for through the various due from and due to accounts.

The due from the General Fund to the Sewer System Fund relates to temporary cash flow loans. Transfers primarily related to funds provided by the General Fund to the Swimming Pool Fund to support operations and transfers from the Capital Improvements Fund to other funds as reimbursement for capital expenditures incurred.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Borough only has one item that qualifies for reporting in this category, the deferred charge on refunding. The deferred charge on refunding resulted from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from taxes. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

Net Position

The Borough classifies net position into three components – net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

- Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount is not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflow of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.
- Restricted - This component of net position consists of constraints placed on net position use through external restrictions.
- Unrestricted - This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Adopted Pronouncements

The requirements of the following Governmental Accounting Standards Board (GASB) Statements were adopted for the Borough’s financial statements:

GASB Statement No. 68, *“Accounting and Financial Reporting for Pensions,”* and Statement No. 71, *“Pension Transition for Contributions Made Subsequent to the Measurement Date.”* These statements establish new financial reporting requirements for most governments that provide their employees with pension benefits.

Pending Pronouncements

GASB has issued the following statements that will become effective in future years as shown below. Management has not yet determined the impact of these statements on the Borough’s financial statements:

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

GASB Statement No. 72, *“Fair Value Measurement and Application,”* effective for fiscal years beginning after June 15, 2015 (the Borough’s financial statements for the year ending December 31, 2016). This statement addresses accounting and financial reporting issues related to fair value measurements.

GASB Statement No. 73, *“Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,”* effective for fiscal years beginning after June 15, 2015 (the Borough’s financial statements for the year ending December 31, 2016) – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for financial statements for fiscal years beginning after June 15, 2016 (the Borough’s financial statements for the year ending December 31, 2017). This statement establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (those not covered by Statements No. 67 and 68).

GASB Statement No. 74, *“Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,”* effective for fiscal years beginning after June 15, 2016. This statement addresses reporting by OPEB plans that administer benefits on behalf of governments. This statement replaces Statement No. 43.

GASB Statement No. 75, *“Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,”* effective for fiscal years beginning after June 15, 2017 (the Borough’s financial statements for the year ending December 31, 2018). This statement addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. This statement replaces the requirements of Statement No. 45.

GASB Statement No. 76, *“Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,”* effective for fiscal years beginning after June 15, 2015 (the Borough’s financial statements for the year ending December 31, 2016). This statement identifies the hierarchy of generally accepted accounting principles (GAAP), reduces this hierarchy to two categories of authoritative GAAP, and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement supersedes Statement No. 55.

GASB Statement No. 79, *“Certain External Investment Pools and Pool Participants,”* effective for fiscal years beginning after June 15, 2015 (the Borough’s financial statements

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

for the year ending December 31, 2016). This statement addresses accounting and financial reporting for certain external investment pools and pool participants.

GASB Statement No. 80, *“Blending Requirements for Certain Component Units,”* effective for fiscal years beginning after June 15, 2016. This statement clarifies the financial statement presentation requirements for certain component units, amending Statement No. 14.

GASB Statement No. 81, *“Irrevocable Split-Interest Agreements,”* effective for fiscal years beginning after December 15, 2016. This statement improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

3. DEPOSITS AND INVESTMENTS

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, equities, insured or collateralized time deposits, and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of funds for investment purposes. Fiduciary fund investments may also be made in corporate stocks and bonds, real estate, and other investments consistent with sound business practice.

The Borough does not have a formal deposit and investment policy; as such, the Borough has no policy on custodial credit risk, credit risk, interest rate risk, or concentration of credit risk. The Borough adheres to state statutes and prudent business practice. Deposits of the governmental funds are either maintained in demand deposits or savings accounts. There were no deposit or investment transactions during the year that were in violation of state statutes.

The following is a description of the Borough’s deposit and investment risks:

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. As of December 31, 2015, \$2,760,463 of the Borough’s bank balance of \$3,010,463 was exposed to custodial credit risk, which is collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution’s name. As of December 31, 2015, the carrying amounts of the Borough’s deposits were \$2,773,182.

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

In addition to the deposits noted above, included in cash and cash equivalents is the following short-term investment:

Pennsylvania Local Government Investment Trust (PLGIT) of \$13,131,362. PLGIT has received an AAA rating from Standard & Poor's. The investments in PLGIT are "pooled" with other local governments and school districts in an effort to maximize return and minimize costs associated with investing. PLGIT 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 PLGIT Trust may also invest in full faith and credit obligations of the Commonwealth of Pennsylvania and its agencies and may also have repurchase agreements. Finally, the trust is also authorized to invest in certificates of deposit which are insured by the FDIC or which are collateralized as provided by law. The fair value of the Borough's investments in PLGIT is the same as the value of the pool shares. All investments in an external investment pool that is not SEC registered are subject to oversight by the Commonwealth of Pennsylvania.

Pension

The Pension Trust Funds' investments are held separately from those of other Borough funds. Assets in the Pension Trust Funds are stated at fair value and are comprised of various mutual funds and common/collective funds.

The Pension Trust Fund investments are not exposed to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form. The following table summarizes the Borough's investments related to its Pension Trust Funds at December 31, 2015:

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

Investment	Police	Service	Total
Equity Funds:			
Domestic	\$ 5,313,878	\$ 1,141,595	\$ 6,455,473
International	1,897,604	411,119	2,308,723
Alternative Funds:			
Real Estate	1,045,014	232,527	1,277,541
Commodity	747,716	158,093	905,809
Fixed Income Funds:			
Domestic	2,641,166	563,127	3,204,293
Government	1,320,778	281,604	1,602,382
Total	<u>\$ 12,966,156</u>	<u>\$ 2,788,065</u>	<u>\$ 15,754,221</u>

The following is a description of the Pension Trust Funds' deposit and investment risks:

Credit Risk - For investments, the risk that an issuer or other counterparty to an investment will not fulfill its obligations is called credit risk. The Pension Trust Funds have an investment policy that limits its investment choices based on credit ratings by nationally recognized statistical rating organizations. As of December 31, 2015, the Borough's investments were comprised entirely of mutual funds and common/collective funds and were not rated.

Interest Rate Risk – The Pension Trust Funds investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk – The Pension Trust Funds place no limit on the amount invested in any one issuer.

Concentration of credit risk for investments in marketable securities is mitigated by the overall diversification of managed investment portfolios. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in values of investments will occur in the near-term and that such changes could materially affect the amount reported on the combining statement of fiduciary net position.

4. CAPITAL ASSETS

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

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

	Balance at January 1, 2015	Additions	Deletions	Balance at December 31, 2015
Business-Type Activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 545,835	\$ 103,759	\$ -	\$ 649,594
Capital assets, being depreciated:				
Sewer infrastructure	12,813,282	86,043	-	12,899,325
Swimming pool	828,480	63,705	-	892,185
Equipment	498,278	62,336	-	560,614
Total capital assets, being depreciated	14,140,040	212,084	-	14,352,124
Less: accumulated depreciation for:				
Sewer infrastructure	(3,044,749)	(322,488)	-	(3,367,237)
Swimming pool	(828,480)	(354)	-	(828,834)
Equipment	(398,186)	(43,813)	-	(441,999)
Total accumulated depreciation	(4,271,415)	(366,655)	-	(4,638,070)
Total capital assets being depreciated net	9,868,625	(154,571)	-	9,714,054
Business activities capital assets, net	\$ 10,414,460	\$ (50,812)	\$ -	\$ 10,363,648

5. REAL ESTATE TAXES

Real estate taxes based on assessed valuations provided by Allegheny County (County) are levied on February 1 of the taxable year. The 2015 assessed value of real estate property totaled approximately \$916 million. Real estate taxes are billed and collected by an elected tax collector. Taxes paid by April 15 are given a 2% discount. Amounts paid after June 1 are assessed a 10% penalty. Any uncollected balances at the end of the year following the taxable year are collected by an outside service.

Under the Borough Code, the Borough is permitted to levy real estate taxes up to 30 mills for general purposes. Additional taxes may be levied for certain specified purposes. Borough real estate taxes were levied at the rate of 5.950 mills.

BOROUGH OF BALDWIN

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YEAR ENDED DECEMBER 31, 2015

6. LONG-TERM DEBT

Capital Leases

The Borough has entered into various capital leases for vehicles and a sewer camera with maturity dates ranging from 2015 to 2020. Interest rates for these leases range from 3.09% to 6.50%. These leases require either quarterly or annual payments of principal and interest and contain a bargain purchase option at the end of the lease term. During the year ended December 31, 2015, the Borough made lease payments of \$225,503.

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

2016	\$ 196,344
2017	96,310
2018	82,074
2019	65,086
2020	34,115
Less: amounts representing interest	<u>(31,124)</u>
Present value of minimum lease payments	<u>\$ 442,805</u>

Long-term debt activity for the year ended December 31, 2015 was as follows:

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	January 1, 2015	Additions	Repayments	Refunding	December 31, 2015	Due Within One Year
Governmental activities:						
G.O. Bonds - 2015	\$ -	\$ 3,670,000	\$ -	\$ -	\$ 3,670,000	\$ 145,000
Capital leases	<u>349,707</u>	<u>235,453</u>	<u>(237,815)</u>	<u>-</u>	<u>347,345</u>	<u>88,937</u>
Governmental activities long-term liabilities						
	<u>\$ 349,707</u>	<u>\$ 3,905,453</u>	<u>\$ (237,815)</u>	<u>\$ -</u>	<u>\$ 4,017,345</u>	<u>\$ 233,937</u>
Business-type activities:						
G.O. Bonds - 2011	\$ 6,805,000	\$ -	\$ (10,000)	\$ (5,450,000)	\$ 1,345,000	\$ 160,000
G.O. Bonds - 2012 A	3,015,000	-	(240,000)	-	2,775,000	245,000
G.O. Bonds - 2012 B	11,010,000	-	(10,000)	-	11,000,000	5,000
G.O. Bonds - 2015	-	5,885,000	-	-	5,885,000	-
Capital leases	<u>33,124</u>	<u>95,460</u>	<u>(33,124)</u>	<u>-</u>	<u>95,460</u>	<u>95,460</u>
Business-type activities long-term liabilities						
	<u>\$ 20,863,124</u>	<u>\$ 5,980,460</u>	<u>\$ (293,124)</u>	<u>\$ (5,450,000)</u>	<u>\$ 21,100,460</u>	<u>\$ 505,460</u>

General Obligation Bonds - 2011

- In 2011, the Borough issued \$7,425,000 in General Obligation Bonds Series of 2011 (2011 bonds) with interest rates from 1.0% to 4.0%. The 2011 bonds are due serially through November 2032. Payments made semi-annually on May 1 and November 1. Proceeds were used to currently refund the Borough's two Pennvest 2002 notes and the Pennvest 2003 note and pay for sewer repairs. As of December 31, 2015, \$0 of the defeased \$620,000 remained outstanding. During 2015, the Borough partially refunded \$5,450,000 of the outstanding 2011 bonds, leaving the total amount outstanding on the 2011 bonds at \$1,345,000. These bonds are expected to be repaid from future sewer system revenues.

General Obligation Bonds – 2012

- In 2012, the Borough issued \$3,360,000 in General Obligation Bonds Series 2012 A (2012A bonds) and \$11,010,000 in General Obligation Bonds Series of 2012 B (2012B bonds) with interest rates from 1.0% to 3.65%. The 2012A and 2012B Bonds are due serially through November 2043. Payments made semi-annually on May 1 and November 1. Proceeds were used to currently refund \$3,315,179 of the Borough's Pennvest 2004 note and \$620,000 of the 2011 bonds and pay for sewer repairs. These bonds are expected to be repaid from future sewer system revenues.

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

General Obligation Bonds – 2015

- In 2015, the Borough issued \$3,670,000 in General Obligation Bonds Series 2015 (2015 bonds) with interest rates from 0.8% to 3.5%. The 2015 Bonds are due serially through December 2035. Payments made semi-annually on June 1 and December 1. Proceeds are to fund a variety of capital projects including improvements to the Borough's building, municipal pool, parks and playgrounds and pay the costs of issuing the bonds. These bonds are expected to be repaid from future tax revenues.

General Obligation Bonds – Refunding 2015

- In 2015, the Borough issued \$5,885,000 in General Obligation Bonds Refunding Series 2015 (2015 refunding bonds) with interest rates from 2.0% to 3.1%. The 2015 refunding bonds are due serially through November 2032. Payments made semi-annually on May 1 and November 1. Proceeds were used to advance refund a portion of the Borough's 2011 bonds and pay the costs of issuance. As a result, that portion of the 2011 bonds is defeased, and the Borough has removed that portion of the liability from its accounts. The outstanding principal of the defeased bonds is \$5,450,000 at December 31, 2015. This transaction resulted in an economic gain of \$117,598 and a decrease in cash flows of \$112,622. These bonds are expected to be repaid from future sewer system revenues.

Annual debt service requirements of the Borough are as follows:

	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2016	\$ 145,000	\$ 104,754	\$ 410,000	\$ 608,855
2017	145,000	103,594	520,000	626,696
2018	150,000	99,244	545,000	497,038
2019	155,000	96,244	555,000	486,739
2020	155,000	93,144	565,000	475,607
2021-2025	835,000	413,781	3,035,000	2,765,906
2026-2030	955,000	293,000	3,450,000	2,347,022
2031-2035	1,130,000	121,275	3,990,000	1,808,650
2036-2040	-	-	4,695,000	1,096,288
2041-2043	-	-	3,240,000	238,380
Total	<u>\$ 3,670,000</u>	<u>\$ 1,325,036</u>	<u>\$ 21,005,000</u>	<u>\$ 10,951,181</u>

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

7. PENSION PLANS

Summary of Significant Accounting Policies

Financial information of the Borough's pensions plans (Plans) is presented on the accrual basis of accounting. Employer contributions to each plan are recognized when due as required by applicable law.

Benefits and refunds are recognized when due and payable in accordance with the terms of the Plans.

Investments of the plans are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Assets of the plans are invested primarily in mutual funds and common/collective funds. There were no investment transactions with related parties during the year.

Plan Descriptions

The Borough administers two single-employer defined benefit pension plans that cover substantially all full-time employees: Police Pension Plan (Police Plan) and Service Employees Pension Plan (Service Employees' Plan). Both plans provide retirement benefits and special provisions for death benefits to plan members.

Plan provisions are established by municipal ordinance with the authority for municipal contributions required by Act 205 of the Commonwealth of Pennsylvania (Act). The plans do not issue separate reports.

The plans are governed by the Council, which is responsible for the management of Plan assets. Signature Financial Planning and the Hartford Life Insurance Company have been designated by the Borough to handle investment management in both plans. Resources accumulated to provide pension benefits are presented in the Borough's financial statements as the Pension Trust Funds.

At December 31, 2015, Plan membership consisted of the following:

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	Police	Service Employees
Inactive plan members or beneficiaries currently receiving benefits	25	13
Inactive plan members entitled to but not yet receiving benefits	0	9
Active plan members	24	14
Total plan members	49	36

The pension plans provide pension benefits, deferred allowances, and death and disability benefits. The Borough makes annual contributions to the pension plans equal to the amount required to adequately fund the benefits provided under the plans.

Specific provisions of each plan are presented below:

Police:

A policeman hired prior to January 1, 2010, may retire after reaching the age of 50 with 25 years of service with the Borough. Those hired on or after January 1, 2010, may retire after reaching the age of 55 with 25 years of service. Benefits vest after 12 years of service. Policemen who retire at or after age 50 with 25 or more years of service are entitled to pension payments for the remainder of their lives equal to 50% of their final monthly average salary plus a service increment, if any. The final monthly average salary is the average monthly compensation earned during the last 36 months of active service. The service increment is \$20 per month for each year service exceeds 25 years, up to a maximum of \$100 per month. The plan also contains a cost-of-living adjustment for policemen.

Pension provisions include death and disability benefits whereby the disabled policeman or surviving spouse is entitled to receive payments. A surviving spouse, until death, will continue to receive a survivor benefit in the amount of 50% of the monthly retirement benefit. In the event of death, each of the participant's dependent children will receive an equal share of the benefit until their 18th birthday. The disabled policeman is entitled to receive disability payments for life equal to 50% of final 36 months' average salary offset by Social Security disability benefits.

Service Employees:

A member may retire after reaching the age of 62 and accumulating 12 years of aggregate service with the Borough. Participants are fully vested after completion of seven years of service. Employees who retire are entitled to pension payments for the remainder of their lives equal to 1.5% of their final 60 months' average compensation times the number of full

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years for which they were employed by the Borough. The maximum benefit is 40% of average earnings.

Pension provisions include death and disability benefits whereby the disabled employee or surviving spouse is entitled to receive payments. A surviving spouse will receive a refund of contributions with interest and a lump sum of vested accrued benefit if death occurs before retirement; after retirement the surviving spouse receives the benefit payment in force at the time death occurs. The disabled employee is entitled to receive a refund of contribution with interest and a monthly benefit equal to the vested accrued benefit a date of disablement.

Both plans provide terminated employees with a return of their contributions, plus interest.

Contributions and Funding Policy

The Plans are funded by the Borough on an annual basis pursuant to the provisions of the Act. The Act requires that annual contributions be based upon the calculation of the Minimum Municipal Obligation (MMO). The MMO calculation is based upon the biennial actuarial valuation. Employees are not required to contribute under the Act; such contributions are subject to collective bargaining. The Commonwealth of Pennsylvania allocates certain funds to assist in pension funding. Any financial requirement established by the MMO, which exceeds the Commonwealth of Pennsylvania allocation must be funded by the Borough.

For the year ended December 31, 2015, employee contributions were required as follows: Police contributed 8.0% and Service Employees contributed 3.0%. During the year, the Borough made their required contributions of \$104,941 and \$863,379 to the Non-uniform and Police Plans, respectively, based upon the MMO.

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

Net Pension Liability

The components of the net pension liability of the Plans at December 31, 2015 were as follows:

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YEAR ENDED DECEMBER 31, 2015

	Police	Service Employees
Total pension liability	\$ 19,503,454	\$ 3,299,381
Plan fiduciary net position	<u>(12,967,666)</u>	<u>(2,789,564)</u>
Net pension liability	<u><u>\$ 6,535,788</u></u>	<u><u>\$ 509,817</u></u>
Plan fiduciary net position as a percentage of the total pension liability	<u><u>66.49%</u></u>	<u><u>84.55%</u></u>

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods in the measurement:

	Police	Service Employees
Actuarial valuation date	1/1/2015	1/1/2015
Actuarial cost method	Entry Age Normal	Entry Age Normal
Actuarial assumptions:		
Investment rate of return	7.5%	7.5%
Projected salary increases	5.0%	4.5%
Underlying inflation rate	3.0%	3.0%
Cost-of-living adjustments increase	A	n/a

n/a = not applicable

A = Cost-of-living adjustment is determined by Council and is not to exceed 30% of original benefit.

RP-2000 Combined Healthy Mortality Table with Blue Collar Adjustment, with rates set forward 5 years for disabled lives. Rates are projected to improve with 75% of scale AA.

Changes in Actuarial Assumptions – Based upon an actuarial valuation performed as of January 1, 2015, there were no changes in actuarial assumptions.

Investment Policy – The Plans' policies in regard to the allocation of invested assets is established and may be amended by the Board by a majority vote of its members. It is the policy of the Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plans' investment policy discourages the use of cash equivalents, except for liquidity

BOROUGH OF BALDWIN

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purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans.

Long-Term Expected Rate of Return – 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 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 following was the asset allocation policy and best estimates of arithmetic real rates of return for each major asset class included in the Plans' target asset allocation as of December 31, 2015:

Asset Class	Target Allocation		Long-Term Expected Real Rate of Return	
	Police	Service Employees	Police	Service Employees
Equities	60.0%	60.0%	6.3%	6.3%
Fixed income	40.0%	40.0%	2.0%	2.0%
	<u>100.0%</u>	<u>100.0%</u>		

Rate of Return – The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the year ended December 31, 2015, the annual money-weighted rate of return on the Police and Service Employees Plan investments, net of investment expense, was -5.70% and (2.77%), respectively.

Concentrations – At December 31, 2015, the Plan had no investments in any one issuer that represented 5% or more of either Plan's fiduciary net position.

Discount Rate – The discount rate used to measure the total pension liability for the Police Plan and Service Employees Plan was 7.5%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the Borough's contributions will be made based on the yearly MMO calculation. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan

BOROUGH OF BALDWIN

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members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the Plans calculated using the discount rates described above, as well as what the Plans' net pension liabilities would be if they were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rates:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Police Plan	\$ 8,959,838	\$ 6,535,788	\$ 4,455,949
Service Employees Plan	\$ 877,754	\$ 509,817	\$ 187,286

As the Borough reports its governmental activities on the modified accrual basis of accounting, the employer net pension liability and related items have not been incorporated in the government-wide financial statements; however, the following information is provided for disclosure purposes.

Changes in the Net Pension Liability

The changes in the net pension liability of the Police Plan at December 31, 2015 were as follows:

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YEAR ENDED DECEMBER 31, 2015

	Increases / Decreases		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2014	\$ 17,368,537	\$ 13,576,873	\$ 3,791,664
Changes for the year:			
Service cost	514,135	-	514,135
Interest	1,391,041	-	1,391,041
Differences between expected and actual	1,132,778	-	1,132,778
Changes of assumptions	(48,884)	-	(48,884)
Contributions - employer	-	863,379	(863,379)
Contributions - employee	-	202,289	(202,289)
Net investment income	-	(764,187)	764,187
Benefit payments, including refunds	(854,153)	(855,971)	1,818
Administrative expense	-	(54,717)	54,717
Net changes	<u>2,134,917</u>	<u>(609,207)</u>	<u>2,744,124</u>
Balances at December 31, 2015	<u>\$ 19,503,454</u>	<u>\$ 12,967,666</u>	<u>\$ 6,535,788</u>
Plan fiduciary net position as a percentage of the total pension liability			66.49%

The changes in the net pension liability of the Service Employees' Plan at December 31, 2015 were as follows:

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	Increases / Decreases		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2014	\$ 3,123,631	\$ 2,879,998	\$ 243,633
Changes for the year:			
Service cost	58,717	-	58,717
Interest	234,382	-	234,382
Differences between expected and actual	713	-	713
Contributions - employer	-	104,941	(104,941)
Contributions - employee	-	31,075	(31,075)
Net investment income	-	(79,640)	79,640
Benefit payments, including refunds	(118,062)	(124,519)	6,457
Administrative expense	-	(22,753)	22,753
Other changes	-	462	(462)
Net changes	175,750	(90,434)	266,184
Balances at December 31, 2015	<u>\$ 3,299,381</u>	<u>\$ 2,789,564</u>	<u>\$ 509,817</u>
Plan fiduciary net position as a percentage of the total pension liability			84.55%

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions

At December 31, 2015, deferred outflows of resources and deferred inflows of resources related to the Plans from the following sources:

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Deferred Outflow of Resources:	Police	Service Employees
Differences between expected and actual experience	\$ 930,496	\$ 539
Changes in assumption	-	-
Net difference between projected and actual earnings on pension plan investments	1,419,208	234,045
Total deferred outflows of resources	<u>\$ 2,349,704</u>	<u>\$ 234,584</u>

Deferred Inflows of Resources:	Police	Service Employees
Differences between expected and actual experience	\$ -	\$ -
Changes in assumption	40,155	-
Net difference between projected and actual earnings on pension plan investments	-	-
Total deferred inflows of resources	<u>\$ 40,155</u>	<u>\$ -</u>

Amortization of the deferred outflows of resources and deferred inflows of resources related to the Plans is as follows:

Year ended December 31,	Police	Service Employees
2016	\$ 548,355	\$ 58,685
2017	548,355	58,685
2018	548,355	58,685
2019	548,355	58,529
2020	116,129	-
Thereafter	-	-

8. DEFINED CONTRIBUTION PLAN

The Borough also provides pension benefits for its service employees hired after January 1, 2011 through a defined contribution pension plan (plan). This plan is in accordance with Internal Revenue Code Section 414(H). Benefits to retired employees depend on amounts contributed plus investment earnings. Employee contributions to the plan as specified in the plan document are 2% of base compensation for all service employees.

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Employee contributions during 2015 were \$31,959. There were no employer contributions during 2015.

9. DEFERRED COMPENSATION PLAN

The Borough provides all full-time employees an option to participate in a deferred compensation plan (Plan) created in accordance with Internal Revenue Code Section 457 (Section 457). The Plan permits participants to defer a portion of their salary until future years. Participation in the Plan is optional. The deferred compensation is not available to the employee until termination, retirement, or death. At December 31, 2015, all amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, are held in trust solely for the benefit of the participants. Deferred compensation assets at December 31, 2015 totaled approximately \$992,000. Under the provisions of GASB Statement No. 32, *“Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans,”* the Plan is not required to be included in the Borough’s financial statements.

10. COMMITMENTS AND CONTINGENT LIABILITIES

Various claims and lawsuits are pending against the Borough. The ultimate outcome of these claims and lawsuits cannot presently be determined and, accordingly, no provision for amounts arising from settlements has been made in these financial statements. In the opinion of management and legal counsel, the effect on the financial statements of potential losses on any claim and/or lawsuit should not be material.

In 1997, the United States Environmental Protection Agency (USEPA) identified 51 communities tributary to the Allegheny County Sanitary Authority (ALCOSAN) whose sanitary sewers had been subject to wet weather overflows. The Borough signed an Administrative Consent Order (ACO) in 2004. The ACO details the timetable for completion of each phase which will involve inspecting, mapping, correcting, and monitoring the sewer system. The Borough is subject to a civil penalty for untimely completion of each term or provision of the ACO. The Borough has paid no civil penalties for the year ended December 31, 2015. The Borough has estimated the remaining completion cost of the projects mandated by the consent decree to be approximately \$9.7 million.

The Borough participates in a number of federal, state, and county programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the Borough may be

BOROUGH OF BALDWIN

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required to reimburse the grantor government. The Borough believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the Borough.

11. 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; and natural disasters for which the Borough carries commercial insurance. There have been no significant changes in insurance coverage since the prior year.

For its workers' compensation insurance coverage, the Borough participates in the Municipal Risk Management Worker's Compensation Pooled Trust (Trust), a public entity risk pool operated for the benefit of 199 cities, municipalities, boroughs, townships, and municipal authorities. Trust underwriting and rate-setting policies are established after consultation with an independent actuary and certain approvals of the Pennsylvania Department of Labor and Industry as mandated by Act 44 of 1993 (Act 44). All Trust participants may be subject to a supplemental assessment/dividend based on the overall experience of the participants, pursuant to Act 44. Each participant of the Trust agrees to jointly and severally assume and discharge the liabilities arising under the Workers' Compensation Act and Occupational Disease act of each and every participant of the Trust. Political subdivisions joining the Trust must remain members for a minimum of four years; a member may withdraw from the Trust after that time by giving ninety days notice, subject to approval by the Trust actuary under specified circumstances related to the continued fiscal stability of the pool. At the time of withdrawal, the participant is responsible for their share of assessments but has no claim on any other assets of the Trust.

12. OTHER POST-EMPLOYMENT BENEFITS (OPEBs)

Plan Description

In addition to the pension benefits described in Note 7, the Borough provides post-employment health care benefits to all retired police officers and non-uniformed union employees, in accordance with collective bargaining agreements, as well as certain non-union employees. The plan is a single-employer defined benefit plan. The benefit limits and employee and employer contributions are established through the agreements. The plan is not accounted for as a trust fund, an irrevocable trust has not been established, and the plan does not issue a separate report. Expenditures for post-retirement health care benefits are recognized in the General Fund when paid by the Borough.

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The Borough provides post-retirement medical, dental, and vision coverage to all eligible police retirees in accordance with the requirements set forth by the collective bargaining agreement. Upon early, normal, or disability retirement, the Borough will provide coverage at the level in effect at retirement. The coverage will continue until the earlier of eligibility for similar coverage from another source, the retiree's Medicare eligibility, or the retiree's death. Retirees hired after December 31, 2005 must contribute, on a monthly basis, the dollar amount equal to the premium increases from the time of retirement. Retirees who waive coverage shall receive annual compensation equal to 33% of the premium for applicable coverage.

The Borough provides post-retirement medical, dental, and vision coverage to all eligible non-uniformed, union, and certain non-union retirees. Upon attaining age 62, the Borough will provide coverage at the individual level. The coverage will continue until the retiree's Medicare eligibility. Retirees are not required to contribute.

As of January 1, 2015 (the date of the latest actuarial valuation), 13 retirees met the eligibility requirements to receive OPEBs.

Funding Policy

These benefits are expensed when incurred and are financed on a pay-as-you-go basis. During 2015, the Borough paid \$292,234 in OPEB costs.

The Borough's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the component of the Borough's annual OPEB cost for the year, the amount actually contributed, and changes in the Borough's net OPEB obligation:

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YEAR ENDED DECEMBER 31, 2015

Annual required contribution	\$ 457,724
Interest on net OPEB obligation	57,965
Adjustment to annual required contribution	<u>(79,079)</u>
Annual OPEB cost	436,610
Contributions made	<u>(292,234)</u>
Increase in net OPEB obligation	144,376
Net OPEB obligation - beginning of year	<u>1,288,116</u>
Net OPEB obligation - end of year	<u><u>\$ 1,432,492</u></u>

The Borough's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation were as follows:

Fiscal Year Ending	Annual OPEB Cost	% of AOC Contributed	Net OPEB Obligation
December 31, 2015	\$ 436,610	66.93%	\$ 1,432,492
December 31, 2014	489,348	61.95%	1,288,116
December 31, 2013	492,612	49.41%	1,101,915

The ARC for the current year was computed as of January 1, 2015 using the following actuarial assumptions:

- actuarial cost method - entry age normal cost;
- amortization method - level dollar;
- amortization period - 30 year open period;
- discount rate - 4.5% compounded annually;
- mortality – RP-2000 Combined Healthy Mortality Table with Blue Collar Adjustment and ages set forward 5 years for disabled lives

The schedule of funding progress as of January 1, 2015 for the post-employment medical and benefits is as follows:

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NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

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	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Accrued Liability (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)
Police:					
	\$ -	\$ 4,798,664	\$ (4,798,664)	0.0%	N/A
Non-Uniformed:					
	\$ -	\$ 285,986	\$ (285,986)	0.0%	N/A

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the employer subsidy. Amounts determined regarding the funded status and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required schedules of funding progress present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

13. MUNICIPAL EMPLOYERS INSURANCE TRUST

The Borough participates as a member in Municipal Employers Insurance Trust (d/b/a Municipal Benefit Services (MBS)), a public entity risk pool. MBS provides certain benefits including, but not limited to, the following coverages: health benefits, short-term accident and sickness disability benefits, long-term accident and sickness disability benefits, dental benefits, vision care, prescription drugs, and life insurance for those eligible employers. All participants of MBS may be subject to supplemental premiums based on the overall experience of the participating members. Reserves generated by MBS for self-insured health premiums paid by members exceeding claims and expenses are held by MBS for the benefit of all participating members. During 2014, a portion of the excess reserves were deposited in

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

eligible clients' Rate Mitigation Accounts (RMA) as determined by the MBS's actuary. RMA funds are held by MBS and are available to the Borough to reduce future costs associated with participating coverage. RMA funds are forfeited if the member terminates participation in the MBS medical insurance program. The Borough's RMA funds were approximately \$32,000 as of December 31, 2015.

Required Supplementary Information

BOROUGH OF BALDWIN

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN

SCHEDULE OF CHANGES IN THE BOROUGH'S NET PENSION LIABILITY AND RELATED RATIOS

SERVICE EMPLOYEES PLAN

YEAR ENDED DECEMBER 31, 2015

	2015	2014
Total Pension Liability:		
Service cost	\$ 58,717	\$ 58,379
Interest	240,839	226,001
Differences between expected and actual experience	713	-
Benefit payments, including refunds of member contributions	(124,519)	(126,253)
Net Changes in Total Pension Liability	175,750	158,127
Total Pension Liability - Beginning	3,123,631	2,965,504
Total Pension Liability - Ending (a)	\$ 3,299,381	\$ 3,123,631
 Plan Fiduciary Net Position:		
Contributions - employer	\$ 104,941	\$ 110,814
Contributions - member	31,075	23,679
Net investment income	(79,640)	120,319
Benefit payments, including refunds of member contributions	(124,519)	(126,253)
Administrative expense	(22,753)	(22,672)
Other	462	(41,043)
Net Change in Plan Fiduciary Net Position	(90,434)	64,844
Plan Fiduciary Net Position - Beginning	2,879,998	2,815,154
Plan Fiduciary Net Position - Ending (b)	\$ 2,789,564	\$ 2,879,998
Net Pension Liability - Ending (a-b)	\$ 509,817	\$ 243,633
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.55%	92.20%
 Covered Employee Payroll	\$ 787,288	\$ 789,011
 Net Pension Liability as a Percentage of Covered Employee Payroll	64.76%	30.88%

See accompanying notes to schedules of required supplementary information - pension plan.

BOROUGH OF BALDWIN

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN

SCHEDULE OF CHANGES IN THE BOROUGH'S NET PENSION LIABILITY AND RELATED RATIOS

POLICE PLAN

YEAR ENDED DECEMBER 31, 2015

	2015	2014
Total Pension Liability:		
Service cost	\$ 514,135	\$ 467,127
Interest	1,392,859	1,338,891
Differences between expected and actual experience	1,132,778	-
Changes of assumptions	(48,884)	-
Benefit payments, including refunds of member contributions	(855,971)	(940,073)
Net Changes in Total Pension Liability	2,134,917	865,945
Total Pension Liability - Beginning	17,368,537	16,502,592
Total Pension Liability - Ending (a)	\$ 19,503,454	\$ 17,368,537
Plan Fiduciary Net Position:		
Contributions - employer	\$ 863,379	\$ 858,140
Contributions - member	202,289	242,636
Net investment income	(764,187)	308,358
Benefit payments, including refunds of member contributions	(855,971)	(940,073)
Administrative expense	(54,717)	(49,222)
Other	-	-
Net Change in Plan Fiduciary Net Position	(609,207)	419,839
Plan Fiduciary Net Position - Beginning	13,576,873	13,157,034
Plan Fiduciary Net Position - Ending (b)	\$ 12,967,666	\$ 13,576,873
Net Pension Liability - Ending (a-b)	\$ 6,535,788	\$ 3,791,664
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.49%	78.17%
Covered Employee Payroll	\$ 2,537,780	\$ 2,526,389
Net Pension Liability as a Percentage of Covered Employee Payroll	257.54%	150.08%

See accompanying notes to schedules of required supplementary information - pension plan.

BOROUGH OF BALDWIN

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN

SCHEDULES OF THE BOROUGH'S CONTRIBUTIONS AND INVESTMENT RETURNS

YEAR ENDED DECEMBER 31, 2015

SERVICE EMPLOYEES PLAN:

Schedule of Baldwin Borough's Contributions	2015	2014
Actuarially determined contribution	\$ 104,941	\$ 110,814
Contributions in relation to the actuarially determined contribution	<u>104,941</u>	<u>110,814</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 789,011</u>	<u>\$ 789,011</u>
Contributions as a percentage of covered employee payroll	13.30%	14.04%
Investment Returns		
Annual money-weighted rate of return, net of investment expense	-2.77%	4.32%

POLICE PLAN:

Schedule of Baldwin Borough's Contributions	2015	2014
Actuarially determined contribution	\$ 863,379	\$ 858,140
Contributions in relation to the actuarially determined contribution	<u>863,379</u>	<u>858,140</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 2,526,389</u>	<u>\$ 2,526,389</u>
Contributions as a percentage of covered employee payroll	34.17%	33.97%
Investment Returns		
Annual money-weighted rate of return, net of investment expense	-5.70%	2.35%

See accompanying notes to schedules of required supplementary information - pension plan.

BOROUGH OF BALDWIN

SCHEDULES OF FUNDING PROGRESS - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEBs)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age Normal	Excess of AAL Over Assets	Funded Ratio	Covered Payroll	Excess as a Percentage of Covered Payroll
Police:						
1/1/2009	\$ -	\$ 3,840,468	\$ (3,840,468)	0.00%	N/A	N/A
1/1/2012	-	5,316,284	(5,316,284)	0.00%	N/A	N/A
1/1/2015	-	4,798,664	(4,798,664)	0.00%	N/A	N/A
Non-Uniformed:						
1/1/2009	\$ -	\$ 243,273	\$ (243,273)	0.00%	N/A	N/A
1/1/2012	-	218,683	(218,683)	0.00%	N/A	N/A
1/1/2015	-	285,986	(285,986)	0.00%	N/A	N/A

Note: Valuation as of 01/01/09 represents the initial valuation for the plan as required under GASB Statement No. 45 (implemented in 2009).

See accompanying notes to schedules of required supplementary information.

BOROUGH OF BALDWIN

NOTES TO SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2015

1. PENSION INFORMATION

Benefit Changes

In 2015, no benefit terms were modified

Actuarial Methods and Assumptions

The information presented in the required supplementary pension schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

	Police	Service Employees
Actuarial valuation date	1/1/2015	1/1/2015
Actuarial cost method	Entry Age Normal	Entry Age Normal
Actuarial assumptions:		
Investment rate of return	7.5%	7.5%
Projected salary increases	5.0%	4.5%
Underlying inflation rate	3.0%	3.0%
Cost-of-living adjustments	A	n/a
Additional Information Related to Funding:		
Amortization method	Level Dollar Closed	Level Dollar Closed
Amortization period	11 years aggregate	8 years aggregate
Asset valuation method	4-Year Smoothing	4-Year Smoothing

n/a = not applicable

A = Cost-of-living adjustment is determined by Council and is not to exceed 30% of original benefit.

BOROUGH OF BALDWIN

NOTES TO SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2015

2. OPEB INFORMATION

The information presented in the required supplementary OPEB schedule was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Actuarial Data:

Valuation Date: January 1, 2015
Actuarial Cost Method: Entry age normal cost
Amortization Method: Level dollar

Economic Assumptions:

Interest Rate: 4.50%

Annual Trend Rates for OPEB Costs:

Year	Medical	Dental/Vision
2015	-1.50%	0.00%
2016 and later	5.00%	3.00%

Demographic Assumptions:

Mortality: RP-2000 Combined Healthy Mortality Table with Blue Collar Adjustment
Adjustments and ages set forward 5 years for disabled lives

Mortality Improvement: Rates projected to improve with 75% of Scale AA

Withdrawal: Police: Table T-1, Actuary's Pension Handbook
Non-Uniformed: Table T-2, Actuary's Pension Handbook

Disablement: Police: Rates derived from the Social Security Administration's 2010
projections of disability incidence (ultimate rates only)
Non-Uniformed: None assumed

Valuation Retirement Age: Normal Retirement Age, or attained age if currently eligible to retire

BOROUGH OF BALDWIN

NOTES TO SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2015

Participation:	Police: 100% of eligible retirees Non-Uniformed: 100% of eligible retirees
Coverage Level:	Future Police Retirees: Before 1/1/2006: 20% Individual, 65% Husband/Wife, 15% Family After 1/1/2006: 50% Individual, 40% Husband/Wife, 10% Family Future Non-Uniformed Retirees: 35% Individual, 65% Husband/Wife Current Retirees: Continuation of current coverage level
Spouse Age:	Female spouse assumed to be three years younger than male spouse
Child Coverage:	Future and Current Police Retirees: Child dependents until retiree's age 62

Insurance Premiums:

Current Premium Schedules:	The reported annual applicable rates for medical, dental, and vision coverage for 2015
Age Adjustments:	Costs for medical benefits are projected with age-adjusted rates derived from the 2015 premium schedules for the available plan Dental and vision coverages are not age dependent; therefore, the premiums were not age-adjusted