

Borough of Baldwin

Primary Government Financial Statements and Required Supplementary Information

**Year Ended December 31, 2016 with
Independent Auditor's Report**

MaherDuessel
Certified Public Accountants

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BOROUGH OF BALDWIN

YEAR ENDED DECEMBER 31, 2016

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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, 2016, and the related notes to the financial statements, which collectively comprise the Borough's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Adverse Opinion on Discretely Presented Component Unit

The financial statements 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.

Adverse Opinion on Discretely Presented Component Unit

In our opinion, because of the significance of the matter described in "Basis for Adverse Opinion on Discretely Presented Component Unit" paragraph, 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, 2016, 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 addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the Borough as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective 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.

Omission of Management's Discussion and Analysis

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Maher Duessel

Pittsburgh, Pennsylvania
April 17, 2017

BOROUGH OF BALDWIN

STATEMENT OF NET POSITION

DECEMBER 31, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets and Deferred Outflows of Resources			
Assets:			
Current assets:			
Cash and cash equivalents	\$ 954,914	\$ 2,567,795	\$ 3,522,709
Cash and cash equivalents - restricted	2,917,497	6,891,171	9,808,668
Taxes receivable, net	1,117,741	-	1,117,741
Accounts receivable - sewage, net	-	599,210	599,210
Other receivables	24,345	-	24,345
Prepaid expenses	177,738	9,406	187,144
Internal balances	(421,678)	421,678	-
Total current assets	4,770,557	10,489,260	15,259,817
Noncurrent assets:			
Land	1,291,730	-	1,291,730
Buildings and building improvements	4,015,805	-	4,015,805
Vehicles	1,563,116	-	1,563,116
Furniture and fixtures	218,919	-	218,919
Infrastructure	-	13,548,919	13,548,919
Swimming pool	-	1,303,811	1,303,811
Machinery and equipment	1,002,255	600,279	1,602,534
Construction in progress	-	3,450,498	3,450,498
Accumulated depreciation	(5,402,520)	(5,027,123)	(10,429,643)
Total noncurrent assets	2,689,305	13,876,384	16,565,689
Total Assets	7,459,862	24,365,644	31,825,506
Deferred Outflows of Resources:			
Deferred charges on refunding	-	234,277	234,277
Deferred outflows of resources for pension	1,968,519	-	1,968,519
Total Deferred Outflows of Resources	1,968,519	234,277	2,202,796
Total Assets and Deferred Outflows of Resources	\$ 9,428,381	\$ 24,599,921	\$ 34,028,302
Liabilities, Deferred Inflows of Resources, and Net Position			
Liabilities:			
Current liabilities:			
Accounts payable	\$ 329,434	\$ 1,163,035	\$ 1,492,469
Accrued payroll	-	7,316	7,316
Accrued interest payable	8,633	-	8,633
Bonds payable	145,000	520,000	665,000
Capital leases payable	101,190	-	101,190
Compensated absences	12,804	-	12,804
Other liabilities	84,310	-	84,310
Total current liabilities	681,371	1,690,351	2,371,722
Noncurrent liabilities:			
Bonds payable	3,380,000	20,075,000	23,455,000
Less discount on bonds	-	(316,222)	(316,222)
Capital leases payable	198,553	-	198,553
Compensated absences	927,373	-	927,373
OPEB obligation	1,578,451	-	1,578,451
Net pension liability	6,710,118	-	6,710,118
Total noncurrent liabilities	12,794,495	19,758,778	32,553,273
Total Liabilities	13,475,866	21,449,129	34,924,995
Deferred Inflows of Resources:			
Deferred inflows of resources for pension	323,758	-	323,758
Total Liabilities and Deferred Inflows of Resources	13,799,624	21,449,129	35,248,753
Net Position:			
Net investment in capital assets	1,782,059	723,054	2,505,113
Restricted:			
Supplies and street lighting	70,657	-	70,657
Unrestricted	(6,223,959)	2,427,738	(3,796,221)
Total Net Position	(4,371,243)	3,150,792	(1,220,451)
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 9,428,381	\$ 24,599,921	\$ 34,028,302

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, 2016

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	\$ 914,152	\$ 172,448	\$ -	\$ (741,704)	\$ -	\$ (741,704)
Public safety - police	4,278,898	121,005	61,887	(4,096,006)	-	(4,096,006)
Public safety - fire	379,231	-	103,181	(276,050)	-	(276,050)
Public safety - other	282,484	-	-	(282,484)	-	(282,484)
Public works - sanitation	1,213,263	-	8,035	(1,205,228)	-	(1,205,228)
Public works - highways	2,064,562	-	537,464	(1,527,098)	-	(1,527,098)
Public works - other	5,736	-	-	(5,736)	-	(5,736)
Culture and recreation - library	185,000	-	-	(185,000)	-	(185,000)
Culture and recreation - other	171,040	5,440	-	(165,600)	-	(165,600)
Capital outlay	41,335	-	-	(41,335)	-	(41,335)
Interest on long-term debt	117,860	-	-	(117,860)	-	(117,860)
Insurance and employee benefits	1,212,623	-	301,851	(910,772)	-	(910,772)
Total governmental activities	10,866,184	298,893	1,012,418	(9,554,873)	-	(9,554,873)
Business-Type Activities:						
Swimming pool	204,840	74,559	-	-	(130,281)	(130,281)
Sewer system	5,060,493	5,510,741	-	-	450,248	450,248
Total business-type activities	5,265,333	5,585,300	-	-	319,967	319,967
Total Primary Government	\$ 16,131,517	\$ 5,884,193	\$ 1,012,418	(9,554,873)	319,967	(9,234,906)
General revenues:						
Taxes:						
Property taxes, levied for general purposes				5,357,491	-	5,357,491
Earned income taxes				2,502,677	59,481	2,562,158
Other taxes levied for general purposes				398,428	-	398,428
County sales tax (Act 77)				553,706	-	553,706
Cable franchise fees				427,647	-	427,647
PURTA and alcohol beverage tax				14,206	-	14,206
Investment earnings				35,985	-	35,985
Refund of prior year expenditures (revenues), net				55,822	-	55,822
Other				84,994	-	84,994
Transfers				(540,859)	540,859	-
Total general revenues				8,890,097	600,340	9,490,437
Change in Net Position				(664,776)	920,307	255,531
Net Position:						
Beginning of year				(3,706,467)	2,230,485	(1,475,982)
End of year				<u>\$ (4,371,243)</u>	<u>\$ 3,150,792</u>	<u>\$ (1,220,451)</u>

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

BOROUGH OF BALDWIN

BALANCE SHEET - GOVERNMENTAL FUNDS

DECEMBER 31, 2016

	General Fund	Capital Improvements Fund	Other Governmental Highway Aid Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 843,206	\$ 41,051	\$ 70,657	\$ 954,914
Cash and cash equivalents - restricted	-	2,917,497	-	2,917,497
Taxes receivable, net	1,117,741	-	-	1,117,741
Other receivables	24,345	-	-	24,345
Prepaid expenses	177,738	-	-	177,738
Total Assets	\$ 2,163,030	\$ 2,958,548	\$ 70,657	\$ 5,192,235
Liabilities, Deferred Inflows of Resources, and Fund Balance				
Liabilities:				
Accounts payable	\$ 329,434	\$ -	\$ -	\$ 329,434
Other liabilities	84,310	-	-	84,310
Due to other funds	421,678	-	-	421,678
Total Liabilities	835,422	-	-	835,422
Deferred Inflows of Resources:				
Unavailable revenues	520,313	-	-	520,313
Total Liabilities and Deferred Inflows of Resources	1,355,735	-	-	1,355,735
Fund Balance:				
Nonspendable - prepaids	177,738	-	-	177,738
Restricted:				
Supplies and street lighting	-	-	70,657	70,657
Capital improvements	-	2,917,497	-	2,917,497
Assigned - capital improvements	-	41,051	-	41,051
Unassigned	629,557	-	-	629,557
Total Fund Balance	807,295	2,958,548	70,657	3,836,500
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 2,163,030	\$ 2,958,548	\$ 70,657	\$ 5,192,235

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

BOROUGH OF BALDWIN

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

DECEMBER 31, 2016

Total Fund Balance - Governmental Funds \$ 3,836,500

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$8,091,825 and the accumulated depreciation is \$5,402,520. 2,689,305

Property taxes and earned income taxes receivable will be collected next year, but are not considered available soon enough to pay for the current period's expenditures and, therefore, are unavailable in the funds. 520,313

The net pension liability is not reflected on the fund financial statements. (6,710,118)

Deferred outflows and inflows of resources for pension are recorded and amortized in the statement of net position. However, these items are not recorded on the fund financial statements. 1,644,761

The actuarially accrued other post-employment benefit (OPEB) obligation for the police and service employees are not recorded on the fund financial statements. (1,578,451)

Long-term liabilities, including bonds and capital leases payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Additionally, accrued interest is not due and payable in the current period and, therefore, is not reported as a liability in the funds. Long-term liabilities at year-end consist of:

Bonds payable	\$ (3,525,000)	
Capital leases payable	(299,743)	
Accrued interest on payable	(8,633)	
Compensated absences	(940,177)	(4,773,553)

Total Net Position - Governmental Activities \$ (4,371,243)

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, 2016

	General Fund	Capital Improvements Fund	Other Governmental Highway Aid Fund	Total Governmental Funds
Revenues:				
Taxes	\$ 8,766,189	\$ -	\$ -	\$ 8,766,189
Licenses and permits	427,887	-	-	427,887
Fines and forfeitures	79,729	-	-	79,729
Interest and rents	19,526	21,842	57	41,425
Intergovernmental	506,137	-	529,032	1,035,169
Charges for services	212,325	-	-	212,325
Other	69,644	-	-	69,644
Total revenues	10,081,437	21,842	529,089	10,632,368
Expenditures:				
Current:				
General government	976,453	-	-	976,453
Public safety - police	3,571,301	-	-	3,571,301
Public safety - fire	370,263	-	-	370,263
Public safety - other	275,804	-	-	275,804
Public works - sanitation	1,184,573	-	-	1,184,573
Public works - highway	1,480,421	-	489,238	1,969,659
Public works - other	5,736	-	-	5,736
Culture and recreation - library	185,000	-	-	185,000
Culture and recreation - other	177,043	-	-	177,043
Capital outlay	41,335	-	-	41,335
Debt service	348,591	3,302	-	351,893
Insurance and employee benefits	1,212,623	-	-	1,212,623
Total expenditures	9,829,143	3,302	489,238	10,321,683
Excess (Deficiency) of Revenues Over Expenditures	252,294	18,540	39,851	310,685
Other Financing Sources (Uses):				
Refund of prior year expenditures	66,359	-	-	66,359
Refunds of prior year revenues	(10,537)	-	-	(10,537)
Proceeds from fixed asset disposition	7,964	-	-	7,964
Proceeds from capital lease obligation	41,335	-	-	41,335
Operating transfers in	98,122	35,000	-	133,122
Operating transfers out	(120,101)	(553,880)	-	(673,981)
Total other financing sources (uses)	83,142	(518,880)	-	(435,738)
Net Change in Fund Balance	335,436	(500,340)	39,851	(125,053)
Fund Balance:				
Beginning of year	471,859	3,458,888	30,806	3,961,553
End of year	\$ 807,295	\$ 2,958,548	\$ 70,657	\$ 3,836,500

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

BOROUGH OF BALDWIN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2016

Net Change in Fund Balance - Governmental Funds

\$ (125,053)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount represents the difference between depreciation and capital outlays in the current period.

Capital outlays	\$ 281,083	
Less: depreciation expense	<u>(194,628)</u>	86,455

Some taxes will not be collected until after the year-end; they are not considered "available" revenues in the governmental funds. Unavailable revenues changed by this amount during the year.

46,113

The issuance of long-term obligations provides financial resources to the governmental funds. Likewise, the repayment of the principal of long-term obligations consumes the current financial resources of governmental funds. Neither transaction, however, has an effect on net position. Long-term obligations changed by this amount during the year.

192,602

Changes in the net pension liability and related deferred inflows of resources and deferred outflows of resources do not affect current financial resources and, therefore, are not reflected on the fund financial statements.

(563,885)

Interest on long-term obligations in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The difference in interest accrued in the statement of activities versus the amount due is shown here.

96

Compensated absences and the actuarially accrued other post-employment benefit (OPEB) obligation for the police and service employees are not recorded on the fund financial statements. The value of these items changed by this amount during the year.

Compensated absences	(155,145)	
OPEB obligation	<u>(145,959)</u>	<u>(301,104)</u>

Change in Net Position of Governmental Activities

\$ (664,776)

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, 2016

	Budget			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Taxes	\$ 8,713,000	\$ 8,683,000	\$ 8,766,189	\$ 83,189
Licenses and permits	416,240	416,240	427,887	11,647
Fines and forfeitures	50,000	50,000	79,729	29,729
Interest and rents	15,900	16,400	19,526	3,126
Intergovernmental	490,048	503,583	506,137	2,554
Charges for services	221,500	173,500	212,325	38,825
Other	6,000	20,055	69,644	49,589
Total revenues	9,912,688	9,862,778	10,081,437	218,659
Expenditures:				
General government	1,278,910	1,144,715	976,453	168,262
Public safety - police	3,627,525	3,627,706	3,571,301	56,405
Public safety - fire	350,000	350,000	370,263	(20,263)
Public safety - other	296,719	265,619	275,804	(10,185)
Public works - sanitation	1,295,981	1,295,981	1,184,573	111,408
Public works - highway	1,846,380	1,722,741	1,480,421	242,320
Public works - other	-	-	5,736	(5,736)
Culture and recreation - library	185,000	185,000	185,000	-
Culture and recreation - other	847,034	641,862	177,043	464,819
Capital outlay	-	- A	41,335	(41,335)
Debt service	402,789	402,789	348,591	54,198
Insurance and employee benefits	1,221,620	1,234,562	1,212,623	21,939
Total expenditures	11,351,959	10,870,975	9,829,143	1,041,832
Excess (Deficiency) of Revenues Over Expenditures	(1,439,271)	(1,008,197)	252,294	1,260,491
Other Financing Sources (Uses):				
Refund of prior year expenditures	65,000	66,035	66,359	324
Refunds of prior year revenues	(70,000)	(60,000)	(10,537)	49,463
Proceeds from fixed asset disposition	-	-	7,964	7,964
Proceeds from capital lease obligation	-	- A	41,335	41,335
Operating transfers in	2,696,171	2,046,264	98,122	(1,948,142)
Operating transfers out	(581,500)	(741,500)	(120,101)	621,399
Total other financing sources (uses)	2,109,671	1,310,799	83,142	(1,227,657)
Net Change in Fund Balance	\$ 670,400	\$ 302,602	335,436	\$ 32,834
Fund Balance:				
Beginning of year			471,859	
End of year			<u>\$ 807,295</u>	

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, 2016

	Sewer System Fund	Other Enterprise Swimming Pool Fund	Total
Assets and Deferred Outflows of Resources			
Assets:			
Current assets:			
Cash and cash equivalents	\$ 2,566,444	\$ 1,351	\$ 2,567,795
Cash and cash equivalents - restricted	6,891,171	-	6,891,171
Accounts receivable - sewage, net	599,210	-	599,210
Prepays	9,406	-	9,406
Due from other funds	421,678	-	421,678
Total current assets	10,487,909	1,351	10,489,260
Noncurrent assets:			
Sewer infrastructure	13,548,919	-	13,548,919
Swimming pool	-	1,303,811	1,303,811
Equipment	600,279	-	600,279
Construction in progress	3,450,498	-	3,450,498
Accumulated depreciation	(4,176,945)	(850,178)	(5,027,123)
Total noncurrent assets	13,422,751	453,633	13,876,384
Total Assets	23,910,660	454,984	24,365,644
Deferred Outflows of Resources:			
Deferred charges on refunding	234,277	-	234,277
Total Assets and Deferred Outflows of Resources	\$ 24,144,937	\$ 454,984	\$ 24,599,921
Liabilities and Net Position			
Liabilities:			
Current liabilities:			
Accounts payable	\$ 1,162,793	\$ 242	\$ 1,163,035
Accrued payroll	7,316	-	7,316
Long-term debt - current portion	520,000	-	520,000
Total current liabilities	1,690,109	242	1,690,351
Noncurrent liabilities:			
Long-term debt - long-term portion	20,075,000	-	20,075,000
Less discount on bonds	(316,222)	-	(316,222)
Total Noncurrent Liabilities	19,758,778	-	19,758,778
Total Liabilities	21,448,887	242	21,449,129
Net Position:			
Net investment in capital assets	269,421	453,633	723,054
Unrestricted	2,426,629	1,109	2,427,738
Total Net Position	2,696,050	454,742	3,150,792
Total Liabilities and Net Position	\$ 24,144,937	\$ 454,984	\$ 24,599,921

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, 2016

	Sewer System Fund	Other Enterprise Swimming Pool Fund	Total
Operating Revenues:			
User charges	\$ 5,396,588	\$ 74,559	\$ 5,471,147
Other	14,153	-	14,153
Total operating revenues	5,410,741	74,559	5,485,300
Operating Expenses:			
Administration	900,352	142,335	1,042,687
Engineering services	161,259	-	161,259
Maintenance	55,248	41,161	96,409
Depreciation	367,709	21,344	389,053
Insurance and employee benefits	174,702	-	174,702
Sanitation - ALCOSAN	1,846,260	-	1,846,260
Sanitation - Pleasant Hills	917,899	-	917,899
Total operating expenses	4,423,429	204,840	4,628,269
Net Operating Income (Loss)	987,312	(130,281)	857,031
Non-operating Revenues (Expenses):			
Shared contracted intergovernmental services	100,000	-	100,000
Interest income	59,478	3	59,481
Interest expense	(637,064)	-	(637,064)
Total non-operating revenues (expenses)	(477,586)	3	(477,583)
Income (Loss) before Transfers	509,726	(130,278)	379,448
Other Financing Sources (Uses):			
Transfers in	-	540,859	540,859
Change in Net Position	509,726	410,581	920,307
Net Position:			
Beginning of year	2,186,324	44,161	2,230,485
End of year	\$ 2,696,050	\$ 454,742	\$ 3,150,792

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, 2016

	Sewer System Fund	Other Enterprise Swimming Pool Fund	Total
Cash Flows From Operating Activities:			
Cash received from user charges	\$ 5,291,879	\$ 74,559	\$ 5,366,438
Cash paid for operations and maintenance	(3,299,044)	(192,028)	(3,491,072)
Net cash provided by (used in) operating activities	1,992,835	(117,469)	1,875,366
Cash Flows From Capital and Related Financing Activities:			
Purchase of capital assets	(3,490,163)	(411,626)	(3,901,789)
Cash received from shared contracted intergovernmental services	100,000	-	100,000
Principal debt service payments	(505,460)	-	(505,460)
Interest debt service payments	(637,064)	-	(637,064)
Net cash provided by (used in) capital and related financing activities	(4,532,687)	(411,626)	(4,944,313)
Cash Flows From Investing Activities:			
Interest and dividends	59,478	3	59,481
Cash Flows From Non-Capital Financing Activities:			
Transfers (to) from other funds	27,658	528,153	555,811
Net Increase (Decrease) in Cash and Cash Equivalents	(2,452,716)	(939)	(2,453,655)
Cash and Cash Equivalents:			
Beginning of year	11,910,331	2,290	11,912,621
End of year	\$ 9,457,615	\$ 1,351	\$ 9,458,966
Reconciliation of Net Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:			
Net operating income (loss)	\$ 987,312	\$ (130,281)	\$ 857,031
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	367,709	21,344	389,053
Amortization expense	27,640	-	27,640
Change in assets and liabilities:			
Accounts receivable - sewage	(135,015)	-	(135,015)
Accounts receivable - other	16,153	-	16,153
Prepaid expenses	29,978	-	29,978
Accrued payroll	6,026	(7,789)	(1,763)
Accounts payable	693,032	(743)	692,289
Net cash provided by (used in) operating activities	\$ 1,992,835	\$ (117,469)	\$ 1,875,366

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, 2016

	Police Pension Fund	Service Employees Pension Fund	Total
Assets			
Cash and cash equivalents	\$ 1,510	\$ 1,501	\$ 3,011
Investments:			
Equity mutual funds	9,392,521	2,091,724	11,484,245
Fixed income mutual funds	5,069,371	871,371	5,940,742
Due from police pension fund	-	47,270	47,270
Total Assets	\$ 14,463,402	\$ 3,011,866	\$ 17,475,268
Liabilities			
Due to service employees pension fund	\$ 47,270	\$ -	\$ 47,270
Net Position			
Restricted for pension benefits	14,416,132	3,011,866	17,427,998
Total Liabilities and Net Position	\$ 14,463,402	\$ 3,011,866	\$ 17,475,268

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, 2016

	Police Pension Fund	Service Employees Pension Fund	Total
Additions:			
Contributions:			
Borough	\$ 575,603	\$ 72,916	\$ 648,519
Commonwealth	271,666	30,185	301,851
Plan members	209,289	31,459	240,748
Total contributions	1,056,558	134,560	1,191,118
Investment earnings:			
Net appreciation (depreciation) in fair value of investments	632,853	61,528	694,381
Interest and dividends	663,437	179,631	843,068
Total investment earnings	1,296,290	241,159	1,537,449
Total additions	2,352,848	375,719	2,728,567
Deductions:			
Benefits	852,543	127,583	980,126
Administrative expenses	51,839	25,834	77,673
Total deductions	904,382	153,417	1,057,799
Change in Net Position	1,448,466	222,302	1,670,768
Net Position:			
Beginning of year	12,967,666	2,789,564	15,757,230
End of year	\$ 14,416,132	\$ 3,011,866	\$ 17,427,998

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, 2016

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, 2016

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 \$185,000 to the Library during 2016. 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.

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.

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 government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Agency funds are also reported on the accrual basis;

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

however, they have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. 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 are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within 60 days to pay liabilities of the current period. Major revenues that are susceptible to accrual in governmental funds are taxes, grants from other governments, and interest on investments. The Borough does not consider revenues from fines, forfeits, and penalties to be available until received.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, pension and OPEBs, and claims and judgments, are recorded only when payment is due.

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

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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:

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.

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.

Fair Value Measurement

The Borough categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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, 2016, 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, 2016

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the date of this report are recorded as prepaid items/expenses and are accounted for on the consumption method.

Capital Assets

Capital assets, which include property, plant, equipment, and sewer infrastructure assets, are reported in the applicable governmental or 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 Borough has elected to account for general infrastructure assets (roads, bridges, sidewalks, and similar items) prospectively from the implementation of Governmental Accounting Standards Board (GASB) Statement No. 34 (calendar year 2004 for the Borough). The Borough reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

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
System infrastructure	30 years
Swimming pool	30 years
Buildings	40 years
Site improvements	10-25 years
Parks and playgrounds	20 years
Equipment	5-10 years

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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, 2016, the value of accumulated sick days to be paid in future years is \$940,177.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as refunding adjustments, where applicable and to the extent material, are amortized over the life of the bonds using the effective interest method.

In the fund financial statements, the face amount of debt issued is reported as an other financing source. Premiums received on debt issuances are also 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.

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.

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

- 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.

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, 2016, as well as interfund transfers for the year ended December 31, 2016, were as follows:

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

Fund	Transfer In	Transfer Out	Due To	Due From
Governmental activities:				
General Fund	\$ 98,122	\$ 120,101	\$ 421,678	\$ -
Capital Improvements Fund	35,000	553,880	-	-
Business-type activities:				
Swimming Pool Fund	540,859	-	-	-
Sewer System Fund	-	-	-	421,678
Total	<u>\$ 673,981</u>	<u>\$ 673,981</u>	<u>\$ 421,678</u>	<u>\$ 421,678</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 financial position and the governmental funds balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Borough has one item that qualifies for reporting in this category:

The deferred 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 financial position and the governmental funds balance sheet 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 future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Borough has one item that qualifies for reporting in this category:

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

Unavailable revenue is reported only on the balance sheet and represents property and earned income taxes which will not be collected within the available period. This amount will be recognized as an inflow of resources in the period the amounts become available.

Deferred Outflows/Inflows of Resources for Pension

In conjunction with pension accounting requirements, the difference between expected and actual experience, changes in assumptions, and the net difference between expected and actual earnings on pension plan investments is recorded as a deferred outflow/inflow of resources related to pensions on the government-wide financial statements. This amount is determined based on the actuarial valuations performed for the pension plans. Note 7 presents additional information about the pension plans.

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.
- Restricted - This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with restricted assets.
- Unrestricted - This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position. The Borough's deficit net position at December 31, 2016 in governmental activities relates primarily to unfunded long-term liabilities for pension and OPEB benefits.

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

Change in Basis of Accounting – Governmental Activities

During 2016, the Borough completed its analysis of the estimated historical cost of all material capital assets owned by the Borough. As a result, the Borough prepared its government-wide financial statements using the full-accrual basis of accounting (previously reported using the modified-accrual basis of accounting), including capitalizing and depreciating capital assets, recognizing long-term debt, pension, and post-employment benefit obligations, and allocating certain expenses by function. Beginning net position in the government-wide governmental activities financial statements has been decreased by \$7,668,020 over amounts previously reported.

Adopted Pronouncements

The requirements of the following GASB Statements were adopted for the Municipality's 2016 financial statements. Except where noted, the adoption of these pronouncements did not have a significant impact to the Municipality's financial statements.

GASB Statement No. 72, *"Fair Value Measurement and Application."* This Statement addresses accounting and financial reporting issues related to fair value measurements. This pronouncement required additional disclosures related to investments, which have been incorporated into Note 3.

GASB Statement No. 76, *"Hierarchy of Generally Accepted Accounting Principles for State and Local Governments."* 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."* This Statement addresses accounting and reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for the election to measure all of its investments at amortized cost for financial reporting purposes. This pronouncement required additional disclosures related to investments, which have been incorporated into Note 3.

Pending Pronouncements

GASB has issued several statements that will become effective in future years including Statement Nos. 74 (OPEB Plans), 75 (OPEB Employer), 80 (Component Units), 81 (Split-

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

Interest Agreements), 82 (Pensions), 83 (Asset Retirement Obligations), 84 (Fiduciary Activities), and 85 (Omnibus). Management has not yet determined the impact of these statements on the Borough's financial statements.

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. government obligations, short-term commercial paper issued by a public corporation, banker's acceptances, insured or collateralized time deposits, and certificates of deposit. The statutes allow pooling of governmental 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, 2016, \$3,384,621 of the Borough's bank balance of \$3,734,621 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, 2016, the carrying amounts of the Borough's deposits were \$3,522,709.

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 \$9,808,668. 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

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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 Borough's investments in PLGIT is the same as the value of the pool shares and is reported at amortized cost, which approximates market. All investments in an external investment pool that is not SEC registered are subject to oversight by the Commonwealth of Pennsylvania. The Borough's investments in PLGIT is a program designed for the investment of bond proceeds only, consisting of a portfolio which operates like a money market fund and individual portfolios of investors. This option has no minimum initial investment requirement and has a minimum investment period of one day.

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, 2016:

Investment	Police	Service	Total
Equity Funds:			
Domestic	\$ 6,118,501	\$ 1,225,385	\$ 7,343,886
International	2,109,745	440,179	2,549,924
Real Estate	1,164,275	243,586	1,407,861
Commodity	-	182,574	182,574
Fixed Income Funds:			
Domestic	3,516,952	729,495	4,246,447
Commodity	884,517	-	884,517
International	667,902	141,876	809,778
Total	<u>\$ 14,461,892</u>	<u>\$ 2,963,095</u>	<u>\$ 17,424,987</u>

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

At December 31, 2016, all of the Borough's investments are considered Level 1. Equity and fixed income funds classified in Level of the fair value hierarchy are valued using prices quoted in active markets for those funds.

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, 2016, 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.

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

4. CAPITAL ASSETS

A summary of changes in capital assets during fiscal year 2016 is as follows:

	Balance at January 1, 2016	Additions	Deletions/ Transfers	Balance at December 31, 2016
Governmental Activities:				
Non-depreciable assets:				
Land	\$ 1,291,730	\$ -	\$ -	\$ 1,291,730
Depreciable assets:				
Buildings	3,856,741	159,064	-	4,015,805
Machinery and equipment	963,085	39,170	-	1,002,255
Vehicles	1,512,417	80,865	(30,166)	1,563,116
Furniture and fixtures	216,935	1,984	-	218,919
	<u>6,549,178</u>	<u>281,083</u>	<u>(30,166)</u>	<u>6,800,095</u>
Less: accumulated depreciation:				
Buildings	(3,514,752)	(31,817)	-	(3,546,569)
Machinery and equipment	(613,120)	(52,315)	-	(665,435)
Vehicles	(965,841)	(102,375)	30,166	(1,038,050)
Furniture and fixtures	(144,345)	(8,121)	-	(152,466)
	<u>(5,238,058)</u>	<u>(194,628)</u>	<u>30,166</u>	<u>(5,402,520)</u>
Total depreciable assets	<u>1,311,120</u>	<u>86,455</u>	<u>-</u>	<u>1,397,575</u>
Governmental activities capital assets, net	<u>\$ 2,602,850</u>	<u>\$ 86,455</u>	<u>\$ -</u>	<u>\$ 2,689,305</u>

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

	Balance at January 1, 2016	Additions	Deletions/ Transfers	Balance at December 31, 2016
Business-Type Activities:				
Non-depreciable assets:				
Construction in progress	\$ 649,594	\$ 3,450,498	\$ (649,594)	\$ 3,450,498
Depreciable assets:				
Sewer infrastructure	12,899,325	-	649,594	13,548,919
Swimming pool	892,185	411,626	-	1,303,811
Equipment	560,614	39,665	-	600,279
	<u>14,352,124</u>	<u>451,291</u>	<u>649,594</u>	<u>15,453,009</u>
Less: accumulated depreciation:				
Sewer infrastructure	(3,367,237)	(293,752)	-	(3,660,989)
Swimming pool	(828,834)	(21,344)	-	(850,178)
Equipment	(441,999)	(73,957)	-	(515,956)
	<u>(4,638,070)</u>	<u>(389,053)</u>	<u>-</u>	<u>(5,027,123)</u>
Total depreciable assets	<u>9,714,054</u>	<u>62,238</u>	<u>649,594</u>	<u>10,425,886</u>
Business-type activities capital assets, net	<u>\$ 10,363,648</u>	<u>\$ 3,512,736</u>	<u>\$ -</u>	<u>\$ 13,876,384</u>

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

Governmental Activities:

General government	\$ 23,650
Public safety	166,691
Culture and recreation	<u>4,287</u>
Total depreciation expense - governmental activities	<u>\$ 194,628</u>

Business-Type Activities:

Sewer	\$ 367,709
Pool	<u>21,344</u>
Total depreciation expense - business-type activities	<u>\$ 389,053</u>

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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 2016 assessed value of real estate property totaled approximately \$918.3 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.

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, 2016, the Borough made lease payments of \$184,397.

The future minimum lease obligations and the net present value of the minimum lease payments related to these capital leases as of December 31, 2016 were as follows:

2017	\$ 110,548
2018	96,318
2019	79,329
2020	34,115
Less: amounts representing interest	<u>(20,567)</u>
Present value of minimum lease payments	<u><u>\$ 299,743</u></u>

Long-term debt activity for the year ended December 31, 2016 was as follows:

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

	January 1, 2016	Additions	Reductions	Refunding	December 31, 2016	Due Within One Year
<u>Governmental activities:</u>						
G.O. Bonds - 2015	\$ 3,670,000	\$ -	\$ (145,000)	\$ -	\$ 3,525,000	\$ 145,000
Capital leases	347,345	41,335	(88,937)	-	299,743	101,190
Compensated absences	785,032	155,145	-	-	940,177	12,804
OPEB obligation	1,432,492	434,243	(288,284)	-	1,578,451	-
Net pension liability	7,045,605	1,335,281	(1,670,768)	-	6,710,118	-
Governmental activities long-term liabilities	<u>\$ 13,280,474</u>	<u>\$ 1,966,004</u>	<u>\$ (2,192,989)</u>	<u>\$ -</u>	<u>\$ 13,053,489</u>	<u>\$ 258,994</u>
<u>Business-type activities:</u>						
G.O. Bonds - 2011	\$ 1,345,000	\$ -	\$ (160,000)	\$ -	\$ 1,185,000	\$ 230,000
G.O. Bonds - 2012 A	2,775,000	-	(245,000)	-	2,530,000	250,000
G.O. Bonds - 2012 B	11,000,000	-	(5,000)	-	10,995,000	5,000
G.O. Bonds - 2015	5,885,000	-	-	-	5,885,000	35,000
Capital leases	95,460	-	(95,460)	-	-	-
Business-type activities long-term liabilities	<u>\$ 21,100,460</u>	<u>\$ -</u>	<u>\$ (505,460)</u>	<u>\$ -</u>	<u>\$ 20,595,000</u>	<u>\$ 520,000</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, 2016, none of the defeased 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 \$1,185,000. 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

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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.

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 \$5,390,000 at December 31, 2016. 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
2017	\$ 145,000	\$ 103,594	\$ 520,000	\$ 626,696
2018	150,000	99,244	545,000	616,957
2019	155,000	96,244	555,000	605,817
2020	155,000	93,144	565,000	594,110
2021	160,000	90,044	580,000	581,185
2022-2026	855,000	393,900	3,110,000	2,690,579
2027-2031	985,000	262,388	3,550,000	2,235,240
2032-2036	920,000	81,725	4,110,000	1,696,936
2037-2041	-	-	4,860,000	931,395
2042-2043	-	-	2,200,000	120,910
Total	<u>\$ 3,525,000</u>	<u>\$ 1,220,283</u>	<u>\$ 20,595,000</u>	<u>\$ 10,699,825</u>

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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, 2016, Plan membership consisted of the following:

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

	Police	Service Employees
Inactive plan members or beneficiaries currently receiving benefits	23	13
Inactive plan members entitled to but not yet receiving benefits	26	15
Active plan members	0	6
Total plan members	49	34

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

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

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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, 2016, employee contributions were required as follows: Police contributed 8.0% and Service Employees contributed 3.0%. Certain pension information and calculations are based upon an actuarial valuation performed as of January 1, 2015; however, this valuation is not used for funding purposes. The January 1, 2013 valuation was used in the calculation of the Borough's 2016 MMO.

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. Payments made to the plans were sufficient to meet the MMOs in 2016, however \$47,270 was incorrectly deposited into the Police Plan instead of the Service Employees Plan. The amount is recorded as a due to/from in Statement of Net Position – Fiduciary Funds and was reimbursed in 2017. The following table reflects contribution information for 2016:

BOROUGH OF BALDWIN

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YEAR ENDED DECEMBER 31, 2016

	<u>Police</u>	<u>Service Employees</u>	<u>Total</u>
MMO	\$ 847,269	\$ 103,101	\$ 950,370
Contributions:			
Borough	\$ 575,603	\$ 72,916	\$ 648,519
Allocation of state aid	271,666	30,185	301,851
Total	847,269	103,101	950,370
Employee	209,289	31,459	240,748
Total contributions	\$ 1,056,558	\$ 134,560	\$ 1,191,118
Covered payroll	\$ 2,499,223	\$ 762,381	
Employee contributions as a % of covered payroll	8.37%	4.13%	

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, 2016 were as follows:

	<u>Police</u>	<u>Service Employees</u>
Total pension liability	\$ 20,662,608	\$ 3,475,508
Plan fiduciary net position	(14,416,132)	(3,011,866)
Net pension liability	\$ 6,246,476	\$ 463,642
Plan fiduciary net position as a percentage of the total pension liability	69.77%	86.66%

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

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NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

	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 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.

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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, 2016:

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, 2016, the annual money-weighted rate of return on the Police and Service Employees Plan investments, net of investment expense, was 2.35% and 4.32%, respectively.

Concentrations – At December 31, 2016, 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 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:

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	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Police Plan	\$ 8,782,864	\$ 6,246,476	\$ 4,084,775
	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Service Employees Plan	\$ 839,389	\$ 463,642	\$ 135,406

Changes in the Net Pension Liability

The changes in the net pension liability of the Police Plan at December 31, 2016 were as follows:

	Increases / Decreases		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2015	\$ 19,503,454	\$ 12,967,666	\$ 6,535,788
Changes for the year:			
Service cost	539,842	-	539,842
Interest	1,471,855	-	1,471,855
Contributions - employer	-	847,269	(847,269)
Contributions - employee	-	209,289	(209,289)
Net investment income	-	1,296,290	(1,296,290)
Benefit payments, including refunds	(852,543)	(852,543)	-
Administrative expense	-	(51,839)	51,839
Net changes	1,159,154	1,448,466	(289,312)
Balances at December 31, 2016	\$ 20,662,608	\$ 14,416,132	\$ 6,246,476
Plan fiduciary net position as a percentage of the total pension liability			69.77%

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

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The changes in the net pension liability of the Service Employees' Plan at December 31, 2016 were as follows:

	Increases / Decreases		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2015	\$ 3,299,381	\$ 2,789,564	\$ 509,817
Changes for the year:			
Service cost	56,701	-	56,701
Interest	247,009	-	247,009
Contributions - employer	-	103,101	(103,101)
Contributions - employee	-	31,459	(31,459)
Net investment income	-	241,159	(241,159)
Benefit payments, including refunds	(127,583)	(127,583)	-
Administrative expense	-	(25,834)	25,834
Net changes	176,127	222,302	(46,175)
Balances at December 31, 2016	<u>\$ 3,475,508</u>	<u>\$ 3,011,866</u>	<u>\$ 463,642</u>
Plan fiduciary net position as a percentage of the total pension liability			<u>86.66%</u>

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

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

At December 31, 2016, deferred outflows of resources and deferred inflows of resources related to the Plans from the following sources:

Deferred Outflow of Resources:	Police	Service Employees
Differences between expected and actual experience	\$ 728,214	\$ 365
Changes in assumption	-	-
Net difference between projected and actual earnings on pension plan investments	1,064,406	175,534
Total deferred outflows of resources	<u>\$ 1,792,620</u>	<u>\$ 175,899</u>
Deferred Inflows of Resources:		
Differences between expected and actual experience	\$ -	\$ -
Changes in assumption	31,426	-
Net difference between projected and actual earnings on pension plan investments	263,668	28,664
Total deferred inflows of resources	<u>\$ 295,094</u>	<u>\$ 28,664</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
2017	\$ 482,438	\$ 51,519
2018	482,438	51,519
2019	482,438	51,363
2020	50,212	(7,166)

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

BOROUGH OF BALDWIN

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contributed plus investment earnings. Employee contributions to the plan as specified in the plan document are 2% of base compensation for all service employees.

Employee contributions during 2016 were \$7,860. Employer contributions during 2016 were \$24,415.

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, 2016, 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, 2016 totaled approximately \$1.1 million. 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, 2016. The Borough has estimated the remaining completion cost of the projects mandated by the consent decree to be approximately \$9.7 million.

BOROUGH OF BALDWIN

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YEAR ENDED DECEMBER 31, 2016

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 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.

At December 31, 2016, the Borough had approximately \$6,000,000 in outstanding construction commitments.

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 worker's compensation insurance coverage, the Municipality participates in the Municipal Risk Management Worker's Compensation Pooled Trust (Trust), a public entity risk pool operated for the benefit of 201 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 discharges the liabilities arising under the Worker's Compensation Act and Occupational Disease Act of each and every participant of the Trust. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. The Trust purchases excess insurance coverage with statutory limits. The retention for this excess coverage is \$750,000 per occurrence. There were no significant reductions in insurance coverage from coverage in the prior year. 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. Estimates of any additional assessments are unknown.

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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.

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 2016, the Borough paid \$288,284 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

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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:

Annual required contribution	\$ 457,724
Interest on net OPEB obligation	64,462
Adjustment to annual required contribution	<u>(87,943)</u>
Annual OPEB cost	434,243
Contributions made	<u>(288,284)</u>
Increase in net OPEB obligation	145,959
Net OPEB obligation - beginning of year	<u>1,432,492</u>
Net OPEB obligation - end of year	<u><u>\$ 1,578,451</u></u>

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

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>% of AOC Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2016	\$ 434,243	66.39%	\$ 1,578,451
December 31, 2015	436,610	66.93%	1,432,492
December 31, 2014	489,348	61.95%	1,288,116

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

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial 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

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

premiums paid by members exceeding claims and expenses are held by MBS for the benefit of all participating members. A portion of the excess reserves are deposited in 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 \$36,000 as of December 31, 2016.

14. SUBSEQUENT EVENT

On March 21, 2017, the Borough issued the General Obligation Bonds, Series of 2017 (2017 Bonds) in the amount of \$4,575,000. The proceeds of the 2017 Bonds will be used towards various capital improvements in the Borough and to pay the costs of issuing the bonds. The 2017 Bonds bear interest at varied interest rates ranging from 2.50% to 3.75% and are scheduled to mature on or before November 1, 2037.

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

YEARS ENDED DECEMBER 31,

	2016	2015	2014
Total Pension Liability:			
Service cost	\$ 56,701	\$ 58,717	\$ 58,379
Interest	247,009	240,839	226,001
Differences between expected and actual experience	-	713	-
Benefit payments, including refunds of member contributions	(127,583)	(124,519)	(126,253)
Net Changes in Total Pension Liability	176,127	175,750	158,127
Total Pension Liability - Beginning	3,299,381	3,123,631	2,965,504
Total Pension Liability - Ending (a)	<u>\$ 3,475,508</u>	<u>\$ 3,299,381</u>	<u>\$ 3,123,631</u>
Plan Fiduciary Net Position:			
Contributions - employer	\$ 103,101	\$ 104,941	\$ 110,814
Contributions - member	31,459	31,075	23,679
Net investment income	241,159	(79,640)	120,319
Benefit payments, including refunds of member contributions	(127,583)	(124,519)	(126,253)
Administrative expense	(25,834)	(22,753)	(22,672)
Other	-	462	(41,043)
Net Change in Plan Fiduciary Net Position	222,302	(90,434)	64,844
Plan Fiduciary Net Position - Beginning	2,789,564	2,879,998	2,815,154
Plan Fiduciary Net Position - Ending (b)	<u>\$ 3,011,866</u>	<u>\$ 2,789,564</u>	<u>\$ 2,879,998</u>
Net Pension Liability - Ending (a-b)	<u>\$ 463,642</u>	<u>\$ 509,817</u>	<u>\$ 243,633</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>86.66%</u>	<u>84.55%</u>	<u>92.20%</u>
Covered Employee Payroll	<u>\$ 762,381</u>	<u>\$ 787,288</u>	<u>\$ 789,011</u>
Net Pension Liability as a Percentage of Covered Employee Payroll	60.81%	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

YEARS ENDED DECEMBER 31,

	2016	2015	2014
Total Pension Liability:			
Service cost	\$ 539,842	\$ 514,135	\$ 467,127
Interest	1,471,855	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	(852,543)	(855,971)	(940,073)
Net Changes in Total Pension Liability	1,159,154	2,134,917	865,945
Total Pension Liability - Beginning	19,503,454	17,368,537	16,502,592
Total Pension Liability - Ending (a)	<u>\$ 20,662,608</u>	<u>\$ 19,503,454</u>	<u>\$ 17,368,537</u>
Plan Fiduciary Net Position:			
Contributions - employer	\$ 847,269	\$ 863,379	\$ 858,140
Contributions - member	209,289	202,289	242,636
Net investment income	1,296,290	(764,187)	308,358
Benefit payments, including refunds of member contributions	(852,543)	(855,971)	(940,073)
Administrative expense	(51,839)	(54,717)	(49,222)
Other	-	-	-
Net Change in Plan Fiduciary Net Position	1,448,466	(609,207)	419,839
Plan Fiduciary Net Position - Beginning	12,967,666	13,576,873	13,157,034
Plan Fiduciary Net Position - Ending (b)	<u>\$ 14,416,132</u>	<u>\$ 12,967,666</u>	<u>\$ 13,576,873</u>
Net Pension Liability - Ending (a-b)	<u>\$ 6,246,476</u>	<u>\$ 6,535,788</u>	<u>\$ 3,791,664</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>69.77%</u>	<u>66.49%</u>	<u>78.17%</u>
Covered Employee Payroll	<u>\$ 2,499,223</u>	<u>\$ 2,537,780</u>	<u>\$ 2,526,389</u>
Net Pension Liability as a Percentage of Covered Employee Payroll	249.94%	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

YEARS ENDED DECEMBER 31,

SERVICE EMPLOYEES PLAN:

<u>Schedule of Baldwin Borough's Contributions</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 103,101	\$ 104,941	\$ 110,814
Contributions in relation to the actuarially determined contribution	103,101	104,941	110,814
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 762,381</u>	<u>\$ 789,011</u>	<u>\$ 789,011</u>
Contributions as a percentage of covered employee payroll	13.52%	13.30%	14.04%
 <u>Investment Returns</u>			
Annual money-weighted rate of return, net of investment expense	8.79%	-2.77%	4.32%

POLICE PLAN:

<u>Schedule of Baldwin Borough's Contributions</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 847,269	\$ 863,379	\$ 858,140
Contributions in relation to the actuarially determined contribution	847,269	863,379	858,140
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<u>\$ 2,499,223</u>	<u>\$ 2,526,389</u>	<u>\$ 2,526,389</u>
Contributions as a percentage of covered employee payroll	33.90%	34.17%	33.97%
 <u>Investment Returns</u>			
Annual money-weighted rate of return, net of investment expense	10.07%	-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

Actuarial Methods and Assumptions Used in Determining the Contribution Rate (MMO)

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	1/1/2013	1/1/2013
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

Benefit Changes

Service Employees Pension Plan

Effective January 1, 2013, average earnings was changed to the highest five out of seven years. The maximum benefit was increased from 40% to 46%.

Police Pension Plan

None

Changes in Assumptions

None

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:

BOROUGH OF BALDWIN

NOTES TO SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2015

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