

Borough of Baldwin

Primary Government Financial Statements and Required Supplementary Information

**Year Ended December 31, 2017
with Independent Auditor's Report**

MaherDuessel

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BOROUGH OF BALDWIN

YEAR ENDED DECEMBER 31, 2017

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BOROUGH OF BALDWIN

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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, 2017, 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 on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Adverse Opinion on 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, 2017, 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, 2017, 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 26, 2018

BOROUGH OF BALDWIN

STATEMENT OF NET POSITION

DECEMBER 31, 2017

Assets and Deferred Outflows of Resources	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Current assets:			
Cash and cash equivalents	\$ 1,382,895	\$ 3,149,464	\$ 4,532,359
Cash and cash equivalents - restricted	2,338,077	3,706,250	6,044,327
Taxes receivable, net	1,055,222	-	1,055,222
Accounts receivable - sewage, net	-	598,794	598,794
Other receivables	24,261	-	24,261
Prepaid expenses	141,491	7,405	148,896
Internal balances	(274,850)	274,850	-
Total current assets	4,667,096	7,736,763	12,403,859
Noncurrent assets:			
Land	1,291,730	-	1,291,730
Buildings and building improvements	5,293,179	-	5,293,179
Vehicles	1,225,203	-	1,225,203
Furniture and fixtures	218,919	-	218,919
Infrastructure	-	21,984,981	21,984,981
Swimming pool	-	2,471,541	2,471,541
Machinery and equipment	931,423	830,887	1,762,310
Construction in progress	-	80,149	80,149
Accumulated depreciation	(5,153,200)	(6,032,769)	(11,185,969)
Total noncurrent assets	3,807,254	19,334,789	23,142,043
Total Assets	8,474,350	27,071,552	35,545,902
Deferred Outflows of Resources:			
Deferred charges on refunding	-	219,635	219,635
Deferred outflows of resources for pension	2,390,300	-	2,390,300
Total Deferred Outflows of Resources	2,390,300	219,635	2,609,935
Total Assets and Deferred Outflows of Resources	\$ 10,864,650	\$ 27,291,187	\$ 38,155,837
Liabilities, Deferred Inflows of Resources, and Net Position			
Liabilities:			
Current liabilities:			
Accounts payable	\$ 420,138	\$ 518,784	\$ 938,922
Unearned revenue	100,000	-	100,000
Accrued payroll	-	6,657	6,657
Accrued interest payable	19,848	-	19,848
Bonds payable	225,701	639,299	865,000
AIM loan payable	5,318	25,209	30,527
Capital leases payable	88,480	-	88,480
Compensated absences	47,316	-	47,316
Other liabilities	41,124	-	41,124
Total current liabilities	947,925	1,189,949	2,137,874
Noncurrent liabilities:			
Bonds payable	5,191,511	21,973,490	27,165,001
Less discount on bonds	-	(303,227)	(303,227)
AIM loan payable	21,272	100,836	122,108
Capital leases payable	131,571	-	131,571
Compensated absences	862,697	-	862,697
OPEB obligation	1,733,663	-	1,733,663
Net pension liability	5,804,781	-	5,804,781
Total noncurrent liabilities	13,745,495	21,771,099	35,516,594
Total Liabilities	14,693,420	22,961,048	37,654,468
Deferred Inflows of Resources:			
Deferred inflows of resources for pension	1,944,167	-	1,944,167
Total Liabilities and Deferred Inflows of Resources	16,637,587	22,961,048	39,598,635
Net Position:			
Net investment in capital assets	481,478	825,067	1,306,545
Restricted:			
Supplies and street lighting	110,948	-	110,948
Unrestricted	(6,365,363)	3,505,072	(2,860,291)
Total Net Position	(5,772,937)	4,330,139	(1,442,798)
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 10,864,650	\$ 27,291,187	\$ 38,155,837

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, 2017

Functions/Programs	Program Revenues				Net (Expense) Revenue and Change in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 1,267,644	\$ 246,988	\$ -	\$ -	\$ (1,020,656)	\$ -	\$ (1,020,656)
Public safety - police	4,007,612	123,311	67,873	-	(3,816,428)	-	(3,816,428)
Public safety - fire	346,567	-	94,280	-	(252,287)	-	(252,287)
Public safety - other	265,946	-	-	-	(265,946)	-	(265,946)
Public works - sanitation	1,524,134	-	7,361	-	(1,516,773)	-	(1,516,773)
Public works - other	-	-	-	-	-	-	-
Culture and recreation - library	185,000	-	-	-	(185,000)	-	(185,000)
Culture and recreation - other	122,444	3,736	-	-	(118,708)	-	(118,708)
Interest on long-term debt	189,916	-	-	-	(189,916)	-	(189,916)
Insurance and employee benefits	1,394,156	-	312,001	-	(1,082,155)	-	(1,082,155)
Total governmental activities	12,489,379	374,035	1,045,437	-	(11,069,907)	-	(11,069,907)
Business-Type Activities:							
Swimming pool	195,339	60,840	-	-	-	(134,499)	(134,499)
Sewer system	4,971,288	5,613,151	-	-	-	641,863	641,863
Total business-type activities	5,166,627	5,673,991	-	-	-	507,364	507,364
Total Primary Government	\$ 17,656,006	\$ 6,048,026	\$ 1,045,437	\$ -	(11,069,907)	507,364	(10,562,543)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					5,661,987	-	5,661,987
Earned income taxes					2,576,707	-	2,576,707
Other taxes levied for general purposes					520,869	-	520,869
County sales tax (Act 77)					566,936	-	566,936
Cable franchise fees					539,794	-	539,794
PURTA and alcohol beverage tax					14,083	-	14,083
Investment earnings					73,328	76,506	149,834
Refund of prior year expenditures (revenues), net					42,499	-	42,499
Other					95,687	244,208	339,895
Loss on disposal of capital assets					(72,408)	-	(72,408)
Transfers					(351,269)	351,269	-
Total general revenues					9,668,213	671,983	10,340,196
Change in Net Position					(1,401,694)	1,179,347	(222,347)
Net Position:							
Beginning of year					(4,371,243)	3,150,792	(1,220,451)
End of year					\$ (5,772,937)	\$ 4,330,139	\$ (1,442,798)

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

BOROUGH OF BALDWIN

BALANCE SHEET - GOVERNMENTAL FUNDS

DECEMBER 31, 2017

	General Fund	Capital Improvements Fund	Other Governmental Highway Aid Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,265,896	\$ 6,051	\$ 110,948	\$ 1,382,895
Cash and cash equivalents - restricted	-	2,338,077	-	2,338,077
Taxes receivable, net	1,055,222	-	-	1,055,222
Other receivables	24,261	-	-	24,261
Prepaid expenses	141,491	-	-	141,491
Total Assets	\$ 2,486,870	\$ 2,344,128	\$ 110,948	\$ 4,941,946
Liabilities, Deferred Inflows of Resources, and Fund Balance				
Liabilities:				
Accounts payable	\$ 420,138	\$ -	\$ -	\$ 420,138
Unearned revenue	-	100,000	-	100,000
Other liabilities	41,124	-	-	41,124
Due to other funds	274,850	-	-	274,850
Total Liabilities	736,112	100,000	-	836,112
Deferred Inflows of Resources:				
Unavailable revenues	453,023	-	-	453,023
Total Liabilities and Deferred Inflows of Resources	1,189,135	100,000	-	1,289,135
Fund Balance:				
Nonspendable - prepaids	141,491	-	-	141,491
Restricted:				
Supplies and street lighting	-	-	110,948	110,948
Capital improvements	-	2,238,077	-	2,238,077
Assigned - capital improvements	-	6,051	-	6,051
Unassigned	1,156,244	-	-	1,156,244
Total Fund Balance	1,297,735	2,244,128	110,948	3,652,811
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 2,486,870	\$ 2,344,128	\$ 110,948	\$ 4,941,946

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, 2017

Total Fund Balance - Governmental Funds \$ 3,652,811

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 \$8,960,454 and the accumulated depreciation is \$5,153,200. 3,807,254

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. 453,023

The net pension liability is not reflected on the fund financial statements. (5,804,781)

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. 446,133

The actuarially accrued other post-employment benefit (OPEB) obligation for the police and service employees are not recorded on the fund financial statements. (1,733,663)

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	\$	(5,417,212)	
Capital leases payable		(220,051)	
Loans payable		(26,590)	
Accrued interest on payable		(19,848)	
Compensated absences		(910,013)	<u>(6,593,714)</u>

Total Net Position - Governmental Activities \$ (5,772,937)

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, 2017

	General Fund	Capital Improvements Fund	Other Governmental Highway Aid Fund	Total Governmental Funds
Revenues:				
Taxes	\$ 9,393,789	\$ -	\$ -	\$ 9,393,789
Licenses and permits	540,034	-	-	540,034
Fines and forfeitures	100,363	-	-	100,363
Interest and rents	36,400	38,284	2,380	77,064
Intergovernmental	514,377	-	553,263	1,067,640
Charges for services	268,839	-	-	268,839
Other	87,173	-	-	87,173
Total revenues	<u>10,940,975</u>	<u>38,284</u>	<u>555,643</u>	<u>11,534,902</u>
Expenditures:				
Current:				
General government	1,679,886	1,387	-	1,681,273
Public safety - police	3,594,565	-	-	3,594,565
Public safety - fire	340,458	-	-	340,458
Public safety - other	261,258	-	-	261,258
Public works - sanitation	1,497,269	-	-	1,497,269
Public works - highway	2,665,196	-	515,352	3,180,548
Culture and recreation - library	185,000	-	-	185,000
Culture and recreation - other	904,411	-	-	904,411
Capital outlay	32,543	-	-	32,543
Debt service:				
Principal	257,235	-	-	257,235
Interest	149,009	-	-	149,009
Bond issue costs	-	29,692	-	29,692
Insurance and employee benefits	1,394,156	-	-	1,394,156
Total expenditures	<u>12,960,986</u>	<u>31,079</u>	<u>515,352</u>	<u>13,507,417</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,020,011)</u>	<u>7,205</u>	<u>40,291</u>	<u>(1,972,515)</u>
Other Financing Sources (Uses):				
Refund of prior year expenditures	55,769	-	-	55,769
Refunds of prior year revenues	(13,270)	-	-	(13,270)
Proceeds from AIM note	26,590	-	-	26,590
Proceeds from general obligation bonds	-	2,037,212	-	2,037,212
Proceeds from capital asset disposition	1,251	-	-	1,251
Proceeds from capital lease obligation	32,543	-	-	32,543
Operating transfers in	2,503,630	-	-	2,503,630
Operating transfers out	(96,062)	(2,758,837)	-	(2,854,899)
Total other financing sources (uses)	<u>2,510,451</u>	<u>(721,625)</u>	<u>-</u>	<u>1,788,826</u>
Net Change in Fund Balance	490,440	(714,420)	40,291	(183,689)
Fund Balance:				
Beginning of year	<u>807,295</u>	<u>2,958,548</u>	<u>70,657</u>	<u>3,836,500</u>
End of year	<u>\$ 1,297,735</u>	<u>\$ 2,244,128</u>	<u>\$ 110,948</u>	<u>\$ 3,652,811</u>

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, 2017

Net Change in Fund Balance - Governmental Funds \$ (183,689)

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	\$ 1,395,979	
	Loss on disposal of capital assets	(72,408)	
	Less: depreciation expense	<u>(205,622)</u>	1,117,949

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.

(67,290)

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.

(1,839,110)

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.

(293,291)

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.

(11,215)

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	30,164	
	OPEB obligation	<u>(155,212)</u>	<u>(125,048)</u>

Change in Net Position of Governmental Activities \$ (1,401,694)

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, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 9,077,640	\$ 9,162,841	\$ 9,393,789	\$ 230,948
Licenses and permits	420,240	420,240	540,034	119,794
Fines and forfeitures	68,000	70,500	100,363	29,863
Interest and rents	21,850	28,860	36,400	7,540
Intergovernmental	591,000	548,000	514,377	(33,623)
Charges for services	191,250	221,850	268,839	46,989
Other	15,000	10,000	87,173	77,173
Total revenues	10,384,980	10,462,291	10,940,975	478,684
Expenditures:				
General government	1,767,336	1,665,424	1,679,886	(14,462)
Public safety - police	3,837,379	3,747,505	3,594,565	152,940
Public safety - fire	350,200	350,200	340,458	9,742
Public safety - other	239,305	274,390	261,258	13,132
Public works - sanitation	1,355,149	1,357,673	1,497,269	(139,596)
Public works - highway	3,479,165	3,221,436	2,665,196	556,240
Culture and recreation - library	185,000	185,000	185,000	-
Culture and recreation - other	1,005,750	1,542,421	904,411	638,010
Capital outlay	-	-	A 32,543	(32,543)
Debt service	325,396	409,544	406,244	3,300
Insurance and employee benefits	1,404,730	1,414,540	1,394,156	20,384
Total expenditures	13,949,410	14,168,133	12,960,986	1,207,147
Excess (Deficiency) of Revenues Over Expenditures	(3,564,430)	(3,705,842)	(2,020,011)	1,685,831
Other Financing Sources (Uses):				
Refund of prior year expenditures	66,000	55,769	55,769	-
Refunds of prior year revenues	(24,000)	(20,000)	(13,270)	6,730
Proceeds from AIM note	-	-	26,590	26,590
Proceeds from general obligation bonds	2,000,000	2,000,000	-	(2,000,000)
Proceeds from capital asset disposition	4,000	4,000	1,251	(2,749)
Proceeds from capital lease obligation	-	-	A 32,543	32,543
Operating transfers in	2,188,860	2,033,056	2,503,630	470,574
Operating transfers out	(632,000)	(97,278)	(96,062)	1,216
Total other financing sources (uses)	3,602,860	3,975,547	2,510,451	(1,465,096)
Net Change in Fund Balance	\$ 38,430	\$ 269,705	490,440	\$ 220,735
Fund Balance:				
Beginning of year			807,295	
End of year			\$ 1,297,735	

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, 2017

	Sewer System Fund	Other Enterprise Swimming Pool Fund	Total
Assets and Deferred Outflows of Resources			
Assets:			
Current assets:			
Cash and cash equivalents	\$ 3,146,886	\$ 2,578	\$ 3,149,464
Cash and cash equivalents - restricted	3,706,250	-	3,706,250
Accounts receivable - sewage, net	598,794	-	598,794
Prepays	7,405	-	7,405
Due from other funds	274,850	-	274,850
Total current assets	<u>7,734,185</u>	<u>2,578</u>	<u>7,736,763</u>
Noncurrent assets:			
Sewer infrastructure	21,984,981	-	21,984,981
Swimming pool	-	2,471,541	2,471,541
Equipment	830,887	-	830,887
Construction in progress	80,149	-	80,149
Accumulated depreciation	(4,333,314)	(1,699,455)	(6,032,769)
Total noncurrent assets	<u>18,562,703</u>	<u>772,086</u>	<u>19,334,789</u>
Total Assets	<u>26,296,888</u>	<u>774,664</u>	<u>27,071,552</u>
Deferred Outflows of Resources:			
Deferred charges on refunding	219,635	-	219,635
Total Assets and Deferred Outflows of Resources	<u>\$ 26,516,523</u>	<u>\$ 774,664</u>	<u>\$ 27,291,187</u>
Liabilities and Net Position			
Liabilities:			
Current liabilities:			
Accounts payable	\$ 518,784	\$ -	\$ 518,784
Accrued payroll	6,657	-	6,657
Bonds payable	639,299	-	639,299
AIM loan payable	25,209	-	25,209
Total current liabilities	<u>1,189,949</u>	<u>-</u>	<u>1,189,949</u>
Noncurrent liabilities:			
Bonds payable	21,973,490	-	21,973,490
AIM loan payable	100,836	-	100,836
Less discount on bonds	(303,227)	-	(303,227)
Total Noncurrent Liabilities	<u>21,771,099</u>	<u>-</u>	<u>21,771,099</u>
Total Liabilities	<u>22,961,048</u>	<u>-</u>	<u>22,961,048</u>
Net Position:			
Net investment in capital assets	52,981	772,086	825,067
Unrestricted	3,502,494	2,578	3,505,072
Total Net Position	<u>3,555,475</u>	<u>774,664</u>	<u>4,330,139</u>
Total Liabilities and Net Position	<u>\$ 26,516,523</u>	<u>\$ 774,664</u>	<u>\$ 27,291,187</u>

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

BOROUGH OF BALDWIN

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

YEAR ENDED DECEMBER 31, 2017

	Sewer System Fund	Other Enterprise Swimming Pool Fund	Total
Operating Revenues:			
User charges	\$ 5,508,261	\$ 60,840	\$ 5,569,101
Tap-in fees	4,890	-	4,890
Total operating revenues	5,513,151	60,840	5,573,991
Operating Expenses:			
Administration	932,423	140,241	1,072,664
Engineering services	138,434	-	138,434
Maintenance	41,485	24,327	65,812
Depreciation	255,947	30,771	286,718
Insurance and employee benefits	116,975	-	116,975
Sanitation - ALCOSAN	2,012,146	-	2,012,146
Sanitation - Pleasant Hills	734,904	-	734,904
Total operating expenses	4,232,314	195,339	4,427,653
Net Operating Income (Loss)	1,280,837	(134,499)	1,146,338
Non-operating Revenues (Expenses):			
Bond issuance costs	(37,789)	-	(37,789)
Shared contracted intergovernmental services	100,000	-	100,000
Interest income	76,504	2	76,506
Interest expense	(701,185)	-	(701,185)
Other income	141,058	103,150	244,208
Total non-operating revenues (expenses)	(421,412)	103,152	(318,260)
Income (Loss) before Transfers	859,425	(31,347)	828,078
Other Financing Sources (Uses):			
Transfers in	-	351,269	351,269
Change in Net Position	859,425	319,922	1,179,347
Net Position:			
Beginning of year	2,696,050	454,742	3,150,792
End of year	\$ 3,555,475	\$ 774,664	\$ 4,330,139

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	\$ 5,513,567	\$ 60,840	\$ 5,574,407
Cash paid for operations and maintenance	(4,606,038)	(164,810)	(4,770,848)
Net cash provided by (used in) operating activities	907,529	(103,970)	803,559
Cash Flows From Capital and Related Financing Activities:			
Purchase of capital assets	(5,240,200)	(246,074)	(5,486,274)
Cash received from shared contracted intergovernmental services	100,000	-	100,000
Proceeds from issuance of debt	2,663,834	-	2,663,834
Costs from issuance of debt	(37,789)	-	(37,789)
Principal debt service payments	(520,000)	-	(520,000)
Interest debt service payments	(701,185)	-	(701,185)
Net cash provided by (used in) capital and related financing activities	(3,735,340)	(246,074)	(3,981,414)
Cash Flows From Investing Activities:			
Interest and dividends	76,504	2	76,506
Cash Flows From Non-Capital Financing Activities:			
Transfers (to) from other funds	146,828	351,269	498,097
Net Increase (Decrease) in Cash and Cash Equivalents	(2,604,479)	1,227	(2,603,252)
Cash and Cash Equivalents:			
Beginning of year	9,457,615	1,351	9,458,966
End of year	\$ 6,853,136	\$ 2,578	\$ 6,855,714
Reconciliation of Net Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:			
Net operating income (loss)	\$ 1,280,837	\$ (134,499)	\$ 1,146,338
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	255,947	30,771	286,718
Amortization expense	12,995	-	12,995
Change in assets and liabilities:			
Accounts receivable - sewage	416	-	416
Prepaid expenses	2,002	-	2,002
Accrued payroll	(659)	-	(659)
Accounts payable	(644,009)	(242)	(644,251)
Net cash provided by (used in) operating activities	\$ 907,529	\$ (103,970)	\$ 803,559

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, 2017

	Police Pension Fund	Service Employees Pension Fund	Total
Assets			
Cash and cash equivalents	\$ 8,963	\$ 1,199	\$ 10,162
Investments:			
Equity mutual funds	12,462,145	2,133,326	14,595,471
Fixed income mutual funds	4,544,634	1,393,278	5,937,912
Total Assets	\$ 17,015,742	\$ 3,527,803	\$ 20,543,545
Net Position			
Restricted for pension benefits	\$ 17,015,742	\$ 3,527,803	\$ 20,543,545
Total Liabilities and Net Position	\$ 17,015,742	\$ 3,527,803	\$ 20,543,545

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, 2017

	Police Pension Fund	Service Employees Pension Fund	Total
Additions:			
<hr/>			
Contributions:			
Borough	\$ 757,570	\$ 27,518	\$ 785,088
Commonwealth	234,001	78,000	312,001
Plan members	218,009	32,710	250,719
Other income	3,656	3,194	6,850
	<u>1,213,236</u>	<u>141,422</u>	<u>1,354,658</u>
Investment earnings:			
Net appreciation (depreciation) in fair value of investments	1,389,930	308,415	1,698,345
Interest and dividends	955,902	227,539	1,183,441
	<u>2,345,832</u>	<u>535,954</u>	<u>2,881,786</u>
Total investment earnings	<u>2,345,832</u>	<u>535,954</u>	<u>2,881,786</u>
Total additions	<u>3,559,068</u>	<u>677,376</u>	<u>4,236,444</u>
Deductions:			
<hr/>			
Benefits	900,769	141,129	1,041,898
Administrative expenses	57,452	18,534	75,986
Other expenses	1,237	1,776	3,013
	<u>959,458</u>	<u>161,439</u>	<u>1,120,897</u>
Total deductions	<u>959,458</u>	<u>161,439</u>	<u>1,120,897</u>
Change in Net Position	<u>2,599,610</u>	<u>515,937</u>	<u>3,115,547</u>
Net Position:			
<hr/>			
Beginning of year	14,416,132	3,011,866	17,427,998
End of year	<u>\$ 17,015,742</u>	<u>\$ 3,527,803</u>	<u>\$ 20,543,545</u>

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

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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 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.

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

4. In management's judgment, exclusion of the component unit would render the financial statements misleading.

Component Unit

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

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 2017. 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.

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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; 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.

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Additionally, the Borough reports on the following governmental fund:

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

The Borough reports the following major proprietary fund:

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

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

Additionally, the Borough reports on the following proprietary fund:

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.

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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, 2017, the Borough reported an allowance for doubtful accounts in the General Fund of \$418,388 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.

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 acquisition 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,

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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

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, 2017, the value of accumulated sick days to be paid in future years is \$910,013.

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

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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.
- Assigned - This category represents intentions of the Borough 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.

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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, 2017, as well as interfund transfers for the year ended December 31, 2017, were as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>	<u>Due To</u>	<u>Due From</u>
Governmental activities:				
General Fund	\$ 2,503,630	\$ 96,062	\$ 274,850	\$ -
Capital Improvements Fund	-	2,758,837	-	-
Business-type activities:				
Swimming Pool Fund	351,269	-	-	-
Sewer System Fund	-	-	-	274,850
Total	<u>\$ 2,854,899</u>	<u>\$ 2,854,899</u>	<u>\$ 274,850</u>	<u>\$ 274,850</u>

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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 and to transfer bond proceeds to the General Fund.

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:

Unavailable revenue is reported only on the balance sheet and represents property 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

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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, 2017 in governmental activities relates primarily to unfunded long-term liabilities for pension and OPEB benefits.

Adopted Pronouncements

The requirements of the following GASB statements were adopted for the Borough's 2017 financial statements. Except where noted, the adoption of these pronouncements did not have a significant impact to the Borough's financial statements.

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

GASB Statement No. 73, *“Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,”* establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (those not covered by Statements No. 67 and 68) and also clarifies certain provisions of Statements No. 67 and 68. Only certain provisions of this statement were effective in the current year, primarily those related to employers and governmental non-employer contributing entities for pension that are not within the scope of Statement No. 68. All applicable provisions were adopted with no significant impact to the financial statements.

GASB Statement No. 74, *“Financial Reporting for Postemployment Benefits Other Than Pension,”* improves the usefulness of information about postemployment benefits other than pension (OPEB) included in the general-purpose external financial reports of OPEB plans.

GASB Statement No. 80, *“Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14,”* clarifies the financial statement presentation requirements for the blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

GASB Statement No. 81, *“Irrevocable Split-Interest Agreements,”* improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

GASB Statement No. 82, *“Pension Issues – An Amendment of GASB Statements No 67, No. 68, and No. 73),”* addresses issues regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee contribution requirements. The provisions of this statement have been adopted and incorporated into these financial statements.

Pending Pronouncements

GASB has issued statements that will become effective in future years, including Statement Nos. 75 (OPEB Employer), 83 (Asset Retirement Obligations), 84 (Fiduciary Activities), 85 (Omnibus 2017), 86 (Certain Debt Extinguishment Issues), 87 (Leases) and 88 (Certain

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

Disclosures Related to Debt, including Direct Borrowings and Direct Placements). Management has not yet determined the impact of these statements on the 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, 2017, \$4,678,034 of the Borough's bank balance of \$4,928,034 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, 2017, the carrying amounts of the Borough's deposits were \$4,524,411.

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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 \$6,052,275. PLGIT has received an AAA rating from Standard & Poor's. The investments in PLGIT are "pooled" with other local governments and school districts in an effort to maximize return and minimize costs associated with investing. PLGIT invests in two basic types of federal securities: obligations backed by the full faith and credit of the United States Government and short-term obligations of the United States Government or its agencies or instrumentalities (which may or may not be backed by the full faith and credit of the United States Government). The PLGIT Trust may also invest in full faith and credit obligations of the Commonwealth of Pennsylvania and its agencies and may also have repurchase agreements. Finally, the trust is also authorized to invest in certificates of deposit which are insured by the FDIC or which are collateralized as provided by law. The 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. \$5,944,327 of 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. \$107,948 of the Borough's investments in PLGIT is a variable rate investment portfolio which requires no minimum balance, no minimum initial investment, and limits redemptions or exchanges to two per calendar month.

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.

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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, 2017:

<u>Investment</u>	<u>Police</u>	<u>Service</u>	<u>Total</u>
Mutual funds:			
Fixed income	\$ 4,544,634	\$ 1,393,278	\$ 5,937,912
Equity	<u>12,462,145</u>	<u>2,133,326</u>	<u>14,595,471</u>
Total	<u>\$ 17,006,779</u>	<u>\$ 3,526,604</u>	<u>\$ 20,533,383</u>

At December 31, 2017, all of the Borough's investments are considered Level 1. Equity and fixed income mutual funds classified in Level 1 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, 2017, 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, 2017

4. Capital Assets

A summary of changes in capital assets during fiscal year 2017 is as follows:

	Balance at January 1, 2017	Additions	Deletions/ Transfers	Balance at December 31, 2017
Governmental Activities:				
Non-depreciable assets:				
Land	\$ 1,291,730	\$ -	\$ -	\$ 1,291,730
Depreciable assets:				
Buildings	4,015,805	1,277,374	-	5,293,179
Machinery and equipment	1,002,255	34,190	(105,022)	931,423
Vehicles	1,563,116	84,415	(422,328)	1,225,203
Furniture and fixturues	218,919	-	-	218,919
	6,800,095	1,395,979	(527,350)	7,668,724
Less: accumulated depreciation:				
Buildings	(3,546,569)	(35,409)	-	(3,581,978)
Machinery and equipment	(665,435)	(52,446)	105,022	(612,859)
Vehicles	(1,038,050)	(109,629)	349,920	(797,759)
Furniture and fixtures	(152,466)	(8,138)	-	(160,604)
	(5,402,520)	(205,622)	454,942	(5,153,200)
Total depreciable assets	1,397,575	1,190,357	(72,408)	2,515,524
Governmental activities capital assets, net	\$ 2,689,305	\$ 1,190,357	\$ (72,408)	\$ 3,807,254

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YEAR ENDED DECEMBER 31, 2017

	Balance at January 1, 2017	Additions	Deletions/ Transfers	Balance at December 31, 2017
Business-Type Activities:				
Non-depreciable assets:				
Construction in progress	\$ 3,450,498	\$ 5,065,713	\$ (8,436,062)	\$ 80,149
Depreciable assets:				
Sewer infrastructure	13,548,919	-	8,436,062	21,984,981
Swimming pool	2,225,467	246,074	-	2,471,541
Equipment	600,279	330,186	(99,578)	830,887
	<u>16,374,665</u>	<u>576,260</u>	<u>8,336,484</u>	<u>25,287,409</u>
Less: accumulated depreciation:				
Sewer infrastructure	(3,660,989)	(173,752)	-	(3,834,741)
Swimming pool	(1,771,834)	(30,771)	103,150	(1,699,455)
Equipment	(515,956)	(82,195)	99,578	(498,573)
	<u>(5,948,779)</u>	<u>(286,718)</u>	<u>202,728</u>	<u>(6,032,769)</u>
Total depreciable assets	<u>10,425,886</u>	<u>289,542</u>	<u>8,539,212</u>	<u>19,254,640</u>
Business-type activities capital assets, net	<u>\$ 13,876,384</u>	<u>\$ 5,355,255</u>	<u>\$ 103,150</u>	<u>\$ 19,334,789</u>

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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

Governmental Activities:	
General government	\$ 30,167
Public safety	75,294
Public works	83,933
Culture and recreation	<u>16,228</u>
Total depreciation expense - governmental activities	<u>\$ 205,622</u>
Business-Type Activities:	
Sewer	\$ 255,947
Pool	<u>30,771</u>
Total depreciation expense - business-type activities	<u>\$ 286,718</u>

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 2017 assessed value of real estate property totaled approximately \$930.5 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 6.28 mills.

BOROUGH OF BALDWIN

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6. Long-Term Debt

Capital Leases

The Borough has entered in to various capital leases for vehicles with maturity dates ranging from 2018 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, 2017, the Borough made lease payments of \$112,235.

The future minimum lease obligations and the net present value of the minimum lease payments related to these capital leases as of December 31, 2017 were as follows:

2018	\$ 95,720
2019	90,724
2020	44,485
Less: amounts representing interest	<u>(10,878)</u>
Present value of minimum lease payments	<u><u>\$ 220,051</u></u>

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YEAR ENDED DECEMBER 31, 2017

Long-term debt activity for the year ended December 31, 2017 was as follows:

	January 1, 2017	Additions	Reductions	Refunding	December 31, 2017	Due Within One Year
Governmental activities:						
G.O. Bonds - 2015	\$ 3,525,000	\$ -	\$ (145,000)	\$ -	\$ 3,380,000	\$ 150,000
G.O. Bonds - 2017	-	2,037,212	-	-	2,037,212	75,701
AIM Loan	-	26,590	-	-	26,590	5,318
Capital leases	299,743	32,543	(112,235)	-	220,051	88,480
Compensated absences	940,177	-	(30,164)	-	910,013	47,316
OPEB obligation	1,578,451	431,850	(276,638)	-	1,733,663	-
Net pension liability	6,710,118	2,210,210	(3,115,547)	-	5,804,781	-
	\$ 13,053,489	\$ 4,738,405	\$ (3,679,584)	\$ -	\$ 14,112,310	\$ 366,815
Governmental activities long-term liabilities						
Business-type activities:						
G.O. Bonds - 2011	\$ 1,185,000	\$ -	\$ (230,000)	\$ -	\$ 955,000	\$ 230,000
G.O. Bonds - 2012 A	2,530,000	-	(250,000)	-	2,280,000	255,000
G.O. Bonds - 2012 B	10,995,000	-	(5,000)	-	10,990,000	20,000
G.O. Bonds - 2015	5,885,000	-	(35,000)	-	5,850,000	40,000
G.O. Bonds - 2017	-	2,537,789	-	-	2,537,789	94,299
AIM Loan	-	126,045	-	-	126,045	25,209
	\$ 20,595,000	\$ 2,663,834	\$ (520,000)	\$ -	\$ 22,738,834	\$ 664,508
Business-type activities long-term liabilities						

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, 2017, 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.

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

General Obligation Bonds – 2012

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

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, 2017. These bonds are expected to be repaid from future sewer system revenues.

General Obligation Bonds – 2017

In 2017, the Borough issued \$4,575,000 in General Obligation Bonds Series 2017 (2017 bonds) with interest rates from 2.00% to 3.75%. The 2017 Bonds are due serially through December 2035. Payments made semi-annually on May 1 and November 1. Proceeds are to fund a variety of capital projects in the Borough and pay the costs of issuing the bonds. These bonds are expected to be repaid from future tax revenues and from future sewer system revenues.

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Annual debt service requirements of the Borough's General Obligations Bonds are as follows:

	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2018	\$ 225,701	\$ 168,708	\$ 639,299	\$ 703,627
2019	232,928	164,093	652,072	690,335
2020	235,154	158,499	664,846	675,521
2021	242,381	152,834	682,619	659,401
2022	249,607	146,998	695,393	774,268
2023-2027	1,340,339	634,255	3,769,661	2,938,960
2028-2032	1,443,035	418,914	4,176,965	2,379,058
2033-2037	1,448,067	155,719	5,176,933	1,683,906
2038-2042	-	-	5,035,000	759,250
2043	-	-	1,120,001	40,880
Total	\$ 5,417,212	\$ 2,000,020	\$ 22,612,789	\$ 11,305,206

AIM Loan

In 2017, the Borough entered into a \$152,635 loan agreement with the Authority for Improvements in Municipalities (AIM), a municipal authority formed under the Municipal Authorities Act of 1945. The interest rate on the loan is 1.34%. Principal and interest on the loan are due annually in September through 2021. The proceeds were used to fund capital equipment purchases by the Borough. This loan is expected to be paid from future tax revenues and from future sewer system revenues.

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Annual debt service requirements of the Borough's AIM loan are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 5,318	\$ 356	\$ 25,209	\$ 1,689
2019	5,318	285	25,209	1,351
2020	5,318	214	25,209	1,013
2021	5,318	143	25,209	676
2022	5,318	71	25,209	338
Total	<u>\$ 26,590</u>	<u>\$ 1,069</u>	<u>\$ 126,045</u>	<u>\$ 5,067</u>

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.

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NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

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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, 2017, Plan membership consisted of the following:

	Police	Service Employees
Inactive plan members or beneficiaries currently receiving benefits	26	16
Inactive plan members entitled to but not yet receiving benefits	1	6
Active plan members	22	12
Total plan members	<u>49</u>	<u>34</u>

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.

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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 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.

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NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

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For the year ended December 31, 2017, 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, 2017; however, this valuation is not used for funding purposes. The January 1, 2015 valuation was used in the calculation of the Borough's 2017 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 2017. The following table reflects contribution information for 2017:

	<u>Police</u>	<u>Service Employees</u>	<u>Total</u>
MMO	<u>\$ 991,571</u>	<u>\$ 105,518</u>	<u>\$ 1,097,089</u>
Contributions:			
Borough	\$ 757,570	\$ 27,518	\$ 785,088
Allocation of state aid	<u>234,001</u>	<u>78,000</u>	<u>312,001</u>
Total	991,571	105,518	1,097,089
Employee	<u>218,009</u>	<u>32,710</u>	<u>250,719</u>
Total contributions	<u>\$ 1,209,580</u>	<u>\$ 138,228</u>	<u>\$ 1,347,808</u>
Covered payroll	<u>\$ 2,631,966</u>	<u>\$ 729,962</u>	
Employee contributions as a % of covered payroll	<u>8.28%</u>	<u>4.48%</u>	

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

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Net Pension Liability

The components of the net pension liability of the Plans at December 31, 2017 were as follows:

	Police	Service Employees
Total pension liability	\$ 22,530,054	\$ 3,818,272
Plan fiduciary net position	(17,015,742)	(3,527,803)
Net pension liability	\$ 5,514,312	\$ 290,469
Plan fiduciary net position as a percentage of the total pension liability	75.52%	92.39%

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

	Police	Service Employees
Actuarial valuation date	1/1/2017	1/1/2017
Actuarial cost method	Entry Age Normal	Entry Age Normal
Actuarial assumptions:		
Investment rate of return	7.25%	7.25%
Projected salary increases	4.25%	4.25%
Underlying inflation rate	2.75%	2.75%

RP-2014 Mortality Table, with rates set forward 5 years for disabled members. Mortality improvement based on the Long-Range Demographic Assumptions for the 2015 Social Security Administration's Trustee Report. Post-retirement only.

BOROUGH OF BALDWIN

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Changes in Actuarial Assumptions – Based upon an actuarial valuation performed as of January 1, 2017, there were the following changes in actuarial assumptions:

Police – Inflation lowered from 3.0% to 2.75%, interest rate lowered from 7.5% to 7.25%, mortality updated from RP-2000 Combined Healthy Mortality with Blue Collar adjustment and 75% of Scale AA to RP-2014 mortality with 50% Blue Collar adjustment, and mortality improvement based on the Social Security Administration’s 2015 Demographic Assumptions. The changes in actuarial assumptions resulted in an increase in the Police net pension liability of \$1,098,744.

Service Employees – Interest rate lowered from 7.5% to 7.25%, salary scale lowered from 4.5% to 4.25%, turnover assumption changed from Table T-2 to no turnover being assumed, and post-retirement mortality table updated from RP-2000 Combined Healthy Mortality Table with Blue Collar Adjustment and rates projected using 75% of Scale AA to RP-2014 mortality table with projected mortality improvement based on the Long-Range Demographic assumptions for the 2015 Social Security Administration’s Trustee Report. The changes in actuarial assumptions resulted in an increase in the Service Employees net pension liability of \$236,500.

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.

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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, 2017:

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%
	100.0%	100.0%		

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, 2017, the annual money-weighted rate of return on the Police and Service Employees Plan investments, net of investment expense, was 16.40% and 18.19%, respectively.

Concentrations – At December 31, 2017, 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 7.25%. 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 (Asset) to Changes in the Discount Rate – The following presents the net pension liability (asset) of the Plans calculated using the discount rates described above, as well as what the Plans' net pension liabilities (assets) would be if

BOROUGH OF BALDWIN

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they were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rates:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Police Plan	\$ 8,367,269	\$ 5,514,312	\$ 3,137,416
	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Service Employees Plan	\$ 710,388	\$ 290,469	\$ (68,679)

Changes in the Net Pension Liability

The changes in the net pension liability of the Police Plan at December 31, 2017 were as follows:

	Increases / Decreases		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2016	\$ 20,662,608	\$ 14,416,132	\$ 6,246,476
Changes for the year:			
Service cost	551,004	-	551,004
Interest	1,554,009	-	1,554,009
Differences between expected and actual	(435,542)	-	(435,542)
Changes of assumptions	1,098,744	-	1,098,744
Contributions - employer	-	991,571	(991,571)
Contributions - employee	-	218,009	(218,009)
Other income	-	3,656	(3,656)
Net investment income	-	2,345,832	(2,345,832)
Benefit payments, including refunds	(900,769)	(900,769)	-
Administrative expense	-	(57,452)	57,452
Other expenses	-	(1,237)	1,237
Net changes	1,867,446	2,599,610	(732,164)
Balances at December 31, 2017	\$ 22,530,054	\$ 17,015,742	\$ 5,514,312
Plan fiduciary net position as a percentage of the total pension liability			75.52%

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NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

The changes in the net pension liability of the Service Employees' Plan at December 31, 2017 were as follows:

	Increases / Decreases		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2016	\$ 3,475,508	\$ 3,011,866	\$ 463,642
Changes for the year:			
Service cost	66,983	-	66,983
Interest	262,965	-	262,965
Differences between expected and actual	(82,555)	-	(82,555)
Changes of assumptions	236,500	-	236,500
Contributions - employer	-	105,518	(105,518)
Contributions - employee	-	32,710	(32,710)
Other income	-	3,194	(3,194)
Net investment income	-	535,954	(535,954)
Benefit payments, including refunds	(141,129)	(141,129)	-
Administrative expense	-	(18,534)	18,534
Other expenses	-	(1,776)	1,776
Net changes	342,764	515,937	(173,173)
Balances at December 31, 2017	\$ 3,818,272	\$ 3,527,803	\$ 290,469
Plan fiduciary net position as a percentage of the total pension liability			92.39%

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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

At December 31, 2017, deferred outflows of resources and deferred inflows of resources related to the Plans from the following sources:

Deferred Outflows of Resources:	Police	Service Employees
Differences between expected and actual experience	\$ 525,932	\$ 191
Changes in assumption	864,969	172,581
Net difference between projected and actual earnings on pension plan investments	709,604	117,023
Total deferred outflows of resources	\$ 2,100,505	\$ 289,795
<u>Deferred Inflows of Resources:</u>		
Differences between expected and actual experience	\$ 342,637	\$ 60,243
Changes in assumption	22,697	-
Net difference between projected and actual earnings on pension plan investments	1,237,695	280,895
Total deferred inflows of resources	\$ 1,603,029	\$ 341,138

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

Year ending December 31,	Police	Service Employees
2018	\$ 363,622	\$ 28,277
2019	363,622	28,121
2020	(68,604)	(42,891)
2021	(161,164)	(64,850)

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

8. Defined Contribution Plan

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

Employee contributions during 2017 were \$9,840. Employer contributions during 2017 were \$30,394.

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, 2017, 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, 2017 totaled approximately \$1.366 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

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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, 2017. The Borough has estimated the remaining completion cost of the projects mandated by the consent decree to be approximately \$3.3 million.

The Borough participates in a number of federal, state, and county programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the Borough may be 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, 2017, the Borough had approximately \$310,000 in outstanding construction commitments related to governmental activities for Elm Leaf Park construction and \$56,000 in outstanding construction commitments related to business-type activities for an equalization basin .

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 approximately 200 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

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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.

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

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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 2017, the Borough paid \$276,638 in OPEB costs.

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

Annual required contribution	\$ 457,724
Interest on net OPEB obligation	71,030
Adjustment to annual required contribution	<u>(96,904)</u>
Annual OPEB cost	431,850
Contributions made	<u>(276,638)</u>
Increase in net OPEB obligation	155,212
Net OPEB obligation - beginning of year	<u>1,578,451</u>
Net OPEB obligation - end of year	<u><u>\$ 1,733,663</u></u>

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

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

Fiscal Year Ending	Annual OPEB Cost	% of AOC Contributed	Net OPEB Obligation
December 31, 2017	\$ 431,850	64.06%	\$ 1,733,663
December 31, 2016	434,243	66.39%	1,578,451
December 31, 2015	436,610	66.93%	1,432,492

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

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

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

	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

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required schedules of funding progress present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

13. Municipal Employers Insurance Trust

The Borough participates as a member in Municipal Employers Insurance Trust (d/b/a Municipal Benefit Services (MBS)), a public entity risk pool. MBS provides certain benefits including, but not limited to, the following coverages: health benefits, short-term accident and sickness disability benefits, long-term accident and sickness disability benefits, dental benefits, vision care, prescription drugs, and life insurance for those eligible employers. All participants of MBS may be subject to supplemental premiums based on the overall experience of the participating members. Reserves generated by MBS for self-insured health premiums paid by members exceeding claims and expenses are held by MBS for the benefit of all participating members. 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, 2017.

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

14. Guarantee of Debt

The Borough guarantees certain obligations of the Pleasant Hills Authority (Authority). Outstanding obligations guaranteed by the Borough at December 31, 2017 consist of the following:

Guaranteed Revenue Note, Series of 2017

On June 29, 2017, the the Pennsylvania Infrastructure Investment Authority (Pennvest) approved a loan up to the maximum amount of \$17,474,300 to fund the cost of constructing alterations, additions, and improvements to the Authority's sanitary sewer system, bearing interest at 1.387% for the first sixty months and 2.001% for the remainder of the loan term. Interest-only payments on the unpaid principal are payable monthly beginning with the first calendar month following a loan advance. Upon final draw-down by the Authority, the unpaid principal and interest become due and payable according to the amortization schedule in the loan agreement. The outstanding balance of the loan is \$2,127,817 at December 31, 2017.

15. Subsequent Events

On February 1, 2018, the Borough, in consideration of one dollar and other good and valuable consideration paid by the Library, sold and conveyed to the Library a building located at 5230 Wolfe Drive, Pittsburgh, Pennsylvania, 15236 (Property). The Borough and Library were joint applicants in seeking a grant from the Pennsylvania Department of Education's Keystone Recreation, Park, & Conservation Fund in the amount of \$500,000 to fund the conversion of the Property into a library facility. The Borough's public library facility will relocate to the Property upon conversion.

Prior to the sale, on October 17, 2017, the Borough and Library entered into a lease agreement, which commences on the date the Library moves into the Property and expires twenty-five years thereafter, plus any partial month necessary to cause the lease to expire on the last day of the month. The Borough has the option to extend the lease term for three additional periods of twenty-five years each upon giving written notice to the Library not later than ninety days before the expiration of the initial lease term or any extended lease term. The Borough shall pay to the Library annual rent in the amount of one dollar on or before January 1 of each calendar year during lease term or any extended lease term. As

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

additional rent and consideration for its use of the premises, the Borough shall also reimburse the Library for certain costs and provide certain services to the property as set forth in the lease.

In 2018, the Library entered into a \$600,000 loan agreement with Bridgeway Capital, Inc. The interest rate on the loan is 5.75%. Interest-only payments will be made for eighteen months, followed by one hundred one (101) equal monthly payments of principal and interest as if the loan were fully amortized over twenty years. The proceeds are to be used to fund the conversion of the Property into a library facility. The Borough has guaranteed the obligation of the Library.

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,

	2017	2016	2015	2014
Total Pension Liability:				
Service cost	\$ 66,983	\$ 56,701	\$ 58,717	\$ 58,379
Interest	262,965	247,009	240,839	226,001
Differences between expected and actual experience	(82,555)	-	713	-
Changes of assumptions	236,500	-	-	-
Benefit payments, including refunds of member contributions	(141,129)	(127,583)	(124,519)	(126,253)
Net Changes in Total Pension Liability	342,764	176,127	175,750	158,127
Total Pension Liability - Beginning	3,475,508	3,299,381	3,123,631	2,965,504
Total Pension Liability - Ending (a)	<u>\$ 3,818,272</u>	<u>\$ 3,475,508</u>	<u>\$ 3,299,381</u>	<u>\$ 3,123,631</u>
Plan Fiduciary Net Position:				
Contributions - employer	\$ 105,518	\$ 103,101	\$ 104,941	\$ 110,814
Contributions - member	32,710	31,459	31,075	23,679
Other income	3,194			
Net investment income	535,954	241,159	(79,640)	120,319
Benefit payments, including refunds of member contributions	(141,129)	(127,583)	(124,519)	(126,253)
Administrative expense	(18,534)	(25,834)	(22,753)	(22,672)
Other expenses	(1,776)	-	462	(41,043)
Net Change in Plan Fiduciary Net Position	515,937	222,302	(90,434)	64,844
Plan Fiduciary Net Position - Beginning	3,011,866	2,789,564	2,879,998	2,815,154
Plan Fiduciary Net Position - Ending (b)	<u>\$ 3,527,803</u>	<u>\$ 3,011,866</u>	<u>\$ 2,789,564</u>	<u>\$ 2,879,998</u>
Net Pension Liability - Ending (a-b)	<u>\$ 290,469</u>	<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>92.39%</u>	<u>86.66%</u>	<u>84.55%</u>	<u>92.20%</u>
Covered Payroll	<u>\$ 729,962</u>	<u>\$ 762,381</u>	<u>\$ 787,288</u>	<u>\$ 789,011</u>
Net Pension Liability as a Percentage of Covered Payroll	39.79%	60.81%	64.76%	30.88%

See accompanying notes to schedules of
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

POLICE PLAN

YEARS ENDED DECEMBER 31,

	2017	2016	2015	2014
Total Pension Liability:				
Service cost	\$ 551,004	\$ 539,842	\$ 514,135	\$ 467,127
Interest	1,554,009	1,471,855	1,392,859	1,338,891
Differences between expected and actual experience	(435,542)	-	1,132,778	-
Changes of assumptions	1,098,744	-	(48,884)	-
Benefit payments, including refunds of member contributions	(900,769)	(852,543)	(855,971)	(940,073)
Net Changes in Total Pension Liability	1,867,446	1,159,154	2,134,917	865,945
Total Pension Liability - Beginning	20,662,608	19,503,454	17,368,537	16,502,592
Total Pension Liability - Ending (a)	<u>\$ 22,530,054</u>	<u>\$ 20,662,608</u>	<u>\$ 19,503,454</u>	<u>\$ 17,368,537</u>
Plan Fiduciary Net Position:				
Contributions - employer	\$ 991,571	\$ 847,269	\$ 863,379	\$ 858,140
Contributions - member	218,009	209,289	202,289	242,636
Other income	3,656	-	-	-
Net investment income	2,345,832	1,296,290	(764,187)	308,358
Benefit payments, including refunds of member contributions	(900,769)	(852,543)	(855,971)	(940,073)
Administrative expense	(57,452)	(51,839)	(54,717)	(49,222)
Other expenses	(1,237)	-	-	-
Net Change in Plan Fiduciary Net Position	2,599,610	1,448,466	(609,207)	419,839
Plan Fiduciary Net Position - Beginning	14,416,132	12,967,666	13,576,873	13,157,034
Plan Fiduciary Net Position - Ending (b)	<u>\$ 17,015,742</u>	<u>\$ 14,416,132</u>	<u>\$ 12,967,666</u>	<u>\$ 13,576,873</u>
Net Pension Liability - Ending (a-b)	<u>\$ 5,514,312</u>	<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>75.52%</u>	<u>69.77%</u>	<u>66.49%</u>	<u>78.17%</u>
Covered Payroll	<u>\$ 2,631,966</u>	<u>\$ 2,499,223</u>	<u>\$ 2,537,780</u>	<u>\$ 2,526,389</u>
Net Pension Liability as a Percentage of Covered Payroll	209.51%	249.94%	257.54%	150.08%

See accompanying notes to schedules of
required supplementary information.

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>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 105,518	\$ 103,101	\$ 104,941	\$ 110,814
Contributions in relation to the actuarially determined contribution	<u>105,518</u>	<u>103,101</u>	<u>104,941</u>	<u>110,814</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 729,962</u>	<u>\$ 762,381</u>	<u>\$ 789,011</u>	<u>\$ 789,011</u>
Contributions as a percentage of covered payroll	14.46%	13.52%	13.30%	14.04%
Investment Returns				
Annual money-weighted rate of return, net of investment expense	18.19%	8.79%	-2.77%	4.32%

POLICE PLAN:

<u>Schedule of Baldwin Borough's Contributions</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 991,571	\$ 847,269	\$ 863,379	\$ 858,140
Contributions in relation to the actuarially determined contribution	<u>991,571</u>	<u>847,269</u>	<u>863,379</u>	<u>858,140</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 2,631,966</u>	<u>\$ 2,499,223</u>	<u>\$ 2,526,389</u>	<u>\$ 2,526,389</u>
Contributions as a percentage of covered payroll	37.67%	33.90%	34.17%	33.97%
Investment Returns				
Annual money-weighted rate of return, net of investment expense	16.40%	10.07%	-5.70%	2.35%

See accompanying notes to schedules of
required supplementary information.

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, 2017

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	1/1/2015	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	4.5%	5.0%
Underlying inflation rate	3.0%	3.0%
Mortality	RP-200 Combined Healthy Table with Blue Collar Adjustment, with rates set forward 5 years for disabled members. Rates projected with 75% of scale AA.	RP-200 Combined Healthy Table with Blue Collar Adjustment, with rates set forward 5 years for disabled members. Rates projected with 75% of scale AA.
Additional Information Related to Funding:		
Amortization method	Level Dollar Closed	Level Dollar Closed
Amortization period	5 years aggregate	10 years aggregate
Asset valuation method	4-Year Smoothing	4-Year Smoothing

BOROUGH OF BALDWIN

NOTES TO SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2017

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

Police Pension Plan

Effective January 1, 2015, the disability assumption was updated to the Social Security Administration's 2010 projection of disability incidence (ultimate rates only).

Service Employees Pension Plan

None

BOROUGH OF BALDWIN

NOTES TO SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2017

2. OPEB Information

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

Actuarial Data:

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

Economic Assumptions:

Interest Rate: 4.50%

Annual Trend Rates for OPEB Costs:

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

Demographic Assumptions:

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

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

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

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

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

BOROUGH OF BALDWIN

NOTES TO SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2017

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