

Borough of Plum

Primary Government Financial Statements and
Required Supplementary and
Supplementary Information

Year Ended December 31, 2018 with
Independent Auditor's Report

MaherDuessel

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BOROUGH OF PLUM

YEAR ENDED DECEMBER 31, 2018

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YEAR ENDED DECEMBER 31, 2018

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Independent Auditor's Report

Members of Council Borough of Plum

We have audited the accompanying primary government financial statements (financial statements) of the governmental activities, each major fund, and the aggregate remaining fund information of the Borough of Plum (Borough), Pennsylvania, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Borough's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the 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 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 (Plum Borough Municipal Authority). Accounting principles generally accepted in the United States of America require financial data for this component unit to be reported with the financial data for the Borough's primary government unless the Borough also issues financial statements of the financial reporting entity that include the financial data for its component units. 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, 2018, 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, each major fund, and the aggregate remaining fund information of the Borough as of December 31, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 2 to the financial statements, the Borough adopted Governmental Accounting Standards Board (GASB) Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*," which requires the Borough to record its net OPEB liability and related items on the government-wide financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension information on pages i through vii, page 48, and pages 49 through 55, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough's basic government financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Maher Duessel

Pittsburgh, Pennsylvania
July 8, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Borough of Plum (Borough), we offer readers of the Borough's primary government financial statements (financial statements) this narrative overview and analysis of the financial performance of the Borough for the fiscal year ended December 31, 2018. Please read this Management's Discussion and Analysis in conjunction with the financial statements which follow in order to obtain a thorough understanding of the Borough's financial condition at December 31, 2018.

FINANCIAL HIGHLIGHTS

- In 2018, the Borough adopted "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*" GASB Statements No. 75. This statement improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The provisions of this statement have been adopted and incorporated into the 2018 audited financial statements.
- The Borough's net position, which are total assets plus deferred outflows of resources, minus total liabilities and deferred inflows of resources, as presented, were \$(5,744,094) at December 31, 2018, a decrease of \$461,036.
- At the end of the current fiscal year, the Borough had total bonds and loans outstanding of \$17,228,652. The total bonds and loans decreased by (\$135,495) or (0.7%) during the current year.
- The General Fund reported a positive net change in fund balance of approximately \$392,000. It is due to revenues exceeding budget by \$411,000, expenditures being favorable to budget by \$276,000, an unbudgeted year-end transfer to the Capital Improvement Fund in the amount of \$300,000, and the Borough originally budgeted for a surplus of \$5,000.
- The total fund balance in the Borough's General Fund at December 31, 2018 was \$3,392,036. Fund balances in funds other than the General Fund totaled \$2,045,636 at December 31, 2018.

OVERVIEW OF THE FINANCIAL STATEMENTS

This overview is intended to serve as an introduction to the Borough's basic financial statements. The Borough's basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the primary government financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements - The two *government-wide financial statements* are designed to provide readers with a broad overview of the Borough's finances, in a manner similar to a private-sector business. These statements report on the Borough's total net position and how they have changed.

The *statement of net position* presents information on all of the Borough's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Borough is improving or deteriorating.

The *statement of activities* demonstrates the degree to which the direct expenses of a given function are offset

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

The government-wide financial statements indicate that the functions of the Borough are principally supported by taxes and intergovernmental revenue (*governmental activities*.) The Borough does not participate in functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Borough encompass general government, public safety, public works, culture and recreation, and debt service activities.

The government-wide financial statements can be found on pages 1 and 2 of this report.

Fund Financial Statements - A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Borough, like other state and local government agencies, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Borough reports only governmental funds and fiduciary funds.

Governmental Funds - *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Borough maintained 10 governmental funds during 2018. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the General Fund which is the only major funds in 2018. Consolidated information for other than the General Fund is presented within the Other Governmental Funds category in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance. The reason for not reporting other funds separately is that they are not considered to be major funds in 2018. The nine other governmental funds are the Flood Mitigation Fund, the Fire Protection Fund, the State Fund, Capital Improvement Fund, Street Improvement Fund, Debt Service Fund, EMS Fund, 2013 Bond Fund, and the Developer's Escrow Fund. Data from these other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these other governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Borough adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget and can be found on page 48 of this report.

The basic governmental fund financial statements can be found on pages 3 through 5 of this report.

Fiduciary Funds - *Fiduciary funds* are used to account for assets held in a trustee capacity. The Borough's fiduciary funds consist of one Agency Fund and two Pension Trust Funds: the Police Pension Fund and the Administrative Pension Fund.

Fiduciary funds are reported on the accrual basis of accounting whereas revenues are recorded when earned and expenses are recorded when a liability is incurred.

The fiduciary fund financial statement can be found on pages 6 and 7 of this report.

Notes to Primary Government Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to primary government financial statements can be found on pages 8 through 47 of this report.

Required Supplementary Information - This section of the report contains certain budgetary comparison and pension information required by accounting principles generally accepted in the United States of America. This information can be found on pages 48 through 55 of this report.

Supplementary Information - In addition to the basic financial statements and accompanying notes, this report also includes the combining statements referred to earlier in connection with the other governmental funds and fiduciary funds. These can be found on pages 56 and 60 of this report.

FINANCIAL ANALYSIS OF THE BOROUGH

As noted earlier, net position may serve over time as a useful indicator of a government agency's financial position. Net position increase when revenues exceed expenses. In the case of the Borough, liabilities and deferred inflows exceeded assets and deferred outflows by \$5,744,094 at the close of the fiscal year.

A condensed summary of the Borough's net position at December 31, 2018 and 2017 is as follows.

	<u>2018</u>	<u>2017</u>	<u>Variance</u>
Assets:			
Current and other assets	\$ 8,019,658	\$ 7,916,354	\$ 103,304
Capital assets, net	<u>17,364,180</u>	<u>18,363,891</u>	<u>(999,711)</u>
Total Assets	<u>\$ 25,383,838</u>	<u>\$ 26,280,245</u>	<u>\$ (896,407)</u>
Deferred Outflows of Resources			
Deferred Charge on Refunding	\$ 716,930	\$ 753,178	\$ (36,248)
Deferred outflows of resources related to pension	<u>1,967,384</u>	<u>808,632</u>	<u>1,158,752</u>
Total Deferred Outflows of Resources	<u>\$ 2,684,314</u>	<u>\$ 1,561,810</u>	<u>\$ 1,122,504</u>
Liabilities:			
Current and other liabilities	\$ 2,185,105	\$ 2,748,372	\$ (563,267)
Non-current liabilities	<u>29,983,171</u>	<u>27,418,252</u>	<u>2,564,919</u>
Total Liabilities	<u>\$ 32,168,276</u>	<u>\$ 30,166,624</u>	<u>\$ 2,001,652</u>
Deferred Inflows of Resources			
Deferred inflows of resources related to pension	\$ 1,307,224	\$ 360,105	\$ 947,119
Deferred inflows of resources related to OPEB	<u>336,746</u>	<u>-</u>	<u>336,746</u>
Total Deferred Inflows of Resources	<u>\$ 1,643,970</u>	<u>\$ 360,105</u>	<u>\$ 1,283,865</u>
Net Position:			
Net investment in capital assets	\$ 889,166	\$ 1,259,559	\$ (370,393)
Restricted	1,615,959	1,376,515	239,444
Unrestricted	<u>(8,249,219)</u>	<u>(5,320,748)</u>	<u>(2,928,471)</u>
Total Net Position	<u>\$ (5,744,094)</u>	<u>\$ (2,684,674)</u>	<u>\$ (3,059,420)</u>

The decrease in current and other assets is mainly due to a depreciation of capital assets.

The \$2,001,652 increase in total liabilities is mainly due to the increase within net OPEB liability.

The Borough has non-current liabilities or long-term obligations that include term loans and bond issuances.

The total net position of the Borough's activities decreased from an amount of \$(2,684,674) in 2017, to \$(5,744,094) in 2018.

A condensed summary of the Borough's change in net position from a revenue/expense perspective for the fiscal year ended December 31, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>	<u>Variance</u>
Program revenues:			
Charges for services	\$ 3,204,219	\$ 3,011,226	\$ 192,993
Operating grants and contributions	1,625,131	1,517,435	107,696
Capital grant contributions	14,520	83,480	(68,960)
General revenues:			
Real estate taxes	7,319,122	7,242,997	76,125
Earned income taxes	3,847,620	3,768,784	78,836
Local services taxes	296,527	298,772	(2,245)
Other taxes	934,449	929,108	5,341
Franchise fees	601,396	624,603	(23,207)
Interest income	22,341	13,732	8,609
Sale of Capital Assets	72,881	19,579	53,302
Miscellaneous	100,038	97,299	2,739
Total revenues	<u>18,038,244</u>	<u>17,607,015</u>	<u>431,229</u>
Program expenses:			
General government	2,055,234	1,873,800	181,434
Public safety	7,308,979	7,447,468	(138,489)
Public works	7,698,404	7,432,815	265,589
Culture and recreation	813,509	677,035	136,474
Interest on long-term debt	623,154	625,672	(2,518)
Total expenses	<u>18,499,280</u>	<u>18,056,790</u>	<u>442,490</u>
Change in Net Position	(461,036)	(449,775)	(11,261)
Net position-beginning	<u>(5,283,058)</u>	<u>(2,234,899)</u>	<u>(11,261)</u>
Cummulative effect of implementation of GASB Statement No. 75	-	(2,598,384)	(2,598,384)
Net position-ending	<u><u>\$ (5,744,094)</u></u>	<u><u>\$ (5,283,058)</u></u>	<u><u>\$ (461,036)</u></u>

Total government-wide revenues of \$18,038,244 were largely derived from property tax collections, earned income collections, and other tax receipts. Total revenues increased in 2018 by \$431,229 when compared to 2017 and resulted from increases in real estate tax, earned income tax and sale of capital assets.

Total program expenses in 2018 were \$18,499,280 which is \$442,490 more than the previous year.

FINANCIAL ANALYSIS OF THE BOROUGH'S FUNDS

As noted earlier, the Borough uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the Borough's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Borough's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government agency's net resources available for spending at the end of the fiscal year.

As of the end of 2018, the Borough's governmental funds reported combined ending fund balances of \$5,437,672. Approximately 37% of this total amount or \$2,032,896 constitutes *restricted fund balance*. The remainder of the fund balance is unassigned or is the residual classification for the Borough's General Fund and contains all spendable amounts not contained in other classifications of fund balance.

The General Fund is the principal operating fund of the Borough. At the end of the current fiscal year, the *unassigned fund balance* of the General Fund was \$2,782,975, or approximately 21% of the 2018 adopted expenditure budget. The Borough has established a minimum Unassigned Fund Balance of 5% of the Borough's General Fund annual operating expenditures. In an event that the balance drops below the established minimum level, the Borough's governing body will develop a plan to replenish the fund balance to the established minimum level within two years.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year, actual General Fund revenues were 103.2% of budget or above budgetary estimates by \$410,766; expenditures were under budgetary estimates by \$275,711 (considering the impact of initial year capital lease transactions and fund transfers). The Borough also made a transfer out in the amount of \$300,000 to the Capital Improvement Fund. The net change in fund balance had a positive variance of \$391,626 and was directly related to budgeted savings and revenues exceeding expectations.

CAPITAL ASSETS

Capital assets are reported in the government-wide statements of net assets, but not reported in the fund financial statements. Capital assets are defined by the Borough as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. A summary of the current year changes in capital assets can be found in Note 7 of the Notes to Primary Government Financial Statements.

DEBT ADMINISTRATION

Long-Term Debt - At the end of the current fiscal year, the Borough had total outstanding debt that included issuances of Series 2014, 2015, and 2016 Bonds, and Fire Fund loans in the amount of \$17,228,652 (not inclusive of capital leases and compensated absences).

The total bonds and loans decreased by a net of \$135,495 or 0.7% during the current fiscal year.

A summary of the Borough's debt activity in 2018 follows:

Beginning balance, January 1, 2017	\$ 17,364,147
Additions	424,000
Issuance Discount	4,297
Discount Amortization	-
Repayments	<u>(563,792)</u>
Ending balance, December 31, 2018	<u>\$ 17,228,652</u>

More detailed information about the Borough's debt activity can be found in Note 4 to the financial statements.

2019 BUDGET HIGHLIGHTS

The 2018 General Fund budget continues to emphasize cost containment. Several highlights include:

- The 2019 General Fund budgeted revenues are anticipated to be 3.2% higher than the 2018 budgeted figures. This increase is predominantly due higher local enabling taxes and municipal service fees.
- The 2019 budget included no increase to Real Estate Property Taxes.
- The 2019 General Fund budgeted expenditures were adopted at \$13.12 million or an increase of 3.2% when compared to 2018. The increase was mainly due to increases to police salaries and employer contributions to the uniformed pension plan.
- The budget includes funds to maintain current levels of policing, Public Works services, and infrastructure maintenances.

CONTACTING THE BOROUGH'S MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Borough's finances and to demonstrate the Borough's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact:

Borough Manager
Borough of Plum
4575 New Texas Road
Plum, PA 15239

BOROUGH OF PLUM

STATEMENT OF NET POSITION

DECEMBER 31, 2018

Assets	
Cash and cash equivalents	\$ 4,359,862
Cash held for escrow deposits	294,074
Receivables, net	3,278,921
Prepays	86,801
Capital assets, net of accumulated depreciation:	
Land	388,660
Infrastructure	3,332,241
Buildings and building improvements	10,631,430
Improvements other than buildings	690,974
Machinery and equipment	2,320,875
Total capital assets, net of accumulated depreciation	17,364,180
Total Assets	25,383,838
Deferred Outflows of Resources	
Deferred charge on refunding	716,930
Deferred outflows of resources related to pension	1,967,384
Total Deferred Outflows of Resources	2,684,314
Liabilities	
Accounts payable and accrued expenses	558,557
Unearned revenue	12,691
Escrow liability	307,126
Long-term liabilities due within one year:	
Capital leases payable	620,150
Bonds and loans	605,290
Accrued interest	81,291
Long-term liabilities due in more than one year:	
Capital leases payable	846,480
Bonds and loans	16,623,362
Compensated absences	542,072
Net OPEB liability	5,901,159
Net pension liability	6,070,098
Total Liabilities	32,168,276
Deferred Inflows of Resources	
Deferred inflows of resources related to pension	1,307,224
Deferred inflows of resources related to OPEB	336,746
Total Deferred Inflows of Resources	1,643,970
Net Position	
Net investment in capital assets	889,166
Restricted for:	
Liquid Fuels Tax projects	86,916
Fire protection	384,536
Street improvements	600,865
Debt service	195,528
Flood mitigation	292,981
Emergency medical services	55,133
Unrestricted	(8,249,219)
Total Net Position	\$ (5,744,094)

See accompanying notes to primary government financial statements.

BOROUGH OF PLUM

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2018

Functions/Programs	Program Revenues			Net (Expense)	
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Change in Net Position	
Governmental Activities:					
General government	\$ 2,055,234	\$ 38,030	\$ -	\$ -	\$ (2,017,204)
Public safety	7,308,979	361,659	586,845	-	(6,360,475)
Public works	7,698,404	2,797,519	1,033,286	14,520	(3,853,079)
Culture and recreation	813,509	7,011	5,000	-	(801,498)
Interest on long-term debt	623,154	-	-	-	(623,154)
Total governmental activities	\$ 18,499,280	\$ 3,204,219	\$ 1,625,131	\$ 14,520	(13,655,410)
General revenues:					
Taxes:					
Real estate					7,319,122
Earned income					3,847,620
Local services					296,527
Real estate transfer					338,171
Other					596,278
Franchise fees					601,396
Interest income					22,341
Sale of capital assets					72,881
Miscellaneous income					100,038
Total general revenues					13,194,374
Change in Net Position					(461,036)
Net Position:					
Beginning of year, as restated					(5,283,058)
End of year					\$ (5,744,094)

See accompanying notes to primary government financial statements.

BOROUGH OF PLUM

BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2018

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 2,525,057	\$ 1,834,805	\$ 4,359,862
Cash held for escrow deposits	294,074	-	294,074
Receivables:			
Taxes	1,939,890	535,295	2,475,185
Sanitation fees	570,502	-	570,502
Other	84,360	148,874	233,234
Prepays	74,061	12,740	86,801
Due from other funds	33,518	-	33,518
Total Assets	\$ 5,521,462	\$ 2,531,714	\$ 8,053,176
Liabilities, Deferred Inflows of Resources, and Fund Balance			
Liabilities:			
Accounts payable	\$ 325,741	\$ 19,521	\$ 345,262
Accrued liabilities	213,295	-	213,295
Unearned revenue	12,691	-	12,691
Due to other funds	13,052	20,466	33,518
Escrow liability	307,126	-	307,126
Total Liabilities	871,905	39,987	911,892
Deferred Inflows of Resources:			
Unavailable revenue	1,257,521	446,091	1,703,612
Fund Balance:			
Nonspendable - prepaids	74,061	12,740	86,801
Restricted for:			
Liquid Fuels Tax projects	-	86,916	86,916
Fire protection	-	283,833	283,833
Debt service	-	76,644	76,644
Street improvements	-	430,977	430,977
Flood mitigation	-	268,276	268,276
Capital projects	-	856,289	856,289
Emergency medical services	-	29,961	29,961
Assigned for:			
Compensated absences	185,000	-	185,000
Road paving	250,000	-	250,000
Weather related emergencies	100,000	-	100,000
Unassigned	2,782,975	-	2,782,975
Total Fund Balance	3,392,036	2,045,636	5,437,672
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 5,521,462	\$ 2,531,714	\$ 8,053,176
Total Fund Balance - Governmental Funds			\$ 5,437,672
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.			17,364,180
Real estate taxes receivable, earned income taxes receivable, and sanitation receivable will be collected next year but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as unavailable in the funds.			1,703,612
The net pension and other post-employment benefits liabilities are not reflected on the fund financial statements.			(11,971,257)
Deferred outflows and inflows of resources for pension and OPEB are recorded and amortized in the statement of net position and are not recorded on the fund financial statements.			323,414
Unamortized charges on bond refundings are reported as deferred outflows of resources on the governmental activities statement of net position but are not reported in the funds.			716,930
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the fund.			(19,318,645)
Total Net Position of Governmental Activities			\$ (5,744,094)

See accompanying notes to primary government financial statements.

BOROUGH OF PLUM

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

YEAR ENDED DECEMBER 31, 2018

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 9,285,964	\$ 3,100,239	\$ 12,386,203
Licenses and permits	795,031	-	795,031
Fines and forfeits	60,456	-	60,456
Interest, rent, and royalties	7,137	30,204	37,341
Intergovernmental	769,946	1,002,760	1,772,706
Charges for services	2,096,362	711,362	2,807,724
Miscellaneous	100,038	-	100,038
Total revenues	13,114,934	4,844,565	17,959,499
Expenditures:			
Current:			
General government	1,814,888	-	1,814,888
Public safety	5,312,475	1,423,540	6,736,015
Public works	4,369,368	2,229,070	6,598,438
Culture and recreation	732,466	38,089	770,555
Capital outlay	-	437,622	437,622
Debt service:			
Principal	182,094	1,125,769	1,307,863
Interest	12,017	561,671	573,688
Total expenditures	12,423,308	5,815,761	18,239,069
Excess (Deficiency) of Revenues Over Expenditures	691,626	(971,196)	(279,570)
Other Financing Sources (Uses):			
Proceeds from capital lease	-	491,458	491,458
Proceeds from issuance of loan	-	424,000	424,000
Proceeds of capital asset disposition	-	72,881	72,881
Transfers in	-	330,000	330,000
Transfers out	(300,000)	(30,000)	(330,000)
Total other financing sources (uses)	(300,000)	1,288,339	988,339
Net Change in Fund Balance	391,626	317,143	708,769
Fund Balance:			
Beginning of year	3,000,410	1,728,493	4,728,903
End of year	\$ 3,392,036	\$ 2,045,636	\$ 5,437,672

See accompanying notes to primary government financial statements.

BOROUGH OF PLUM

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

YEAR ENDED DECEMBER 31, 2018

Net Change in Fund Balance - Governmental Funds \$ 708,769

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

Governmental funds report general government, public safety, public works, and culture and recreation expenditures for capital assets as expenditures because such outlays use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation and disposals in the current period:

Public safety expenditures for capital assets	\$ 106,103	
General Government expenditures for capital assets	35,836	
Public works expenditures for capital assets	311,431	
Culture and Recreation expenditures for capital assets	38,089	
Capital outlay for capital assets	100,173	
Less: depreciation expense	<u>(1,591,343)</u>	(999,711)

Current year long-term debt proceeds reported as other financing sources in the governmental fund financial statements are shown as increases in the long-term debt liability in the government-wide financial statements. (915,458)

Current year long-term debt principal payments reported as expenditures in the governmental fund financial statements are shown as reduction in the debt in the government-wide financial statements. 1,307,861

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Unavailable revenues, excluding those from grants, decreased by this amount during the year. 5,864

Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the governmental fund financial statements, interest expenditures are reported when due. Accrued interest increased by this amount during the year. (8,919)

The governmental fund financial statements report the effect of bond discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount represents the current year activity of these long-term debt related costs. (40,545)

Some expenses (i.e., changes in compensated absences and pension and OPEB liabilities) reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (518,897)

Change in Net Position of Governmental Activities \$ (461,036)

See accompanying notes to primary government financial statements.

BOROUGH OF PLUM

COMBINED STATEMENT OF PLAN NET POSITION FIDUCIARY FUNDS

DECEMBER 31, 2018

	Pension Trust Funds	Agency Fund
Assets		
Cash and cash equivalents	\$ -	\$ 5,109
Investments at fair value:		
Guaranteed interest account	183,049	-
Mutual funds	1,339,394	-
Corporate bonds	254,804	-
Common stocks	4,899,349	-
Money market funds	266,927	-
ETFs	306,069	-
Common/collective trusts	3,407,099	-
Pooled separate accounts - equities	330,169	-
Pooled separate accounts - balanced/asset allocation	778,830	-
Pooled separate accounts - fixed income	283,317	-
Total Assets	12,049,007	5,109
Liabilities		
Due to Coal Miners' Memorial Committee	-	5,109
Net Position Restricted for Pension Benefits	\$ 12,049,007	\$ -

See accompanying notes to primary government financial statements.

BOROUGH OF PLUM

COMBINED STATEMENT OF CHANGES IN PLAN NET POSITION FIDUCIARY FUNDS

YEAR ENDED DECEMBER 31, 2018

	Pension Trust Funds
Additions:	
<hr/>	
Contributions:	
Employer, including state aid	\$ 750,488
Employee	174,680
	<hr/>
Total contributions	925,168
	<hr/>
Investment income (loss):	
Net appreciation (depreciation) in fair value of investments	(698,987)
Interest and dividends	156,638
	<hr/>
Total investment income (loss)	(542,349)
	<hr/>
Other income:	36,483
	<hr/>
Total additions	419,302
	<hr/>
Deductions:	
<hr/>	
Benefits	710,049
Administrative expense	13,097
	<hr/>
Total deductions	723,146
	<hr/>
Change in Plan Net Position	(303,844)
	<hr/>
Net Position:	
<hr/>	
Beginning of year	12,352,851
	<hr/>
End of year	\$ 12,049,007
	<hr/> <hr/>

See accompanying notes to primary government financial statements.

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

1. Reporting Entity

The Borough of Plum (Borough) operates under the Pennsylvania Borough Code, with an elected Mayor and seven elected Council members. The Borough covers approximately 29 square miles in southwestern Pennsylvania and has a population of approximately 25,000 residents. The Borough provides services in many areas to its residents, including various general government services, public safety, highway maintenance, and recreation.

The primary government financial statements (financial statements) include only the financial activity of the Borough and do not include the Plum Borough Municipal Authority (Authority), which is considered a component unit in accordance with accounting principles generally accepted in the United States of America applied to governmental entities. The Borough is considered to be financially accountable for the Authority because Council appoints the Authority's governing Board and guarantees the majority of the Authority's debt (Note 5). Separate financial statements for the Authority are available from its offices.

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.

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. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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 fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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 resource measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Borough considers revenues to be available if they are collected within 45 days of the end of the current fiscal period. Property taxes, earned income taxes, franchise taxes, sanitation fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

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 and claims and judgments, are recorded only when payment is due.

Fund Accounting

The Borough uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Borough only uses governmental funds and fiduciary funds.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they will be paid. The difference between the governmental fund assets and liabilities is reported as fund balance.

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

The Borough reports the following major governmental fund:

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.

Additionally, the Borough reports the following other governmental funds:

The *Fire Protection Fund* accounts for 0.388 mills of the property tax levy used to support fire services in the community and includes an annual contribution to the fire departments, training, fuel, and financing of capital improvements, such as apparatus and communications.

The *State Fund* accounts for state aid revenues (liquid fuels taxes) received from the Pennsylvania Department of Transportation for building, improving, lighting, and maintaining roads and bridges within the Borough.

The *Flood Mitigation Fund* accounts for the flood mitigation fees paid by residents for the construction, repair, maintenance, and monitoring of storm pipes, catch basins, retention ponds, and other storm water-related infrastructure.

The *Emergency Medical Services Fund* accounts for 0.336 mills of the property tax levy used to support emergency medical services in the community.

The *Debt Service Fund* is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The Borough uses the Debt Service Fund for payment of principal and interest on the Borough's General Obligation Bonds. The Council has designated 0.412 mills of the property tax levy for debt service expenditures.

The *Street Improvement Fund* accounts for 0.712 mills of the property tax levy used to fund major street and road improvements, including the annual paving program and road reconstruction.

The *Capital Improvements Fund* accounts for 0.26 mills of the property tax levy and is used to account for capital projects in the community.

The *2013 Bond Fund* is used to account for the proceeds of the 2013 General Obligation Bonds, which were refunded in 2016. The proceeds were used for capital projects throughout the Borough.

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Fiduciary Funds

Fiduciary funds are used to account for assets held in a trustee capacity. The Borough reports the following fiduciary funds:

The *Pension Trust Funds* are used to account for public employee retirement systems.

- The Police Pension Fund accounts for assets of the Borough police officers' retirement pension plan.
- The Administrative Pension Fund accounts for assets of the Borough administrative employees' retirement pension plan.

The *Agency Fund* is used to account for assets held by the Borough in a trustee capacity for the Coal Miners' Memorial Committee.

Deposits and Investments

The Borough's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are recorded at fair value.

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.

Receivables and Payables

Activity 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."

All tax receivables are shown net of an allowance for uncollectibles.

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Capital Assets

Capital assets generally result from expenditures in the governmental funds. These assets are reported in the government-wide statement of net position, but are not reported in the fund financial statements. Capital assets are defined by the Borough as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

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

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

Depreciation is computed using the straight-line method over the following estimated useful lives of the related assets:

Buildings and building improvements	20-30 years
Improvements other than buildings	7-20 years
Machinery and equipment	4-10 years
System infrastructure	30 years

Compensated Absences

Compensatory time is an employment benefit entitling police officers to accrue up to 240 hours of compensatory time in lieu of overtime pay. The unfunded obligation associated with compensatory time is payable either in a lump sum upon an officer's retirement, termination, or incrementally if taken as additional time off during the year. Sick leave is an employment benefit entitling employees to accrue unused sick leave. Accrued sick leave is payable in a lump sum at a designated rate, according to department, upon retirement, or termination. Police officers hired prior to January 1, 2011 may accrue up to 100 days of unused sick leave. If, as of December 31 of a given year, a police officer's accumulation is above 100 days, the Borough shall purchase the excess days at a rate of 75 percent of their

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

current rate of pay. Officers hired on or after January 1, 2011 may accrue up to 100 sick leave days and all accrued sick-leave days above 100 days shall expire. All accrued sick-leave days for this group shall expire upon retirement, termination, or a police officer's death. Members of the Teamsters Union may accrue up to 60 sick days and all employees receive six sick leave days a year. These amounts will be paid as employees utilize sick leave and compensatory time benefits or as employees retire or terminate employment with the Borough. Vacation leave is payable in a lump sum at the employees' current rate of pay at the time the employee retires or terminates employment with the Borough. Vacation leave cannot be carried forward and must be used in the year following the year the vacation leave was earned.

A liability for compensated absences is determined by the payments which would be available to employees if they would leave or retire from the Borough. These amounts are reflected as long-term liabilities in the government-wide financial statements unless retirements are likely within the upcoming fiscal year. Costs associated with retirements in the immediate succeeding year are reflected as current liabilities. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current period costs in both the government-wide and fund financial statements.

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Fund Balance

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

- Nonspendable – This category represents funds that are not in spendable form and includes such items as prepaid expenditures.
- 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 or enabling legislation. This category includes funds that are restricted for specific expenditure under agreement with grantors. At December 31, 2018, the Borough had restrictions through grant agreements, government ordinance, and debt covenants.
- Committed – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending imposed by elected council by budget ordinance. Such a commitment is made via a Council resolution and must be made prior to the end of the fiscal year. Removal of this commitment also requires a Council resolution. As of December 31, 2018, the Borough had no committed funds.
- Assigned – This category represents intentions of the Borough to use the funds for specific purposes. The authority to make assignments of fund balance may be made by the Borough Manager or Borough Council and remains in place until released. The assignment cannot exceed the available spendable unassigned fund balance in any particular fund. The authority granted to the Borough Manager to make assignments became effective upon adoption of this policy in 2011 by Borough Council and remains in effect until rescinded by resolution of Borough Council. Assigned fund balances as of December 31, 2018 are described on the face of the governmental fund balance sheet.
- Unassigned – This category includes the residual classification for the Borough's General Fund and includes all spendable amounts not contained in other classifications.

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

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

The Borough's fund balance provides for a minimum Unassigned Fund balance of 5% of the Borough's General Fund annual operating expenditures.

Deferred Outflows / Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position and/or fund balance that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense) until then. The Borough's deferred outflows of resources include deferred outflows related to the deferred charge on refunding related to debt and deferred outflows or resources related to pensions. 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. See discussion below regarding the Borough's deferred outflows of resources related to pensions.

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

Deferred Outflows of Resources Related to Pensions

In conjunction with pension accounting requirements, the effect of the difference between projected and actual earnings on pension plan investments are recorded as deferred outflows of resources related to pensions on the government-wide financial statements. These amounts are determined based on actuarial valuations performed for the plans. Note 8 presents additional information about the pension plans.

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Classification of Net Position

Accounting standards requires the classification of net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans, as well as additions to and deductions from the pension plan fiduciary net position have been determined on the same basis as they are reported in the financial statements of the pension plans. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Investments are reported at fair value.

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Budgets and Budgetary Accounting

In accordance with the Borough Code, beginning at least thirty days prior to the adoption of the budget, which shall not be later than December 31, a proposed budget for the ensuing year shall be prepared in a manner designated by the Council. The proposed budget shall be kept on file with the Borough secretary/treasurer and made available for public inspection for a period of ten days. Notice that the proposed budget is available for public inspection is published by the Borough secretary/treasurer in a newspaper of general circulation. After the expiration of the said ten days, Council shall make such revisions in the budget as shall be deemed advisable and shall adopt the budget by motion. Details of the budget at the account level of control are kept in the Borough office and are available for public inspection.

For 2018, the Borough budgeted its General Fund, Street Improvement Fund, Capital Improvement Fund, Fire Fund, Debt Service Fund, Liquid Fuels Fund, Flood Mitigation Fund and Emergency Medical Services Fund. The 2010 Bond Fund and 2013 Bond Fund were not budgeted.

Within the General Fund, Council approves all account line item budget overruns, and will approve transfers, if necessary, between departments. Therefore, although the legal level of control is by line item expenditure, budget transfers will only be executed if an entire department would exceed budget. Amounts that exceeded budget were funded by available General Fund fund balance and no budget transfers were done.

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.

Adoption of Accounting Pronouncement

The requirements of the following GASB Statement were adopted for the financial statements:

GASB Statement No. 75, *“Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,”* improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The provisions of this statement have been adopted and incorporated into these financial statements. As a result of this implementation, the Borough's net position as of January 1, 2018 was restated with a decrease of \$2,598,384 to record the Borough's net OPEB liability.

Pending Pronouncements

GASB has issued statements that will become effective in future years including Statement Nos. 83 (Certain Asset Retirement Obligations), 84 (Fiduciary Activities), 87 (Leases), 88 (Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements), 89 (Accounting for Interest Cost Incurred before the End of a Construction Period), 90 (Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61), and 91 (Conduit Debt Obligations). Management has not yet determined the impact of these statements on the financial statements.

3. Cash 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.

The deposit and investment policy of the Borough adheres to state statutes. Deposits of the Borough's governmental funds are maintained in interest-bearing demand deposits, governmental investment pools, or savings accounts.

Accounting principles require disclosures related to the following deposit and investment risks: credit risk (including custodial credit risk and concentrations of credit risk), and interest rate risk. The following is a description of the Borough's deposit and investment risks:

Governmental Funds and Agency Fund

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Borough's deposits may not be returned to it. The Borough's deposit policy requires deposits to be held in institutions that are insured by one of the federal deposit

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

insurance organizations and when the value of the Borough's deposits exceed the insurable limits, the additional sums must be secured by collateral pledged by the depository.

As of December 31, 2018, \$4,057,309 of the Borough's bank balance of \$4,317,598 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. These deposits had carrying amounts of \$4,148,463 (governmental funds) and \$5,109 (Agency Fund) as of December 31, 2018.

As of December 31, 2018, the Borough had the following short-term investments in cash equivalents:

<u>Investments</u>	<u>Fair Value</u>
PGLIT	\$ 264,715
Money markets	240,158
Carrying amount - governmental deposits	<u>4,149,063</u>
Total cash and cash equivalents per governmental fund financial statements	<u><u>\$ 4,653,936</u></u>

The fair value of the Borough's investments is the same as their carrying amount. The Borough's investments are not exposed to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.

The Borough's investment in PLGIT (an external investment pool) is the same as the value of the pool shares and is reported at amortized cost which approximates fair value. All investments in an external investment pool that is not SEC-registered are subject to oversight by the Commonwealth of Pennsylvania. The Borough can withdraw funds from the external investment pool without limitations or fees.

Money markets are valued using quoted marked prices (Level 1 inputs).

The following is a description of the Borough's investment risks:

Credit Risk. The Borough's investment policy limits its investment choices to only those with investment grade credit ratings by nationally recognized statistical rating organizations. As of December 31, 2018, the Borough's investments in PLGIT and Money Markets are rated AAAM by Standard & Poor's.

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Borough's investments. The Borough's investment policy limits the average investment maturity of the investment portfolio to less than three years, with a maximum maturity in any one security of five years without prior Council approval. All of the Borough's investments are short-term with maturities of less than one year.

Pension Trust Funds

The pension trust funds are used to account for assets held by the Borough in a trustee capacity for future payment of retirement benefits to employees or former employees.

The pension trust funds' investments in money markets, equity and fixed income funds, and guaranteed interest accounts are not exposed to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form. Investments in common stock are not subject to the disclosure requirements of GASB Statement No. 40.

The following is a description of the pension trust funds' investment risks:

Credit risk. The risk that an issuer or other counterparty to an investment will not fulfill its obligations is called credit risk. The investment policy of the Police Pension Fund requires the weighted average quality of the fixed income portfolio will be maintained at "A" or better, no more than 15% of fixed income in Standard & Poor's rating of BBB, and no more than 5% of fixed income in Standard & Poor's rating below BBB.

As of December 31, 2018, the pension trust funds' investments in guaranteed interest accounts were rated A+ and A1 by Standard & Poor's and Moody's, respectively, and the Borough's investments in money market funds were rated AAAM and Aaa by Standard & Poor's and Moody's. The remaining equity holdings, common/collective trusts, money market funds, and mutual fund investments were not rated by nationally recognized statistical rating organizations. Fixed income includes investments in corporate bonds totaling \$254,804 at December 31, 2018 which are rated A+ by Moody's.

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the pension trust funds' investments. The pension trust funds do not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The following table shows investment maturities in years for pension trust fund investments with maturities:

Investment Type	Fair Value	Investment Maturities (In Years) from December 31		
		Less than 1 Year	1-5 Years	6-10 Years
Guaranteed interest accounts	\$ 183,049	\$ 5,388	\$ 177,661	\$ -
Corporate bonds	254,804	-	-	254,804
Total securities with maturities	<u>\$ 437,853</u>	<u>\$ 5,388</u>	<u>\$ 177,661</u>	<u>\$ 254,804</u>

Financial instruments potentially expose the pension trust funds to various risks such as concentrations of credit risk and market risks. 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 change could materially affect the amount reported on the combined statement of fiduciary net position.

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

The composition of the pension trust funds is noted below along with the fair value measurements as of December 31, 2018:

Investments by Fair Value Level:	December 31, 2018	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed Income:				
Guaranteed Interest Account	\$ 183,049	\$ -	\$ -	\$ 183,049
Corporate Bonds	254,804	-	254,804	-
Total Fixed Income	437,853	-	254,804	183,049
Equities:				
Mutual Funds - Small/Mid US Equity	3,939	3,939	-	-
Common Stocks				
Industrials	699,860	699,860	-	-
Consumer Discretionary	535,440	535,440	-	-
Consumer Staples	335,028	335,028	-	-
Financials	987,422	987,422	-	-
Health Care	583,236	583,236	-	-
Information Technology	919,400	919,400	-	-
Telecommunications	392,451	392,451	-	-
Other	446,512	446,512	-	-
Money Market Funds	266,927	266,927	-	-
Mutual Funds - Global	536,218	536,218	-	-
Mutual Funds - Balanced	799,237	799,237	-	-
ETFs - Growth	306,069	306,069	-	-
Total Equities	6,811,739	6,811,739	-	-
Total investments by fair value level	7,249,592	\$ 6,811,739	\$ 254,804	\$ 183,049
Investments measured at the net asset value (NAV):				
Common/collective Trusts	3,407,099			
Pooled Separate Accounts - Equities:				
Large US Equity	160,733			
Small/Mid US Equity	100,344			
International Equity	69,092			
Pooled Separate Accounts - Balanced/Asset Allocation	778,830			
Pooled Separate Accounts - Fixed Income:				
Short-Term Fixed Income	41,984			
Fixed Income	241,333			
Total investments measured at NAV	4,799,415			
Total investments measured at fair value	\$ 12,049,007			

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Money markets, mutual funds, common stock, and exchange traded funds are valued using quoted marked prices (Level 1 inputs). Corporate bonds are valued using a matrix pricing model (Level 2 inputs).

The fair value of guaranteed interest accounts represents contract value adjusted to reflect current market interest rates only to the extent such market rates exceed crediting rates (Level 3 inputs). The value represents the amount plan participants would receive currently if they were to withdraw or transfer funds within the plan prior to their maturity for an event other than death, disability, termination, or retirement. There are no unfunded commitments.

Investments Measured Using the Net Asset Value per Share Practical Expedient

Interest in pooled separate accounts is valued at the net asset value of shares held by the Plan at year-end. Separate account funds invest in mutual funds, including funds managed by Principal, and other funds managed by outside investment advisors. Investments held in the separate accounts are stated at fair value and are not available to satisfy the liabilities of the general account. Pooled separate accounts are valued at net asset per share as determined by investment managers under the so-called "practical expedient." The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met. The pooled separate accounts consist of mutual funds actively traded that are easily redeemed at the request of participants. The investment strategies of the underlying investment funds of the separate account include seeking capital appreciation and current income.

The Borough also reports common/collective trust funds using the net asset value per share as determined by investment managers under the so-called "practical expedient." The net asset values of the common/collective trust funds are determined by the funds and provided by the portfolio manager. Valuations are generally based on the compilation of prices from each fund's underlying company or fund administrator. Upon completion of the fund valuations, the Borough's individual investor valuations are based upon their ownership share of each pool.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of the future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

December 31, 2018	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Pooled separate accounts	\$ 1,392,316	n/a	Daily	n/a
Common/collective trusts	\$ 3,407,099	n/a	Daily	n/a

4. Long-Term Debt

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

	Amounts Payable as of December 31, 2017	Change in Long-term Payables	New Debt	Repayment/ Amortization	Amounts Payable as of December 31, 2018	Due Within One Year
Bonds payable	\$ 16,485,000	\$ -	\$ -	\$ (425,000)	\$ 16,060,000	\$ 440,000
Less: deferred amounts: For issuance discounts	(98,825)	-	-	4,297	(94,528)	-
Total bonds payable	16,386,175	-	-	(420,703)	15,965,472	440,000
Term loans	977,972	-	424,000	(138,792)	1,263,180	165,290
Capital leases	1,719,241	-	491,458	(744,069)	1,466,630	620,150
Compensated absences	514,250	27,822	-	-	542,072	-
Total	\$ 19,597,638	\$ 27,822	\$ 915,458	\$ (1,303,564)	\$ 19,237,354	\$ 1,225,440

Term Loans and Bonds

In April 2008, the Borough issued a \$550,000 term loan to finance the purchase of a fire truck for the Holiday Park Fire Department. The fire department will hold title to the truck with the Borough listed as co-owner on the title. The outstanding balance of \$84,335 as of December 31, 2018 will mature in quarterly payments from 2019 through 2020. Interest is payable quarterly at a rate of 4.03%.

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NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

In June 2008, the Borough issued a \$270,000 term loan to finance the purchase of a fire truck for the Logan's Ferry Fire Department. The fire department will hold title to the truck with the Borough listed as co-owner on the title. Interest is payable quarterly at a rate of 3.95%. The outstanding balance of \$16,232 was paid off during 2018.

In March 2017, the Borough issued a \$412,000 term loan to finance the purchase of a fire truck for the Renton Fire Company. The fire department will hold title to the truck with the Borough listed as co-owner on the title. The outstanding balance of \$377,396 as of December 31, 2018 will mature in annual payments in 2027. Interest is payable annually at a rate of 3.49%.

In March 2017, the Borough issued a \$412,000 term loan to finance the purchase of a fire truck for the Holiday Park Fire Company. The fire department will hold title to the truck, with the Borough listed as co-owner on the title. The outstanding balance of \$377,449 as of December 31, 2018 will mature in annual payments in 2027. Interest is payable annually at a rate of 3.49%.

In January 2018, the Borough issued a \$424,000 term loan to finance the purchase of a fire truck for the Logans Ferry Fire Company. The fire department will hold title to the truck, with the Borough listed as co-owner on the title. The outstanding balance of \$424,000 as of December 31, 2018 will mature in annual payments in 2028. Interest is payable annually at a rate of 4.075%.

Because the Borough does not operate the fire trucks, maintain the fire trucks, or have full title to the fire trucks, the trucks are not included in the capital assets of the Borough.

In December 2013, the Borough issued General Obligation Bonds in the amount of \$5,040,000, the proceeds of which were used to finance the construction of a new fire and EMS building. These bonds carry interest rates ranging from .5% to 4.75% and mature through 2044. During 2016, the Borough refunded \$4,740,000 of these bonds via the issuance of the 2016 General Obligation Bonds noted below. The outstanding balance of \$60,000 was paid off during 2018.

In July 2014, the Borough issued General Obligation Bonds in the amount of \$5,305,000 (2014 Bonds), the proceeds of which were used to advance refund a portion of the Series B of 2010 Bonds. These bonds carry interest rates ranging from .35% to 3.4% and mature through 2031. At December 31, 2018, the outstanding balance was \$4,865,000.

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NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

The 2014 refunding resulted in a deferred refunding loss of \$289,157, which will be amortized over the life of the 2014 Bonds.

In June 2015, the Borough issued General Obligation Bonds in the amount of \$6,065,000 (2015 Bonds), the proceeds of which were used to currently refund the outstanding Series B of 2010 Bonds. These bonds carry interest rates ranging from .6% to 3.75% and mature through 2040. At December 31, 2018, the outstanding balance was \$5,470,000.

The 2015 refunding resulted in a deferred refunding loss of \$108,476, which is be amortized over the life of the 2015 Bonds.

In May 2016, the Borough issued General Obligation Bonds in the amount of \$5,830,000 (2016 Bonds), the proceeds of which were used to advance refund a portion of the outstanding 2013 Bonds. These bonds carry interest rates ranging from .75% to 3.375% and mature through 2044. At December 31, 2018, the outstanding balance was \$5,725,000.

The 2016 refunding resulted in a deferred refunding loss of \$464,341, which will be amortized over the life of the 2016 Bonds.

At December 31, 2018, there are no amounts outstanding related to defeased debt.

Annual debt service requirements for the bonds and term loans are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 605,290	\$ 552,662	\$ 1,157,952
2020	590,527	535,939	1,126,466
2021	570,954	522,076	1,093,030
2022	585,223	507,900	1,093,123
2023	609,685	481,522	1,091,207
2024-2028	3,206,501	2,202,691	5,409,192
2029-2033	2,845,000	1,714,391	4,559,391
2034-2038	3,380,000	1,166,963	4,546,963
2039-2043	4,045,000	497,981	4,542,981
2044-2046	885,000	14,381	899,381
Total	<u>\$ 17,323,180</u>	<u>\$ 8,196,506</u>	<u>\$ 25,519,686</u>

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Tax Anticipation Note

In January 2018, the Borough issued a \$3,500,000 tax anticipation note. This note is secured by all taxes and current revenues of the Borough and matured on December 31, 2018. The interest rate on the note was 1.6% and the balance was paid in full by December 31, 2018.

In January 2019, the Borough issued a \$2,500,000 tax anticipation note. This note is secured by all taxes and current revenues of the Borough and will mature on December 31, 2019. The interest rate on the note is 2.8% and is expected to be paid in full by December 31, 2019.

Obligations under Capital Leases

The Borough has entered into various capital lease agreements for the purchase of equipment. The leases require annual payments of principal and interest and are secured by the related equipment. The lease maturity dates range from 2019 to 2022. At December 31, 2018, the total original cost of equipment under capital lease was \$3,571,007.

Present value of future minimum lease payments for these capital leases for the years ending December 31 are as follows:

2019	\$	684,518
2020		524,533
2021		294,087
2022		84,364
		<hr/>
		1,587,502
Less: interest		<hr/>
		(120,872)
		<hr/>
	\$	<u>1,466,630</u>

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

5. Guarantee of Debt

The Borough guarantees certain obligations of the Authority. Outstanding obligations guaranteed by the Borough at December 31, 2018 consist of the following:

2008 Sewer Revenue Bonds

During fiscal year 2008, the Authority issued Sewer Revenue Bonds, Series 2008 B in the amount of \$4,675,000 and Sewer Revenue Bonds, Series 2008 C, in the amount of \$1,415,000, collectively referred to as 2008 Sewer Bonds. The proceeds of the 2008 Sewer Bonds were used to provide funds to advance refund portions of the outstanding 1999 and 2003 Sewer Revenue Bonds Series and to finance certain capital projects.

The 2008 Sewer Bonds carry interest rates ranging from 4.15% to 6.50% and mature through 2026. During 2018, the 2008 Sewer Bonds were refunded and the amount outstanding at December 31, 2018 was \$0.

2008 Water Revenue Bonds

During fiscal year 2008, the Authority issued Water Revenue Bonds, Series 2008 (2008 Water Bonds), in the amount of \$3,535,000. The proceeds of the 2008 Water Bonds are to be used to finance the issuance costs and to finance certain capital projects.

At December 31, 2018, the amount outstanding relating to the 2008 Water Revenue Bonds was \$1,035,000. The 2008 Water Revenue Bonds carry interest rates ranging from 2.40% to 4.00% and mature through 2021.

2014 Water Revenue Bonds

During fiscal year 2014, the Authority issued Water Revenue Bonds, Series 2014 in the amount of \$1,685,000. The proceeds of the 2014 Water Bonds were used to finance certain capital projects.

At December 31, 2018, the amount outstanding relating to the 2014 Water Bonds was \$1,685,000. The 2014 Water Bonds carry interest rates ranging from 3.5% to 3.625% and mature in 2033.

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

2015 Water Revenue Bonds

During fiscal year 2015, the Authority issued Water Revenue Bonds, Series 2015 A in the amount of \$6,155,000. The proceeds of the 2015 A Water Bonds were used to provide funds for the financing of certain water system capital projects.

At December 31, 2018, the amount outstanding relating to the 2015 A Water Bonds was \$6,155,000. The 2015 A Water Bonds carry interest rates ranging from 3.7% to 4.0% and mature in 2040.

2015 Sewer Revenue Bonds

During fiscal year 2015, the Authority issued Sewer Revenue Bonds, Series 2015 B in the amount of \$1,170,000. The proceeds of the 2015 B Revenue Bonds will were used to provide funds for the financing of certain sanitary sewer system capital projects.

At December 31, 2018, the amount outstanding relating to the 2015 B Revenue Bonds was \$1,170,000. The 2015 B Revenue Bonds carry an interest rate of 3.25% and mature in 2027.

During fiscal year 2015, the Authority issued Sewer Revenue Bonds, Refunding Series 2015 C in the amount of \$8,510,000 and Sewer Revenue Bonds, (Federally Taxable) Refunding Series 2015 D in the amount of \$530,000, collectively referred to as 2015 C and D Revenue Bonds. The proceeds of the 2015 C and D Revenue Bonds were used to currently refund a portion of the Authority's Sewer Revenue Bonds, Refunding Series 2008 B, currently refund all of the Authority's Sewer Revenue Bonds, Series 2010 C, for the financing of a debt service surety policy for the 2015 C and D Revenue Bonds, and to currently refund the 2003 PennVest loan.

At December 31, 2018, the amount outstanding relating to the 2015 C and D Revenue Bonds was \$5,730,000. The 2015 Revenue Bonds carry interest rates ranging from 2.50% to 3.10% and mature in 2027.

2016 Water Revenue Bonds

During fiscal year 2016, the Authority issued Water Revenue Bonds, Refunding Series 2016 A in the amount of \$6,110,000. The proceeds of the 2016 Water Revenue Bonds were used to currently refund all of the Authority's Water Revenue Bonds, Series 2010 A, Water Revenue Bonds, Series 2011 A, and Water Revenue Bonds Series 2011 C.

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

At December 31, 2018, the amount outstanding relating to the 2016 Water Revenue Bonds was \$5,895,000. The 2016 Water Revenue Bonds carry interest rates ranging from 1.60% to 2.625% and mature in 2030.

2016 Sewer Revenue Bonds

During fiscal year 2016, the Authority issued Sewer Revenue Bonds, Refunding Series 2016 B in the amount of \$6,340,000. The proceeds of the 2016 Sewer Revenue Bonds were used to currently refund all of the Authority's Sewer Revenue Bonds, Refunding Series 2011 B.

At December 31, 2018, the amount outstanding relating to the 2016 Sewer Revenue Bonds was \$6,180,000. The 2016 Sewer Revenue Bonds carry interest rates ranging from 2.00% to 3.00% and mature in 2025.

2017 Water Revenue Bonds

During fiscal year 2017, the Authority issued Water Revenue Bonds, Series 2017 A in the amount of \$3,345,000. The proceeds of the 2017 A Water Revenue Bonds were used to provide funds for the financing of certain water system capital projects.

At December 31, 2018, the amount outstanding relating to the 2017 A Water Bonds was \$3,345,000. The 2017 A Water Bonds carry an interest rate of 3.25% and mature in 2043.

During fiscal year 2017, the Authority issued Water Revenue Bonds, Series 2017 B in the amount of \$1,265,000. The proceeds of the 2017 B Water Revenue Bonds were used to provide funds for the financing of certain water system capital projects.

At December 31, 2018, the amount outstanding relating to the 2017 B Water Bonds was \$1,225,000. The 2017 B Water Bonds carry interest rates ranging from 3.00% to 4.125% and mature in 2037.

2017 Sewer Revenue Bonds

During fiscal year 2017, the Authority issued Sewer Revenue Bonds, Series 2017 C in the amount of \$2,155,000. The proceeds of the 2017 C Sewer Revenue Bonds were used to provide funds for the financing of certain sewer system capital projects.

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NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

At December 31, 2018, the amount outstanding relating to the 2017 C Sewer Bonds was \$2,155,000. The 2017 C Sewer Bonds carry an interest rate of 2.625% and mature in 2028.

During fiscal year 2017, the Authority issued Sewer Revenue Bonds, Series 2017 D in the amount of \$1,260,000. The proceeds of the 2017 D Sewer Revenue Bonds were used to provide funds for the financing of certain sewer system capital projects.

At December 31, 2018, the amount outstanding relating to the 2017 D Sewer Bonds was \$1,260,000. The 2017 D Sewer Bonds carry an interest rate of 3.75% and mature in 2029.

2018 Sewer Revenue Bonds

During fiscal year 2018, the Authority issued Sewer Revenue Bonds, Series 2018 in the amount of \$4,870,000. The proceeds of the 2018 Sewer Bonds were used to provide funds to currently refund the outstanding 2008 Sewer Revenue Bonds Series B and C and to finance certain sewer system capital projects.

At December 31, 2018, the amount outstanding relating to the 2018 Sewer Bonds was \$4,825,000. The 2018 Sewer Bonds carry an interest rates ranging from 2.5% to 4.0% and mature in 2026.

Future annual debt service requirements on debt guaranteed by the Borough are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 2,380,000	\$ 1,254,733	\$ 3,634,733
2020	2,460,000	1,180,391	3,640,391
2021	2,585,000	1,102,536	3,687,536
2022	2,650,000	1,036,480	3,686,480
2023	2,740,000	956,395	3,696,395
2024-2028	14,675,000	3,667,868	18,342,868
2029-2033	4,370,000	2,139,482	6,509,482
2034-2038	4,425,000	1,354,831	5,779,831
2039-2043	4,775,000	478,328	5,253,328
	<u>\$ 41,060,000</u>	<u>\$ 13,171,044</u>	<u>\$ 54,231,044</u>

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

During 2018, the Borough did not make any payments on behalf of or contribute to the Authority.

6. Interfund Receivables, Payables, and Transfers

Interfund receivables and payables at December 31, 2018 are summarized below:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Major Funds:				
General Fund	\$ 20,466	\$ -	\$ -	\$ 300,000
Other Governmental Funds	<u>-</u>	<u>20,466</u>	<u>330,000</u>	<u>30,000</u>
 Total	<u>\$ 20,466</u>	<u>\$ 20,466</u>	<u>\$ 330,000</u>	<u>\$ 330,000</u>

Transactions between funds which 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.

During 2018, the Borough transferred \$300,000 from the general fund to the capital improvement fund to fund expenditures in the capital improvement fund within the 2019 budget year.

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

7. Capital Assets

A summary of current year changes in capital assets is as follows:

	Balance at December 31, 2017	Additions	Deletions/ Reclassifications	Balance at December 31, 2018
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ -	\$ -	\$ -
Land	388,660	-	-	388,660
Total capital assets, not being depreciated	388,660	-	-	388,660
Capital assets, being depreciated:				
Infrastructure	3,842,989	-	-	3,842,989
Buildings and building improvements	14,262,681	-	-	14,262,681
Improvements other than buildings	1,170,775	90,773	-	1,261,548
Machinery and equipment	6,293,777	500,859	(161,557)	6,633,079
Total capital assets, being depreciated	25,570,222	591,632	(161,557)	26,000,297
Less: accumulated depreciation for:				
Infrastructure	382,648	128,100	-	510,748
Buildings and building improvements	2,930,794	700,457	-	3,631,251
Improvements other than buildings	514,236	56,338	-	570,574
Machinery and equipment	3,767,313	706,448	(161,557)	4,312,204
	7,594,991	1,591,343	(161,557)	9,024,777
Total capital assets, being depreciated, net	17,975,231	(999,711)	-	16,975,520
Total capital assets, net	\$ 18,363,891	\$ (999,711)	\$ -	\$ 17,364,180

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

Governmental activities:	
General government	\$ 131,916
Public safety	276,356
Public works	1,102,028
Culture and recreation	81,043
Total depreciation expense - governmental activities	\$ 1,591,343

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

8. Pension Plans

The Borough administers two single-employer pension plans covering substantially all full-time employees: the Police Pension Plan (Police Plan), a defined benefit plan for police officers and the Administrative Pension Plan (Administrative Plan), a defined contribution plan for administrative employees. Stand-alone financial statements are not issued for either plan. The Borough also makes contributions to the multi-employer Western Pennsylvania Teamsters and Employers Pension Fund (Non-Uniformed Pension Plan) for its road, clerical, and dispatch employees in accordance with a collective bargaining agreement. The Non-Uniformed Pension Plan is administered solely by its Trustees and is subject to GASB Statement No. 78.

Police Plan - Summary of Significant Accounting Policies

Financial information is presented on the accrual basis of accounting. Employer contributions to this the Police Plan are recognized when earned. Benefits and refunds are recognized when incurred in accordance with the terms of the Police Plan.

Police Plan assets are reported at fair value. Police Plan assets are invested primarily in equities and common/collective trusts. The Police Plan did not have any investment transactions with related parties during the year.

Police Plan – Description

The Police Plan is a single-employer defined benefit plan available to all full-time Borough police officers under Act 205 of the Commonwealth of Pennsylvania (Act). The Police Plan is governed by the Borough’s Council which has delegated the authority to manage certain Plan assets to the Police Pension Committee. Police Plan provisions and contribution requirements are established and may be amended by the Borough. The activity of the plan is reported within the Pension Trust Funds in the accompanying financial statements.

At December 31, 2018, Police Plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	17
Inactive plan members entitled to but not yet receiving benefits	1
Active plan members	<u>27</u>
Total plan members	<u><u>45</u></u>

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Police Plan – Benefits Provided

Retirement Benefit - Participants are eligible for retirement upon the later of the completion of 25 years of aggregate service or attainment of age 50. Participants are fully vested in the Police Plan upon the completion of 12 years of aggregate service. The monthly pension benefit is equal to 50 percent of the final monthly salary averaged over the last 36 months of employment plus a service increment of \$100 after 26 years of service. The service increment is not available for employees hired after 2010.

Disability Benefit - If a participant becomes totally and permanently disabled as a result of accident or sickness occurring in the line of duty, the participant is entitled to receive a monthly disability benefit. A participant who is disabled prior to April 17, 2002 is entitled to the accrued benefit as of the date of disability plus COLA. For disabilities incurred on or after April 17, 2002, the disability benefit is the greater of (i) the accrued benefit, or (ii) 50 percent of the participant's salary at the date of disability offset by the Social Security disability benefits attributable to the disability.

Death Benefit - If a participant's death occurs in the line of duty and the participant is survived by an eligible spouse or dependent children, a monthly benefit is payable until the latest of the spouse's death, spouse's remarriage, or the youngest dependent attaining age 18 (age 23 if attending college). The benefit payable is 100% of the participant's salary at the time of death. If a participant's death occurs after the participant has qualified for retirement and the participant is survived by an eligible spouse or dependent children, a monthly benefit is payable until the latest of the spouse's death, spouse's remarriage, or the youngest dependent attaining age 18 (age 23 if attending college). The benefit payable is 50% of the pension the participant was receiving or entitled to receive on the date of death.

Cost-of-Living Adjustments – Benefit terms provide for annual cost-of-living adjustments to each member's retirement allowance subsequent to the member's retirement date. The annual adjustments are equal to the percentage change in the CPI-W during the last year, multiplied by the pension benefit less the service increment, if any. The total of all increases may not exceed 30% of the retiree's original benefit, nor may the sum of the retiree's benefit and all increases exceed 75% of the average monthly salary used to compute the initial benefit.

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Police Plan – Contributions and Funding Policy

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. Employee contributions to the Police Plan for 2018 were \$139,680, which represents 5% of covered payroll.

The Commonwealth of Pennsylvania (Commonwealth) allocates certain funds to assist in pension funding, which is funded by state foreign casualty insurance tax. Any financial requirement established by the MMO that exceeds the Commonwealth allocation must be funded by the Borough. In 2018, the Borough used the Commonwealth allocation for its police, administrative, and non-uniformed pension plans. The portion allocated to the Police Plan was \$252,957. The remaining \$398,400 was provided by the General Fund during 2018.

Administrative costs, including investment, custodial trustee, and actuarial services are charged to the Police Plan and funded by investment earnings.

Police Plan – Net Pension Liability

The components of the net pension liability of the Police Plan at December 31, 2018 were as follows:

Total pension liability	\$ 16,484,520
Plan fiduciary net position	<u>(10,414,422)</u>
Net pension liability	<u>\$ 6,070,098</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>63.18%</u>

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Changes in the Net Pension Liability

The changes in the net pension liability of the Police Plan at December 31, 2018 were as follows:

	Increases / Decreases		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at December 31, 2017	\$ 16,264,156	\$ 10,693,912	\$ 5,570,244
Changes for the year:			
Service cost	356,349	-	356,349
Interest	1,345,173	-	1,345,173
Differences between expected and actual	(1,130,881)	-	(1,130,881)
Changes in assumptions	327,272	-	327,272
Contributions - employer	-	651,357	(651,357)
Contributions - employee	-	174,680	(174,680)
Net investment income	-	(451,595)	451,595
Benefit payments	(677,549)	(677,549)	-
Administrative expense	-	(12,866)	12,866
Other changes	-	36,483	(36,483)
Net changes	220,364	(279,490)	499,854
Balances at December 31, 2018	\$ 16,484,520	\$ 10,414,422	\$ 6,070,098
Plan fiduciary net position as a percentage of the total pension liability			63.18%

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

Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	4.75%
Underlying inflation rate	2.50%
Cost of living adjustments	2.50%
RP-2014 s/f 2 yrs, +bc mortality table with rates set forward 5 years for all disabled lives, MP-2018 mortality improvement	

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Changes in Actuarial Assumptions - Based upon an actuarial valuation performed as of January 1, 2019, the mortality assumption was changed to reflect the following: mortality improvement Scale MP-2018 was added, the base mortality rates were set forward 2 years, the set-forward for disabled lives was changed from 10 years to 5 years. This assumption change increased the total pension liability by approximately \$327,000.

Investment Policy – The Police Plan’s policies in regard to the allocation of invested assets are established and may be amended by the Police Pension Committee by a majority vote of its members as long as they are in compliance with the investment policy statement. Ultimate authority to effect change or change anything related to the investment policy statement is retained by Borough Council. It is the policy of the Police Pension Committee to produce a total return commensurate with the portfolio’s risk, client constraints, and plan financial needs. The policy aims to comply with all applicable trust, fiduciary, and due diligence requirements, and to comply with all applicable federal, state, and local laws, rules, and regulations. The policy is intended to temper overall performance volatility.

Long-Term Expected Rate of Return – The long-term expected rate of return on Police Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The following was the asset allocation policy and best estimates of arithmetic real rates of return for each major asset class included in the Police Plan’s target asset allocation as of December 31, 2018:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	50.0%	8.0%
International Equity	5.0%	1.3%
Fixed Income	40.0%	3.1%
Cash	5.0%	0.0%
	<u>100.0%</u>	

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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, 2018, the annual money-weighted rate of return on the Police Plan investments, net of investment expense, was -3.78%.

Concentrations – The Police Plan did not have investments in a single issuer that exceeded 5% of the Police Plan’s fiduciary net position at December 31, 2018.

Discount Rate – The discount rate used to measure the total pension liability for the Police Plan was 7.75%. 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 Police Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
<u>\$ 8,030,749</u>	<u>\$ 6,070,098</u>	<u>\$ 4,422,010</u>

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Pension Expense, Deferred Outflow of Resources, and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2018, the Police Plan recognized pension expense of \$987,869. At December 31, 2018, the Police Plan reported deferred outflows of resources related to pensions from the following sources:

<u>Deferred Outflow of Resources:</u>	
Differences between expected and actual experience	\$ 516,116
Changes in assumption	297,268
Net difference between projected and actual earnings on pension plan investments	<u>1,154,000</u>
Total deferred outflows of resources	<u><u>\$ 1,967,384</u></u>
<u>Deferred Inflows of Resources:</u>	
Differences between expected and actual experience	\$ 1,027,204
Changes in assumption	9,941
Net difference between projected and actual earnings on pension plan investments	<u>270,079</u>
Total deferred outflows of resources	<u><u>\$ 1,307,224</u></u>

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

<u>Year ending December 31,</u>	
2019	\$ 282,194
2020	141,336
2021	134,422
2022	224,449
2023	(25,380)
Thereafter	<u>(96,861)</u>
Total	<u><u>\$ 660,160</u></u>

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Administrative Plan

The Administrative Plan (Plan) is a non-contributory defined contribution plan available to full-time permanent employees, other than police officers, and employees covered under the Western Pennsylvania Teamsters and Employers Pension Fund. Employer pension contributions were 10 percent of covered earnings during 2018 and participants are immediately vested. Participants may receive retirement benefits upon attainment of age 59 and one-half. Withdrawals of vested pension benefits prior to attaining age 59 and one-half years are subject to regular income taxes and penalties in the year of withdrawal. The pension benefit is equal to contributions made by the Borough on behalf of the employee plus related earnings. Employees may elect to receive a lump-sum distribution or an annuity upon retirement.

Financial information is presented on the accrual basis of accounting. Employer contributions to this Plan are recognized when earned. Benefits and refunds are recognized when incurred in accordance with the terms of the Plan.

The Plan assets are reported at fair value. Plan assets are invested primarily in guaranteed interest accounts. The Plan did not have any investment transactions with related parties during the year.

The recommended contribution estimated in accordance with Act 205 for the Plan for 2018 was \$91,016, which resulted from a defined contribution of approximately 10% of estimated covered payroll. The actual required contribution of \$99,131, based on actual 2018 wages, was made to the Plan from an employer contribution.

Non-Uniformed Pension Plan

The Non-Uniformed Pension Plan (Pension Plan) is a cost-sharing multi-employer pension plan available to full-time permanent employees who are covered by a collective bargaining agreement. The Pension Plan provides defined benefit pensions to both employees of local governments and to employees of employers that are not governmental employers; and the plan has no predominant local government employer. The Borough had 21 employees in the years ended December 31, 2018 and 2017, respectively, who participated in the plan. Annual covered payroll of the active Borough members amounted to approximately \$1,399,000, \$1,059,000, and \$1,170,000 for the years ended December 31, 2018, 2017, and 2016, respectively. Borough contributions to this Pension Plan were 100% of the contractual requirements, and were approximately \$213,000, \$186,000, and \$166,000 for the years ended December 31, 2018, 2017, and 2016, respectively. The Western

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Pennsylvania Teamsters manage this Pension Plan and additional information regarding its current provisions, withdrawal liabilities, and plan assets may be obtained from their offices. Under federal law, this Pension Plan has been certified as being in critical and declining status because it has funding or liquidity problems, or both. Future employer contribution increases are likely.

9. Real Estate Taxes

Real estate taxes are based on assessed valuations provided by Allegheny County and are levied on July 1. These taxes are billed and collected by an elected tax collector. Taxes paid through August 31 are given a 2% discount. Amounts paid after November 1, 2018 are assessed a 10% penalty. Taxes billed and not collected before May 1 of the year following the billing year are subject to an additional 6% interest charge. Delinquent taxes are also collected by the elected tax collector.

Under the Borough Code, the Borough is permitted to levy real estate taxes up to 30 mills for general purposes. The aggregate tax rate for the year ended December 31, 2018 was \$4.78 per \$1,000 of assessed valuation (2.672 mills for general purposes, 0.412 mills for debt service, 0.712 mills for street improvement, 0.388 mills for fire protection, 0.336 mills for emergency medical services, and 0.26 mills for capital improvement). Taxable assessed value for 2018 real estate taxes was \$1,584,137,734 (approximates 100% of fair value).

10. Post-Employment Benefits Other than Pension Benefits (OPEBS)

Plan Description and Benefits Provided

In addition to providing pension benefits under contractual obligations, the Borough provides certain health care and life insurance benefits for certain retired employees who are covered under employment contracts. The Borough does not have a formal plan document for the OPEB plan, but it operates as a single-employer defined benefit plan that is not accounted for as a trust fund. An irrevocable trust has not been established, the plan does not issue a separate report, and activity of the plan is reported in the Borough's General Fund.

All Police officers that have reached 25 years of service which includes the purchase of prior military service and having reached the age of 50 years are eligible to participate in the retirement program. Eligible employees and their spouses may continue health care

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

benefits from the time of retirement until they become eligible for Medicare. Upon being eligible for Medicare, the employee and their spouse are eligible to participate in medical coverage, at a total cost to the Borough, in a Highmark High Deductible 1500/3000 health insurance plan. With ratification of a new bargaining agreement, hospitalization/major Medical benefits for retirees shall not be provided to any officer hired on or after January 1, 2011.

All other covered employees who have reached 60 years of age are eligible to participate in the retirement program. To be eligible for life insurance, employees must also have been employed by the Borough for at least 15 years. Eligible employees may continue to receive benefits until they become eligible for Medicare.

The cost of the premium will be paid in accordance with the following formula:

For police officers, during the first full year of retirement, the Borough will pay 70% of the premium and the retiree will pay 30% of the premium. During the second full year of retirement, the Borough will pay 80% of the premium and the retiree will pay 20% of the premium. During the third full year of retirement, and each year thereafter until the retiree reaches age 65, the Borough will pay 90% of the premium and the retiree will pay 10% of the premium.

For Municipal and Clerical employees, the Borough shall pay for the cost of a retired employee's individual medical coverage under the Borough Plan from age 62 until age 65. The Borough will pay for the cost of a retired employees' individual medical coverage from age 60 to 62 provided the employee pays the stated contribution of \$82 per month.

As of December 31, 2018, there were 67 active employees in the plan and 29 retirees met the eligibility requirements to receive OPEBs.

Contributions

The contribution requirements of OPEB Plan members and the Borough are established and may be amended by the Borough. The OPEB plan is not funded. The employer's contributions are financed on a pay-as-you-go basis. In 2018, the Borough paid \$97,986 in OPEB premiums, net of reimbursement.

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Net OPEB Liability

The Borough's net OPEB liability was measured as of December 31, 2018 and was determined by an actuarial valuation as of December 31, 2018.

The net OPEB liability for the current year was computed as of the latest actuarial valuation using the following actuarial assumptions:

Actuarial valuation date	12/31/2018
Actuarial cost method	Entry Age Normal
Amortization method	Straight-line
Asset valuation method	N/A - the OPEB plan is unfunded
Actuarial assumptions:	
Investment rate of return	3.00%
Assumed retirement age	Police: later of age 58 & 25 years service Other employees: age 62
Healthcare cost trends:	
# of years	3 years 4 years 5 years 6 years Ultimate
Non-Medicare	9% 8% 7% 6% 5%
Medicare	4% 4% 4% 4% 4%

A few assumptions were updated for the December 31, 2018 actuarial report that impacted the calculation of the net OPEB liability. As a result, the net OPEB liability was reduced by approximately \$67,000. The primary reason for the decline is the entry age normal method was changed from level dollar to level percentage of compensation and the base mortality table was changed to reflect head-count weighted mortality rates; and the most recent mortality improvement scale (MD-2018) was added.

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Changes in the Net OPEB Liability

The changes in the total OPEB liability of the Borough for the year ended December 31, 2018 were as follows:

	<u>Net OPEB Liability</u>
Balance at December 31, 2017	\$ 6,035,051
Changes for the year:	
Service cost	167,524
Interest	163,929
Differences between expected & actual experience	(300,687)
Changes of assumptions	(66,672)
Benefits paid	<u>(97,986)</u>
Balance at December 31, 2018	<u>\$ 5,901,159</u>

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following represents the net OPEB liability calculated using the stated discount rate, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

<u>1% Decrease (2%)</u>	<u>Current Discount Rate (3%)</u>	<u>1% Increase (4%)</u>
<u>\$ 6,808,649</u>	<u>\$ 5,901,159</u>	<u>\$ 5,163,009</u>

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Sensitivity of the net OPEB Liability to Changes in the Medical Trend Rate

The following presents the net OPEB liability calculated using the stated medical trend assumption, as well as what the net OPEB liability would be if it were calculated using the medical trend rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
<u>\$ 5,118,613</u>	<u>\$ 5,901,159</u>	<u>\$ 6,890,025</u>

OPEB Expense and Deferred Inflows of Resources

For the year ended December 31, 2018, the Borough recognized OPEB expense of \$300,840.

At December 31, 2018, the Borough reported deferred inflows of resources related to the difference between expected and actual non-investment experience and assumption changes of \$275,630 and \$61,116, respectively. The deferred inflows of resources will be recognized in OPEB expense as follows:

<u>Year Ending December 31</u>	
2019	\$ 30,613
2020	30,613
2021	30,613
2022	30,613
2023	30,613
2024-2028	153,065
2029	30,616
	<u>\$ 336,746</u>

11. Deferred Compensation Plan

The Borough offers its employees a deferred compensation plan (Plan) created in accordance with Internal Revenue Code Section 457. The Plan permits employees to defer a portion of their salary until future years. Participation in the Plan is open to all employees and is optional. The Plan is not available to employees until termination, retirement, death,

BOROUGH OF PLUM

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

or unforeseeable emergency. At December 31, 2018, all amounts of compensation deferred under the Plan are held in trust solely for the benefit of the participants. Investments are managed by the Plan's trustee under several investment options selected by the participant. Deferred compensation assets at December 31, 2018 totaled \$1,419,196. Under the applicable accounting provisions, the Plan is not required to be included in the Borough's financial statements.

12. Commitments and Contingencies

The Borough is involved in a number of other matters arising in the ordinary course of its operations. At present, management believes the ultimate outcome of these matters, after consideration of any applicable insurance coverage, will not be material to the financial statements taken as a whole.

The Borough maintains insurance through independent carriers for all types of business losses. Management believes the insurance coverage is sufficient to cover the Borough against potential losses. There have been no significant changes in insurance coverage since the prior fiscal year and settlements have not exceeded insurance coverage in the past three years.

**REQUIRED SUPPLEMENTARY
INFORMATION**

BOROUGH OF PLUM

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

YEAR ENDED DECEMBER 31, 2018

	Actual	Budgeted Amounts		Variance with Final Budget
		Original	Final	
Revenues:				
Taxes	\$ 9,285,964	\$ 8,933,064	\$ 8,933,064	\$ 352,900
Licenses and permits	795,031	787,300	787,300	7,731
Fines and forfeits	60,456	60,000	60,000	456
Interest, rent, and royalties	7,137	2,000	2,000	5,137
Intergovernmental	769,946	724,608	724,608	45,338
Charges for services	2,096,362	2,120,196	2,120,196	(23,834)
Miscellaneous	100,038	77,000	77,000	23,038
Total revenues	13,114,934	12,704,168	12,704,168	410,766
Expenditures:				
Current:				
General government	1,814,888	1,856,074	1,856,074	41,186
Public safety	5,312,475	5,298,976	5,298,976	(13,499)
Public works	4,369,368	4,640,182	4,640,182	270,814
Culture and recreation	732,466	709,676	709,676	(22,790)
Debt service:				
Principal	182,094	182,094	182,094	-
Interest	12,017	12,017	12,017	-
Total expenditures	12,423,308	12,699,019	12,699,019	275,711
Excess (Deficiency) of Revenues Over Expenditures	691,626	5,149	5,149	686,477
Other Financing Sources (Uses):				
Transfers out	(300,000)	-	-	(300,000)
Total other financing sources (uses)	(300,000)	-	-	(300,000)
Net Change in Fund Balance	\$ 391,626	\$ 5,149	\$ 5,149	\$ 386,477

See accompanying notes to supplementary schedules.

BOROUGH OF PLUM

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

POLICE PENSION PLAN

YEARS ENDED DECEMBER 31,

	2018	2017	2016	2015	2014
Total Pension Liability:					
Service cost	\$ 356,349	\$ 344,144	\$ 303,908	\$ 305,818	\$ 300,890
Interest	1,345,173	1,128,703	1,039,343	1,090,961	1,021,776
Differences between expected and actual experience	(1,130,881)	-	614,600	-	(206,031)
Changes of assumptions	327,272	-	(11,839)	-	(42,224)
Benefit payments, including refunds of member contributions	(677,549)	(681,244)	(731,666)	(584,918)	(557,705)
Net Changes in Total Pension Liability	220,364	791,603	1,214,346	811,861	516,706
Total Pension Liability - Beginning	16,264,156	15,472,553	14,258,207	13,446,346	12,929,640
Total Pension Liability - Ending (a)	\$ 16,484,520	\$ 16,264,156	\$ 15,472,553	\$ 14,258,207	\$ 13,446,346
Plan Fiduciary Net Position:					
Contributions - employer	\$ 651,357	\$ 634,344	\$ 627,380	\$ 609,987	\$ 498,283
Contributions - member	174,680	134,107	136,789	123,591	125,489
Net investment income	(451,595)	1,191,646	646,457	(26,375)	747,151
Benefit payments, including refunds of member contributions	(677,549)	(681,244)	(731,666)	(584,918)	(557,705)
Administrative expense	(12,866)	(19,705)	(16,217)	(32,323)	(15,798)
Other	36,483	(7,152)	-	-	-
Net Change in Plan Fiduciary Net Position	(279,490)	1,251,996	662,743	89,962	797,420
Plan Fiduciary Net Position - Beginning	10,693,912	9,441,916	8,779,173	8,689,211	7,891,791
Plan Fiduciary Net Position - Ending (b)	\$ 10,414,422	\$ 10,693,912	\$ 9,441,916	\$ 8,779,173	\$ 8,689,211
Net Pension Liability - Ending (a-b)	\$ 6,070,098	\$ 5,570,244	\$ 6,030,637	\$ 5,479,034	\$ 4,757,135
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	63.18%	65.75%	61.02%	61.57%	64.62%
Covered Payroll	\$ 2,763,777	\$ 2,653,364	\$ 2,519,406	\$ 2,392,895	\$ 2,343,637
Net Pension Liability as a Percentage of Covered Payroll	219.63%	209.93%	239.37%	228.97%	202.98%

See accompanying notes to supplementary schedules.

BOROUGH OF PLUM

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULES OF BOROUGH'S CONTRIBUTIONS
AND INVESTMENT RETURNS

POLICE PENSION PLAN

YEARS ENDED DECEMBER 31,

	2018	2017	2016	2015	2014
Schedule of Borough's Contributions					
Actuarially determined contribution	\$ 651,357	\$ 634,344	\$ 627,380	\$ 609,987	\$ 498,284
Contributions in relation to the actuarially determined contribution	<u>651,357</u>	<u>634,344</u>	<u>627,380</u>	<u>609,987</u>	<u>498,284</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 2,763,777</u>	<u>\$ 2,653,364</u>	<u>\$ 2,519,406</u>	<u>\$ 2,392,895</u>	<u>\$ 2,343,637</u>
Contributions as a percentage of covered payroll	23.57%	23.91%	24.90%	25.49%	21.26%
Investment Returns					
Annual money-weighted rate of return, net of investment expense	-3.78%	12.46%	7.68%	7.77%	9.44%

See accompanying notes to supplementary schedules.

BOROUGH OF PLUM

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULES OF BOROUGH'S CONTRIBUTIONS
AND INVESTMENT RETURNS

NON-UNIFORMED PENSION PLAN

YEARS ENDED DECEMBER 31,

<u>Schedule of Borough's Contributions</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 213,207	\$ 185,594	\$ 165,952	\$ 144,739	\$ 157,004
Contributions in relation to the actuarially determined contribution	<u>213,207</u>	<u>185,594</u>	<u>165,952</u>	<u>144,739</u>	<u>157,004</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 1,399,006</u>	<u>\$ 1,058,610</u>	<u>\$ 1,170,384</u>	<u>\$ 1,079,803</u>	<u>\$ 1,058,299</u>
Contributions as a percentage of covered payroll	15.24%	17.53%	14.18%	13.40%	14.84%

See accompanying notes to supplementary schedules.

BOROUGH OF PLUM

SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS

YEAR ENDED DECEMBER 31, 2018
LAST TEN YEARS*

	<u>2018</u>
Total OPEB Liability:	
Service cost	\$ 167,524
Interest	163,929
Changes of benefit terms	-
Differences between expected and actual experience	(300,687)
Changes of assumptions	(66,672)
Benefit payments	(97,986)
Net Changes in Total OPEB Liability	(133,892)
Total OPEB Liability - Beginning	6,035,051
Total OPEB Liability - Ending (a)	<u>\$ 5,901,159</u>
Covered Payroll	<u>\$ 5,175,329</u>
Total OPEB Liability as a Percentage of Covered Payroll	114.02%

* Until a full 10-year trend is compiled, the required information for the OPEB Plan is presented for as many years as are available.

See accompanying notes to required supplementary schedules

BOROUGH OF PLUM

NOTES TO SUPPLEMENTARY SCHEDULES

YEAR ENDED DECEMBER 31, 2018

1. Budgetary Comparison

The Borough of Plum's (Borough) budgetary process accounts for transactions on the modified accrual basis of accounting on the governmental fund statements.

2. Pension Information

Actuarial Methods and Assumptions Used in Determining the Contribution Rate

Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar
Remaining amortization period	11 years
Asset valuation method	General Rule
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	4.75%
Underlying inflation rate	2.50%
Cost-of-living adjustments	2.50%
Mortality Table	RP-2017 w/ blue collar set forward 10 years for all disabled lives

Benefit Changes – Police Plan

In 2017, no benefit terms were modified.

Changes in Actuarial Assumptions

The mortality table was updated from the UP-94 Mortality Table to the RP-2014 Mortality Table with the Blue Collar adjustment in the January 1, 2017 valuation. This assumption change decreased the total pension liability by approximately \$12,000.

BOROUGH OF PLUM

NOTES TO SUPPLEMENTARY SCHEDULES

YEAR ENDED DECEMBER 31, 2018

3. OPEB Information

Valuation Date

The Borough's net OPEB liability is measured as of December 31. The net OPEB liability was determined by actuarial valuations as of those measurement dates.

Funding Policy

The Borough's funding policy is to pay for plan benefits when they become due each year, as such no actuarial determined contribution is calculated. There is no accumulation of assets in a trust for the plan.

Actuarial Methods and Assumptions

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 valuation date	12/31/2018
Actuarial cost method	Entry Age Normal
Amortization method	Straight-line
Asset valuation method	N/A - the OPEB plan is unfunded
Actuarial assumptions:	
Investment rate of return	3.00%
Assumed retirement age	Police: later of age 58 & 25 years service Other employees: age 62
Healthcare cost trends:	
# of years	3 years 4 years 5 years 6 years Ultimate
Non-Medicare	9% 8% 7% 6% 5%
Medicare	4% 4% 4% 4% 4%

BOROUGH OF PLUM

NOTES TO SUPPLEMENTARY SCHEDULES

YEAR ENDED DECEMBER 31, 2018

Change in Actuarial Assumptions

A few assumptions were updated for the December 31, 2018 actuarial report that impacted the calculation of the net OPEB liability. As a result, the net OPEB liability was reduced by approximately \$67,000. The primary reason for the decline is the entry age normal method was changed from level dollar to level percentage of compensation and the base mortality table was changed to reflect head-count weighted mortality rates; and the most recent mortality improvement scale (MD-2018) was added.

SUPPLEMENTARY INFORMATION

BOROUGH OF PLUM
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS

DECEMBER 31, 2018

	Special Revenue Funds				Debt Service Fund	Capital Projects Fund			Total Other Governmental Funds
	Fire Protection Fund	State Fund	Flood Mitigation Fund	Emergency Medical Services Fund		Street Improvement Fund	Capital Improvements Fund	2013 Bond Fund	
Assets									
Cash and cash equivalents	\$ 268,334	\$ 85,967	\$ 158,546	\$ 10,873	\$ 53,237	\$ 415,766	\$ 601,924	\$ 240,158	\$ 1,834,805
Receivables:									
Taxes	110,006	-	-	44,260	142,291	204,488	34,250	-	535,295
Other	-	949	147,925	-	-	-	-	-	148,874
Prepaid expenditures	12,740	-	-	-	-	-	-	-	12,740
Total Assets	\$ 391,080	\$ 86,916	\$ 306,471	\$ 55,133	\$ 195,528	\$ 620,254	\$ 636,174	\$ 240,158	\$ 2,531,714
Liabilities, Deferred Inflows of Resources, and Fund Balance									
Liabilities:									
Accounts payable	\$ 6,544	\$ -	\$ 11,959	\$ -	\$ -	\$ 454	\$ 564	\$ -	\$ 19,521
Due to other funds	-	-	1,531	-	-	18,935	-	-	20,466
Total Liabilities	6,544	-	13,490	-	-	19,389	564	-	39,987
Deferred Inflows of Resources:									
Unavailable revenue	87,963	-	24,705	25,172	118,884	169,888	19,479	-	446,091
Fund Balance:									
Nonspendable - prepaids	12,740	-	-	-	-	-	-	-	12,740
Restricted for:									
Liquid Fuels Tax projects	-	86,916	-	-	-	-	-	-	86,916
Fire protection	283,833	-	-	-	-	-	-	-	283,833
Street improvements	-	-	-	-	-	430,977	-	-	430,977
Debt service	-	-	-	-	76,644	-	-	-	76,644
Flood mitigation	-	-	268,276	-	-	-	-	-	268,276
Capital projects	-	-	-	-	-	-	616,131	240,158	856,289
Emergency medical services	-	-	-	29,961	-	-	-	-	29,961
Total Fund Balance	296,573	86,916	268,276	29,961	76,644	430,977	616,131	240,158	2,045,636
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 391,080	\$ 86,916	\$ 306,471	\$ 55,133	\$ 195,528	\$ 620,254	\$ 636,174	\$ 240,158	\$ 2,531,714

BOROUGH OF PLUM

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

YEAR ENDED DECEMBER 31, 2018

	Special Revenue Funds				Debt Service Fund	Capital Projects Funds			Total Other Governmental Funds
	Fire Protection Fund	State Fund	Flood Mitigation Fund	Emergency Medical Services Fund		Street Improvement Fund	Capital Improvements Fund	2013 Bond Fund	
Revenues:									
Taxes	\$ 590,275	\$ -	\$ -	\$ 511,154	\$ 625,781	\$ 977,909	\$ 395,120	\$ -	\$ 3,100,239
Interest, rent, and royalties	15,000	13,239	-	5	-	186	1,774	-	30,204
Intergovernmental	129,116	854,124	-	-	-	-	19,520	-	1,002,760
Charges for services	-	-	711,362	-	-	-	-	-	711,362
Total revenues	734,391	867,363	711,362	511,159	625,781	978,095	416,414	-	4,844,565
Expenditures:									
Public safety	881,647	-	-	435,790	-	-	106,103	-	1,423,540
Public works	-	864,598	708,253	-	-	344,788	311,431	-	2,229,070
Culture and recreation	-	-	-	-	-	-	38,089	-	38,089
Capital outlay	-	-	-	-	-	236,291	193,583	7,748	437,622
Debt service:									
Principal	163,794	-	-	47,602	317,897	82,103	514,373	-	1,125,769
Interest	46,193	-	-	-	369,180	146,298	-	-	561,671
Total expenditures	1,091,634	864,598	708,253	483,392	687,077	809,480	1,163,579	7,748	5,815,761
Excess (Deficiency) of Revenues Over Expenditures	(357,243)	2,765	3,109	27,767	(61,296)	168,615	(747,165)	(7,748)	(971,196)
Other Financing Sources (Uses):									
Proceeds from capital lease	-	-	-	-	-	-	491,458	-	491,458
Proceeds from issuance of loan	424,000	-	-	-	-	-	-	-	424,000
Proceeds of capital asset disposition	-	-	-	-	-	-	72,881	-	72,881
Transfers in	-	-	-	-	30,000	-	300,000	-	330,000
Transfers out	(15,000)	-	-	(15,000)	-	-	-	-	(30,000)
Total other financing sources (uses)	409,000	-	-	(15,000)	30,000	-	864,339	-	1,288,339
Net Change in Fund Balance	51,757	2,765	3,109	12,767	(31,296)	168,615	117,174	(7,748)	317,143
Fund Balance:									
Beginning of year	244,816	84,151	265,167	17,194	107,940	262,362	498,957	247,906	1,728,493
End of year	<u>\$ 296,573</u>	<u>\$ 86,916</u>	<u>\$ 268,276</u>	<u>\$ 29,961</u>	<u>\$ 76,644</u>	<u>\$ 430,977</u>	<u>\$ 616,131</u>	<u>\$ 240,158</u>	<u>\$ 2,045,636</u>

BOROUGH OF PLUM

COMBINING STATEMENT OF PLAN NET POSITION PENSION TRUST FUNDS

DECEMBER 31, 2018

	Police Pension	Administrative Pension	Total
Assets			
Investments at fair value:			
Guaranteed interest account	\$ -	\$ 183,049	\$ 183,049
Mutual funds	1,280,174	59,220	1,339,394
Corporate bonds	254,804	-	254,804
Common stocks	4,899,349	-	4,899,349
Money market funds	266,927	-	266,927
ETFs	306,069	-	306,069
Common/collective trusts	3,407,099	-	3,407,099
Pooled separate accounts - equities	-	330,169	330,169
Pooled separate accounts - balanced/asset allocation	-	778,830	778,830
Pooled separate accounts - fixed income	-	283,317	283,317
	10,414,422	1,634,585	12,049,007
Liabilities			
	-	-	-
Net Position Restricted for Pension Benefits			
	\$ 10,414,422	\$ 1,634,585	\$ 12,049,007

BOROUGH OF PLUM

COMBINING STATEMENT OF CHANGES IN PLAN NET POSITION PENSION TRUST FUNDS

YEAR ENDED DECEMBER 31, 2018

	<u>Police Pension Fund</u>	<u>Administrative Pension Fund</u>	<u>Total</u>
Additions:			
<hr/>			
Contributions:			
Employer, including state aid	\$ 651,357	\$ 99,131	\$ 750,488
Employee	174,680	-	174,680
	<hr/>	<hr/>	<hr/>
Total contributions	826,037	99,131	925,168
	<hr/>	<hr/>	<hr/>
Investment income:			
Net appreciation (depreciation) in fair value of investments	(607,325)	(91,662)	(698,987)
Interest and dividends	155,730	908	156,638
	<hr/>	<hr/>	<hr/>
Total investment income	(451,595)	(90,754)	(542,349)
	<hr/>	<hr/>	<hr/>
Other income:	36,483	-	36,483
	<hr/>	<hr/>	<hr/>
Total additions	410,925	8,377	419,302
	<hr/>	<hr/>	<hr/>
Deductions:			
<hr/>			
Benefits	677,549	32,500	710,049
Administrative expense	12,866	231	13,097
	<hr/>	<hr/>	<hr/>
Total deductions	690,415	32,731	723,146
	<hr/>	<hr/>	<hr/>
Change in Plan Net Position	(279,490)	(24,354)	(303,844)
	<hr/>	<hr/>	<hr/>
Net Position:			
<hr/>			
Beginning of year	10,693,912	1,658,939	12,352,851
	<hr/>	<hr/>	<hr/>
End of year	\$ 10,414,422	\$ 1,634,585	\$ 12,049,007
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

BOROUGH OF PLUM

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES ALL AGENCY FUNDS

YEAR ENDED DECEMBER 31, 2018

	Balance at January 1, 2018	Additions	Deletions	Balance at December 31, 2018
<hr/> Assets <hr/>				
Cash and cash equivalents	<u>\$ 5,109</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,109</u>
<hr/> Liabilities <hr/>				
Due to Coal Miners' Memorial Committee	<u>\$ 5,109</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,109</u>