

# **Borough of Avalon**

## **Primary Government Financial Statements (Modified Cash Basis) and Supplementary Information**

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

**MaherDuessel**  
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

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# **BOROUGH OF AVALON**

YEAR ENDED DECEMBER 31, 2015

## TABLE OF CONTENTS

### **Independent Auditor's Report**

### **Primary Government Financial Statements (Modified Cash Basis):**

#### **Government-Wide Financial Statements:**

Statement of Net Position (Modified Cash Basis) 1

Statement of Activities (Modified Cash Basis) 2

#### **Fund Financial Statements:**

Balance Sheet (Modified Cash Basis) – Governmental  
Funds 3

Statement of Operating Cash Receipts, Cash  
Disbursements, and Changes in Fund Balance  
(Modified Cash Basis) – All Governmental Funds 4

Budgetary Comparison Schedule (Modified Cash  
Basis) – General Fund 5

Statement of Fiduciary Net Position (Modified Cash  
Basis) – Fiduciary Funds 6

Combined Statement of Changes in Fiduciary Net  
Position (Modified Cash Basis) – Fiduciary Funds 7

Notes to Primary Government Financial Statements  
(Modified Cash Basis) 8

### **Supplementary Information:**

Combining Statement of Plan Net Position (Modified  
Cash Basis) – Pension Trust Funds 20

# **BOROUGH OF AVALON**

YEAR ENDED DECEMBER 31, 2015

## TABLE OF CONTENTS

(Continued)

Combining Statement of Changes in Plan Net Position (Modified Cash Basis) – Pension Trust Funds	21
Combining Statement of Changes in Assets and Liabilities (Modified Cash Basis) – All Agency Funds	22

## Independent Auditor's Report

Members of Council  
Borough of Avalon

We have audited the accompanying modified cash basis financial statements (financial statements) of the governmental activities, each major fund, and the aggregate remaining fund information of the Borough of Avalon (Borough), Pennsylvania, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Borough's primary government as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the primary government of the Borough, as of December 31, 2015, and the respective changes in modified cash basis financial position for the year then ended in accordance with the modified cash basis of accounting described in Note 2.

### **Emphasis of Matter**

As discussed in Note 1, the financial statements referred to above include only the primary government of the Borough, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the Borough's legal entity. These primary government financial statements do not include financial data for the Borough's legally separate component unit, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the Borough's primary government. As a result, the primary government financial statements do not purport to, and do not present fairly the financial position of the reporting entity of Borough, as of December 31, 2015, the changes in its financial position or, where applicable, its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

### **Basis of Accounting**

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

### **Other Matters**

#### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough's basic financial statements. The combining statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining 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 combining statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Maier Duessel***

Pittsburgh, Pennsylvania  
June 3, 2016

# BOROUGH OF AVALON

## STATEMENT OF NET POSITION (MODIFIED CASH BASIS)

DECEMBER 31, 2015

<b>Assets</b>	
Cash and cash equivalents	\$ 1,382,667
Other assets	128
<b>Total Assets</b>	<b>1,382,795</b>
<b>Liabilities</b>	
Accounts payable	354
Due to Pension Trust Fund	3,017
<b>Total Liabilities</b>	<b>3,371</b>
<b>Net Position</b>	
Restricted for:	
Highway and streets	102,685
Unrestricted	1,276,739
<b>Total Net Position</b>	<b>\$ 1,379,424</b>

See accompanying notes to primary government financial statements (modified cash basis).

# BOROUGH OF AVALON

## STATEMENT OF ACTIVITIES (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

Functions/Programs	Program Receipts			Net (Disbursements) Receipts and Changes in Net Position	
Disbursements	Charges for Services	Operating Grants	Capital Grants		
<b>Primary Government:</b>					
Governmental activities:					
General government	\$ 643,589	\$ 20,914	\$ -	\$ 95,891	\$ (526,784)
Public safety	1,086,668	285,478	22,832	-	(778,358)
Public works - sanitation	770,821	1,019,720	-	-	248,899
Public works - highway and streets	633,739	43,442	100,632	-	(489,665)
Culture and recreation	205,499	62,431	-	-	(143,068)
Debt service	450,785	-	-	-	(450,785)
Total governmental activities	<u>\$ 3,791,101</u>	<u>\$ 1,431,985</u>	<u>\$ 123,464</u>	<u>\$ 95,891</u>	<u>(2,139,761)</u>
General receipts:					
Taxes:					
Real estate					1,720,563
Earned income					504,034
Real estate transfer					53,699
Local services tax					37,378
Sales taxes					168,545
Investment and rental income					16,655
Miscellaneous					53,134
Refund of prior years' disbursements (receipts), net					(23,450)
Total general receipts					<u>2,530,558</u>
<b>Change in Net Position</b>					<u>390,797</u>
<b>Net Position:</b>					
Beginning of year					988,627
End of year					<u>\$ 1,379,424</u>

See accompanying notes to primary government financial statements (modified cash basis).

# BOROUGH OF AVALON

## BALANCE SHEET (MODIFIED CASH BASIS)

### GOVERNMENTAL FUNDS

DECEMBER 31, 2015

	General Fund	Highway Aid Fund	Sewer Surcharge Fund	Health and Sanitation Fund (non-major fund)	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 221,294	\$ 102,685	\$ 1,026,766	\$ 31,922	\$ 1,382,667
Other assets	-	-	128	-	128
<b>Total Assets</b>	<b>\$ 221,294</b>	<b>\$ 102,685</b>	<b>\$ 1,026,894</b>	<b>\$ 31,922</b>	<b>\$ 1,382,795</b>
<b>Liabilities and Fund Balance</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 159	\$ -	\$ -	\$ 195	\$ 354
Due to pension trust fund	3,017	-	-	-	3,017
<b>Total Liabilities</b>	<b>3,176</b>	<b>-</b>	<b>-</b>	<b>195</b>	<b>3,371</b>
<b>Fund Balance:</b>					
Restricted for highways and streets	-	102,685	-	-	102,685
Assigned:					
Health and sanitation	-	-	-	31,727	31,727
Sewer capital costs	-	-	1,026,894	-	1,026,894
Unassigned	218,118	-	-	-	218,118
<b>Total Fund Balance</b>	<b>218,118</b>	<b>102,685</b>	<b>1,026,894</b>	<b>31,727</b>	<b>1,379,424</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 221,294</b>	<b>\$ 102,685</b>	<b>\$ 1,026,894</b>	<b>\$ 31,922</b>	<b>\$ 1,382,795</b>

See accompanying notes to primary government financial statements (modified cash basis).

## BOROUGH OF AVALON

### STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND BALANCE (MODIFIED CASH BASIS)

#### ALL GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2015

	General Fund	Highway Aid Fund	Sewer Surcharge Fund	Health and Sanitation Fund (non-major fund)	Total Governmental Funds
<b>Cash Receipts:</b>					
Taxes	\$ 2,484,219	\$ -	\$ -	\$ -	\$ 2,484,219
Licenses, permits, and fees	159,217	-	-	-	159,217
Fines, forfeitures, and penalties	58,078	-	-	-	58,078
Investment and rental income	16,254	45	356	-	16,655
Intergovernmental	118,723	100,632	-	-	219,355
Charges for services	194,970	-	993,005	26,715	1,214,690
Miscellaneous	52,984	-	150	-	53,134
<b>Total cash receipts</b>	<b>3,084,445</b>	<b>100,677</b>	<b>993,511</b>	<b>26,715</b>	<b>4,205,348</b>
<b>Cash Disbursements:</b>					
Current:					
General government	433,994	-	-	-	433,994
Public safety	1,086,668	-	-	-	1,086,668
Public works - sanitation	447	-	758,941	11,433	770,821
Public works - highway and streets	633,739	-	-	-	633,739
Culture and recreation	205,499	-	-	-	205,499
Miscellaneous	209,595	-	-	-	209,595
Debt service:					
Principal	260,586	-	56,426	-	317,012
Interest	104,282	-	29,491	-	133,773
<b>Total cash disbursements</b>	<b>2,934,810</b>	<b>-</b>	<b>844,858</b>	<b>11,433</b>	<b>3,791,101</b>
<b>Excess (Deficiency) of Cash Receipts over Cash Disbursements</b>	<b>149,635</b>	<b>100,677</b>	<b>148,653</b>	<b>15,282</b>	<b>414,247</b>
<b>Other Financing Sources (Uses):</b>					
Proceeds from tax anticipation note	300,000	-	-	-	300,000
Repayment of tax anticipation note	(300,000)	-	-	-	(300,000)
Transfers in	70,888	-	349	904	72,141
Transfers out	(1,253)	(70,888)	-	-	(72,141)
Refund of prior years expenditures	21,233	-	-	-	21,233
Refund of prior years receipts	(44,683)	-	-	-	(44,683)
<b>Total other financing sources (uses)</b>	<b>46,185</b>	<b>(70,888)</b>	<b>349</b>	<b>904</b>	<b>(23,450)</b>
<b>Excess (Deficiency) of Cash Receipts and Other Financing Sources over (under) Cash Disbursements and Other Financing Uses</b>	<b>195,820</b>	<b>29,789</b>	<b>149,002</b>	<b>16,186</b>	<b>390,797</b>
<b>Fund Balance:</b>					
Beginning of year	22,298	72,896	877,892	15,541	988,627
End of year	<b>\$ 218,118</b>	<b>\$ 102,685</b>	<b>\$ 1,026,894</b>	<b>\$ 31,727</b>	<b>\$ 1,379,424</b>

See accompanying notes to primary government financial statements (modified cash basis).

# BOROUGH OF AVALON

## BUDGETARY COMPARISON SCHEDULE (MODIFIED CASH BASIS)

### GENERAL FUND

YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Operating Cash Receipts:</b>				
Taxes:				
Real estate	\$ 1,720,900	\$ 1,720,900	\$ 1,720,563	\$ (337)
Earned income	400,000	400,000	504,034	104,034
Real estate transfer	32,500	32,500	53,699	21,199
Local services tax	34,000	34,000	37,378	3,378
Sales	180,000	180,000	168,545	(11,455)
Licenses, permits, and fees	116,000	116,000	159,217	43,217
Fines, forfeitures, and penalties	46,250	46,250	58,078	11,828
Investment and rental income	15,913	15,913	16,254	341
Intergovernmental	194,850	194,850	118,723	(76,127) *
Charges for services	147,496	147,496	194,970	47,474
Miscellaneous	10,600	10,600	52,984	42,384
Total operating cash receipts	<u>2,898,509</u>	<u>2,898,509</u>	<u>3,084,445</u>	<u>185,936</u>
<b>Operating Cash Disbursements:</b>				
Current:				
General government	402,684	402,684	433,994	(31,310)
Public safety	1,100,037	1,100,037	1,086,668	13,369
Public works - sanitation	500	500	447	53
Public works - highway and streets	582,712	582,712	633,739	(51,027)
Culture and recreation	183,001	183,001	205,499	(22,498)
Miscellaneous	205,718	205,718	209,595	(3,877)
Debt service:				
Principal	263,156	263,156	260,586	2,570
Interest	103,875	103,875	104,282	(407)
Total operating cash disbursements	<u>2,841,683</u>	<u>2,841,683</u>	<u>2,934,810</u>	<u>(93,127)</u>
<b>Excess (Deficiency) of Operating Cash Receipts over Operating Cash Disbursements</b>	<u>56,826</u>	<u>56,826</u>	<u>149,635</u>	<u>92,809</u>
<b>Other Financing Sources (Uses):</b>				
Proceeds from tax anticipation note	300,000	300,000	300,000	-
Repayment of tax anticipation note	(300,000)	(300,000)	(300,000)	-
Transfers in	-	-	70,888	70,888
Transfers out	(45,626)	(45,626)	(1,253)	44,373
Refund of prior years expenditures	10,000	10,000	21,233	11,233
Refund of prior years receipts	(21,200)	(21,200)	(44,683)	(23,483)
Total other financing sources (uses)	<u>(56,826)</u>	<u>(56,826)</u>	<u>46,185</u>	<u>103,011</u>
<b>Excess (Deficiency) of Operating Cash Receipts and Other Financing Sources over Operating Cash Disbursements and Other Financing Uses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>195,820</u>	<u>\$ 195,820</u>
<b>Fund Balance:</b>				
Beginning of year			<u>22,298</u>	
End of year			<u>\$ 218,118</u>	

\* Liquid Fuel Tax of \$97,392 was budgeted in intergovernmental revenue. The actual amount transferred in of \$70,088 is reflected as an Other Financing Source

See accompanying notes to primary government financial statements (modified cash basis).

# BOROUGH OF AVALON

## STATEMENT OF FIDUCIARY NET POSITION (MODIFIED CASH BASIS)

### FIDUCIARY FUNDS

DECEMBER 31, 2015

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Agency Funds</u>
Cash and cash equivalents	\$ 57,145	\$ 3,068
Investments (at fair value):		
Equity securities	1,304,135	-
Mutual funds	1,282,249	-
Due from General Fund	3,017	-
<b>Total Assets</b>	<u>2,646,546</u>	<u>3,068</u>
<u>Liabilities</u>		
Escrow liabilities	-	3,068
<b>Total Liabilities</b>	<u>-</u>	<u>3,068</u>
<b>Net Position Restricted for Pension Benefits</b>	<u>\$ 2,646,546</u>	<u>\$ -</u>

See accompanying notes to primary government financial statements (modified cash basis).

# BOROUGH OF AVALON

## COMBINED STATEMENT OF CHANGES IN FIDUCIARY NET POSITION (MODIFIED CASH BASIS)

### FIDUCIARY FUNDS

YEAR ENDED DECEMBER 31, 2015

#### **Additions:**

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Contributions:

Employee	\$ 22,162
Employer, including state aid	186,160

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Total contributions	208,322
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Investment income:

Net depreciation in fair value of investments	(14,764)
Interest and dividends	50,746

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Total investment income	35,982
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Total additions	244,304
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#### **Deductions:**

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Benefits	149,396
Administrative expense	20,856

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Total deductions	170,252
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<b>Increase in Plan Net Position</b>	74,052
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#### **Net Position:**

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Beginning of year	2,572,494
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End of year	\$ 2,646,546
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See accompanying notes to primary government financial statements (modified cash basis).

# **BOROUGH OF AVALON**

## **NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)**

YEAR ENDED DECEMBER 31, 2015

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### **1. THE REPORTING ENTITY**

The Borough of Avalon (Borough) located in Allegheny County, Pennsylvania was established in 1875. The Borough is governed by a mayor and a nine-member Council and provides services to residents, including general government, public safety, highway maintenance, health, and welfare.

The primary government financial statements (financial statements) include only the financial activity of the Borough and do not include the Avalon Public Library (Library), 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 Library because Council appoints the Library's governing Board, the Library facility is owned by the Borough, and the Library is primarily funded through annual subsidies from the Borough, public donations, and the Commonwealth of Pennsylvania. Separate financial statements for the Library are available from its office.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position (modified cash basis) and the statement of activities (modified cash basis)) report information on all of the non-fiduciary activities of the Borough.

The statement of activities (modified cash basis) 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 AVALON

## NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

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### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements and the fund financial statements are reported using the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Accordingly, receipts are generally recognized when cash is received and expenditures are generally recognized when cash is disbursed. Short term borrowings are recognized as a liability when due. Assets and liabilities arising from payroll withholdings are recognized on the payroll date.

The Borough reports the following major governmental funds:

*The General Fund* is the principal operating fund of the Borough, which is used to account for all financial transactions except those accounted for in other funds.

*The Highway Aid Fund* accounts for state aid revenues (liquid fuels tax) used for street lighting, and building and improving roads and bridges.

*The Sewer Surcharge Fund* is used to account for financial resources to be used for the improvement of sanitary sewer lines and charges to pay for normal sewer usage.

The Borough reports the following other governmental fund:

*The Health and Sanitation Fund* accounts for the financial activities related to the collection of solid waste disposal fees from Borough residents.

Additionally, the Borough reports the following fiduciary fund types:

*Pension Trust Funds* are used to account for assets held by the Borough in a trustee capacity for its employees. These include the Police Pension Fund and the General Employees' Pension Fund.

*Agency Funds* are used to account for assets held by the Borough in a trustee capacity for the Tri-Boro community agreement with two other local municipalities.

### Budgets and Budgetary Accounting

Budgetary information in the accompanying financial statements has been reclassified to conform to the financial statement presentation. The Borough follows these procedures in establishing this budgetary data:

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# BOROUGH OF AVALON

## NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

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- a. Formal budgetary integration is employed as a management control device during the year for the General Fund. The budget is adopted annually on the modified cash basis.
- b. In accordance with the Borough Code, beginning at least 30 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. The proposed budget shall be kept on file with the Borough secretary and made available for public inspection for a period of ten days. Notice that the proposed budget is available for inspection is published in a newspaper of general circulation. After expiration of the ten days, Council makes such revisions in the budget as deemed advisable and shall adopt the budget by motion.
- c. Transfers of budget amounts are authorized between departments within any fund. However, any revisions that alter the total appropriations of any fund must be approved by the Council.
- d. Unused appropriations for annually budgeted funds lapse at the end of the year.
- e. The budget amounts shown in the financial statements are the original and final amounts for the year ended December 31, 2015.

Annual appropriated budgets are not adopted for all funds reported in these financial statements. For the year ended December 31, 2015, cash disbursements in the General Fund exceeded appropriations in general government, public works, culture and recreation, and miscellaneous. These overages were funded by excess revenues, transfers in from other funds, and, to the extent available, fund balance.

### Cash and cash equivalents

For purposes of financial reporting, cash and cash equivalents includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

### Investments

Investments are stated at their fair value. Securities are valued at the last reported sales price at current exchange rates.

### Net Position

The Borough classifies net position into two components - restricted and unrestricted. These classifications are defined as follows:

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# BOROUGH OF AVALON

## NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

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- Restricted - This component of net position consists of constraints placed on net position use through external restrictions. Highway aid proceeds are classified as restricted net position because their use is restricted for state liquid fuels tax projects.
- Unrestricted - This component of net position consists of net position that does not meet the definition of “restricted”.

### Fund Balance

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

- 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. This category includes funds that are legally restricted for highway and streets funded from state liquid fuels tax.
- Assigned – This category represents intentions of the Council to use the funds for specific purposes. The Council has delegated the authority to assign amounts to be used for specific purposes to the Borough Manager or his/her designee. This category includes amounts set aside for health and sanitation, and sewer capital costs.
- 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 has not established a policy for its use of unrestricted fund balance amounts; therefore, restricted amounts should be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in those classifications are available to be used.

### **3. DEPOSITS AND INVESTMENTS**

Pennsylvania statutes limit investment of governmental funds into certain authorized investment types including: U.S. Treasury Bills, short-term U.S. Government or Agency obligations, deposits in savings accounts, time deposits or share accounts, obligations of the United States or any of its agencies or instrumentalities, obligations of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities, and shares of any investment company which invests only in the above or certificates of deposit. Fiduciary fund

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# BOROUGH OF AVALON

## NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

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investments may also be made in corporate stocks and bonds, real estate, and other investments consistent with sound business practice.

The deposit and investment policy of the Borough adheres to state statutes. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the Borough.

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

*Custodial Credit Risk* – For a deposit, custodial credit risk is the risk that in the event of a bank failure, the Borough's deposits may not be returned to it. The Borough does not have a formal deposit policy for custodial credit risk.

As of December 31, 2015, \$253,190 of the Borough's \$1,439,686 bank balance was insured by the Federal Deposit Insurance Corporation. The remaining bank balance 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 have carrying amounts of \$1,382,667 as of December 31, 2015.

### Pension

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 are held separately from those of other Borough funds. Assets in the Pension Trust Funds are stated at fair value. The Pension Trust Funds have no investment policy.

The Pension Trust Funds are invested in various types of financial instruments. This diversification of the investment portfolio serves to assist in mitigating the various types of risks associated with different types of financial instruments. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments could occur in the near term and that such a change could materially affect the amount reported on the statement of fiduciary net position (modified cash basis).

# BOROUGH OF AVALON

## NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

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As of December 31, 2015, the Borough had the following investments in its Pension Trust Funds:

	Fair Value
Cash and cash equivalents - money market	\$ 57,145
Mutual funds	1,282,249
Equity securities	1,304,135
Total pension trust funds investments	<u>\$ 2,643,529</u>

Pension Trust Funds' investments in money markets, mutual funds, and equity securities are not exposed to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.

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

*Credit Risk* – For investments, the risk that an issuer or other counterparty to an investment will not fulfill its obligations is called credit risk. The Borough has no formal investment policy that would limit its investment choices based on credit ratings by nationally recognized statistical rating organizations.

*Concentration of Credit Risk* – The Borough places no limit on the amount the Borough may invest in any one issuer. The Borough has no investments of greater than 5% with one issuer.

*Interest Rate Risk* – Interest rate risk is the risk that changes in interest rates will adversely affect the value of investments. The Pension Trust Funds do not have a formal deposit or investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The average maturity of all cash equivalents was less than three months.

### Agency Fund

The Borough maintains bank accounts for the escrowed funds. As of December 31, 2015, the bank and book balance was \$3,068, which is insured by the FDIC.

# BOROUGH OF AVALON

## NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

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### 4. PENSION PLANS

#### Plan Descriptions

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

Plan provisions are established by municipal ordinance with the authority for municipal contributions required by Act 205 of the Commonwealth of Pennsylvania (Act). Employee contributions have been eliminated subject to the plans meeting certain financial conditions. The plans do not issue separate reports.

#### Summary of Significant Accounting Policies

Financial information of the Borough's plans is presented on the modified cash basis of accounting. Employer contributions to each plan are recognized the earlier of when cash is received by the plan or the Borough. Benefits and refunds are recognized when cash is disbursed.

Investments of the plans are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sales price.

#### 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. The Commonwealth of Pennsylvania allocates certain funds to assist in pension funding. Any financial requirement established by the MMO, which exceeds the Commonwealth of Pennsylvania allocation must be funded by the Borough (and could include employee contributions). The 2015 MMO was based on the January 1, 2013 actuarial valuation.

For 2015, the only employee group required to contribute was the police, based upon the financial requirements established by their collective bargaining contract. In 2015, the police contribution rate was 5%. Municipal employees were not required to contribute to their plan.

# BOROUGH OF AVALON

## NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

The 2015 required contributions for the Police Plan included: (1) the 2015 MMO in the amount of \$166,678, and (2) the \$67,948 that was due to the Plan at December 31, 2014. The 2015 required contributions for the General Employees Plan included the 2015 MMO in the amount of \$19,482 and (2) additional payments made to account for 2014 funding deficiencies, totaling \$8,069. \$3,017 was still due to the General Employees Plan at December 31, 2015, related to the 2014 MMO.

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

The Borough's funded status and related information for each Plan as of the latest actuarial valuation date, January 1, 2015, is as follows:

	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Excess of Assets Over (Under) AAL	Funded Ratio	Covered Payroll	Excess (Deficiency) as a Percentage of Covered Payroll
General Employees' Plan	\$ 481,379	\$ 470,420	\$ 10,959	102.33%	\$ 303,126	3.62%
Police Plan	\$ 1,948,844	\$ 2,412,598	\$ (463,754)	80.78%	\$ 479,247	(96.77)%

Actuarial assumptions - The actuarially accrued liability for both Plans was determined by an actuarial valuation performed on January 1, 2015 using the following actuarial assumptions, applied to all periods in the measurement:

	Police Plan	General Employees Plan
	Entry Age Normal	Entry Age Normal
Actuarial cost method		
Actuarial assumptions:		
Investment rate of return	7.00%	7.50%
Projected salary increases	5.00%	4.50%
Underlying inflation rate	3.00%	3.00%

Both plans: RP-2000 Combined Healthy Mortality Table with Blue Collar Adjustment, with rates set forward 5 years for disabled members.

*Changes in Actuarial Assumptions* – There were no changes in actuarial assumptions from the previous report dated January 1, 2013.

# BOROUGH OF AVALON

## NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

### 5. REAL ESTATE TAXES

Real estate taxes based on assessed valuations provided by Allegheny County (County) are levied on April 1 of the taxable year. The 2015 assessed value of real estate property totaled \$181,642,580. Real estate taxes are billed and collected by an elected tax collector. Taxes paid by May 31 are given a 2% discount. Amounts paid after August 31 are assessed a 10% penalty. Any uncollected balances at the end of the year following the taxable year are collected by an outside service.

Under the Borough Code, the Borough is permitted to levy real estate taxes up to 30 mills for general purposes. In addition, additional taxes may be levied for certain specified purposes. Borough real estate taxes were levied at the rate of 9.83 mills for general purposes during 2015.

### 6. LONG-TERM DEBT

As of December 31, 2015, long-term debt consists of the following:

	Principal Payable as of January 1, 2015	New Debt/ Additions	Repayment	Principal Payable as of December 31, 2015	Due Within One Year
<u>Governmental Activities:</u>					
AIM Loan 2011	\$ 28,000	\$ -	\$ (28,000)	\$ -	\$ -
Pennvest 2008 Note	1,020,361	-	(56,426)	963,935	58,122
PLGIT 2009 Note	430,000	-	(80,000)	350,000	80,000
G.O. Bonds 2013	3,220,000	-	(120,000)	3,100,000	125,000
G.O. Note 2014	100,000	-	(32,586)	67,414	33,354
Long-term liabilities	<u>\$ 4,798,361</u>	<u>\$ -</u>	<u>\$ (317,012)</u>	<u>\$ 4,481,349</u>	<u>\$ 296,476</u>

The 2008 Pennvest Guaranteed Revenue Note was issued in the amount of \$1,350,000. Principal and interest payments are due monthly beginning in September 2009, and final payment is due in 2029. Interest is calculated at the rate of 2.109% per annum for the first five years, and 2.965% per annum for the years thereafter. This debt was incurred to finance the Spruce Run Road Project and will be repaid from the Sewer Surcharge Fund.

The 2009 PLGIT General Obligation Note was issued in the amount of \$780,000. Principal and interest payments are due yearly beginning in October 2010, and final payment is due in October 2019. Interest is variable up to 25%, and was approximately 2.1% at year-end. This debt was issued to finance various infrastructure related capital projects.

# BOROUGH OF AVALON

## NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

The 2013 General Obligation Bonds mature between 2013 and 2036 with interest rates of 0.50% to 3.70%. This debt was issued to finance a construction project and currently refund the Borough's 2003 and 2006 General Obligation Bonds.

The 2014 General Obligation Note is payable in three yearly installments of \$35,156. Interest is fixed at 2.673% per annum. Final payment is due in 2017. This debt was incurred to finance capital improvements in the Borough.

Annual debt service requirements are as follows:

<u>Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 296,476	\$ 127,481	\$ 423,957
2017	298,929	120,797	419,726
2018	271,669	113,992	385,661
2019	283,522	107,894	391,416
2020	190,431	101,512	291,943
2021-2025	1,032,866	429,767	1,462,633
2026-2030	1,077,456	268,611	1,346,067
2031-2035	960,000	103,216	1,063,216
2036	70,000	1,295	71,295
	<u>\$ 4,481,349</u>	<u>\$ 1,374,565</u>	<u>\$ 5,855,914</u>

## 7. RISK MANAGEMENT

The Borough is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Borough carries commercial insurance. There have been no significant changes in insurance coverage since the prior year.

For its worker's compensation insurance coverage, the Borough participates in the Municipal Risk Management Worker's Compensation Pooled Trust (Trust), a public entity risk pool operated for the benefit of 216 cities, municipalities, boroughs, townships, and municipal authorities. Trust underwriting and rate-setting policies are established after consultation with an independent actuary and certain approvals of the Pennsylvania Department of Labor and Industry as mandated by Act 44 of 1993 (Act 44). All Trust participants may be subject to a supplemental assessment/dividend based on the overall experience of the participants, pursuant to Act 44. Each participant of the Trust agrees to jointly and severally assume and discharge the liabilities arising under the Workers' Compensation Act and Occupational

# BOROUGH OF AVALON

## NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

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Disease Act of each and every participant of the Trust. The Trust purchases excess insurance coverage with statutory limits. The retention for this excess coverage is \$750,000 per occurrence. Political subdivisions joining the Trust must remain members for a minimum of four years; a member may withdraw from the Trust after that time by giving ninety days notice, subject to approval by the Trust actuary under specified circumstances related to the continued fiscal stability of the pool. At the time of withdrawal, the participant is responsible for their share of assessments but has no claim on any other assets of the Trust.

### 8. COMMITMENTS AND CONTINGENCIES

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

### 9. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivables, payables, and transfers are summarized below:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Governmental Funds:		
General	\$ 70,888	\$ 1,253
Health and Sanitation	904	-
Highway Aid	-	70,888
Sewer Surcharge	349	-
Total	<u>\$ 72,141</u>	<u>\$ 72,141</u>

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# BOROUGH OF AVALON

## NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

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<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Governmental Fund:		
General	\$ -	\$ 3,017
Fiduciary Fund:		
General Employees Pension Fund	<u>3,017</u>	<u>-</u>
Total	<u>\$ 3,017</u>	<u>\$ 3,017</u>

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. 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 2015, the Borough transferred \$70,888 from the Highway Aid Fund to the General Fund, and used those funds for street lighting.

## **Supplementary Information**

# BOROUGH OF AVALON

## COMBINING STATEMENT OF PLAN NET POSITION (MODIFIED CASH BASIS) PENSION TRUST FUNDS

YEAR ENDED DECEMBER 31, 2015

	<u>Police</u>	<u>General Employees</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 49,221	\$ 7,924	\$ 57,145
Investments (at fair value):			
Equity securities	1,108,610	195,525	1,304,135
Mutual funds	978,682	303,567	1,282,249
Due from General Fund	-	3,017	3,017
<b>Total Assets</b>	<u>2,136,513</u>	<u>510,033</u>	<u>2,646,546</u>
<b>Liabilities</b>			
	-	-	-
<b>Net Position Restricted for Pension Benefits</b>	<u>\$ 2,136,513</u>	<u>\$ 510,033</u>	<u>\$ 2,646,546</u>

# BOROUGH OF AVALON

## COMBINING STATEMENT OF CHANGES IN PLAN NET POSITION (MODIFIED CASH BASIS) PENSION TRUST FUNDS

YEAR ENDED DECEMBER 31, 2015

	Police	General Employees	Total
<b>Additions:</b>			
<hr/>			
Contributions:			
Employee	\$ 22,162	\$ -	\$ 22,162
Employer, including state aid	166,678	19,482	186,160
	<hr/>	<hr/>	<hr/>
Total contributions	188,840	19,482	208,322
	<hr/>	<hr/>	<hr/>
Investment income:			
Net depreciation in fair value of investments	(11,311)	(3,453)	(14,764)
Interest and dividends	42,709	8,037	50,746
	<hr/>	<hr/>	<hr/>
Net investment income	31,398	4,584	35,982
	<hr/>	<hr/>	<hr/>
Total additions	220,238	24,066	244,304
	<hr/>	<hr/>	<hr/>
<b>Deductions:</b>			
<hr/>			
Benefits	137,902	11,494	149,396
Administrative expense	19,241	1,615	20,856
	<hr/>	<hr/>	<hr/>
Total deductions	157,143	13,109	170,252
	<hr/>	<hr/>	<hr/>
<b>Increase in Plan Net Position</b>	63,095	10,957	74,052
	<hr/>	<hr/>	<hr/>
<b>Net Position:</b>			
<hr/>			
Beginning of year	2,073,418	499,076	2,572,494
	<hr/>	<hr/>	<hr/>
End of year	\$ 2,136,513	\$ 510,033	\$ 2,646,546
	<hr/>	<hr/>	<hr/>

# BOROUGH OF AVALON

## COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES (MODIFIED CASH BASIS)

### ALL AGENCY FUNDS

YEAR ENDED DECEMBER 31, 2015

	<u>Balance at January 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at December 31, 2015</u>
Assets:				
Cash and cash equivalents	<u>\$ 10,410</u>	<u>\$ 11,518</u>	<u>\$ 18,860</u>	<u>\$ 3,068</u>
Liabilities:				
Escrow liabilities	<u>\$ 10,410</u>	<u>\$ 11,518</u>	<u>\$ 18,860</u>	<u>\$ 3,068</u>