

Borough of Avalon

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

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

MaherDuessel

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BOROUGH OF AVALON

YEAR ENDED DECEMBER 31, 2017

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

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

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

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 Balance Sheet (Modified Cash Basis) – Nonmajor
Governmental Funds 23

Combining Statement of Cash Receipts, Cash Disbursements, and Changes
in Fund Balance (Modified Cash Basis) – Nonmajor Governmental
Funds 24

BOROUGH OF AVALON

YEAR ENDED DECEMBER 31, 2017

TABLE OF CONTENTS

(Continued)

Combining Statement of Net Position (Modified Cash Basis) – Pension Trust Funds	25
Combining Statement of Changes in Net Position (Modified Cash Basis) – Pension Trust Funds	26
Combining Statement of Changes in Assets and Liabilities (Modified Cash Basis) – Agency Funds	27

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, 2017, 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, 2017, 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 the Borough, as of December 31, 2017, 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

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
March 26, 2018

BOROUGH OF AVALON

STATEMENT OF NET POSITION (MODIFIED CASH BASIS)

DECEMBER 31, 2017

Assets	
Cash and cash equivalents	\$ 2,249,765
Total Assets	2,249,765
Liabilities	
Payroll liabilities	15,176
Escrow liabilities	16,232
Total Liabilities	31,408
Net Position	
Restricted:	
Highway and streets	91,659
Unrestricted	2,126,698
Total Net Position	\$ 2,218,357

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

BOROUGH OF AVALON

STATEMENT OF ACTIVITIES (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2017

Functions/Programs	Program Receipts			Net (Disbursements) Receipts and Changes in Net Position	
Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Primary Government:					
Governmental activities:					
General government	\$ 600,135	\$ 12,705	\$ 10,787	\$ -	\$ (576,643)
Public safety	1,174,068	311,697	103,363	55,754	(703,254)
Public works - sanitation	871,341	1,167,168	-	-	295,827
Public works - highway and streets	807,976	16,406	122,973	81,125	(587,472)
Culture and recreation	238,602	72,693	-	-	(165,909)
Community development	10,465	-	-	-	(10,465)
Debt service	502,664	-	-	-	(502,664)
Total governmental activities	<u>\$ 4,205,251</u>	<u>\$ 1,580,669</u>	<u>\$ 237,123</u>	<u>\$ 136,879</u>	<u>(2,250,580)</u>
General receipts:					
Taxes:					
Real estate					1,794,545
Earned income					545,791
Real estate transfer					55,230
Local services tax					36,728
Sales taxes					198,244
Investment and rental income					18,461
Miscellaneous					6,110
Refund of prior years' disbursements (receipts), net					70,449
Total general receipts					<u>2,725,558</u>
Change in Net Position					<u>474,978</u>
Net Position:					
Beginning of year					1,743,379
End of year					<u>\$ 2,218,357</u>

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

BOROUGH OF AVALON

BALANCE SHEET (MODIFIED CASH BASIS)

GOVERNMENTAL FUNDS

DECEMBER 31, 2017

	General Fund	Sewer Surcharge Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 863,470	\$ 1,212,828	\$ 173,467	\$ 2,249,765
Total Assets	\$ 863,470	\$ 1,212,828	\$ 173,467	\$ 2,249,765
Liabilities and Fund Balance				
Liabilities:				
Payroll liabilities	\$ 15,176	\$ -	\$ -	\$ 15,176
Escrow liabilities	16,232	-	-	16,232
Total Liabilities	31,408	-	-	31,408
Fund Balance:				
Restricted:				
Highways and streets	-	-	91,659	91,659
Assigned:				
Health and sanitation	-	-	42,377	42,377
Sewer capital costs	-	1,212,828	-	1,212,828
Debt service	-	-	39,431	39,431
Unassigned	832,062	-	-	832,062
Total Fund Balance	832,062	1,212,828	173,467	2,218,357
Total Liabilities and Fund Balance	\$ 863,470	\$ 1,212,828	\$ 173,467	\$ 2,249,765

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, 2017

	General Fund	Sewer Surcharge Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
Cash Receipts:				
Taxes	\$ 2,630,538	\$ -	\$ -	\$ 2,630,538
Licenses, permits, and fees	126,129	-	-	126,129
Fines, forfeitures, and penalties	77,388	-	-	77,388
Investment and rental income	16,431	1,870	160	18,461
Intergovernmental	114,150	-	177,973	292,123
Charges for services	209,984	1,153,884	13,284	1,377,152
Contributions	81,879	-	-	81,879
Miscellaneous	-	6,110	-	6,110
Total cash receipts	3,256,499	1,161,864	191,417	4,609,780
Cash Disbursements:				
Current:				
General government	461,530	-	-	461,530
Public safety	1,174,068	-	-	1,174,068
Public works - sanitation	-	859,532	11,809	871,341
Public works - highway and streets	738,325	69,651	-	807,976
Culture and recreation	238,602	-	-	238,602
Community development	10,465	-	-	10,465
Miscellaneous	138,605	-	-	138,605
Debt service:				
Principal	245,167	59,869	34,549	339,585
Interest	101,710	26,048	35,321	163,079
Total cash disbursements	3,108,472	1,015,100	81,679	4,205,251
Excess (Deficiency) of Cash Receipts over Cash Disbursements	148,027	146,764	109,738	404,529
Other Financing Sources (Uses):				
Proceeds from tax anticipation note	300,000	-	-	300,000
Repayment of tax anticipation note	(300,000)	-	-	(300,000)
Transfers in	115,869	-	54,301	170,170
Transfers out	(54,301)	-	(115,869)	(170,170)
Refund of prior years expenditures	73,871	-	-	73,871
Refund of prior years receipts	(3,422)	-	-	(3,422)
Total other financing sources (uses)	132,017	-	(61,568)	70,449
Excess (Deficiency) of Cash Receipts and Other Financing Sources over (under) Cash Disbursements and Other Financing Uses	280,044	146,764	48,170	474,978
Fund Balance:				
Beginning of year	552,018	1,066,064	125,297	1,743,379
End of year	\$ 832,062	\$ 1,212,828	\$ 173,467	\$ 2,218,357

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, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Cash Receipts:				
Taxes:				
Real estate	\$ 1,713,100	\$ 1,713,100	\$ 1,794,545	\$ 81,445
Earned income	464,000	464,000	545,791	81,791
Real estate transfer	45,000	45,000	55,230	10,230
Local services tax	35,000	35,000	36,728	1,728
Sales	170,000	170,000	198,244	28,244
Licenses, permits, and fees	128,500	128,500	126,129	(2,371)
Fines, forfeitures, and penalties	59,000	59,000	77,388	18,388
Investment and rental income	16,000	16,000	16,431	431
Intergovernmental	117,950	117,950	114,150	(3,800)
Charges for services	168,300	168,300	209,984	41,684
Contributions	-	-	81,879	81,879
Miscellaneous	5,000	5,000	-	(5,000)
Total cash receipts	<u>2,921,850</u>	<u>2,921,850</u>	<u>3,256,499</u>	<u>334,649</u>
Cash Disbursements:				
Current:				
General government	485,042	485,042	461,530	23,512
Public safety	1,214,217	1,214,217	1,174,068	40,149
Public works - sanitation	500	500	-	500
Public works - highway and streets	656,997	656,997	738,325	(81,328)
Culture and recreation	203,900	203,900	238,602	(34,702)
Community development	-	-	10,465	(10,465)
Miscellaneous	154,585	154,585	138,605	15,980
Debt service:				
Principal	245,000	245,000	245,167	(167)
Interest	99,020	99,020	101,710	(2,690)
Total cash disbursements	<u>3,059,261</u>	<u>3,059,261</u>	<u>3,108,472</u>	<u>(49,211)</u>
Excess (Deficiency) of Cash Receipts over Cash Disbursements				
	<u>(137,411)</u>	<u>(137,411)</u>	<u>148,027</u>	<u>285,438</u>
Other Financing Sources (Uses):				
Proceeds from tax anticipation note	-	-	300,000	300,000
Repayment of tax anticipation note	-	-	(300,000)	(300,000)
Proceeds from sale of assets	1,000	1,000	-	(1,000)
Transfers in	120,000	120,000	115,869	(4,131)
Transfers out	-	-	(54,301)	(54,301)
Budgetary reserve	(914)	(914)	-	914
Refund of prior years expenditures	18,900	18,900	73,871	54,971
Refund of prior years receipts	(1,575)	(1,575)	(3,422)	(1,847)
Total other financing sources (uses)	<u>137,411</u>	<u>137,411</u>	<u>132,017</u>	<u>(5,394)</u>
Excess (Deficiency) of Cash Receipts and Other Financing Sources over (under) Cash Disbursements and Other Financing Uses				
	<u>\$ -</u>	<u>\$ -</u>	<u>280,044</u>	<u>\$ 280,044</u>
Fund Balance:				
Beginning of year			<u>552,018</u>	
End of year			<u>\$ 832,062</u>	

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, 2017

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Agency Funds</u>
Cash and cash equivalents	\$ 194,820	\$ 4,354
Investments (at fair value):		
Equity securities	1,696,440	-
Mutual funds	1,240,872	-
Total Assets	<u>3,132,132</u>	<u>4,354</u>
<u>Liabilities</u>		
Escrow liabilities	-	4,354
Total Liabilities	<u>-</u>	<u>4,354</u>
Net Position Restricted for Pension Benefits	<u>\$ 3,132,132</u>	<u>\$ -</u>

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

BOROUGH OF AVALON

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

FIDUCIARY FUNDS

YEAR ENDED DECEMBER 31, 2017

Additions:

Contributions:

Employee	\$ 20,371
Employer, including state aid	162,002

Total contributions	<u>182,373</u>
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Investment income:

Net appreciation in fair value of investments	359,721
Interest and dividends	41,312

Total investment income	<u>401,033</u>
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Total additions	<u>583,406</u>
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Deductions:

Benefits	200,909
Administrative expense	30,822

Total deductions	<u>231,731</u>
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Increase in Plan Net Position	351,675
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Net Position:

Beginning of year	<u>2,780,457</u>
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End of year	<u><u>\$ 3,132,132</u></u>
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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, 2017

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 receipts. Direct expenses are those that are clearly identifiable with a specific function or segment. Program receipts 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 receipts are reported instead as general receipts.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major

BOROUGH OF AVALON

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2017

individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

The Fire Truck Fund accounts for the accumulation of resources that are assigned for the payment of principal and interest on long-term debt related to the purchase of a fire truck.

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.

BOROUGH OF AVALON

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2017

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:

- 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, 2017.

Annual appropriated budgets are not adopted for all funds reported in these financial statements. For the year ended December 31, 2017, cash disbursements in the General Fund exceeded appropriations in public works – highways and streets, and culture and recreation. These overages were funded by excess revenues, transfers in from other funds, debt proceeds, and, to the extent available, fund balance.

BOROUGH OF AVALON

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2017

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.

Fair Value Measurements

The Borough categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. 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.

Net Position

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

- Restricted - This component of net position consists of constraints placed on net position use through external restrictions. The Borough has restricted net position related to highways and streets.
- 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.

BOROUGH OF AVALON

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2017

- 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, sewer capital costs, and debt service.
- 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.

Pending Pronouncements

The Governmental Accounting Standards Board (GASB) has issued statements that will become effective in future years including Statement Nos. 82 (Pensions), 83 (Asset Retirement Obligations), 84 (Fiduciary Activities), 85 (Omnibus 2017), 86 (Certain Debt Extinguishment Issues), and 87 (Leases). Management has not yet determined the impact of these statements on the financial statements.

3. Deposits and Investments

Pennsylvania statutes limit investment of governmental funds into certain authorized investment types including: U.S. Treasury Bills, short-term commercial paper issued by a public corporation, banker's acceptances, insured or collateralized time deposits, and certificates of deposit. The statutes also allow pooling of governmental funds for investment purposes.

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.

BOROUGH OF AVALON

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2017

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, 2017, \$250,000 of the Borough's \$2,277,615 bank balance was insured by the Federal Deposit Insurance Corporation (FDIC). 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 \$2,249,765 as of December 31, 2017.

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 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).

As of December 31, 2017, the Borough had the following investments in its Pension Trust Funds:

	Fair Value
Cash and cash equivalents - money market	\$ 194,820
Mutual funds	1,240,872
Equity securities	1,696,440
Total Pension Trust Funds investments	<u>\$ 3,132,132</u>

BOROUGH OF AVALON

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2017

Money markets, mutual funds, and equity securities are valued using quoted market prices (Level 1 inputs).

Pension Trust Funds' investment 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 Pension Trust Funds have no formal investment policy that would limit its investment choices based on credit ratings by nationally recognized statistical rating organizations.

Custodial Credit Risk – For investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the Pension Trust Funds will not be able to recover the value of its investments or collateral securities that are in the possession of an outside entity. The Pension Trust Funds do not have a formal investment policy for custodial credit risk.

Concentration of Credit Risk – The Borough places no limit on the amount the Pension Trust Funds may invest in any one issuer. The Pension Trust Funds have 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 fair market value of the Pension Trust Funds. 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. All investments have an average maturity of less than one year.

Agency Fund

The Borough maintains bank accounts for the escrowed funds. As of December 31, 2017, the bank and book balance was \$4,354, which was collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all government deposits and has the collateral held by an approved custodian in the institution's name.

BOROUGH OF AVALON

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2017

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 2017 MMO was based on the January 1, 2015 actuarial valuation.

For 2017, the only employee group required to contribute was the police, based upon the financial requirements established by their collective bargaining contract. In 2017, the

BOROUGH OF AVALON

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2017

police contribution rate was 5%. Municipal employees were not required to contribute to their plan.

The Borough contributed the MMO for both the Police and General Employees' Plans, in the amount of \$149,593 and \$12,409, respectively.

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, 2017, 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	\$ 553,849	\$ 576,955	\$ (23,106)	96.00%	\$ 199,172	(11.60)%
Police Plan	\$ 2,352,032	\$ 2,623,604	\$ (271,572)	89.65%	\$ 431,118	(62.99)%

Actuarial Assumptions

The actuarially accrued liability for both Plans was determined by an actuarial valuation performed on January 1, 2017 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%	7.25%
Projected salary increases	5.00%	4.50%
Underlying inflation rate	2.75%	2.75%

Both plans: RP-2014 Mortality Table with 50% of the Blue Collar Adjustment, with rates set forward 5 years for disabled members.

BOROUGH OF AVALON

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2017

Changes in Actuarial Assumptions – For the Police and General Employees’ Plan, the monthly assumption was changed to the RP-2014 Mortality Table, which is the most recent mortality table promulgated by the Society of Actuaries for pension plan valuation purposes. Additionally, the underlying inflation assumption was changed to 2.75% to adjust for the long-term inflation assumption, which is based on a blend of historical average inflation and expectations of lower inflation over the short-term. Additionally, the investment rate of return on the General Employees’ Plan decreased from 7.50% to 7.25%.

Deferred Compensation Plan

Employees of the Borough may participate in a deferred compensation plan (plan) adopted under the provisions of Internal Revenue Code Section 457 (Deferred compensation plans with respect to service for State and Local Governments), which is considered a defined contribution pension plan. As part of its fiduciary role, the Borough has an obligation of due care in selecting the third-party administrator. The plan is available to all full-time employees of the Borough. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. Council has agreed to match on a per-dollar basis, the employee's contribution to the plan, with a cap of \$120 per month. During 2017, the employer and employee contributions were approximately \$6,720 and \$18,926, respectively.

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. 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 2017.

BOROUGH OF AVALON

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2017

6. Long-Term Debt

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 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 2.0% at year-end. This debt was issued to finance various infrastructure related capital projects.

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 current 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. This debt was incurred to finance capital improvements in the Borough and was paid in full in 2017.

The 2016 Republic First National Loan was issued in the amount of \$639,000. Principal and interest are due semi-annually beginning April 2017, and the final payment is due in 2028. Interest is calculated at the rate of 4.39%. This debt was issued to finance the purchase of a fire truck and pumper, for the use of the Avalon Volunteer Fire Company (Company). The Company has committed to pay the Borough \$150,000 over a five-year period to assist with the debt service payments. The Company paid \$45,000 in 2017.

The 2016 AIM Loan is payable in five yearly installments of \$40,000. Interest is fixed at 1.34% per annum. Final payment is due in 2021. This debt was incurred to finance the South Birmingham Avenue reconstruction project.

BOROUGH OF AVALON

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2017

Annual debt service requirements are as follows:

<u>Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 355,481	\$ 142,193	\$ 497,674
2019	369,278	133,615	502,893
2020	278,218	124,667	402,885
2021	282,306	117,387	399,693
2022	251,546	109,576	361,122
2023-2027	1,392,132	421,338	1,813,470
2028-2032	1,051,434	204,070	1,255,504
2033-2036	670,000	42,915	712,915
	<u>\$ 4,650,395</u>	<u>\$ 1,295,761</u>	<u>\$ 5,946,156</u>

Capital Lease

The Township has entered into a capital lease agreement for financing the acquisition of a vehicle. The future minimum lease obligation is as follows:

<u>Year</u>	<u>Amount</u>
2018	<u>\$ 13,317</u>
Total payments	\$ 13,317
Less: interest	<u>(366)</u>
Present value	<u>\$ 12,951</u>

BOROUGH OF AVALON

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2017

As of December 31, 2017, long-term debt consists of the following:

	Balance as of January 1, 2017	New Debt/ Additions	Repayment	Balance as of December 31, 2017	Due Within One Year
<u>Governmental Activities:</u>					
Pennvest Revenue Note	\$ 905,813	\$ -	\$ (59,869)	\$ 845,944	\$ 61,669
G.O. Note 2009	270,000	-	(85,000)	185,000	90,000
G.O. Bonds 2013	2,975,000	-	(120,000)	2,855,000	120,000
G.O. Note 2014	168	-	(168)	-	-
Republic National Loan	639,000	-	(34,549)	604,451	43,812
AIM Loan	200,000	-	(40,000)	160,000	40,000
Capital Lease	25,542	-	(12,591)	12,951	12,951
	<u>\$ 5,015,523</u>	<u>\$ -</u>	<u>\$ (352,177)</u>	<u>\$ 4,663,346</u>	<u>\$ 368,432</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 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

BOROUGH OF AVALON

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2017

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	\$ 115,869	\$ 54,301
Highway Aid	-	115,869
Fire Truck	54,301	-
Total	<u>\$ 170,170</u>	<u>\$ 170,170</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 2017, the Borough transferred \$115,869 from the Highway Aid Fund to the General Fund and used those funds for street lighting. In addition, the Borough transferred \$54,301 from the General Fund to the Fire Truck Fund for debt service payments.

BOROUGH OF AVALON

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2017

10. Pension Trust Funds

In July 2016, the Borough discovered two unauthorized wire transfers from the Police Pension Trust Fund totaling \$135,214 made in June and July 2016. The Borough immediately notified law enforcement and is presently assisting them with the investigation. The investment company has secured the return of \$12,446 and through the investigation, law enforcement identified an additional \$78,000. The Borough is working with law enforcement to secure the return of these funds. As the Borough reports on the modified cash basis of accounting, a receivable was not recorded for the return of these funds. The Borough has submitted insurance claims for the remaining loss and is awaiting a response from their insurance carriers. The Borough anticipates receiving approximately \$121,000 during 2018.

SUPPLEMENTARY INFORMATION

BOROUGH OF AVALON

COMBINING BALANCE SHEET (MODIFIED CASH BASIS)

NONMAJOR GOVERNMENTAL FUNDS

DECEMBER 31, 2017

	Special Revenue Funds		Debt Service Fund	
	Highway Aid Fund	Health and Sanitation Fund	Fire Truck Fund	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents	\$ 91,659	\$ 42,377	\$ 39,431	\$ 173,467
Total Assets	\$ 91,659	\$ 42,377	\$ 39,431	\$ 173,467
Fund Balance				
Fund Balance:				
Restricted:				
Highways and streets	\$ 91,659	\$ -	\$ -	\$ 91,659
Assigned:				
Health and sanitation	-	42,377	-	42,377
Debt service	-	-	39,431	39,431
Total Fund Balance	91,659	42,377	39,431	173,467
Total Fund Balance	\$ 91,659	\$ 42,377	\$ 39,431	\$ 173,467

BOROUGH OF AVALON

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

NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2017

	Special Revenue Funds		Debt Service Fund	Total Nonmajor Governmental Funds
	Highway Aid Fund	Health and Sanitation Fund	Fire Truck Fund	
Cash Receipts:				
Investment and rental income	\$ 118	\$ 42	\$ -	\$ 160
Intergovernmental	122,973	-	55,000	177,973
Charges for services	-	13,284	-	13,284
Total cash receipts	123,091	13,326	55,000	191,417
Cash Disbursements:				
Public works - sanitation	-	11,809	-	11,809
Debt service				
Principal	-	-	34,549	34,549
Interest	-	-	35,321	35,321
Total cash disbursements	-	11,809	69,870	81,679
Excess (Deficiency) of Cash Receipts over Cash Disbursements	123,091	1,517	(14,870)	109,738
Other Financing Sources (Uses):				
Transfer in	-	-	54,301	54,301
Transfer out	(115,869)	-	-	(115,869)
Total other financing sources (uses)	(115,869)	-	54,301	(61,568)
Excess (Deficiency) of Cash Receipts and Other Financing Sources over (under) Cash Disbursements and Other Financing Uses	7,222	1,517	39,431	48,170
Fund Balance:				
Beginning of year	84,437	40,860	-	125,297
End of year	<u>\$ 91,659</u>	<u>\$ 42,377</u>	<u>\$ 39,431</u>	<u>\$ 173,467</u>

BOROUGH OF AVALON

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

YEAR ENDED DECEMBER 31, 2017

	<u>Police</u>	<u>General Employees</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 175,354	\$ 19,466	\$ 194,820
Investments (at fair value):			
Equity securities	1,444,868	251,572	1,696,440
Mutual funds	933,671	307,201	1,240,872
Total Assets	<u>2,553,893</u>	<u>578,239</u>	<u>3,132,132</u>
Liabilities			
	-	-	-
Net Position Restricted for Pension Benefits	<u>\$ 2,553,893</u>	<u>\$ 578,239</u>	<u>\$ 3,132,132</u>

BOROUGH OF AVALON

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

YEAR ENDED DECEMBER 31, 2017

	Police	General Employees	Total
Additions:			
<hr/>			
Contributions:			
Employee	\$ 20,371	\$ -	\$ 20,371
Employer, including state aid	149,593	12,409	162,002
Total contributions	169,964	12,409	182,373
Investment income:			
Net appreciation in fair value of investments	300,820	58,901	359,721
Interest and dividends	32,590	8,722	41,312
Net investment income	333,410	67,623	401,033
Total additions	503,374	80,032	583,406
Deductions:			
<hr/>			
Benefits	164,012	36,897	200,909
Administrative expense	23,232	7,590	30,822
Total deductions	187,244	44,487	231,731
Increase in Net Position	316,130	35,545	351,675
Net Position:			
<hr/>			
Beginning of year	2,237,763	542,694	2,780,457
End of year	\$ 2,553,893	\$ 578,239	\$ 3,132,132

BOROUGH OF AVALON

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

AGENCY FUNDS

YEAR ENDED DECEMBER 31, 2017

	<u>Balance at January 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at December 31, 2017</u>
Assets:				
Cash and cash equivalents	<u>\$ 4,584</u>	<u>\$ 3,016</u>	<u>\$ 3,246</u>	<u>\$ 4,354</u>
Liabilities:				
Escrow liabilities	<u>\$ 4,584</u>	<u>\$ 3,016</u>	<u>\$ 3,246</u>	<u>\$ 4,354</u>