

Borough of Avalon

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

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

MaherDuessel

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BOROUGH OF AVALON

YEAR ENDED DECEMBER 31, 2018

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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, 2018, 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, 2018, and the respective changes in modified cash basis financial position and the budgetary comparison for the General Fund 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, 2018, the changes in its financial position 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 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.

Mahe Duessel

Pittsburgh, Pennsylvania
March 27, 2019

BOROUGH OF AVALON

STATEMENT OF NET POSITION (MODIFIED CASH BASIS)

DECEMBER 31, 2018

Assets	
Cash and cash equivalents	\$ 2,448,350
Total Assets	2,448,350
Liabilities	
Payroll liabilities	2,011
Escrow liabilities	48,062
Other liabilities	1,907
Total Liabilities	51,980
Net Position	
Restricted:	
Highway and streets	66,629
Unrestricted	2,329,741
Total Net Position	\$ 2,396,370

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

BOROUGH OF AVALON

STATEMENT OF ACTIVITIES (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2018

<u>Functions/Programs</u>	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	\$ 631,762	\$ 10,307	\$ 12,421	\$ -	\$ (609,034)
Public safety	1,293,983	320,210	84,497	35,635	(853,641)
Public works - sanitation	893,178	1,148,961	-	-	255,783
Public works - highway and streets	745,451	25,557	128,951	5,359	(585,584)
Culture and recreation	256,663	70,587	-	-	(186,076)
Debt service	715,841	-	-	-	(715,841)
Total governmental activities	\$ 4,536,878	\$ 1,575,622	\$ 225,869	\$ 40,994	(2,694,393)
General receipts:					
Taxes:					
Real estate					1,898,587
Earned income					563,650
Real estate transfer					72,610
Local services tax					35,714
Sales taxes					217,363
Investment and rental income					42,953
Proceeds from sale of assets					3,525
Refund of prior years' disbursements (receipts), net					38,004
Total general receipts					2,872,406
Change in Net Position					178,013
Net Position:					
Beginning of year					2,218,357
End of year					\$ 2,396,370

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

BOROUGH OF AVALON

BALANCE SHEET (MODIFIED CASH BASIS)

GOVERNMENTAL FUNDS

DECEMBER 31, 2018

	General Fund	Sewer Surcharge Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 948,717	\$ 1,352,663	\$ 146,970	\$ 2,448,350
Due from other funds	-	-	10	10
Total Assets	\$ 948,717	\$ 1,352,663	\$ 146,980	\$ 2,448,360
Liabilities and Fund Balance				
Liabilities:				
Payroll liabilities	\$ 2,011	\$ -	\$ -	\$ 2,011
Escrow liabilities	48,062	-	-	48,062
Other liabilities	728	1,179	-	1,907
Due to other funds	10	-	-	10
Total Liabilities	50,811	1,179	-	51,990
Fund Balance:				
Restricted:				
Highways and streets	-	-	66,629	66,629
Assigned:				
Health and sanitation	-	-	45,541	45,541
Sewer capital costs	-	1,351,484	-	1,351,484
Debt service	-	-	34,810	34,810
Unassigned	897,906	-	-	897,906
Total Fund Balance	897,906	1,351,484	146,980	2,396,370
Total Liabilities and Fund Balance	\$ 948,717	\$ 1,352,663	\$ 146,980	\$ 2,448,360

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)

GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2018

	General Fund	Sewer Surcharge Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
Cash Receipts:				
Taxes	\$ 2,787,924	\$ -	\$ -	\$ 2,787,924
Licenses, permits, and fees	125,980	-	-	125,980
Fines, forfeitures, and penalties	72,305	-	-	72,305
Investment and rental income	27,655	14,514	784	42,953
Intergovernmental	96,918	-	163,951	260,869
Charges for services	228,376	1,138,378	10,583	1,377,337
Contributions	5,994	-	-	5,994
Total cash receipts	3,345,152	1,152,892	175,318	4,673,362
Cash Disbursements:				
Current:				
General government	485,807	-	-	485,807
Public safety	1,293,983	-	-	1,293,983
Public works - sanitation	-	885,290	7,888	893,178
Public works - highway and streets	702,422	43,029	-	745,451
Culture and recreation	256,663	-	-	256,663
Miscellaneous	145,108	-	847	145,955
Debt service:				
Principal	765,000	61,668	44,466	871,134
Interest	95,054	24,249	25,404	144,707
Total cash disbursements	3,744,037	1,014,236	78,605	4,836,878
Excess (Deficiency) of Cash Receipts over Cash Disbursements	(398,885)	138,656	96,713	(163,516)
Other Financing Sources (Uses):				
Proceeds from tax anticipation note	300,000	-	-	300,000
Proceeds from sale of assets	3,525	-	-	3,525
Transfers in	123,200	-	30,010	153,210
Transfers out	-	-	(153,210)	(153,210)
Refund of prior years expenditures	44,692	-	-	44,692
Refund of prior years receipts	(6,688)	-	-	(6,688)
Total other financing sources (uses)	464,729	-	(123,200)	341,529
Excess (Deficiency) of Cash Receipts and Other Financing Sources over (under) Cash Disbursements and Other Financing Uses	65,844	138,656	(26,487)	178,013
Fund Balance:				
Beginning of year	832,062	1,212,828	173,467	2,218,357
End of year	\$ 897,906	\$ 1,351,484	\$ 146,980	\$ 2,396,370

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, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Cash Receipts:				
Taxes:				
Real estate	\$ 1,750,600	\$ 1,750,600	\$ 1,898,587	\$ 147,987
Earned income	585,000	585,000	563,650	(21,350)
Real estate transfer	52,500	52,500	72,610	20,110
Local services tax	40,000	40,000	35,714	(4,286)
Sales	205,000	205,000	217,363	12,363
Licenses, permits, and fees	129,700	129,700	125,980	(3,720)
Fines, forfeitures, and penalties	71,000	71,000	72,305	1,305
Investment and rental income	16,440	16,440	27,655	11,215
Intergovernmental	103,650	103,650	96,918	(6,732)
Charges for services	175,540	175,540	228,376	52,836
Contributions	-	-	5,994	5,994
Total cash receipts	3,129,430	3,129,430	3,345,152	215,722
Cash Disbursements:				
Current:				
General government	503,313	503,313	485,807	17,506
Public safety	1,258,189	1,258,189	1,293,983	(35,794)
Public works - highway and streets	697,919	697,919	702,422	(4,503)
Culture and recreation	236,485	236,485	256,663	(20,178)
Community development	5,153	5,153	-	5,153
Miscellaneous	128,232	128,232	145,108	(16,876)
Debt service:				
Principal	250,000	250,000	765,000	(515,000)
Interest	94,787	94,787	95,054	(267)
Total cash disbursements	3,174,078	3,174,078	3,744,037	(569,959)
Excess (Deficiency) of Cash Receipts over Cash Disbursements	(44,648)	(44,648)	(398,885)	(354,237)
Other Financing Sources (Uses):				
Proceeds from tax anticipation note	-	-	300,000	300,000
Proceeds from sale of assets	-	-	3,525	3,525
Transfers in	126,739	126,739	123,200	(3,539)
Budgetary reserve	(90,441)	(90,441)	-	90,441
Refund of prior years expenditures	11,000	11,000	44,692	33,692
Refund of prior years receipts	(2,650)	(2,650)	(6,688)	(4,038)
Total other financing sources (uses)	44,648	44,648	464,729	420,081
Excess (Deficiency) of Cash Receipts and Other Financing Sources over (under) Cash Disbursements and Other Financing Uses	\$ -	\$ -	65,844	\$ 65,844
Fund Balance:				
Beginning of year			832,062	
End of year			<u>\$ 897,906</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, 2018

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Agency Funds</u>
Cash and cash equivalents	\$ 105,479	\$ 357
Investments:		
Equity securities	2,537,504	-
Mutual funds	504,603	-
Total Assets	<u>3,147,586</u>	<u>357</u>
<hr/>		
<u>Liabilities</u>		
Escrow liabilities	-	357
Total Liabilities	<u>-</u>	<u>357</u>
Net Position Restricted for Pension Benefits	<u>\$ 3,147,586</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, 2018

Additions:

Contributions:

Employee	\$ 29,581
Employer, including state aid	193,155
Insurance proceeds	<u>122,768</u>

Total contributions 345,504

Investment income:

Net appreciation (depreciation) in fair value of investments	(196,174)
Interest and dividends	<u>85,576</u>

Total investment income (loss) (110,598)

Total additions 234,906

Deductions:

Benefits	188,162
Administrative expense	<u>31,290</u>

Total deductions 219,452

Change in Plan Net Position 15,454

Net Position:

Beginning of year 3,132,132

End of year \$ 3,147,586

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, 2018

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, 2018

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 reported on the balance sheet, and amounts held in escrow are also tracked through liability accounts.

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, a special revenue 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 nonmajor 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.

BOROUGH OF AVALON

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2018

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others, and therefore, are not available to support Borough programs. The reporting focus is on net position and changes in net position, and is reported using accounting principles similar to proprietary funds. The Borough reports on the following fiduciary funds:

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:

- 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, 2018.

BOROUGH OF AVALON

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2018

Annual appropriated budgets are not adopted for all funds reported in these financial statements. For the year ended December 31, 2018, cash disbursements in the General Fund exceeded appropriations in public safety, public works – highways and streets, culture and recreation, debt service principal, and miscellaneous. These overages were funded by excess revenues, transfers in from other funds, debt proceeds, 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.

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.

Long Term Debt

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as cash disbursement.

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.”

BOROUGH OF AVALON

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2018

The Borough applies restricted resources first, when available, before using unrestricted resources, to pay expenditures that can be paid from either source.

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.
- 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. 83 (Asset Retirement Obligations), 84 (Fiduciary Activities), 87 (Leases), 88 (Certain Disclosures Related to Debt), 89 (Accounting for Interest Cost Incurred before the End of a Construction Period), and 90 (Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61). Management has not yet determined the impact of these statements on the financial statements.

BOROUGH OF AVALON

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2018

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.

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, 2018, \$250,000 of the Borough's \$2,207,788 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 \$2,448,350 as of December 31, 2018.

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

BOROUGH OF AVALON

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2018

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, 2018, the Borough had the following investments in its Pension Trust Funds:

	Fair Value
Cash and cash equivalents - money market	\$ 105,479
Mutual funds	504,603
Equity securities	2,537,504
Total Pension Trust Funds investments	<u>\$ 3,147,586</u>

Mutual funds and equity securities are valued using quoted market prices (Level 1 inputs).

Pension Trust Funds' investment in money markets and mutual funds 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

BOROUGH OF AVALON

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2018

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, 2018, the bank and book balance was \$357, 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.

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.

BOROUGH OF AVALON

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2018

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 2018 MMO was based on the January 1, 2015 actuarial valuation.

For 2018, the only employee group required to contribute was the police, based upon the financial requirements established by their collective bargaining contract. In 2018, the 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 \$149,781 and \$20,613, 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)%

BOROUGH OF AVALON

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2018

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:

	<u>Police Plan</u>	<u>General Employees Plan</u>
	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.

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 2018, the employer and employee contributions were approximately \$7,440 and \$24,577, respectively.

BOROUGH OF AVALON

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2018

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.

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 2018.

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 and was paid in full in 2018.

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 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 \$25,000 in 2018.

BOROUGH OF AVALON

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2018

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 and was paid in full in 2018.

Annual debt service requirements are as follows:

Years	Principal	Interest	Total
2019	\$ 234,278	\$ 130,112	\$ 364,390
2020	238,218	123,595	361,813
2021	242,306	116,851	359,157
2022	251,546	109,576	361,122
2023	260,946	101,698	362,644
2024-2028	1,436,744	375,755	1,812,499
2029-2033	935,223	169,040	1,104,263
2034-2036	480,000	21,830	501,830
	\$ 4,079,261	\$ 1,148,457	\$ 5,227,718

As of December 31, 2018, long-term debt consists of the following:

	Balance as of January 1, 2018	New Debt/ Additions	Repayment	Balance as of December 31, 2018	Due Within One Year
<u>Governmental Activities:</u>					
Pennvest Revenue Note	\$ 845,944	\$ -	\$ (61,668)	\$ 784,276	\$ 63,522
G.O. Note 2009	185,000	-	(185,000)	-	-
G.O. Bonds 2013	2,855,000	-	(120,000)	2,735,000	125,000
Republic National Loan	604,451	-	(44,466)	559,985	45,756
AIM Loan	160,000	-	(160,000)	-	-
	\$ 4,650,395	\$ -	\$ (571,134)	\$ 4,079,261	\$ 234,278

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.

BOROUGH OF AVALON

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2018

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 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.

BOROUGH OF AVALON

NOTES TO PRIMARY GOVERNMENT FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2018

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>	<u>Due To</u>	<u>Due From</u>
Governmental Funds:				
General	\$ 123,200	\$ -	\$ 10	\$ -
Health and Sanitation	10	-	-	10
Highway Aid	-	153,210	-	-
Fire Truck	30,000	-	-	-
Total Governmental Funds	<u>\$ 153,210</u>	<u>\$ 153,210</u>	<u>\$ 10</u>	<u>\$ 10</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 2018, the Borough transferred \$123,200 from the Highway Aid Fund to the General Fund and used those funds for street lighting, traffic control devices, salt, asphalt, and tool and machinery repairs. In addition, the Borough transferred \$30,000 from the General Fund to the Fire Truck Fund for debt service payments.

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. The Borough submitted insurance claims for the remaining loss and received approximately \$122,000 in 2018.

SUPPLEMENTARY INFORMATION

BOROUGH OF AVALON

COMBINING BALANCE SHEET (MODIFIED CASH BASIS)

NONMAJOR GOVERNMENTAL FUNDS

DECEMBER 31, 2018

	Special Revenue Funds		Debt Service Fund	Total Nonmajor Governmental Funds
	Highway Aid Fund	Health and Sanitation Fund	Fire Truck Fund	
Assets				
Cash and cash equivalents	\$ 66,629	\$ 45,531	\$ 34,810	\$ 146,970
Due to other funds	-	10	-	10
Total Assets	\$ 66,629	\$ 45,541	\$ 34,810	\$ 146,980
Fund Balance				
Fund Balance:				
Restricted:				
Highways and streets	\$ 66,629	\$ -	\$ -	\$ 66,629
Assigned:				
Health and sanitation	-	45,541	-	45,541
Debt service	-	-	34,810	34,810
Total Fund Balance	\$ 66,629	\$ 45,541	\$ 34,810	\$ 146,980

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, 2018

	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	\$ 76	\$ 459	\$ 249	\$ 784
Intergovernmental	128,951	-	35,000	163,951
Charges for services	-	10,583	-	10,583
Total cash receipts	129,027	11,042	35,249	175,318
Cash Disbursements:				
Public works - sanitation	-	7,888	-	7,888
Debt service				
Principal	-	-	44,466	44,466
Interest	-	-	25,404	25,404
Miscellaneous	847	-	-	847
Total cash disbursements	847	7,888	69,870	78,605
Excess (Deficiency) of Cash Receipts over Cash Disbursements	128,180	3,154	(34,621)	96,713
Other Financing Sources (Uses):				
Transfer in	-	10	30,000	30,010
Transfer out	(153,210)	-	-	(153,210)
Total other financing sources (uses)	(153,210)	10	30,000	(123,200)
Excess (Deficiency) of Cash Receipts and Other Financing Sources over (under) Cash Disbursements and Other Financing Uses	(25,030)	3,164	(4,621)	(26,487)
Fund Balance:				
Beginning of year	91,659	42,377	39,431	173,467
End of year	<u>\$ 66,629</u>	<u>\$ 45,541</u>	<u>\$ 34,810</u>	<u>\$ 146,980</u>

BOROUGH OF AVALON

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

YEAR ENDED DECEMBER 31, 2018

	<u>Police</u>	<u>General Employees</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 91,131	\$ 14,348	\$ 105,479
Investments (at fair value):			
Equity securities	2,103,451	434,053	2,537,504
Mutual funds	418,442	86,161	504,603
Total Assets	<u>2,613,024</u>	<u>534,562</u>	<u>3,147,586</u>
Liabilities			
	-	-	-
Net Position Restricted for Pension Benefits	<u>\$ 2,613,024</u>	<u>\$ 534,562</u>	<u>\$ 3,147,586</u>

BOROUGH OF AVALON

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

YEAR ENDED DECEMBER 31, 2018

	Police	General Employees	Total
Additions:			
<hr/>			
Contributions:			
Employee	\$ 29,581	\$ -	\$ 29,581
Employer, including state aid	170,860	22,295	193,155
Insurance proceeds	122,768	-	122,768
	<u>323,209</u>	<u>22,295</u>	<u>345,504</u>
Investment income:			
Net appreciation (depreciation) in fair value of investments	(160,876)	(35,298)	(196,174)
Interest and dividends	71,246	14,330	85,576
	<u>(89,630)</u>	<u>(20,968)</u>	<u>(110,598)</u>
Total additions	<u>233,579</u>	<u>1,327</u>	<u>234,906</u>
Deductions:			
<hr/>			
Benefits	151,265	36,897	188,162
Administrative expense	23,183	8,107	31,290
	<u>174,448</u>	<u>45,004</u>	<u>219,452</u>
Change in Net Position	59,131	(43,677)	15,454
Net Position:			
<hr/>			
Beginning of year	2,553,893	578,239	3,132,132
End of year	<u>\$ 2,613,024</u>	<u>\$ 534,562</u>	<u>\$ 3,147,586</u>

BOROUGH OF AVALON

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

AGENCY FUNDS

YEAR ENDED DECEMBER 31, 2018

	<u>Balance at January 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at December 31, 2018</u>
Assets:				
Cash and cash equivalents	<u>\$ 4,354</u>	<u>\$ 598</u>	<u>\$ 4,595</u>	<u>\$ 357</u>
Liabilities:				
Escrow liabilities	<u>\$ 4,354</u>	<u>\$ 598</u>	<u>\$ 4,595</u>	<u>\$ 357</u>