

Peterson, Fieo & Co. LLP

Certified Public Accountants

Richard M. Peterson, CPA
Giorgio E. Fieo, CPA*, CFE
*also licensed in New Jersey

103 Chesley Drive, Suite #102
Media, Penna. 19063-1757
(610) 565-6307 office / (610) 565-6920 fax

To the Mayor & Members of Council
Borough of Malvern, Chester County, Penna.

We have audited the 2015 Financial Statements of the Borough of Malvern, Chester County (the "Borough") as of and for the year ended 31st December 2015 and have issued our report thereon dated 9th June 2016. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards. As stated in our engagement letter dated 3rd December 2015, our responsibility as described by professional standards, is to express an opinion about whether the said Municipal Annual Audit and Financial Report prepared by management with your oversight are fairly presented, in all material respects, in conformity with the cash basis of accounting which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Our audit of the financial report does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit. We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on 1st February 2016.

Significant Audit Findings.

- A. Qualitative Aspects of Accounting Practices. Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Borough of Malvern are described in Note #1 to the financial report. No new accounting policies were adopted and the application of existing policies was not changed during 2014. We noted no transactions entered into by the Borough during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial report in a different period than when the transaction occurred.
- B. Difficulties Encountered in Performing the Audit. We encountered no significant difficulties dealing with management in performing and completing our audit.
- C. Corrected and Uncorrected Misstatements. Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The attached schedule summarizes material misstatements detected as a result of audit procedures that were corrected by management.
- D. Disagreements with Management. For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors report. We are pleased to report that no such disagreements arose during the course of our audit.

- E. Management Representations. We have requested certain representations from management that are included in the management representation letter dated 10th May 2016.
- F. Management Consultations with Other Independent Accountants. In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to containing a “2nd opinion” on certain situations. If a consultation involves application of an accounting principle to the Borough’s financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.
- G. Other Audit Findings or Issues. We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Borough’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the members of council and management of the Borough of Malvern and is not intended to be and should not be used by anyone other than these specified parties.

Peterson, Fieo & Co.

Peterson, Fieo & Co.
9th June 2016

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To the Mayor & Members of Council
Borough of Malvern, Chester County, Penna.

In planning and performing our audit of the Financial Statements of the Borough of Malvern, Chester County (the "Borough") as of and for the year ended 31st December 2015 in accordance with auditing standards generally accepted in the United States of America, we considered the Borough of Malvern's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial report, but not for the purpose of expressing an opinion on the effectiveness of the Borough's internal control. Accordingly, we do not express an opinion on the effectiveness of the Boroughs internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be (a.) significant deficiencies or (b.) material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *control deficiency* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects an entity's ability to initiate, authorize, record, process, &/or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial report that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial report will not be prevented or detected by the entity's internal control.

During the course of our audit, we did not encounter any situations, or observe any conditions that rise to either a control deficiency or a material weakness as defined above.

However, we observed the following matters, which were not deemed to be significant deficiencies or material weaknesses as defined above, and offer these comments and suggestions,

- #1. Regarding your entity and activity level controls, we recommend that the Borough establish an ethics or "fraud hotline" or other clearly defined and displayed mechanism by which a (a.) suspected fraud or (b.) violation of the Borough's policies or other laws & statutes may be reported without fear or retribution.
- #2. The Borough should consider updating & codifying a code of conduct that would formally communicate expected ethical behavior to all Borough employees.
- #3. The Borough may want to consider establishing an audit committee; general duties could include reviewing the scope of the audit, reviewing the audited financial report and reviewing internal accounting procedures and controls with the

Borough's financial and accounting staff, and being the responsible available as the contact point for any contact resulting from the above recommendation #1.

- #4. The Borough should consider establishing a policy for the destruction of records consistent with the Pennsylvania Municipal Records Act (T. 53 Pa.C.S.A., Pt. III, Subpt. B, Ch. 13, Subch. F), and then fulfilling such on an annual basis.

THIS FINDING WAS ADDRESSED BY COUNCIL THROUGH RESOLUTION #703, APPROVED 16 FEBRUARY 2016, AND IS NO LONGER APPLICABLE.

We appreciate the opportunity to present these comments and suggestions and can discuss these matters further at your convenience, along with any implementation assistance for changes and improvements you may require.

This communication is intended solely for the information and use of management and the council members of the Borough of Malvern, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Peterson, Fieo & Co.

Peterson, Fieo & Co.

9th June 2016

BOROUGH of MALVERN
AUDITED FINANCIAL STATEMENTS
31st DECEMBER 2015

BOROUGH of MALVERN

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**BOROUGH OF MALVERN
Chester County
Malvern, Pennsylvania**

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2015

Background Information:

The Borough of Malvern, located in southeastern Pennsylvania, in Chester County, is a small municipality with a population of 2,998, according to the 2010 Census. In November 2008, the electors of the Borough voted to become a Home Rule municipality, effective January 1, 2009. The Borough of Malvern, however, shall continue as a municipal corporation under the name of "Borough of Malvern". The form of government did not change under Home Rule. The Council/Manager form of government still exists. The Home Rule Charter did institute term limits for all Members of Council and the Mayor to two four-year consecutive terms.

Malvern is considered an Urban Center and serves as a regional town center in the midst of an area that has largely completed a transition from rural to suburban character. As development over the past decades has cemented the suburban character of most of the surrounding Townships, the Borough's role has changed from being a service center for surrounding agricultural areas to being a transportation hub for rail commuters from the surrounding area and a small, specialty commercial center. While being a transportation hub for rail commuters is a positive aspect, it does not come without major challenges. As in smaller communities, the most significant challenges are traffic and parking. Ridership at SEPTA's Malvern Station continues to rise and the two on-site parking lots cannot support the number of vehicles. Our public streets have now become parking lots for the overflow. In 2009, SEPTA submitted a land development plan to improve their parking lots on both the north and south sides of the train tracks and to construct a pedestrian tunnel for their riders to safely access both parking lots. This plan was approved in early 2010 and the pedestrian tunnel opened in December 2011. The project is now complete and has been officially "closed out".

As the Borough is a small municipality surrounded by larger Townships, our main thoroughfare provides easy access to and from the regional road network, which includes Route 30, Route 29, Route 202, Route 252 and Route 352. Congestion created by vehicular through-traffic is compounded by the location on King Street of SEPTA's Malvern Station. In response to the increased traffic on our main thoroughfare, the borough has instituted traffic calming measures, including the addition of stop signs and speed humps. The traffic calming measures are working to not only reduce the speed on our main thoroughfare but to aid in our pedestrian-friendly environment. In 2015, the Borough undertook efforts to study various roadways in the community in order to institute traffic calming measures.

The Borough desires to promote traffic that has the Borough as its origin or destination. Our commercial district merchants are supported not only by the residents of the Borough, but by our surrounding municipalities, as well. We are proud to have a SEPTA Train Station located in our community and feel it is a very positive aspect of our community.

The Borough experienced a change in personnel. A new Borough Manager was hired in fourth quarter to replace the retiring Borough Manager and a full-time Chief of Police was hired in May 2015.

In 2015, the Borough residents elected three (3) new Council members and one (1) member, who was originally appointed to fill an unexpired term, was re-elected. There was also one member of Borough Council who resigned in the third quarter of 2015 and the seat was filled in the beginning of 2016. During the 2015 budget process, the tax rate remained static. The Borough continued the practice of transferring funds into the Capital Reserve Fund. Several projects budgeted in 2015 did not come to fruition and have been carried into 2016.

In 2014, there were three sewer line breaks in the Valley Creek Trunk Sewer line in Tredyffrin Township. One of the breaks spilled sewage into the Valley Forge National Park. These breaks will result in a significant expenditure to the partner municipalities to replace or repair the trunk line. Consulting engineers have been retained by Tredyffrin Township to conduct tests and review options available. These repair costs will be significant. Financing discussions began and will continue into 2016. The Borough is considering issuing debt for this project if necessary.

Services:

From our tax base, the Borough provides many services to residents. These services include trash and recyclable collection, streets and parks maintenance, police protection and fire protection.

All of the Borough streets are owned and maintained by the Borough. There are no PennDOT streets within the Borough limits.

The Borough sponsors or contributes to recreational or event programs for its residents that include a Memorial Day parade, Halloween Parade, a Victorian Christmas celebration, a Malvern Blooms Festival, a Fall Arts and Crafts Festival, a community Fall Fest event, an Easter Egg Hunt and musical entertainment throughout the year. Since 2013 the Borough has supported a Farmer's Market every Saturday in Burke Park. Their mission is dedicated to community education that nurtures the importance of sustaining our local agricultural food system. The Farmers Market offers vital economic opportunity to regional farmers and food producers while playing an important role in revitalizing a community's economic profile. The Borough residents are very supportive of this addition to our community.

The Malvern Fire Company is located in the Borough and is made up primarily of volunteers. A yearly contribution is made to the Fire Company for operating expenses. The Borough pays for worker's compensation insurance for volunteers of both the Fire Company and Ambulance Corps through the State Workers Insurance Fund. In addition, the Borough pays for all water consumption of the Fire Company and allows the Fire Company to fuel their vehicles at the municipal bid rate from fuel pumps located at the Public Works Department.

The Borough is served by the Malvern Public Library that is housed in the Malvern Municipal Building. Along with a yearly contribution to the Library for operating expenses, the Borough provides in-kind services for their 4,069 sq. ft. of space that includes janitorial services, utilities and maintenance and repairs. Both the Borough and the Library feel they are "getting a good deal".

In 1999 the Borough of Malvern purchased the site of the *Paoli Massacre* from Malvern Preparatory School. Although the Borough owns and is responsible for the maintenance of this 40-acre parcel of ground, the land is leased to the Paoli Battlefield Preservation Fund "PBPF", a non-profit organization. The PBPF hosts Revolutionary War re-enactments and other educational programs at the site. In 2015, Borough Council approved assistance for the PBPF in their efforts to attain National Historic Landmark Status.

Operations:

The Borough has four main funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been earmarked for specific activities or objectives. The Borough's four funds include the General Fund that funds the day to day operations of the government; the Sewer Fund that funds all general and capital expenses for the operation of the sanitary sewer system; the Capital Reserve Fund that funds capital improvements and is funded from excess yearly income over expenses from the General Fund; and, the Highway Aid Fund. The sole source of revenue for the Highway Aid Fund is from the State of Pennsylvania in the form of a pro-rata share of the state liquid fuels tax. Monies from this fund are used to purchase roadway equipment for upkeep of dedicated streets within the Borough.

Revenues –

Real Estate taxes were remained at 4.4200 mills in 2015. Collection of current year real estate taxes was 8% higher in 2015 compared to 2014.

All Act 511 Taxes showed a 12.5% increase in 2015. Earned Income Tax revenue was 21% higher in 2015. Real Estate Transfer Tax revenue declined by 19%. Overall, Act 511 taxes finished 8% over budget.

Revenues from Motor Vehicle Code Violations showed an 18% increase in 2015 and False Alarm Penalties showed a 14% decrease. Because of the fees associated with false alarms, we have found employees/employers are being more aware of their codes and alarm systems. Building Permits and Registrations showed an 11% decrease and Plumbing Permits and Registrations showed a 29% decrease over 2014. These decreases were attributed to the construction of a 190 unit apartment complex on E. King Street being completed in 2014. There were no new single family homes completed in 2015. Revenues collected from Violations of Ordinances decreased by 96% in 2015 compared to 2014. The Borough received a \$35,000 outstanding payment in 2014 which resulted in the higher collection. Earnings on Investments decreased by 49% in 2014. This is the fifth year in a row that decreases have occurred from Earnings on Investments.

The Sewer Fund is supported by income from Sewer Rents, Tapping & Connection Fees, Interest on Investments and grant funding. Revenue from the Sewer Fund is considered a "user fee". The minimum sewer rate was increased in 2015 to \$95.60/\$4.00 per quarter from \$80.00/\$4.00 per quarter. This is the rate it was prior to 2014. Borough Council approved the rate increase due to the issues related to the Valley Creek Trunk Sewer break and other capital projects that were budgeted. The revenue from Other Income increased by 163% due to a refund that was received from the Valley Forge Sewer Authority from estimated contributions not expended. When audits are completed, either an additional contribution is due or excess contributions are refunded to the partner municipalities. There was also a \$50,000 interfund transfer from the General Fund to the Sewer Fund.

Expenditures –

The budgeted 2015 General Fund Expenditures increased by 12% over the budgeted 2014 expenditures. This increase is attributed to an increase in costs associated with certain professional services due to ongoing projects, changes in personnel, higher building costs, increased costs for snow and ice removal, and increased contributions to the Capital Reserve Fund. In 2015, the Borough ended its contractual relationship with East Whiteland Township for Police Chief services. A full-time Chief of Police was hired in May 2015. While budgeted expenditures increased, final General Fund expenditures finished 2015 19% below 2014 levels.

We found that in 2015 that our gasoline costs were below projections as the cost of gasoline for our police vehicles and public works trucks decreased. This is an unknown projection in our budget as the gasoline prices can fluctuate significantly from one year to the next.

The Sewer Fund expenditures showed an increase of 19% over the 2014 expenses. This may be primarily attributed to an increase in costs for sewage treatment and disposal, as well as increased engineering expenditures. The Sewer Capital Reserve Fund funded upgrades to the Borough's sewer flow metering system. This will

more accurately measure our flows and will hopefully result in lower costs for the Borough.

Challenges continue to be in the areas of healthcare coverage for our employees and police protection to our community. We strive to maintain good healthcare coverage for our employees while at the same time looking at alternative plans to keep costs at a manageable level to both our employees and our residents.

Capital projects in 2015 included a streetscape project for So. Warren Avenue from Roberts Lane to First Avenue, the purchase of real estate on Old Lincoln Highway for a public park, and engineering costs for the Woodland Avenue streetscape project. Additional projects were budgeted, but not completed. These projects will be carried into 2016.

Capital Expenses and Debt Service

The Borough has outstanding debt of \$1,598,000 at an interest rate of 1.45% through 2022 for renovations to the municipal building made in 2002 and \$244,000 at an interest rate of 1.512% through 2023 for the pole barn and salt shed purchased in 2013.

Interfund Balances

At the end of the fiscal year, December 31st, all monies not spent from the General Fund are transferred to the Capital Reserve Fund. The Capital Reserve Fund finances all capital projects within the Borough; i.e., traffic calming, streetscape revitalization projects, development or purchase of public parks, etc.

Payroll for both the General Fund and Sewer Fund is automatically withdrawn from the General Fund. A check is then written from the Sewer Fund to the General Fund to cover the payroll expenses from the Sewer Fund.

Receivables Not Expected to be Collected within One (1) Year

We have four (4) delinquent sewer customer accounts that date back more than one year. Two (2) customers are in bankruptcy and liens have been placed on all subject properties.

Economic Factors

Economic factors did not necessarily impact the over-all 2015 Budget with the possible exception of decreased revenues from Earnings on Investments in all funds.

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INDEPENDENT AUDITORS' REPORT

To the Mayor, and Members of Council of
Malvern Borough, Chester County, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Borough of Malvern (a Pennsylvania Municipality) as of 31st December 2015 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Borough's basic financial statements as listed in the table of contents.

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

Auditors' Responsibility. The auditors' responsibility is to express an opinion on the financial statements based on the audit. We conducted our audit in accordance with auditing standards generally accepted in the United States, which require that the auditor 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 and 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. Risk assessments involve consideration of 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, and accordingly, no such opinion is expressed. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Borough of Malvern as of 31st December 2015, and the results of operations and changes in fund balances for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle. As discussed in Note 6, during the year the Borough of Malvern implemented GASB Statement No. 67, Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25, and GASB Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. As a result of this implementation, the format and reporting of the financial statements has changed to reflect the required components of these GASB Statements, as applicable. Our opinion is not modified with respect to this matter.

Other Matters.

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

Peterson, Fieo & Co.

Peterson, Fieo & Co.

9th June 2016

BOROUGH of MALVERN

Statement of Net Assets as of December 31, 2015

	Governmental Activities	Business-Like Activities	Total
ASSETS			
Current Assets:			
Cash & Cash Equivalents	\$ 3,823,743	\$ 1,877,544	\$ 5,701,287
Taxes/Accounts Receivable	13,601	221,441	235,042
Other Receivables	-	-	-
Net Pension Asset	1,336,593	-	1,336,593
Non-Current Assets:			
Capital Assets, net of Depreciation	8,022,543	1,389,581	9,412,124
TOTAL ASSETS	13,196,480	3,488,566	16,685,046
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows from pensions	293,913	-	293,913
LIABILITIES & NET ASSETS			
Current Liabilities:			
Accounts Payable and Accrued Expenses	\$ 261,228	\$ 6,662	\$ 267,890
Bonds, Notes, & Leases Payable	247,000	-	247,000
Escrow Liabilities Payable	151,499	-	151,499
Total Current Liabilities	659,727	6,662	666,389
Non-Current Liabilities:			
Compensated Absences	72,210	-	72,210
Notes & Loans Payable	258,000	-	258,000
Bonds Payable	1,337,000	-	1,337,000
Total Non-Current Liabilities	1,667,210	-	1,667,210
TOTAL LIABILITIES	2,326,937	6,662	2,333,599
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	6,180,543	1,389,581	7,570,124
Restricted for Pensions	1,630,506	-	1,630,506
Unrestricted Net Assets (Deficit)	3,352,407	2,092,323	5,444,730
Total Net Assets	11,163,456	3,481,904	14,645,360
TOTAL LIABILITIES & NET ASSETS	\$ 13,490,393	\$ 3,488,566	\$ 16,978,959

The accompanying notes are an integral part of these financial statements.

BOROUGH of MALVERN

**Statement of Activities
for the year ended December 31, 2015**

	Expenses	Program Revenues Charges for Services	Operating Grants	Capital Grants	Primary Government Governmental Activities	Business-Like Activities	Total
<i>Governmental Activities:</i>							
General Government	\$ 735,766	\$ -	\$ -	\$ -	\$ (735,766)	\$ -	\$ (735,766)
Public Safety	941,261	15,854			(925,407)		(925,407)
Highways & Streets	352,778		72,524		(280,254)		(280,254)
Culture & Recreation	93,090				(93,090)		(93,090)
Garbage Collection	217,813				(217,813)		(217,813)
Employee Benefits	241,458				(241,458)		(241,458)
Civic Contributions	21,000				(21,000)		(21,000)
Debt Service	29,494				(29,494)		(29,494)
Total Governmental Activities	\$ 2,632,660	\$ 15,854	\$ 72,524	\$ -	\$ (2,544,282)		\$ (2,544,282)
<i>Business-Like Activities</i>							
Sewer Services	813,504	882,837	-	-	-	69,333	69,333
Total Primary Government	\$ 3,446,164	\$ 898,691	\$ 72,524	\$ -	\$ (2,544,282)	\$ 69,333	\$ (2,474,949)
General Government Revenues							
Taxes					\$ 2,945,608	\$ -	\$ 2,945,608
Grants, unrestricted					80,768		80,768
Earnings on Investments					5,054	6,301	11,355
All other Revenues					695,600		695,600
Transfers, net					-	-	-
Total					\$ 3,727,030	\$ 6,301	\$ 3,733,331
Change in Net Assets					\$ 1,182,748	\$ 75,634	\$ 1,258,382
Prior Period Adjustment					1,630,506		1,630,506
Net Assets, Beginning of Year					8,350,202	3,406,270	11,756,472
Net Assets, End of Year					\$ 11,163,456	\$ 3,481,904	\$ 14,645,360

The accompanying notes are an integral part of these financial statements.

BOROUGH of MALVERN

**Reconciliation of Total Government Activities Fund Balances
to Net Assets of Government Activities, December 31, 2015**

Total Governmental Fund Balances		
Unrestricted Net Assets (Deficit)	\$	3,352,407
Amounts Reported for governmental activities in the Statement of Net Assets are different because:		
Capital Assets used in governmental activities are not financial resources and therefore, are not reported as assets in gov't funds		
		8,022,543
Net Pension Asset (Liability) incurred by governmental activities are not financial resources and therefore, are not reported as assets in gov't funds		
		1,630,506
Short term liabilities due & payable within one year.		
		(247,000)
Long term liabilities not due & payable within one year.		
Bonds Payable	1,337,000	
Notes Payable	258,000	(1,595,000)
		<hr/>
Total Net Assets of Governmental Activities (p.2)	\$	<u>11,163,456</u>

The accompanying notes are an integral part of these financial statements.

BOROUGH of MALVERN

Balance Sheet - Governmental Funds & Business-Like Funds as of December 31, 2015

	Governmental Funds			Totals	Business-Like Funds 2015
	General Fund	Capital Projects Fund	Highway Aid Fund	2015	
ASSETS					
Cash & Cash Equivalents	\$ 2,096,593	\$ 1,633,100	\$ 94,050	\$ 3,823,743	\$ 1,877,543
Taxes Receivable	7,474			7,474	-
Other Receivables				-	221,441
Fixed Assets (net of depr'n)				-	1,740,128
TOTAL ASSETS	\$ 2,104,067	\$ 1,633,100	\$ 94,050	\$ 3,831,217	\$ 3,839,112
LIABILITIES & FUND BALANCES					
LIABILITIES					
Accounts Payable	-	-	-	-	-
Escrow Liabilities Payable	151,499			151,499	
Deferred Revenue				-	
TOTAL LIABILITIES	151,499	-	-	151,499	-
FUND BALANCES					
Reserved for Capital Projects	-	1,633,100	-	1,633,100	
Unreserved (Deficit)	1,952,568		94,050	2,046,618	3,839,112
TOTAL FUND BALANCES	1,952,568	1,633,100	94,050	3,679,718	3,839,112
TOTAL LIABILITIES & FUND BALS.	\$ 2,104,067	\$ 1,633,100	\$ 94,050	\$ 3,831,217	\$ 3,839,112

The accompanying notes are an integral part of these financial statements.

BOROUGH of MALVERN

Statement of Revenues, Expenditures, & Changes in Fund Balances Governmental Funds & Business-Like Funds for the year ended December 31, 2014

	General Fund	Capital Reserve Fund	Highway Aid Fund	Totals 2015	Business-Like Funds 2015
REVENUES					
Taxes	\$ 2,909,624	\$ -	\$ -	\$ 2,909,624	\$ -
Licenses & Permits	193,978			193,978	
Fines, Forfeits, & Costs	29,856			29,856	
Interest, Rents, & Franchise Fees	45,756	6,259	589	52,604	6,301
Intergovernmental Revenues	165,069		72,524	237,593	
Charges for Services/Fees	170,697			170,697	882,837
Proceeds from Long Term Debt		-		-	
Miscellaneous Revenue	214,928			214,928	
TOTAL REVENUES	<u>3,729,908</u>	<u>6,259</u>	<u>73,113</u>	<u>3,809,280</u>	<u>889,138</u>
EXPENDITURES - Current					
General Government	636,624	21,832		658,456	
Public Safety	1,065,886			1,065,886	
Public Works - Garbage Collection	220,976			220,976	749,187
Public Works - Highways & Streets	503,325	355,190		858,515	
Civic Contributions	21,000			21,000	
Culture & Recreation	86,004			86,004	
Insurance, Employee Benefits, P/R Taxes, &c	98,994			98,994	-
EXPENDITURES - Debt Service					
Principal	-	243,000		243,000	
Interest	-	29,494		29,494	
TOTAL EXPENDITURES	<u>2,632,809</u>	<u>649,516</u>	<u>-</u>	<u>3,282,325</u>	<u>749,187</u>
EXCESS (DEFICIENCY) of REVENUES OVER EXPENDITURES	<u>1,097,099</u>	<u>(643,257)</u>	<u>73,113</u>	<u>526,955</u>	<u>139,951</u>
OTHER FINANCING SOURCES (USES)					
Transfers In	110,267	997,298	-	1,107,565	-
Transfers Out	(997,298)		(110,267)	(1,107,565)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(887,031)</u>	<u>997,298</u>	<u>(110,267)</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>210,068</u>	<u>354,041</u>	<u>(37,154)</u>	<u>526,955</u>	<u>139,951</u>
FUND BALANCES (DEFICIT), BEGINNING of YEAR	<u>1,742,500</u>	<u>1,279,059</u>	<u>131,204</u>	<u>3,152,763</u>	<u>3,699,161</u>
FUND BALANCES (DEFICIT), END of YEAR	<u>\$ 1,952,568</u>	<u>\$ 1,633,100</u>	<u>\$ 94,050</u>	<u>\$ 3,679,718</u>	<u>\$ 3,839,112</u>

The accompanying notes are an integral part of these financial statements.

BOROUGH of MALVERN

**Reconciliation of the Statement of Revenues, Expenditures, & Changes
in Fund Balances of Governmental Funds to the Statement of Activities
as of December 31, 2015**

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

Net Changes in Fund Balances - total governmental funds (p.6)	\$ 526,955
Decrease (Increase) in Accounts Payable and Accrued Expenses	61,079
Increase (Decrease) in Receivables	6,127
Principal Payments on Bonds & Notes Payable	243,000
Issuance of New Debt	-
Expenditures for Capital Assets	494,811
Accrual for Compensated Absences	90,113
Depreciation Expense claimed on GAAP Statement of Activities	(239,337)
	<hr/>
Changes in Net Assets of Governmental Funds (p.3)	<u>\$ 1,182,748</u>
Prior Period Adjustment - Record Net Pension Liability & Deferred Outflows	<hr/> 1,630,506
Total Changes to Net Assets of Governmental Funds (p.3)	<u><u>\$ 2,813,254</u></u>

The accompanying notes are an integral part of these financial statements.

BOROUGH of MALVERN

**Statement of Enterprise Fund Cash Flows
(Business-Like Fund, Sewer Fund)
for the year ended December 31, 2015**

CASH FLOWS FROM OPERATING ACTIVITIES

Operating Income	\$ 75,634
Add: Depreciation	63,427
Changes in Working Capital:	
Decrease (Increase) in Accounts Receivables	(3,965)
Increase (Decrease) In Accounts Payable and Accrued Expenses	<u>891</u>
Cash Flows from Operating Activities	\$ 135,987
 CASH FLOWS FROM CAPITAL & FINANCING ACTIVITIES	
Purchase of Capital Assets	<u>-</u>
CASH FLOWS FROM CAPITAL & FINANCING ACTIVITIES	-
 CASH FLOWS FROM INVESTING ACTIVITIES	<u>-</u>
NET INCREASE IN CASH	135,987
Cash Balance, BEGINNING of YEAR	<u>1,741,556</u>
Cash Balance, END of YEAR	<u><u>\$ 1,877,543</u></u>

The accompanying notes are an integral part of these financial statements.

BOROUGH of MALVERN

Statement of Fiduciary Net Position as of December 31, 2015

	Police Plan	Non-Uniform Plan	Total
Assets			
Cash & cash equivalents	\$ -	\$ -	\$ -
Member Contributions Receivable	-	-	-
Employer Contributions Receivable	-	-	-
Investments			
Fixed Income	747,442	1,323,249	2,070,691
US Equities	1,003,209	1,401,366	2,404,575
International Equities	372,148	559,858	932,006
Total Investments	<u>2,122,799</u>	<u>3,284,473</u>	<u>5,407,272</u>
Total Assets	\$ 2,122,799	\$ 3,284,473	\$ 5,407,272
Liabilities			
Accrued administrative expenses	\$ -		\$ -
Benefits payable	-		-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Net Position Restricted for Pensions	<u>\$ 2,122,799</u>	<u>\$ 3,284,473</u>	<u>\$ 5,407,272</u>

Statement of Changes in Fiduciary Net Position for the year ended December 31, 2015

	Police Plan	Non-Uniform Plan	Total
Additions			
Contributions			
State Aid	\$ -	\$ 66,791	\$ 66,791
Members' Contributions	-	13,499	13,499
Employer Contribution	-	-	-
Total Contributions	<u>-</u>	<u>80,290</u>	<u>80,290</u>
Investment Income			
Interest & Dividends	82,394	122,016	204,410
Net Appreciation (Depreciation) in fair value of investments	<u>(84,091)</u>	<u>(123,740)</u>	<u>(207,831)</u>
Total Investment Income	(1,697)	(1,724)	(3,421)
Less Investment Expenses	(6,906)	(10,472)	(17,378)
Net Investment Income	(8,603)	(12,196)	(20,799)
Total Additions	(8,603)	68,094	38,692
Deductions			
Pension Benefit Payments	32,435	62,308	94,743
Administrative Expenses	-	-	-
Total Deductions	<u>32,435</u>	<u>62,308</u>	<u>94,743</u>
Net Increase (Decrease) in Net Position	(41,038)	5,786	(56,051)
Net Position Restricted for Pensions			
Fund Balance, January 1 st	<u>2,163,837</u>	<u>3,278,687</u>	<u>5,442,524</u>
Fund Balance, December 31 st	<u>\$ 2,122,799</u>	<u>\$ 3,284,473</u>	<u>\$ 5,386,473</u>

The accompanying notes are an integral part of these financial statements.

BOROUGH of MALVERN
NOTES to FINANCIAL STATEMENTS
31st DECEMBER 2015

1. SIGNIFICANT ACCOUNTING POLICIES.

The accounting policies of the Borough of Malvern conform to accounting principles generally accepted in the United States as applicable to government units. The Government Accounting Standards Board is the accepted standard-setting body for establishing government accounting and financial reporting principles. The more significant of the Borough's accounting policies are described below.

A. Reporting Entity. In evaluating how to define the Borough for financial reporting purposes, management has considered all potential component units. The basic, but not the only, criterion for including a potential unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant element of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the designation of management, the ability to significantly influence operations, and the existence of special financing relationships. Based on the application of these criteria, it has been determined that no component units exist.

B. Government-wide and Fund Financial Statements. The government-wide and fund financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. Government activities are normally supported by taxes and intergovernmental revenues. The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers or applicants who purchase or directly benefit from the services or privileges provided by a given function, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues. Separate financial statements are provided for governmental funds and business-type funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Fund Accounting. The accounts of the Borough are organized on the basis of funds or account groups, each of which is considered to be a separate reporting entity. The following funds and groups of accounts are used by the Borough:

General Fund - This is the general operating fund of the Borough. All financial resources, except those required to be accounted for in another fund, are accounted for in the general fund.

Capital Reserve Fund - The financial resources to be used for the acquisition or construction of major capital facilities are accounted for in this fund.

Highway Aid Fund - The annual grant received from the Commonwealth of Pennsylvania to be used for its stated purposes is required to be accounted for separately, and is done so in this fund.

Sewer Fund - This fund is used to account for operations that are financed in a manner similar to private business enterprises where the costs of providing sewer service to the general public on a continuing basis are financed through user charges.

BOROUGH of MALVERN
NOTES to FINANCIAL STATEMENTS
31st DECEMBER 2015

D. Basis of Accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the proprietary fund financial statement. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All government fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available. "Measurable" means that the amount of the transaction can be determined and "available" means that the amount of the transaction is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due. The major revenue source susceptible to accrual is property taxes.

Fiduciary Funds (or Trust Funds) are used to account for assets held by the Borough in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds, including Pension Trust Funds. Pension Trust Funds are accounted for in essentially the same manner as proprietary funds since the measurement of the periodic net income and the determination of capital maintenance are critical.

The accrual basis of accounting is used in business-like fund types, such as the Sewer Fund. The accrual basis of accounting recognizes revenue when earned. Expenses are recorded when incurred. The accounting objectives are determination of net income, financial position, and cash flows. All assets and liabilities associated with proprietary funds activities are included on its balance sheet. Business-like fund equity is segregated into contributed capital and retained earnings.

E. Compensated Absences. The Borough allows employees to accumulate up to 28 days of earned vacation time, which is payable upon termination. Certain employees are entitled to payment for unused sick pay at termination. As of 31st December 2015 the liability for accrued vacation and sick time is \$72,210. This amount is reported in the government-wide statements.

F. Property Taxes. Property taxes are billed in February of each year and are due and payable at that time. Discounts and penalties follow a set schedule. Any taxes remaining unpaid by the following February are turned over to the county for collection.

G. Budget Policy and Practice. The Borough manager presents a proposed cash basis budget of revenues and expenditures for the ensuing year to the Borough Council in accordance with the Commonwealth of Pennsylvania's Borough Code. In December, Council adopts the annual budgets for the Borough's governmental and business-like fund (i.e., sewer fund). Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: personal services, other operating expenditures, capital outlay, transfers and debt service.

BOROUGH of MALVERN
NOTES to FINANCIAL STATEMENTS
31st DECEMBER 2015

The policy is to not make periodic budget transfers. Appropriations for annually budgeted funds lapse at the end of the year. Encumbrances are not recorded.

H. Fixed Assets and Depreciation. Property, plant, and equipment of all funds are stated at historical cost. Donated fixed assets are stated at their fair value on the date donated. Governmental fund fixed assets are recorded in the General Fixed Asset Account Group. Fixed assets of the Enterprise Funds (i.e., Business-like Funds) are recorded in that fund and are depreciated using the straight line method over the estimated useful lives of the assets. These useful lives range from 5 to 50 years.

I. Use of Estimates in the Preparation of Financial Statements. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. CASH & INVESTMENTS.

As of 31st December 2015, the carrying value and market value of the Borough's deposits was \$5,701,287 (excluding fiduciary funds) and the bank balances totaled \$5,610,648. Of those bank balances, \$256,678 were covered by insurance provided by the FDIC and \$5,353,970 were covered by collateral held in pooled accounts.

	FDIC	Act 72 Pooling	Total
Category 1	\$ 329,154	\$ 5,281,494	\$ 5,610,648
Category 2	-	-	-
Category 3	-	-	-
Bank Balances	\$ 329,154	\$ 5,281,494	\$ 5,610,648
Carrying Value / Ledger Value	\$ 329,154	\$ 5,372,133	\$ 5,701,287

The Borough Code authorizes the Borough to invest in United States Treasury Bills, short term obligations of the U. S. Government, its agencies and instrumentalities, passbook and money market accounts, and certificates of deposit purchased from institutions insured by the FDIC. The Borough is in compliance with the Code. The Borough considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

The Borough's investments are categorized to give an indication of the level of risk assumed by the Borough at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Borough or its agent in the Borough's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Borough's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Borough's name. The Borough's investments are Category 1 investments.

BOROUGH of MALVERN
NOTES to FINANCIAL STATEMENTS
31st DECEMBER 2015

3. GEOGRAPHIC AREA & CONCENTRATION of CUSTOMERS.

The Business-like Fund (i.e., Sewer Fund) has 100% of its customers within the Borough. All Borough residences and commercial buildings are on the system known as the Sewer Fund. There are no plans to expand the system beyond its current boundaries.

4. CAPITAL ASSETS.

Capital assets are recorded at cost. Changes in the capital asset accounts during the year were as follows:

General Fund	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
Land & Buildings	8,650,358	550,450	0	9,200,808
Machinery & Equipment	1,966,648	142,780	50,548	2,058,880
Total	10,617,006	693,230	50,548	11,259,688
<i>less:</i>				
Accumulated Depreciation	3,048,356	239,337	50,548	3,237,145
Net Book Value	7,568,650	453,893	0	8,022,543

Changes in the Business-Like Funds (i.e., Sewer Fund) capital asset accounts during the year were as follows:

Sewer System	3,434,758	0	0	3,434,758
<i>less:</i>				
Accumulated Depreciation	1,981,750	63,427	0	2,045,177
Net Book Value	1,453,008	(63,427)	0	1,389,581

Total depreciation expense recorded for 2015 was \$302,764.

5. NON-CURRENT LIABILITIES (LONG-TERM DEBT).

As of December 31, 2015 the outstanding non-current liabilities (i.e., long-term debt) were as follows:

Ordinance 2002-7, dated October 15, 2002, authorized the incurring of non-electoral debt in the amount of \$2,500,000. The proceeds were used for renovations to the Municipal Building. The bonds have staggered redemption dates between September 15, 2004 and September 15, 2022. Optional prepayments may be made at any time with 30 days written notice. The loan bears interest at a floating rate and is paid monthly.

BOROUGH of MALVERN
NOTES to FINANCIAL STATEMENTS
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Ordinance 2012-7 dated December 18, 2012, authorized the incurring of non-electoral debt in the amount of \$300,000. The proceeds were used for New Pole Barn and HVAC Upgrade. The bonds have staggered redemption dates between 2014 and 2023. Optional prepayments may be made at any time with 30 days written notice. The loan bears interest at a floating rate and is paid monthly.

As of December 31, 2015, the annual principal payment requirements of the outstanding long-term debt of the Borough were as follows:

	Portion due during 2016	Portion due post-2016	Total
Building Renovation Bonds	218,000	1,380,000	1,598,000
2013 Note Payable	29,000	215,000	244,000
	\$ 247,000	\$ 1,595,000	\$ 1,842,000

Annual debt service requirements are as follows:

	Principal	Interest
2016	\$ 247,000	\$ 26,333
2017	251,000	22,725
2018	255,000	19,059
2019	258,000	15,337
2020	262,000	11,569
2021-2023	569,000	12,081
	\$ 1,842,000	\$ 107,104

General obligation bonds, issued by the Borough for municipal improvements, are backed by the full faith and credit of the Borough of Malvern. The Borough has no debt outstanding that exceeds its borrowing base.

6. PENSION BENEFIT TRUSTS.

Pension Plan Description & Administration. The Borough of Malvern maintains two single-employer defined benefit pension plans, namely its Police Pension Plan (covering all uniformed police officers), and its Non-Uniform Plan (covering all other covered employees). These plans are controlled by the provisions of Codified Ordinances. These plans are governed by the Borough of Malvern which may amend plan provisions, and which is responsible for the management of plan assets. The Borough of Malvern has delegated the authority to manage certain plan assets to Vanguard. The plan documents can be found in the Codification of Ordinances, Section 32, Article II.

The Borough of Malvern has filed actuarial valuation report Form 201C with the Public Employee Retirement Commission. The report dated January 1, 2015, was the most recently certified by the

BOROUGH of MALVERN
NOTES to FINANCIAL STATEMENTS
31st DECEMBER 2015

municipality's chief administrative officer. This report indicated the municipality maintains a pension plan to provide pension benefits for Police and non-uniform employees as described above.

Current membership in the plan (as of January 1st of the year indicated) is as follows:

Table 1	Police Plan		Non-Uniform Plan	
	2015	2016	2015	2016
active employees	4	3	10	10
retirees & beneficiaries currently receiving benefits	3	3	4	5
terminated employees entitled to benefits but not yet receiving them	0	0	0	0
total	7	6	14	15

Benefits Provided.

A covered employee is an employee who receives a regular salary or wages from Malvern Borough provided, however, that an employee shall not be considered in covered employment if they are a part-time or seasonal employee who is not regularly employed for more than 120 working days in any on calendar year. Cost-of-living adjustments (COLA) are provided at the discretion of the Borough Council. The Borough has authority to establish and amend benefit provisions of the plan. Covered payroll refers to all compensation by the Borough to active employees covered by the plan.

(i.) Eligibility.

- Police Plan - Each full-time officer shall be a member of the Police Plan after the completion of one hour of service.
- Non-Uniformed Plan – All regular, full-time employees of Malvern Borough, except policemen, elected officials, and employees hired after their 60th birthday shall be members of the Non-Uniform Plan.

(ii.) Retirement Dates

Police Plan.

- A. Normal Retirement Date - The first day of the month following the member's fifty-fifth (55th) birthday and completion of twenty-five (25) years of continuous service.
- B. Disability Retirement Date - The council shall determine if a member is eligible to receive a disability benefit under the Plan after securing the opinion of one or more physicians licensed to practice medicine. The disability income shall commence on the first day of the month next following the termination of the member's Borough salary or next following the termination of member's worker's compensation benefit or Borough sponsored disability insurance benefit, if any, whichever occurs last.

Non-Uniform Plan.

- A. Normal Retirement Date - The last day of the month in which the member attains age 65.
- B. Early Retirement Date - The first day of the month following the member's fifty-fifth (55th) birthday and completion of twenty-five (25) years of service; or following the member's sixty-second (62nd) birthday and completion of ten (10) years of service.

BOROUGH of MALVERN
NOTES to FINANCIAL STATEMENTS
31st DECEMBER 2015

- C. Postponed Retirement Date – By mutual consent of the employee and the Borough, a member may continue in employment beyond the Normal Retirement Date, in which case the Postponed Retirement Date shall be the 1st day of the month following actual termination of employment.

(iii.) Retirement Benefits.

Police Plan.

- A. Normal Retirement Benefit - One-half ($\frac{1}{2}$) of the member's Average Monthly Salary less fifty percent (50%) of the primary social security benefit for which a member may be eligible because of age, at the earliest age he/she is eligible for such benefit, whether he/she applies for it, or not.
- B. Disability Retirement Benefit - In the event of a permanent service-related injury, the benefit shall be equal to fifty percent (50%) of the Salary of the member. The benefit would be payable as if the date of disability had been his normal retirement date. This benefit is reduced by any benefits or payments received by such member under the Social Security Administration for the same injury.

Non-Uniform Plan.

- C. Normal Retirement Benefit - Two percent (2%) for each year of continuous service (to a maximum of sixty percent (60%)), multiplied by the average monthly pay rate.
- D. Early Retirement Benefit - Shall equal the accrued benefit payable on Normal Retirement Date, or, if elected, reduced by one-half ($\frac{1}{2}$) of one percent (1%) for each month the early retirement date precedes the Normal Retirement Date. The benefit is payable immediately.
- E. Deferred Retirement Benefit - Calculated in the same manner as the Normal Retirement Benefit.

(iv.) Vested Benefits.

Non-Vested Benefit - Any member, who for any reason shall be ineligible to receive a pension after having contributed, shall be entitled to a refund of the contributions plus interest at the rate of (a.) five percent (5%) per annum for Police Plan participants, or (b.) four percent (4%) per annum for Non-Uniform Plan participants through the end of 1982 and 7% per annum, thereafter, upon discontinuance of his/her employment.

Vested Benefit, Police Plan - After completing twelve (12) years of service, a member will be entitled to one hundred percent (100%) vesting in his accrued benefit payable at Normal Retirement Date.

Vested Benefit, Non-Uniform Plan - After completing five (5) years of service, a member will be entitled to one hundred percent (100%) vesting in his accrued benefit payable at Normal Retirement Date. Nevertheless, a member shall be 100% vested in his/her accrued benefit upon the attainment of age 65.

(v.) Death Benefits.

A. Police Plan, Pre-Retirement:

- (a.) Non-Vested Benefit - The beneficiary of a deceased officer who was non-vested in the accrued benefit at the date of death, shall be entitled to the refund of employee contributions, if any, plus interest at the rate of five percent (5%) per annum through the end of 1982 and seven percent (7%) per annum, thereafter.
- (b.) Vested Benefit - The spouse of a deceased member, who was vested in the accrued benefit at the date of death, shall receive during the spouse's lifetime, fifty percent (50%) of the accrued benefit of the member commencing on the expected normal retirement date of the member. If no such spouse survives, or if the spouse survives and

BOROUGH of MALVERN
NOTES to FINANCIAL STATEMENTS
31st DECEMBER 2015

subsequently dies, then the children under the age of eighteen (18) [or are attending college and have not yet attained age twenty three (23)], shall be entitled to the same benefit described above.

B. Police Plan, Post-Retirement Survivors Benefit: The widow of a member who has attained eligibility for retirement, or a member who retired on pension, shall receive during the spouse's lifetime, fifty percent (50%) of the pension the member was receiving or would have been receiving had he been retired at the time of his death. If no such widow survives, or if the spouse survives and subsequently dies or remarries, then the children under the age of eighteen (18), or are attending college and have not yet attained age twenty three (23), shall be entitled to the same benefit described above.

C. Non-Uniform Plan: If a member dies prior to retirement, the Trustee shall pay to the designated beneficiary(ies) an amount equal to his/her employee contributions plus interest at the rate of four percent (4%) through the end of 1982, plus seven percent (7%) thereafter, compounded annually. Upon the death of a retired participant, additional payments, if any, will be paid subject to the retirement payment election(s) chosen by the participant at time of retirement.

(vi.) Deferred Retirement Option Program (DROP). The plan does not provide a Deferred Retirement Option Program.

(vii.) Employee Contributions. Members of both plans contribute a portion of their monthly salary to the plan per the following schedule:

- Police Plan: 3.5% of monthly salary, up to the social security wage base for the calendar year plus 5% of the monthly salary in excess of the social security wage base for the calendar year.
- Non-Uniform Plan: 2% of monthly salary.

Contributions & Funding Policy. Act 205 requires that annual contributions to these plans be based upon the plan's calculated Minimum Municipal Obligation (MMO), which is based on the plan's biennial actuarial valuation. The plan may also be eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program which must be used for pension funding. Any funding requirements established by the MMO in excess of employee contributions and state aid must be paid by the municipality in accordance with Act 205. Investment expenses, including investment manager and custodial services, are funded through investment earnings. Administrative expenses, including actuarial and consultant services, are funded through investment earnings and/or contributions.

Basis of Accounting. These pension trusts use the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans. Administrative costs are financed through investment earnings. Assets of each plan are valued and reported at fair market value.

Investment Policy.

The allocation of invested assets for each/both pension plans is established and may be amended by the Pension Board. The investment policy of the Plan is to maximize the total rate of return over the long term, subject to preservation of capital, by diversifying the allocation of capital among various investments in domestic equity securities, international equity securities, domestic fixed income

BOROUGH of MALVERN
NOTES to FINANCIAL STATEMENTS
31st DECEMBER 2015

instruments and other asset classes as may be deemed prudent. The plans' investment policy(s) establish that the portfolio may be invested in the following asset classes with target asset allocations as listed in Table 2, below.

Long-Term Expected Rate of Return.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation of 2.25%) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2015 are summarized in Table 2, below.

Table 2	Police Plan		Non-Uniform Plan	
	Target	Long-Term Expected Rate of Return	Target	Long-Term Expected Rate of Return
Domestic Equity Large Cap	0%	6.58%	0%	6.58%
Domestic Equity Mid Cap	47%	7.39%	43%	7.39%
Domestic Equity Small Cap	0%	7.39%	0%	7.39%
International Equity	18%	7.59%	17%	7.59%
Fixed Income	35%	3.03%	40%	3.03%
Emerging Markets	0%	10.25%	0%	10.25%
Cash	0%	.75%	0%	.75%
Total	100%	100.00%	100%	100.00%

Rate of Return.

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the year ended December 31, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was

- Police Plan -0.40%
- Non-Uniformed Plan -0.37%

Pension Liability, Pension Expense and Deferred Outflows of Resources Related to Pensions.

(i) Net Pension Liability. The components of the net pension liability of the plans as of December 31, 2015 were as follows:

Table 3	Police Plan	Non-Uniform Plan	Total
Total Pension Liability	\$ 1,109,664	\$ 2,961,015	\$ 4,070,679
Plan Fiduciary Net Position	\$ 2,122,799	\$ 3,284,473	\$ 5,407,272
Net Pension Liability	\$ (1,013,135)	\$ (323,458)	\$ (1,336,593)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	191.3%	110.9%	132.8%

(See following table for additional details regarding Net Pension Liability).

Malvern Borough
Notes to Financial Statements, Note #6 Continued
December 31, 2015

Changes in Net Pension Liability

The following table shows the changes in net pension liability recognized over the year January 1, 2015 to December 31, 2015.

	Police Plan			Non-Uniform Plan			Total
	Increase/(Decrease)			Increase/(Decrease)			
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (a) - (b)	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (a) - (b)	
Balances at 12/31/2014	\$ 1,032,828	\$ 2,163,837	\$ (1,131,009)	\$ 2,791,569	\$ 3,278,687	\$ (487,118)	\$ (1,618,127)
Changes for the year:							
Service Cost	35,615		35,615	62,386		62,386	98,001
Interest on Total Pension Liability	73,656		73,656	169,368		169,368	243,024
Changes in Benefit Terms			-			-	-
Differences Between Expected and Actual Experience			-			-	-
Changes of Assumptions			-			-	-
Contributions - Employer			-			-	-
Contributions - State Aid			-		66,791	(66,791)	(66,791)
Contributions - Member			-		13,499	(13,499)	(13,499)
Net Investment Income		(8,603)	8,603		(12,196)	12,196	20,799
Benefit Payments	(32,435)	(32,435)	-	(62,308)		-	-
Administrative Expense			-			-	-
Other Changes			-			-	-
Net Changes	\$ 76,836	\$ (41,038)	\$ 117,874	\$ 169,446	\$ 5,786	\$ 163,660	\$ 281,534
Balances at 12/31/2015	\$ 1,109,664	\$ 2,122,799	\$ (1,013,135)	\$ 2,961,015	\$ 3,284,473	\$ (323,458)	\$ (1,336,593)

Malvern Borough
Notes to Financial Statements, Note #6 Continued
December 31, 2015

Pension Expense for Fiscal Year Ended December 31, 2015

	Police Plan	Non-Uniformed Plan	Total
Service Cost	\$ 35,615	\$ 62,386	\$ 98,001
Interest on Total Pension Liability	73,656	169,368	243,024
Changes in Benefit Terms	-		-
Differences Between Expected and Actual Experience	-		-
Changes of Assumptions	-		-
Employee Contributions	-	(13,499)	(13,499)
Projected Earnings on Pension Plan Investments	(150,333)	(196,259)	(346,592)
Differences Between Projected and Actual Earnings on Investments	31,787	41,691	73,478
Administrative Expense	-		-
Other Changes in Fiduciary Net Position	-		-
Total Pension Expense	\$ (9,275)	\$ 63,687	\$ 54,412

Malvern Borough
Notes to Financial Statements, Note #6 Continued
December 31, 2015

Deferred Outflows and Deferred Inflows of Resources

For the year ended December 31, 2015, Malvern Borough recognized a pension expense of \$0 and \$66,791 for its Police Plan and Non-Uniformed Plan, respectively. At December 31, 2015, Malvern Borough reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Police Plan		Non-Uniformed Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	-	-	-	-
Changes in Assumptions	-	-	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	127,149	-	166,764	-
Total	<u>\$ 127,149</u>	<u>\$ -</u>	<u>\$ 166,764</u>	<u>\$ -</u>

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

	Police Plan	Non-Uniformed Plan
Year Ended December 31:		
2016	31,787	41,691
2017	31,787	41,691
2018	31,787	41,691
2019	31,788	41,691
2020	-	-
Thereafter	-	-
Total	<u>\$ 127,149</u>	<u>\$ 166,764</u>

Malvern Borough
Notes to Financial Statements, Note #6 Continued
December 31, 2015

Schedule of Changes in Net Pension Liability and Related Ratios, Last 10 Fiscal Years

	Police Plan 2015	Non-Uniformed Plan 2015
Total Pension Liability		
Service Cost	\$ 35,615	\$ 62,386
Interest on Total Pension Liability	73,656	169,368
Changes of Benefit Terms	-	-
Differences Between Expected and Actual Experience	-	-
Changes of Assumptions	-	-
Benefit Payments, Including Refunds of Member Contributions	(32,435)	(62,308)
Net Change in Total Pension Liability	<u>76,836</u>	<u>169,446</u>
Total Pension Liability - Beginning	<u>1,032,828</u>	<u>2,791,569</u>
Total Pension Liability - Ending	<u>\$ 1,109,664</u>	<u>\$ 2,961,015</u>

Plan Fiduciary Net Position		
Contributions - Employer	-	-
Contributions - State Aid	-	66,791
Contributions - Member	-	13,499
Net Investment Income	(8,603)	(12,196)
Benefit Payments, Including Refunds of Member Contributions	(32,435)	(62,308)
Administrative Expense	-	-
Net Change in Plan Fiduciary Net Position	<u>(41,038)</u>	<u>5,786</u>
Plan Net Position - Beginning	<u>2,163,837</u>	<u>3,278,687</u>
Plan Net Position - Ending	<u>\$ 2,122,799</u>	<u>\$ 3,284,473</u>
Municipality's Net Pension Liability (Asset)	<u>\$ (1,013,135)</u>	<u>\$ (323,458)</u>

Plan Fiduciary Net Position as a Percentage of the Total Pension Liability

191.3% 110.9%

Covered Employee Payroll

\$ 323,461 \$ 669,275

Municipality's Net Pension Liability as a Percentage of Covered Employee Payroll

-313.2% -48.3%

Notes to schedules: none

Ultimately, this schedule should present information for the last ten years. However, until ten years of information can be compiled, information is presented for as many years as is available.

Malvern Borough
Notes to Financial Statements, Note #6 Continued
December 31, 2015

Schedule of Employer Contributions, Last 10 Fiscal Years, Police Plan

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Actuarially Determined Contribution	n/a	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in Relation to the Actuarially Determined Contribution	n/a	0	0	0	0	0	0	0	0	0
Contribution Deficiency (Excess)	n/a	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 323,461
Contributions as a Percentage of Covered Employee Payroll	#DIV/0!									

Notes to schedules: none
Information prior to 2007 was not available.

Schedule of Employer Contributions, Last 10 Fiscal Years, Non-Uniform Plan

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Actuarially Determined Contribution	\$ 45,450	\$ 48,425	\$ 33,074	\$ 31,400	\$ 33,378	\$ 35,982	\$ 69,370	\$ 76,495	\$ 55,296	\$ 66,385
Contributions in Relation to the Actuarially Determined Contribution	45,639	92,989	37,835	31,400	33,378	35,982	69,370	76,495	59,436	66,791
Contribution Deficiency (Excess)	\$ (189)	\$ (44,564)	\$ (4,761)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (4,140)	\$ (406)
Covered Employee Payroll	\$ 484,697	\$ 511,189	\$ 536,827	\$ 479,630	\$ 497,662	\$ 544,495	\$ 544,495	\$ 598,096	\$ 556,479	\$ 669,275
Contributions as a Percentage of Covered Employee Payroll	9.4%	18.2%	7.0%	6.5%	6.7%	6.6%	12.7%	12.8%	10.7%	10.0%

Notes to schedules: none

Malvern Borough
Notes to Financial Statements, Note #6 Continued
December 31, 2015

Schedule of Investment Returns, Last 10 Fiscal Years, Police Plan

	2015
Annual Money-Weighted Rate of Return,	
Net of Investment Expenses	-0.40%

Notes to schedules: none

Schedule of Investment Returns, Last 10 Fiscal Years, Non-Uniform Plan

	2015
Annual Money-Weighted Rate of Return,	
Net of Investment Expenses	-0.37%

Notes to schedules: none

Ultimately, this schedule should present information for the last ten years. However, until ten years of information can be compiled, information is presented for as many years as is available.

BOROUGH of MALVERN
NOTES to FINANCIAL STATEMENTS
31st DECEMBER 2015

(ii.) Net Pension Liability Sensitivity. The following is a sensitivity analysis of the net pension liability to changes in the discount rate. The table below presents the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower and 1 percentage point higher than the current rate.

Table 4	1% Decrease 6.00%	Current Rate 7.00%	1% Increase 8.00%
Police Plan			
Net Pension Liability (Asset)	(\$886,189)	(\$1,013,135)	(\$1,119,767)
	1% Decrease 5.00%	Current Rate 6.00%	1% Increase 7.00%
Non-Uniformed Plan			
Net Pension Liability (Asset)	(\$84,033)	(\$323,458)	(\$533,701)

(iii.) Actuarial Assumptions. Plan Assets are valued at Market Values, except for insurance holdings, which, if any, are valued at reported contract values. The total pension liability for each plan was determined by a biennially actuarial valuation as of January 1, 2015, using the Entry Age Normal cost method and the following actuarial assumptions based on the census data as of January 1, 2015:

Table 5	Police Plan	Non-Uniform Plan
A. Economic Assumptions		
Investment Return	7% per annum, net of investment expenses	6% per annum, net of investment expenses
Salary Increases	5%, compounded annually	5%, compounded annually
Social Security Increase	3% per annum	3% per annum
B. Demographic Assumptions		
Pre-Retirement Mortality	none	none
Post-Retirement Mortality	The Blue Collar RP-2000 Mortality Table projected to 2015 using Scale AA	RP-2000 Mortality Table projected to 2015 using Scale AA
Termination	none	none
Disability	none	none
Retirement Age	Normal retirement age, or age on valuation date if greater.	Normal retirement age, or age on valuation date if greater.
Marital Status	100% of active members are assumed to be married; female spouse is assumed to be 3 years younger than male spouse	not stated
Form of Annuity	Joint & 50% Survivor	Straight Life

BOROUGH of MALVERN
NOTES to FINANCIAL STATEMENTS
31st DECEMBER 2015

7. VALLEY CREEK TRUNK SEWER.

Malvern Borough is a party, along with Tredyffrin, East Whiteland, Willistown and Easttown Townships and the Valley Forge Sewer Authority, to a series of agreements pertaining to the conveyance to and treatment of sewage at the Valley Forge Sewage Treatment plant. One section of the conveyance system is known as the "Valley Creek Trunk Line" which is owned and operated by Tredyffrin Township. During winter 2014, there were three breaks constituting a catastrophic failure of the concrete pipe, resulting in a massive spill of sewage into Valley Creek and the Schuylkill River. Throughout 2014, Tredyffrin was engaged in various discussions and administrative actions with DEP, the Fish and Boat Commission and private advocacy groups regarding the immediate response, fines and penalties, and the need for further repairs. In the fall of 2014, the municipalities began discussions about the engineering of a long-term repair as well as the cost sharing.

Early in 2015, the municipalities started focusing on the allocation of the costs. Because Tredyffrin had committed to an aggressive schedule in its Consent Decree with DEP, repairs were begun before an agreement was reached on cost allocation. Malvern, as well as some of the other municipalities, began the process of seeking bond funding to cover the estimated proportionate share. In February of 2016, Tredyffrin Township announced that it intended to sell the Trunk Line and other assets to a private utility company once the repairs are completed. A Declaratory Judgment action is pending in the Chester County Court of Common Pleas asking the Court to confirm that Tredyffrin has authority, under the various agreements, to sell the assets. Malvern's share of the cost of repairs is between 7.9% and 9.6% of the total, or \$975,000 and \$1,300,000 depending on whether past flows or estimated future flows (or a "blended" number) are used. The municipalities who contributed to the cost of construction of the assets will be entitled to a credit against their obligation for the cost of the repairs if the sale goes through. If the sale does not go through for some reason, Malvern will proceed with the bond financing to cover its share.

8. SUBSEQUENT EVENTS.

The Borough has evaluated all events subsequent to the financial statement date of December 31, 2015 through June 9, 2016, which is the date these financial statements were available to be issued, and has determined that there are no subsequent events that require recognition or disclosure under FASB ASC 885-10 Subsequent Events.

BOROUGH of MALVERN

SUPPLEMENTAL INFORMATION

**Budgetary Comparison Statement - General Fund
for the year ended December 31, 2015**

	Final Appropriated Budget	Actual Amounts (Budgetary Basis)	Variance
REVENUES:			
Taxes	\$ 2,735,673	\$ 2,909,624	\$ 173,951
Licenses & Permits	165,600	193,978	28,378
Fines, Forfeits, & Costs	20,500	29,856	9,356
Interest & Rents	43,500	45,756	2,256
Intergovernmental Revenues	680,969	165,069	(515,900)
Charges For Sevices & Fees	148,175	170,697	22,522
Miscellaneous Revenue	222,280	214,928	(7,352)
TOTAL BUDGETED REVENUES	<u>\$ 4,016,697</u>	<u>\$ 3,729,908</u>	<u>\$ (286,789)</u>
EXPENDITURES - CURRENT			
General Government	\$ 706,185	\$ 636,624	\$ 69,561
Public Safety	1,253,748	1,065,886	187,862
Public Works: Highways & Streets	701,917	503,325	198,592
Public Works: Garbage Collection	235,000	220,976	14,024
Culture & Recreation	104,080	86,004	18,076
All Other Expenses	135,137	119,994	15,143
TOTAL EXPENDITURES - CURRENT	<u>\$ 3,136,067</u>	<u>\$ 2,632,809</u>	<u>\$ 503,258</u>
DEBT SERVICE			
Principal	\$ -	\$ -	\$ -
Interest	-	-	-
TOTAL DEBT SERVICE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL EXPENDITURES	<u>\$ 3,136,067</u>	<u>\$ 2,632,809</u>	<u>\$ 503,258</u>
EXCESSS of REVENUES OVER EXPENDITURES	\$ 880,630	\$ 1,097,099	\$ 216,469
Transfers In	111,000	110,267	(733)
Transfers Out	(991,633)	(997,298)	(5,665)
			-
			-
NET TRANSFERS	<u>\$ (880,633)</u>	<u>\$ (887,031)</u>	<u>\$ (6,398)</u>
NET CHANGE in FUND BALANCE	<u>\$ (3)</u>	<u>\$ 210,068</u>	<u>\$ 210,071</u>

The accompanying notes are an integral part of these financial statements.

BOROUGH of MALVERN
MUNICIPAL ANNUAL AUDIT
& FINANCIAL REPORT
31st DECEMBER 2015

INDEPENDENT AUDITORS' REPORT

To the Mayor & Members of Council
Borough of Malvern, Chester County, Penna.

We have audited the Borough of Malvern's Municipal Annual Audit & Financial Report, Form DCED-CLGS-30 as of 31st December 2015 and for the year ended.

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

Auditors' Responsibility. The auditors' responsibility is to express an opinion on the financial statements based on the audit. We conducted our audit in accordance with auditing standards generally accepted in the United States, which require that the auditor 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 and 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. Risk assessments involve consideration of 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, and accordingly, no such opinion is expressed. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

As described in Note #1, the Borough of Malvern prepares its Municipal Annual Audit & Financial Report, Form DCED-CLGS-30 on 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.

Opinion. In our opinion, the aforementioned financial statements present the financial position of the various funds and account groups of the Borough of Malvern, Chester County as of 31st December 2015, and the results of operations of such funds for the year then ended in accordance with the law on the basis of accounting stated above.

This report is intended solely for the use of the members of council and management of the Borough of Malvern, and for filing with the Pennsylvania Department of Community & Economic Development, and for filing with the Chester County Clerk of Courts. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Peterson, Fieo & Co.

Peterson, Fieo & Co.
24th March 2016

**2015 MUNICIPAL ANNUAL AUDIT
AND
FINANCIAL REPORT**

150993 MALVERN BORO, CHESTER COUNTY



BALANCE SHEET

DCED-CLGS-30 (09-09)

MALVERN BORO, CHESTER County
BALANCE SHEET
 December 31, 2015

	Governmental Funds					Proprietary Funds			Fid. Fund		Account Groups		Total
	General Fund	Special Revenue (Including State Liquid Fuels)	Capital Projects	Debt Service	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long Term Debt	Memorandum Only			
Assets and Other Debits													
100-120 Cash and Investments	2,096,593	94,050	1,633,100		1,877,543		5,407,272					11,108,558	
140-144 Tax Receivable	7,474											7,474	
121-129, 145-149 Accounts Receivable (excluding taxes)					221,441							221,441	
130-00 Due From Other Funds													
131-139, 150-159 Other Current Assets													
160-169 Fixed Assets													
180-189 Other Debits													
Total Assets and Other Debits	2,104,067	94,050	1,633,100		2,098,984		5,407,272					11,337,473	

Liabilities and Other Credits	
210-229 Payroll Taxes and Other Payroll Withholdings	
200-209, 231-239 All Other Current Liabilities	151,499
230-00 Due To Other Funds	
	151,499

MALVERN BORO, CHESTER County
STATEMENT OF REVENUES AND EXPENDITURES

December 31, 2015

	Governmental Funds				Proprietary Funds		Fiduciary Fund	Total
	General Fund	Special Revenue (Including State Liquid Fuels)	Capital Projects	Debt Service	Enterprise	Internal Service	Trust and Agency	Memorandum Only
	1,010,317							1,010,317
Taxes								
301.00 Real Estate Taxes	1,010,317							1,010,317
305.00 Occupation Taxes (levied under municipal code)								
308.00 Residence Taxes (levied by cities of the 3rd Class)								
309.00 Regional Asset District Sales Tax (Allegheny County municipalities only)								
310.00 Per Capita Taxes	15,946							15,946
310.10 Real Estate Transfer Taxes	94,616							94,616
310.20 Earned Income Taxes / Wage Taxes	1,686,135							1,686,135
310.30 Business Gross Receipts Taxes								
310.40 Occupation Taxes (levied under Act 511)								
310.50 Local Services Tax **	102,610							102,610
310.60 Amusement / Admission Taxes								
310.70 Mechanical Device Taxes								
310.90 Other Local Tax Enabling Act / Act 511 / Taxes								
Other: _____								
Total Taxes	2,909,624							2,909,624

Licenses and Permits	
320-322 All Other Licenses and Permits	95,171
321.80 Cable Television Franchise Fees	98,807
Total Licenses and Permits	193,978

Fines and Forfeits	
330-332 Fines and Forfeits	29,856
Total Fines and Forfeits	29,856

MALVERN BORO, CHESTER County
STATEMENT OF REVENUES AND EXPENDITURES
 December 31, 2015

	Governmental Funds					Proprietary Funds		Fiduciary Fund	Total
	General Fund	Special Revenue (Including State Liquid Fuels)	Capital Projects	Debt Service	Enterprise	Internal Service	Trust and Agency	Memorandum Only	
4,465	589	6,259		6,301				17,614	
41,291						204,410		245,701	
45,756	589	6,259		6,301		204,410		263,315	

REVENUES

Interest, Rents and Royalties	
341.00	Interest Earnings
342.00	Rents and Royalties
	Total Interest, Rents and Royalties
Federal	
351.03	Highways and Streets
351.09	Community Development
351.00	All Other Federal Capital and Operating Grants
352.01	National Forest
352.00	All Other Federal Shared Revenue and Entitlements
353.00	Federal Payments in Lieu of Taxes
	Total Federal

State	
354.03	Highways and Streets
354.09	Community Development
354.15	Recycling / Act 101
354.00	All Other State Capital and Operating Grants
355.01	Public Utility Realty Tax (PURTA)
355.02-355.03	Motor Vehicle Fuel Tax (Liquid Fuels Tax) and State Road Turnback
355.04	Alcoholic Beverage Licenses
355.05	General Municipal Pension System State Aid
355.07	Foreign Fire Insurance Tax Distribution
355.08	Local Share Assessment/Gaming Proceeds
355.09	Marcellus Shale Impact Fee Distribution

MALVERN BORO, CHESTER COUNTY
STATEMENT OF REVENUES AND EXPENDITURES
 December 31, 2015

General Fund	Governmental Funds				Proprietary Funds		Fiduciary Fund	Total
	Special Revenue (Including State Liquid Fuels)	Capital Projects	Debt Service	Internal Service	Enterprise	Trust and Agency		
873								873
313,015		997,298						1,310,313

REVENUES

Other Financing Sources	
395.00	Refunds of Prior Year Expenditures
	873
	Total Other Financing Sources
	313,015

TOTAL REVENUES	3,840,175	73,113	1,003,557	889,138	284,700	6,090,683
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EXPENDITURES

General Government	
400.00	Legislative (Governing) Body
	4,500
401.00	Executive (Manager or Mayor)
	111,343
402.00	Auditing Services / Financial Administration
	10,930
403.00	Tax Collection
	21,263
404.00	Solicitor / Legal Services
	147,206
405.00	Secretary / Clerk
	43,999
406.00	Other General Government Administration
	168,340
407.00	IT-Networking Services-Data Processing
	2,295
	19,393
408.00	Engineering Services
	43,336
	144
409.00	General Government Buildings and Plant
	85,707
	26,695
	21,832
	Total General Government
	636,624

Public Safety	
410.00	Police
	846,465
411.00	Fire
	135,755
412.00	Ambulance / Rescue
413.00	UCC and Code Enforcement
	846,465
	135,755

MALVERN BORO, CHESTER County
STATEMENT OF REVENUES AND EXPENDITURES
 December 31, 2015

General Fund	Governmental Funds				Proprietary Funds		Fiduciary Fund	Total
	Special Revenue (including State Liquid Fuels)	Capital Projects	Debt Service	Enterprise	Internal Service	Trust and Agency		
83,666								83,666
1,065,886								1,065,886

EXPENDITURES

Public Safety	
414.00	Planning and Zoning
415.00	Emergency Management and Communications
416.00	Militia and Armories
417.00	Examination of Licensed Occupations
418.00	Public Scales (weights and measures)
419.00	Other Public Safety
Total Public Safety	

Health and Human Services	
420.00-425.00	Health and Human Services
Total Health and Human Services	

Public Works - Sanitation	
426.00	Recycling Collection and Disposal
427.00	Solid Waste Collection and Disposal (garbage)
428.00	Weed Control
429.00	Wastewater / Sewage Treatment and Collection
Total Public Works - Sanitation	

Public Works - Highways and Streets	
430.00	General Services - Administration
431.00	Cleaning of Streets and Gutters
432.00	Winter Maintenance - Snow Removal
433.00	Traffic Control Devices
434.00	Street Lighting

MALVERN BORO, CHESTER County
STATEMENT OF REVENUES AND EXPENDITURES
 December 31, 2015

	Governmental Funds				Proprietary Funds		Fiduciary Fund	Total
	General Fund	Special Revenue (Including State Liquid Fuels)	Capital Projects	Debt Service	Enterprise	Internal Service		
			7,249					7,249
	2,837							2,837
	68,338							68,338
			64,303					64,303
	503,325		355,189					858,514

EXPENDITURES

Public Works - Highways and Streets	
435.00	Sidewalks and Crosswalks
436.00	Storm Sewers and Drains
437.00	Repairs of Tools and Machinery
438.00	Maintenance and Repairs of Roads and Bridges
439.00	Highway Construction and Rebuilding Projects
	Total Public Works - Highways and Streets

Other Public Works Enterprises	
440.00	Airports
441.00	Cemeteries
442.00	Electric System
443.00	Gas System
444.00	Markets
445.00	Parking
446.00	Storm Water and Flood Control
447.00	Transit System
448.00	Water System
449.00	Water Transport and Terminals
	Total Other Public Works Enterprises

Culture and Recreation	
451.00	Culture-Recreation Administration
452.00	Participant Recreation
453.00	Spectator Recreation
454.00	Parks

MALVERN BORO, CHESTER County
STATEMENT OF REVENUES AND EXPENDITURES
 December 31, 2015

	Governmental Funds				Proprietary Funds		Fiduciary Fund	Total
	General Fund	Special Revenue (Including State Liquid Fuels)	Capital Projects	Debt Service	Enterprise	Internal Service	Trust and Agency	
11,550								
12,180								11,550
21,000								12,180
								21,000
107,004								107,004

EXPENDITURES

Culture and Recreation	
455.00	Shade Trees
456.00	Libraries
457.00	Civil and Military Celebrations
458.00	Senior Citizens' Centers
459.00	All Other Culture and Recreation
	Total Culture and Recreation

Community Development	
461.00	Conservation of Natural Resources
462.00	Community Development and Housing
463.00	Economic Development
464.00	Economic Opportunity
465-469	All Other Community Development
	Total Community Development

Debt Service	
471.00	Debt Principal (short-term and long-term)
472.00	Debt Interest (short-term and long-term)
475.00	Fiscal Agent Fees
	Total Debt Service

Employer Paid Benefits and Withholding Items	
481.00	Employer Paid Withholding Taxes and Unemployment Compensation
482.00	Judgments and Losses
483.00	Pension / Retirement Fund Contributions

MALVERN BORO, CHESTER COUNTY
STATEMENT OF REVENUES AND EXPENDITURES

December 31, 2015

General Fund	Governmental Funds				Proprietary Funds		Fiduciary Fund	Total
	Special Revenue (including State Liquid Fuels)	Capital Projects	Debt Service	Enterprise	Internal Service	Trust and Agency		

EXPENDITURES

Employer Paid Benefits and Withholding Items	General Fund	Special Revenue (including State Liquid Fuels)	Capital Projects	Debt Service	Enterprise	Internal Service	Fiduciary Fund	Total
484.00 Worker Compensation Insurance								
487.00 Other Group Insurance Benefits								
Total Employer Paid Benefits and Withholding Items	66,791						207,831	274,622

Insurance	General Fund	Special Revenue (including State Liquid Fuels)	Capital Projects	Debt Service	Enterprise	Internal Service	Fiduciary Fund	Total
486.00 Insurance, Casualty, and Surety	32,203							32,203
Total Insurance	32,203							32,203

Unclassified Operating Expenditures	General Fund	Special Revenue (including State Liquid Fuels)	Capital Projects	Debt Service	Enterprise	Internal Service	Fiduciary Fund	Total
488.00 Fiduciary Fund Benefits and Refunds Paid							94,743	94,743
489.00 All Other Unclassified Expenditures								
Total Unclassified Operating Expenditures							94,743	94,743

Other Financing Uses	General Fund	Special Revenue (including State Liquid Fuels)	Capital Projects	Debt Service	Enterprise	Internal Service	Fiduciary Fund	Total
491.00 Refund of Prior Year Revenues								
492.00 Interfund Operating Transfers	997,298	110,267						1,107,565
493.00 All Other Financing Uses								
Total Other Financing Uses	997,298	110,267						1,107,565

TOTAL EXPENDITURES	3,630,107	110,267	649,515		749,187		319,952	5,459,028
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EXCESS/DEFICIT OF REVENUES OVER EXPENDITURES	210,068	-37,154	354,042		139,951		-35,252	631,655
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MALVERN BORO
December 31, 2015

DEBT STATEMENT

OUTSTANDING BONDS AND NOTES

Listed below are all currently outstanding bond and note issues according to our files, excluding bond issues redeemed or refunded and defeased. Please show the principal payments and make any other necessary corrections and additions.

Purpose	Bond (B) Capital Lease (C) Lease Rental (L) Note (N)	Issue Year (yyyy)	Maturity Year (yyyy)	Original Amount of Issue	Outstanding Beginning of Year (1)	Principal Incurred This Year	Principal Paid This Year	Current Year Accretion on Compound Interest Bonds	Outstanding at Year End (1)	Plus (less) Unamortized Premium (Discount)	Total Balance
General Obligation Bonds and Notes											
GO Note 2013	Note	2013	2023	300,000	272,000		28,000		244,000		244,000
Non-Electoral	Note	2002	2022	2,500,000	1,813,000		215,000		1,598,000		1,598,000
Revenue Bonds and Notes											
Lease Rental Debt											
Other											

(1) - excludes unamortized premium/discount

Total bonds and notes outstanding

1,842,000

Capitalized lease obligations

0

Net debt

1,842,000

MALVERN BORO, CHESTER County
STATEMENT OF CAPITAL EXPENDITURES

December 31, 2015

Category	Capital Purchases	Capital Construction	Total
Community Development	283,637		283,637
Electric			
Fire			
Gas System			
General Government	10,660		10,660
Health			
Housing			
Libraries			
Mass Transit			
Parks			
Police	55,364		55,364
Recreation			
Sewer			
Solid Waste			
Streets / Highways	64,865	80,285	145,150
Water			
Other: _____			
TOTAL CAPITAL EXPENDITURES	414,526	80,285	494,811

EMPLOYEE COMPENSATION

Total salaries, wages, commissions, etc. paid this year (including all employees and elected officials)

1,138,578

Independent Public Accountant/Certified Public Accountant Submission Page

Opinion page was provided in lieu of signature page.

SIGNATURE AND VERIFICATION

Signed: Peterson, Fieo & Co. LLP Appointed Auditor/CPA

DCED-CLGS-30 (9-09)

December 31, 2015

NOTES / COMMENTS

BOROUGH of MALVERN, CHESTER COUNTY, PENNSYLVANIA

Note to the DCED Annual Audit & Financial Report
31st December 2015

Note 1: Summary of Significant Accounting Policies

Nature of Operations. The Borough of Malvern was incorporated in 1889 and operates as a Borough under the Commonwealth of Pennsylvania Borough Code. The Borough operates under a mayor/council form of government with seven council members. The Borough provides the following services: public safety (police & fire), health, highways & streets, sanitation (trash), recreation, planning & zoning, and general administrative services.

Reporting Entity. In evaluating how to define the Borough, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in U.S. Generally Accepted Accounting Principles (GAAP). The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Borough is able to exercise oversight responsibilities. Based upon the application of these criteria, the Borough of Malvern has no component units.

Basis of Accounting. The Borough's policy is to prepare its report for the DCED on the modified cash basis of accounting, which is a comprehensive basis of accounting other than GAAP. This basis of accounting differs from GAAP in that revenues and the related assets are recognized when received rather than when earned, and expenses are recognized when paid rather than when obligations are incurred.

Borough of Malvern
Chester County, Pennsylvania
Annual Audit & Financial Report
for the year ended December 31, 2015

This condensed presentation is published in accordance with § 1043 of the Borough Code. A complete copy of the audit report and financial statements are on file and available for public inspection in the Borough office.

Fund Balances, beginning of year \$ 6,851,924

Revenues & Other Financing Sources

Taxes	\$ 2,909,624
Licenses & Permits	193,978
Fines & Forfeits	29,856
Interest, Rents, & Royalties	58,905
Grants	237,593
Charges for Services	1,053,534
Inter-Governmental Transfers	1,107,565
Miscellaneous Revenues	214,928
	<hr/>

Total Revenues & Other Financing Sources 5,805,983

Expenditures (Expenses) & Other Financing Uses

General Government	658,456
Public Safety	1,065,886
Public Works - Sanitation	970,163
Public Works - Highway & Streets	858,515
Culture & Recreation	107,004
Insurance, Employee Benefits, P/R Taxes, &c	98,994
Debt Service	272,494
Inter-Governmental Transfers	1,107,565
All Other Expenditures	-
	<hr/>

Total Expenditures or Expenses and Other Financing Uses 5,139,077

Excess (Deficiency) of Revenues & Other Financing
Sources over Expenditures (Expenses) & Other Financing Uses. 666,906

Fund Balances, end of year \$ 7,518,830

Other Required Information:

Gross Debt of the Borough	<i>as of 31 Dec 2015</i>	\$ 1,842,000
Net Debt of the Borough	<i>as of 31 Dec 2015</i>	\$ 1,842,000
Assessed Valuation of the Borough	<i>as of 1 Jan'y 2015</i>	\$ 259,543,622

A complete copy of the audit report & fin'l statements is available at the Borough Hall, 1st & Warren Avenues, Malvern, PA during regular business hours.