

BOROUGH of MALVERN
AUDITED FINANCIAL STATEMENTS
31st DECEMBER 2016

BOROUGH of MALVERN

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

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. The Home Rule Charter was amended in 2016 in order to better define the term limit requirements. Electors voted on this in November 2016.

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. Certain measures were implemented in 2016 and will continue into 2017.

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 2016 budget process, the tax rate remained static. The Borough continued the practice of transferring funds into the Capital Reserve Fund. Several projects budgeted in 2016 did not come to fruition and have been carried into 2017.

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 2017. 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.

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 remained at 4.4200 mills in 2016. Collection of current year real estate taxes was comparable in 2016 compared to levels in 2015.

All Act 511 Taxes showed a 11% increase in 2016. Per Capita Tax revenue was 183% over budget, primarily due to back payments that were received. Earned Income Tax revenue was 14.5% higher in 2016. Real Estate Transfer Tax revenue declined by

5% in 2016. This is 14% less than the decline in 2015; however, this revenue source continues to decline. Overall, Act 511 taxes finished 2% under budget, primarily due to lower than projected revenue from Earned Income and Real Estate Transfer tax revenues.

Revenues from Motor Vehicle Code Violations showed a 16.5% decrease in 2016 and False Alarm Penalties showed a 10% increase. 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 finished 2016 14% above budgeted projections and showed an 19.4% increase and Plumbing Permits and Registrations showed a 121% increase over 2016. Permit activity was significantly higher in 2016. Revenues collected from Violations of Ordinances decreased by 32% in 2016 compared to 2015. Earnings on Investments increase of 85% in 2016. This is the first time five (5) years that this revenue has increased.

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 to \$95.60/\$4.00 per quarter in 2016. This is the same rate as in 2015. Revenue from Sewer Rents finished 2016 at 105% of budget; this is the same level as 2016. During 2016, the Borough worked diligently to collect on delinquent accounts. The revenue from Other Income decreased by 58% due to a \$50,000 transfer from the General Fund to the Sewer Fund that occurred in 2015 and 2016. The Borough received a \$34,761 refund from the Valley Forge Sewer Authority. This was due to the Borough based on their audit.

Expenditures –

The budgeted 2016 General Fund Expenditures increased by 20% over the budgeted 2015 expenditures. This increase is attributed to an increase in costs associated with increased costs for fire protection services, increased costs for waste collection, increased costs for snow and ice removal, increased insurance costs, increased contributions for civic activities, and an increased transfer to the Capital Reserve Fund due to projected grant funding. In 2016, the Borough bid out and awarded a new two (2) year contract for trash and recycling collection, which resulted in a 10% increase in costs over the next two (2) years. While budgeted expenditures increased, final General Fund expenditures finished 2016 14.3% below 2015 levels.

The Sewer Fund showed an increase of 3% in budgeted expenditures over the 2015 budget. This may be primarily attributed to an increase in costs for sewage treatment and disposal, as well as increased engineering costs due to the on-going Valley Creek Trunk Sewer project, increased insurance costs, and increased personnel costs related to operation and maintenance and administration. The Sewer Capital Reserve Fund had very limited activity and several allocated projects have been carried into the 2017 budget.

Challenges continue to be in the areas of healthcare coverage for our employees and police protection to our community. In the 2017, the Borough was able to realize a cost savings on employee benefits by moving to an up-front deductible health insurance plan and establishing a health-reimbursement account for employees. This allowed the Borough to reduce employee contributions to health insurance. Borough Council also authorized the hiring of an additional full-time patrolman with the Police Department in the 2017 budget.

Capital projects in 2016 included payment of the 2015 paving project, a full codification of the Borough's Zoning and Subdivision & Land Development Ordinances, upgrades to Borough Hall, and the purchase of real estate on N. Warren Avenue. Additional projects were budgeted, but not completed. These projects will be carried into 2017.

Capital Expenses and Debt Service

The Borough has outstanding debt of \$1,380,000 at an interest rate of 1.45% through 2022 for renovations to the municipal building made in 2002 and \$215,000 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 five (5) 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 2016 Budget with the possible exception of decreased revenues from Earnings on Investments in all funds.

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 2016 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 2016, 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.

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.

12th May 2017

BOROUGH of MALVERN

Statement of Net Assets as of December 31, 2016

| | Governmental Activities | Business-Like Activities | Total |
|--|----------------------------|-----------------------------|----------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash & Cash Equivalents | \$ 4,055,393 | \$ 2,060,221 | \$ 6,115,614 |
| Taxes/Accounts Receivable | 24,738 | 232,582 | 257,320 |
| Other Receivables | - | - | - |
| Net Pension Asset | 1,353,773 | - | 1,353,773 |
| Non-Current Assets: | | | |
| Capital Assets, net of Depreciation | 8,052,989 | 1,326,155 | 9,379,144 |
| TOTAL ASSETS | \$ 13,486,893 | \$ 3,618,958 | \$ 17,105,851 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows from pensions | 227,385 | - | 227,385 |
| LIABILITIES & NET ASSETS | | | |
| Current Liabilities: | | | |
| Accounts Payable and Accrued Expenses | \$ 79,714 | \$ 4,286 | \$ 84,000 |
| Bonds & Notes Payable | 251,000 | - | 251,000 |
| Escrow Liabilities Payable | 53,687 | - | 53,687 |
| Total Current Liabilities | 384,401 | 4,286 | 388,687 |
| Non-Current Liabilities: | | | |
| Compensated Absences | 83,100 | - | 83,100 |
| Bonds & Notes Payable | 1,344,000 | - | 1,344,000 |
| Total Non-Current Liabilities | 1,427,100 | - | 1,427,100 |
| TOTAL LIABILITIES | 1,811,501 | 4,286 | 1,815,787 |
| NET ASSETS | | | |
| Invested in Capital Assets, Net of Related Debt | 6,457,989 | 1,326,155 | 7,784,144 |
| Restricted for Pensions | 1,581,158 | - | 1,581,158 |
| Unrestricted Net Assets (Deficit) | 3,863,630 | 2,288,517 | 6,152,147 |
| Total Net Assets | 11,902,777 | 3,614,672 | 15,517,449 |
| TOTAL LIABILITIES & NET ASSETS | \$ 13,486,893 | \$ 3,618,958 | \$ 17,105,851 |

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

BOROUGH of MALVERN

**Statement of Activities
for the year ended December 31, 2016**

| | Expenses | Program Revenues | | | Primary Government | | Total |
|--------------------------------------|---------------------|----------------------|------------------|----------------|-------------------------|--------------------------|-----------------------|
| | | Charges for Services | Operating Grants | Capital Grants | Governmental Activities | Business-Like Activities | |
| <i>Governmental Activities:</i> | | | | | | | |
| General Government | \$ 840,692 | \$ - | \$ - | \$ - | \$ (840,692) | \$ - | \$ (840,692) |
| Public Safety | 977,954 | 17,128 | | | (960,826) | | (960,826) |
| Highways & Streets | 521,514 | | 84,177 | | (437,337) | | (437,337) |
| Culture & Recreation | 91,597 | | | | (91,597) | | (91,597) |
| Garbage Collection | 240,062 | | | | (240,062) | | (240,062) |
| Employee Benefits | 217,316 | | | | (217,316) | | (217,316) |
| Civic Contributions | 58,000 | | | | (58,000) | | (58,000) |
| Debt Service | 25,932 | | | | (25,932) | | (25,932) |
| Total Governmental Activities | \$ 2,973,067 | \$ 17,128 | \$ 84,177 | \$ - | \$ (2,871,762) | | \$ (2,871,762) |
| <i>Business-Like Activities</i> | | | | | | | |
| Sewer Services | 782,662 | 898,643 | - | - | - | 115,981 | 115,981 |
| Total Primary Government | \$ 3,755,729 | \$ 915,771 | \$ 84,177 | \$ - | \$ (2,871,762) | \$ 115,981 | \$ (2,755,781) |
| | | | | | | | |
| General Government Revenues | | | | | | | |
| Taxes | | | | | \$ 3,155,214 | \$ - | \$ 3,155,214 |
| Grants, unrestricted | | | | | 56,722 | | 56,722 |
| Earnings on Investments | | | | | 8,815 | 7,087 | 15,902 |
| All other Revenues | | | | | 374,505 | | 374,505 |
| Transfers, net | | | | | (9,700) | 9,700 | - |
| Total | | | | | <u>\$ 3,585,556</u> | <u>\$ 16,787</u> | <u>\$ 3,602,343</u> |
| Change in Net Assets | | | | | \$ 713,794 | \$ 132,768 | \$ 846,562 |
| Prior Period Adjustment | | | | | 25,527 | | 25,527 |
| Net Assets, Beginning of Year | | | | | 11,163,456 | 3,481,904 | 14,645,360 |
| Net Assets, End of Year | | | | | <u>\$ 11,902,777</u> | <u>\$ 3,614,672</u> | <u>\$ 15,517,449</u> |

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, 2016**

| | |
|--|-----------------------------|
| Total Governmental Fund Balances | |
| Unrestricted Net Assets (Deficit) | \$ 3,863,630 |
| | |
| 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 | 8,052,989 |
| | |
| Net Pension Asset (Liability) incurred by governmental activities are not financial resources and therefore, are not reported as assets in gov't funds | 1,581,158 |
| | |
| Short term liabilities due & payable within one year. | (251,000) |
| | |
| Long term liabilities not due & payable within one year. | |
| Bonds & Notes Payable | <u>(1,344,000)</u> |
| | |
| Total Net Assets of Governmental Activities (p.2) | <u><u>\$ 11,902,777</u></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, 2016**

| | Governmental Funds | | | Totals | Business-Like Funds 2016 |
|---|---------------------|--------------------------|---------------------|---------------------|-----------------------------|
| | General Fund | Capital Projects Fund | Highway Aid Fund | 2016 | |
| ASSETS | | | | | |
| Cash & Cash Equivalents | \$ 2,552,140 | \$ 1,373,307 | \$ 129,946 | \$ 4,055,393 | \$ 2,060,221 |
| Taxes Receivable | - | - | - | - | - |
| Other Receivables | - | - | - | - | 232,582 |
| Fixed Assets | - | - | - | - | 1,740,128 |
| TOTAL ASSETS | \$ 2,552,140 | \$ 1,373,307 | \$ 129,946 | \$ 4,055,393 | \$ 4,032,931 |
| LIABILITIES & FUND BALANCES | | | | | |
| LIABILITIES | | | | | |
| Accounts Payable | 1,046 | - | - | 1,046 | - |
| Escrow Liabilities Payable | 53,687 | - | - | 53,687 | - |
| Deferred Revenue | - | - | - | - | - |
| TOTAL LIABILITIES | 54,733 | - | - | 54,733 | - |
| FUND BALANCES | | | | | |
| Reserved for Capital Projects | - | 1,373,307 | - | 1,373,307 | - |
| Unreserved (Deficit) | 2,497,407 | - | 129,946 | 2,627,353 | 4,032,931 |
| TOTAL FUND BALANCES | 2,497,407 | 1,373,307 | 129,946 | 4,000,660 | 4,032,931 |
| TOTAL LIABILITIES & FUND BALS. | \$ 2,552,140 | \$ 1,373,307 | \$ 129,946 | \$ 4,055,393 | \$ 4,032,931 |

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, 2016

| | General Fund | Capital Reserve Fund | Highway Aid Fund | Totals 2016 | Business-Like Funds 2016 |
|--|---------------------|-------------------------|---------------------|---------------------|-----------------------------|
| REVENUES | | | | | |
| Taxes | \$ 3,111,477 | \$ - | \$ - | \$ 3,111,477 | \$ - |
| Licenses & Permits | 205,638 | | | 205,638 | |
| Fines, Forfeits, & Costs | 25,125 | | | 25,125 | |
| Interest, Rents, & Franchise Fees | 48,063 | 5,174 | 545 | 53,782 | 7,087 |
| Intergovernmental Revenues | 104,133 | | 84,177 | 188,310 | |
| Charges for Services/Fees | 74,516 | | | 74,516 | 898,642 |
| Proceeds from Long Term Debt | | - | | - | |
| Miscellaneous Revenue | 19,103 | | | 19,103 | |
| TOTAL REVENUES | 3,588,055 | 5,174 | 84,722 | 3,677,951 | 905,729 |
| EXPENDITURES - Current | | | | | |
| General Government | 577,731 | 79,115 | | 656,846 | |
| Public Safety | 1,087,792 | | | 1,087,792 | |
| Public Works - Sewer & Garbage Collection | 222,106 | | | 222,106 | 711,910 |
| Public Works - Highways & Streets | 725,333 | 196,972 | | 922,305 | |
| Civic Contributions | 58,000 | | | 58,000 | |
| Culture & Recreation | 95,111 | | | 95,111 | |
| Insurance, Employee Benefits, P/R Taxes, &c | 67,444 | | | 67,444 | - |
| EXPENDITURES - Debt Service | | | | | |
| Principal | - | 247,000 | | 247,000 | |
| Interest | - | 25,932 | | 25,932 | |
| TOTAL EXPENDITURES | 2,833,517 | 549,019 | - | 3,382,536 | 711,910 |
| EXCESS (DEFICIENCY) of REVENUES OVER EXPENDITURES | 754,538 | (543,845) | 84,722 | 295,415 | 193,819 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers In | 48,826 | 284,052 | - | 332,878 | - |
| Transfers Out | (284,052) | | (48,826) | (332,878) | - |
| TOTAL OTHER FINANCING SOURCES (USES) | (235,226) | 284,052 | (48,826) | - | - |
| NET CHANGE IN FUND BALANCES | 519,312 | (259,793) | 35,896 | 295,415 | 193,819 |
| FUND BALANCES (DEFICIT), BEGINNING of YEAR | | | | | |
| | 1,952,568 | 1,633,100 | 94,050 | 3,679,718 | 3,839,112 |
| PRIOR PERIOD ADJUSTMENTS | 25,527 | - | - | 25,527 | - |
| FUND BALANCES (DEFICIT), END of YEAR | \$ 2,497,407 | \$ 1,373,307 | \$ 129,946 | \$ 4,000,660 | \$ 4,032,931 |

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, 2016**

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

| | |
|--|---------------------------------|
| Net Changes in Fund Balances - total governmental funds (p.6) | \$ 295,415 |
| Decrease (Increase) in Accounts Payable and Accrued Expenses | 182,559 |
| Increase (Decrease) in Receivables | 18,611 |
| Principal Payments on Bonds & Notes Payable | 247,000 |
| Issuance of New Debt | - |
| Expenditures for Capital Assets | 270,816 |
| Decrease (Increase) in Accrual for Compensated Absences | (10,890) |
| Additional Pension Expense claimed on GAAP Statement of Activities | (49,348) |
| Depreciation Expense claimed on GAAP Statement of Activities | (240,369) |
| | <hr/> |
| Changes in Net Assets of Governmental Funds (p.3) | <u>\$ 713,794</u> |
| Prior Period Adjustment - to record additional cash accounts | <hr/> 25,527 |
| Total Changes to Net Assets of Governmental Funds (p.3) | <u><u>\$ 739,321</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, 2016**

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|----------------|
| Operating Income | \$ 132,768 |
| Add: Depreciation | 63,426 |
| Changes in Working Capital: | |
| Decrease (Increase) in Accounts Receivables | (11,141) |
| Increase (Decrease) In Accounts Payable & Accrued Exps. | <u>(2,376)</u> |
| Cash Flows from Operating Activities | \$ 182,677 |

CASH FLOWS FROM CAPITAL & FINANCING ACTIVITIES

| | |
|--|----------|
| Purchase of Capital Assets | - |
| CASH FLOWS FROM CAPITAL & FINANCING ACTIVITIES | <u>-</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---------------------------------|----------------------------|
| NET INCREASE IN CASH | 182,677 |
| Cash Balance, BEGINNING of YEAR | <u>1,877,544</u> |
| Cash Balance, END of YEAR | <u><u>\$ 2,060,221</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, 2016

| | Police Plan | Non-Uniform Plan | Total |
|--------------------------------------|----------------------------|----------------------------|----------------------------|
| Assets | | | |
| Cash & cash equivalents) | \$ - | \$ - | \$ - |
| Member Contributions Receivable | - | - | - |
| Employer Contributions Receivable | - | - | - |
| Investments | | | |
| Fixed Income | 739,277 | 1,332,270 | 2,071,547 |
| US Equities | 905,587 | 1,271,420 | 2,177,007 |
| International Equities | 579,900 | 820,607 | 1,400,507 |
| Total Investments | <u>2,224,764</u> | <u>3,424,297</u> | <u>5,649,061</u> |
| Total Assets | \$ 2,224,764 | \$ 3,424,297 | \$ 5,649,061 |
| Liabilities | | | |
| Accrued administrative expenses | \$ - | \$ - | - |
| Benefits payable | - | - | - |
| Total Liabilities | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Position Restricted for Pensions | <u>\$ 2,224,764</u> | <u>\$ 3,424,297</u> | <u>\$ 5,649,061</u> |

Statement of Changes in Fiduciary Net Position for the year ended December 31, 2016

| | Police Plan | Non-Uniform Plan | Total |
|--|----------------------------|----------------------------|----------------------------|
| Additions | | | |
| Contributions | | | |
| State Aid | \$ - | \$ 30,471 | \$ 30,471 |
| Members' Contributions | - | 16,909 | 16,909 |
| Employer Contribution | - | - | - |
| Total Contributions | <u>-</u> | <u>47,380</u> | <u>47,380</u> |
| Investment Income | | | |
| Interest & Dividends | 64,905 | 94,976 | 159,881 |
| Net Appreciation (Depreciation) in fair value of investments | 76,376 | 114,850 | 191,226 |
| Total Investment Income | <u>141,281</u> | <u>209,826</u> | <u>351,107</u> |
| Less Investment Expenses | - | - | - |
| Net Investment Income | 141,281 | 209,826 | 351,107 |
| Total Additions | 141,281 | 257,206 | 398,487 |
| Deductions | | | |
| Pension Benefit Payments | 30,785 | 105,160 | 135,945 |
| Administrative Expenses | 8,531 | 12,222 | 20,753 |
| Total Deductions | <u>39,316</u> | <u>117,382</u> | <u>156,698</u> |
| Net Increase (Decrease) in Net Position | 101,965 | 139,824 | 241,789 |
| Net Position Restricted for Pensions | | | |
| Fund Balance, January 1 st | <u>2,122,799</u> | <u>3,284,473</u> | <u>5,407,272</u> |
| Fund Balance, December 31 st | <u>\$ 2,224,764</u> | <u>\$ 3,424,297</u> | <u>\$ 5,649,061</u> |

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

BOROUGH of MALVERN
NOTES to FINANCIAL STATEMENTS
31st DECEMBER 2016

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 2016

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 2016 the liability for accrued vacation and sick time is \$83,100. 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 2016

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 2016, the carrying value and market value of the Borough's deposits was \$6,115,614 (excluding fiduciary funds) and the bank balances totaled \$6,160,803. Of those bank balances, \$329,242 were covered by insurance provided by the FDIC and \$5,831,561 were covered by collateral held in pooled accounts.

| | FDIC | Act 72 Pooling | Total |
|----------------|------------|-------------------|--------------|
| Category 1 | \$ 329,242 | \$ 5,831,561 | \$ 6,160,803 |
| Category 2 | - | - | - |
| Category 3 | - | - | - |
| Bank Balances | \$ 329,242 | \$ 5,831,561 | \$ 6,160,803 |
| Carrying Value | \$ 329,242 | \$ 5,786,372 | \$ 6,115,614 |

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 2016

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 | 9,200,808 | 157,291 | | 9,358,099 |
| Machinery & Equipment | 2,058,880 | 113,524 | | 2,172,404 |
| Total | 11,259,688 | 270,815 | 0 | 11,530,503 |
| <i>less:</i> | | | | |
| Accumulated Depreciation | 3,237,145 | 240,369 | | 3,477,514 |
| Net Book Value | 8,022,543 | 30,446 | 0 | 8,052,989 |

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

| Sewer System | | | | |
|--------------------------|------------------|-----------------|----------|------------------|
| Improvements & Equipment | 3,434,758 | 0 | 0 | 3,434,758 |
| <i>less:</i> | | | | |
| Accumulated Depreciation | 2,045,177 | 63,426 | 0 | 2,108,603 |
| Net Book Value | 1,389,581 | (63,426) | 0 | 1,326,155 |

Total depreciation expense recorded for 2016 was \$303,795.

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

As of December 31, 2016 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
31st DECEMBER 2016

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, 2016, the annual principal payment requirements of the outstanding long-term debt of the Borough were as follows:

| | Portion due during 2017 | Portion due post-2017 | Total |
|---------------------------|----------------------------|--------------------------|--------------|
| Building Renovation Bonds | 222,000 | 1,158,000 | 1,380,000 |
| 2013 Note Payable | 29,000 | 186,000 | 215,000 |
| | \$ 251,000 | \$ 1,344,000 | \$ 1,595,000 |

Annual debt service requirements are as follows:

| | Principal | Interest |
|-----------|--------------|-----------|
| 2017 | 251,000 | 22,725 |
| 2018 | 255,000 | 19,059 |
| 2019 | 258,000 | 15,337 |
| 2020 | 262,000 | 11,569 |
| 2021 | 266,000 | 7,741 |
| 2022-2023 | 303,000 | 4,340 |
| | \$ 1,595,000 | \$ 80,771 |

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 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.

BOROUGH of MALVERN
NOTES to FINANCIAL STATEMENTS
31st DECEMBER 2016

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

| Table 1 | Police Plan | | Non-Uniform Plan | |
|--|-------------|----------|------------------|-----------|
| | 2016 | 2017 | 2016 | 2017 |
| active employees | 3 | 3 | 10 | 10 |
| retirees & beneficiaries currently receiving benefits | 3 | 3 | 5 | 5 |
| terminated employees entitled to benefits but not yet receiving them | 0 | 0 | 0 | 0 |
| total | 6 | 6 | 15 | 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.
- 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.

BOROUGH of MALVERN
NOTES to FINANCIAL STATEMENTS
31st DECEMBER 2016

(iii.) Retirement Benefits,

Police Plan.

- A. Normal Retirement Benefit - One-half (½) 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 (½) 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 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.

BOROUGH of MALVERN
NOTES to FINANCIAL STATEMENTS
31st DECEMBER 2016

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 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.

BOROUGH of MALVERN
NOTES to FINANCIAL STATEMENTS
31st DECEMBER 2016

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, 2016 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 | 41% | 7.39% | 37% | 7.39% |
| Domestic Equity Small Cap | 0% | 7.39% | 0% | 7.39% |
| International Equity | 26% | 7.34% | 24% | 7.34% |
| Fixed Income | 33% | 3.09% | 39% | 3.09% |
| Emerging Markets | 0% | 10.93% | 0% | 10.93% |
| 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, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was

- Police Plan 6.39%
- Non-Uniformed Plan 6.13%

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, 2016 were as follows:

| Table 3 | Police Plan | Non-Uniform Plan | Total |
|--|-----------------------|---------------------|-----------------------|
| Total Pension Liability | \$ 1,195,492 | \$ 3,099,796 | \$ 4,295,288 |
| Plan Fiduciary Net Position | \$ 2,224,764 | \$ 3,424,297 | \$ 5,649,061 |
| Net Pension Liability | \$ (1,029,272) | \$ (324,501) | \$ (1,353,773) |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 181.6% | 110.5% | 131.5% |

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

Malvern Borough
Notes to Financial Statements, Note #6 Continued
December 31, 2016

Changes in Net Pension Liability

The following table shows the changes in net pension liability recognized over the year January 1, 2016 to December 31, 2016.

| | Police Plan | | | Non-Uniform Plan | | | Total |
|--|--------------------------------------|--|---------------------------------------|--------------------------------------|--|---------------------------------------|-----------------------------------|
| | Increase/(Decrease) | | | Increase/(Decrease) | | | |
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) | Total Net Pension Liability |
| 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) |
| Changes for the year: | | | | | | | |
| Service Cost | 37,396 | | 37,396 | 65,505 | | 65,505 | 102,901 |
| Interest on Total Pension Liability | 79,217 | | 79,217 | 178,436 | | 178,436 | 257,653 |
| Changes in Benefit Terms | | | - | | | - | - |
| Differences Between Expected and Actual Experience | | | - | | | - | - |
| Changes of Assumptions | | | - | | | - | - |
| Contributions - Employer | | | - | | | - | - |
| Contributions - State Aid | | | - | | 30,471 | (30,471) | (30,471) |
| Contributions - Member | | | - | | 16,909 | (16,909) | (16,909) |
| Net Investment Income | | 134,400 | (134,400) | | 199,204 | (199,204) | (333,604) |
| Benefit Payments | (30,785) | (30,785) | - | (105,160) | (105,160) | - | - |
| Administrative Expense | | (1,650) | 1,650 | | (1,600) | 1,600 | 3,250 |
| Other Changes | | | - | | | - | - |
| Net Changes | \$ 85,828 | \$ 101,965 | \$ (16,137) | \$ 138,781 | \$ 139,824 | \$ (1,043) | \$ (17,180) |
| Balances at 12/31/2016 | \$ 1,195,492 | \$ 2,224,764 | \$ (1,029,272) | \$ 3,099,796 | \$ 3,424,297 | \$ (324,501) | \$ (1,353,773) |

Malvern Borough
Notes to Financial Statements, Note #6 Continued
December 31, 2016

Pension Expense for Fiscal Year Ended December 31, 2016

| | Police Plan | Non-Uniformed Plan | Total |
|---|-----------------|-----------------------|------------------|
| Service Cost | \$ 37,396 | \$ 65,505 | \$ 102,901 |
| Interest on Total Pension Liability | 79,217 | 178,436 | 257,653 |
| Changes in Benefit Terms | - | | - |
| Differences Between Expected and Actual Experience | - | | - |
| Changes of Assumptions | - | | - |
| Employee Contributions | - | (16,909) | (16,909) |
| Projected Earnings on Pension Plan Investments | (147,461) | (194,830) | (342,291) |
| Differences Between Projected and Actual Earnings on Investments | 34,399 | 40,816 | 75,215 |
| Administrative Expense | 1,650 | 1,600 | 3,250 |
| Other Changes in Fiduciary Net Position | | | - |
| Total Pension Expense | \$ 5,201 | \$ 74,618 | \$ 79,819 |

Malvern Borough
Notes to Financial Statements, Note #6 Continued
December 31, 2016

Deferred Outflows and Deferred Inflows of Resources

For the year ended December 31, 2016, Malvern Borough recognized a pension expense of \$5,201 and \$74,618 for its Police Plan and Non-Uniformed Plan, respectively. At December 31, 2016, 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 | 105,811 | - | 121,574 | - |
| Total | \$ 105,811 | \$ - | \$ 121,574 | \$ - |

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

| | <u>Police Plan</u> | <u>Non-Uniformed Plan</u> |
|-------------------------|--------------------|---------------------------|
| Year Ended December 31: | | |
| 2017 | 34,399 | 40,816 |
| 2018 | 34,399 | 40,816 |
| 2019 | 34,400 | 40,816 |
| 2020 | 2,613 | (874) |
| Thereafter | - | - |
| Total | \$ 105,811 | \$ 121,574 |

Malvern Borough
Notes to Financial Statements, Note #6 Continued
December 31, 2016

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

| | Police Plan 2015 | Non-Uniformed Plan 2015 | Police Plan 2016 | Non- Uniformed Plan 2016 |
|---|------------------------|-------------------------------|------------------------|-----------------------------------|
| Total Pension Liability | | | | |
| Service Cost | \$ 35,615 | \$ 62,386 | \$ 37,396 | \$ 65,505 |
| Interest on Total Pension Liability | 73,656 | 169,368 | 79,217 | 178,436 |
| Changes of Benefit Terms | - | - | - | - |
| Differences Between Expected and Actual Experience | - | - | - | - |
| Changes of Assumptions | - | - | - | - |
| Benefit Payments, Including Refunds of Member Contributions | (32,435) | (62,308) | (30,785) | (105,160) |
| Net Change in Total Pension Liability | <u>76,836</u> | <u>169,446</u> | <u>85,828</u> | <u>138,781</u> |
| Total Pension Liability - Beginning | <u>1,032,828</u> | <u>2,791,569</u> | <u>1,109,664</u> | <u>2,961,015</u> |
| Total Pension Liability - Ending | <u>\$ 1,109,664</u> | <u>\$ 2,961,015</u> | <u>\$ 1,195,492</u> | <u>\$ 3,099,796</u> |
| Plan Fiduciary Net Position | | | | |
| Contributions - Employer | \$ - | \$ - | \$ - | \$ - |
| Contributions - State Aid | - | 66,791 | - | 30,471 |
| Contributions - Member | - | 13,499 | - | 16,909 |
| Net Investment Income | (8,603) | (12,196) | 134,400 | 199,204 |
| Benefit Payments, Including Refunds of Member Contributions | (32,435) | (62,308) | (30,785) | (105,160) |
| Administrative Expense | - | - | (1,650) | (1,600) |
| Net Change in Plan Fiduciary Net Position | <u>(41,038)</u> | <u>5,786</u> | <u>101,965</u> | <u>139,824</u> |
| Plan Net Position - Beginning | <u>2,163,837</u> | <u>3,278,687</u> | <u>2,122,799</u> | <u>3,284,473</u> |
| Plan Net Position - Ending | <u>\$ 2,122,799</u> | <u>\$ 3,284,473</u> | <u>\$ 2,224,764</u> | <u>\$ 3,424,297</u> |
| Municipality's Net Pension Liability (Asset) | <u>\$ (1,013,135)</u> | <u>\$ (323,458)</u> | <u>\$ (1,029,272)</u> | <u>\$ (324,501)</u> |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 191.3% | 110.9% | 186.1% | 110.5% |
| Covered Employee Payroll | \$ 323,461 | \$ 669,275 | \$ 293,850 | \$ 677,220 |
| Municipality's Net Pension Liability as a Percentage of Covered Employee Payroll | -313.2% | -48.3% | -350.3% | -47.9% |

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

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|------|------|------|------|------|------|------|------|------------|------------|
| Actuarially Determined Contribution | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contributions in Relation to the Actuarially Determined Contribution | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Contribution Deficiency (Excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered Employee Payroll | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 323,461 | \$ 323,461 |
| Contributions as a Percentage of Covered Employee Payroll | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |

Notes to schedules:

For each year 2007 through 2016, the net assets exceed the present value of benefits; therefore, no contribution was required.

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

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|-------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Actuarially Determined Contribution | \$ 48,425 | \$ 33,074 | \$ 31,400 | \$ 33,378 | \$ 35,982 | \$ 69,370 | \$ 76,495 | \$ 55,296 | \$ 66,385 | \$ 26,021 |
| Contributions in Relation to the Actuarially Determined Contribution | 92,989 | 37,835 | 31,400 | 33,378 | 35,982 | 69,370 | 76,495 | 59,436 | 66,791 | 30,471 |
| Contribution Deficiency (Excess) | \$ (44,564) | \$ (4,761) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (4,140) | \$ (406) | \$ (4,450) |
| Covered Employee Payroll | \$ 511,189 | \$ 536,827 | \$ 479,630 | \$ 497,662 | \$ 544,495 | \$ 544,495 | \$ 598,096 | \$ 556,479 | \$ 669,275 | \$ 677,220 |
| Contributions as a Percentage of Covered Employee Payroll | 18.2% | 7.0% | 6.5% | 6.7% | 6.6% | 12.7% | 12.8% | 10.7% | 10.0% | 4.5% |

Notes to schedules: none

Malvern Borough
Notes to Financial Statements, Note #6 Continued
December 31, 2016

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

| | 2015 | 2016 |
|---|--------|-------|
| Annual Money-Weighted Rate of Return, Net of Investment Expenses | -0.40% | 6.39% |

Notes to schedules: none

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

| | 2015 | 2016 |
|---|--------|-------|
| Annual Money-Weighted Rate of Return, Net of Investment Expenses | -0.37% | 6.13% |

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 2016

(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) | (\$896,040) | (\$1,029,272) | (\$1,141,152) |
| | | | |
| | 1% Decrease 5.00% | Current Rate 6.00% | 1% Increase 7.00% |
| Non-Uniformed Plan | | | |
| Net Pension Liability (Asset) | (\$88,164) | (\$324,501) | (\$531,805) |
| | | | |

(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, 2016, using the Entry Age Normal cost method and the following actuarial assumptions based on the census data as of January 1, 2016:

| 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 | not stated |
| | | |
| 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 2016

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 Township 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 Township 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 through May 8, 2017, 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

REQUIRED SUPPLEMENTAL INFORMATION

**Budgetary Comparison Statement - General Fund
for the year ended December 31, 2016**

| | Final Appropriated Budget | Actual Amounts (Budgetary Basis) | Variance |
|---------------------------------------|---------------------------------|-------------------------------------|-----------------------|
| REVENUES: | | | |
| Taxes | \$ 3,167,100 | \$ 3,111,477 | \$ (55,623) |
| Licenses & Permits | 193,800 | 205,638 | 11,838 |
| Fines, Forfeits, & Costs | 26,000 | 25,125 | (875) |
| Interest & Rents | 46,300 | 48,063 | 1,763 |
| Intergovernmental Revenues | 1,285,373 | 104,133 | (1,181,240) |
| Charges For Sevices & Fees | 49,480 | 74,516 | 25,036 |
| Miscellaneous Revenue | 137,780 | 19,103 | (118,677) |
| TOTAL BUDGETED REVENUES | <u>\$ 4,905,833</u> | <u>\$ 3,588,055</u> | <u>\$ (1,317,778)</u> |
| EXPENDITURES - CURRENT | | | |
| General Government | \$ 659,312 | \$ 577,731 | \$ 81,581 |
| Public Safety | 1,193,229 | 1,087,792 | 105,437 |
| Public Works: Highways & Streets | 715,838 | 725,333 | (9,495) |
| Public Works: Garbage Collection | 259,000 | 222,106 | 36,894 |
| Culture & Recreation | 107,498 | 95,111 | 12,387 |
| All Other Expenses | 169,576 | 125,444 | 44,132 |
| TOTAL EXPENDITURES - CURRENT | <u>\$ 3,104,453</u> | <u>\$ 2,833,517</u> | <u>\$ 270,936</u> |
| DEBT SERVICE | | | |
| Principal | \$ - | \$ - | \$ - |
| Interest | - | - | - |
| TOTAL DEBT SERVICE | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| TOTAL EXPENDITURES | <u>\$ 3,104,453</u> | <u>\$ 2,833,517</u> | <u>\$ 270,936</u> |
| EXCESSS of REVENUES OVER EXPENDITURES | \$ 1,801,380 | \$ 754,538 | \$ (1,046,842) |
| Transfers In | 50,000 | 48,826 | (1,174) |
| Transfers Out | (1,851,380) | (284,052) | 1,567,328 |
| | | | - |
| | | | - |
| NET TRANSFERS | <u>\$ (1,801,380)</u> | <u>\$ (235,226)</u> | <u>\$ 1,566,154</u> |
| NET CHANGE in FUND BALANCE | <u>\$ -</u> | <u>\$ 519,312</u> | <u>\$ 519,312</u> |

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

BOROUGH of MALVERN
MUNICIPAL ANNUAL AUDIT
& FINANCIAL REPORT
31st DECEMBER 2016

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

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 2016 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 2016, 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. LLP

Peterson, Fieo & Co.

12th May 2017

**2016 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, 2016

| | 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 | 2,552,140 | 129,946 | 1,373,307 | | 2,060,221 | | 5,649,061 | | | | 11,764,675 |
| 140-144 Tax Receivable | | | | | | | | | | | |
| 121-129, 145-149 Accounts Receivable (excluding taxes) | | | | | 232,582 | | | | | | 232,582 |
| 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 | 2,552,140 | 129,946 | 1,373,307 | | 2,292,803 | | 5,649,061 | | | | 11,997,257 |

| Liabilities and Other Credits | | | | | | | |
|--|--------|--|--|--|--|--|--------|
| 210-229 Payroll Taxes and Other Payroll Withholdings | 1,046 | | | | | | 1,046 |
| 200-209, 231-239 All Other Current Liabilities | 53,687 | | | | | | 53,687 |
| 230-00 Due To Other Funds | | | | | | | |

MALVERN BORO, CHESTER County

BALANCE SHEET

December 31, 2016

| | 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 | |
| Liabilities and Other Credits | | | | | | | | | | |
| 260-269 Long-Term-Liabilities | | | | | | | | | | |
| 240-259 Current Portion of Long-Term Debt and Other Credits | | | | | | | | | | |
| Total Liabilities and Other Credits | 54,733 | | | | | | | | | 54,733 |
| Fund and Account Group Equity | | | | | | | | | | |
| 281-284 Contributed Capital | 25,527 | | | | | | | | | 25,527 |
| 290.00 Investment in General Fixed Assets | | | | | | | | | | |
| 270-289 Fund Balance / Retained Earnings on 12/31 | 2,471,880 | 129,946 | 1,373,307 | | 2,292,803 | | 5,649,061 | | | 11,916,997 |
| 291-299 Other Equity | | | | | | | | | | |
| Total Fund and Account Group Equity | 2,497,407 | 129,946 | 1,373,307 | | 2,292,803 | | 5,649,061 | | | 11,942,524 |

TOTAL LIABILITIES AND FUND AND ACCOUNT GROUP EQUITY

11,997,257

MALVERN BORO, CHESTER County
STATEMENT OF REVENUES AND EXPENDITURES

December 31, 2016

| | Governmental Funds | | | | Proprietary Funds | | Fiduciary Fund | Total |
|---|--------------------|--|------------------|--------------|-------------------|------------------|----------------|------------------|
| | General Fund | Special Revenue (Including State Liquid Fuels) | Capital Projects | Debt Service | Enterprise | Internal Service | | |
| | 1,037,121 | | | | | | | 1,037,121 |
| 301.00 Real Estate Taxes | | | | | | | | |
| 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 | 15,513 | | | | | | | 15,513 |
| 310.10 Real Estate Transfer Taxes | 90,036 | | | | | | | 90,036 |
| 310.20 Earned Income Taxes / Wage Taxes | 1,864,159 | | | | | | | 1,864,159 |
| 310.30 Business Gross Receipts Taxes | | | | | | | | |
| 310.40 Occupation Taxes (levied under Act 511) | | | | | | | | |
| 310.50 Local Services Tax ** | 104,648 | | | | | | | 104,648 |
| 310.60 Amusement / Admission Taxes | | | | | | | | |
| 310.70 Mechanical Device Taxes | | | | | | | | |
| 310.90 Other Local Tax Enabling Act / Act 511 / Taxes | | | | | | | | |
| Other: _____ | | | | | | | | |
| Total Taxes | 3,111,477 | | | | | | | 3,111,477 |

REVENUES

| Taxes | |
|---|------------------|
| 301.00 Real Estate Taxes | 1,037,121 |
| 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 | 15,513 |
| 310.10 Real Estate Transfer Taxes | 90,036 |
| 310.20 Earned Income Taxes / Wage Taxes | 1,864,159 |
| 310.30 Business Gross Receipts Taxes | |
| 310.40 Occupation Taxes (levied under Act 511) | |
| 310.50 Local Services Tax ** | 104,648 |
| 310.60 Amusement / Admission Taxes | |
| 310.70 Mechanical Device Taxes | |
| 310.90 Other Local Tax Enabling Act / Act 511 / Taxes | |
| Other: _____ | |
| Total Taxes | 3,111,477 |

| Licenses and Permits | |
|--|----------------|
| 320-322 All Other Licenses and Permits | 114,687 |
| 321.80 Cable Television Franchise Fees | 90,951 |
| Total Licenses and Permits | 205,638 |

| Fines and Forfeits | |
|---------------------------------|---------------|
| 330-332 Fines and Forfeits | 25,125 |
| Total Fines and Forfeits | 25,125 |

| Licenses and Permits | |
|--|----------------|
| 320-322 All Other Licenses and Permits | 114,687 |
| 321.80 Cable Television Franchise Fees | 90,951 |
| Total Licenses and Permits | 205,638 |

| Fines and Forfeits | |
|---------------------------------|---------------|
| 330-332 Fines and Forfeits | 25,125 |
| Total Fines and Forfeits | 25,125 |

MALVERN BORO, CHESTER County
STATEMENT OF REVENUES AND EXPENDITURES
 December 31, 2016

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

REVENUES

| | | State | | | | | | |
|--------|--|--------|--------|--|--|--|--|---------|
| 355.00 | All Other State Shared Revenues and Entitlements | | | | | | | |
| 356.00 | State Payments in Lieu of Taxes | | | | | | | |
| | Total State | 61,435 | 84,177 | | | | | 145,612 |

| | | Local Government Units | | | | | | |
|--------|---|------------------------|--|--|--|--|--|--------|
| 357.03 | Highways and Streets | | | | | | | |
| 357.00 | All Other Local Governmental Units Capital and Operating Grants | 25,570 | | | | | | 25,570 |
| 358.00 | Local Government Unit Shared Payments for Contracted Intergovernmental Services | 17,128 | | | | | | 17,128 |
| 359.00 | Local Governmental Units and Authorities Payments in Lieu of Taxes | | | | | | | |
| | Total Local Government Units | 42,698 | | | | | | 42,698 |

| | | Charges for Service | | | | | | |
|--------|--|---------------------|---------|--|--|--|--|---------|
| 361.00 | General Government | 74,516 | | | | | | 74,516 |
| 362.00 | Public Safety | | | | | | | |
| 363.20 | Parking | | | | | | | |
| 363.00 | All Other Charges for Highway & Street Services | | | | | | | |
| 364.10 | Wastewater / Sewage (including connection / tapping fees, sewer usage charges, reserve capacity fee, etc.) | | 898,642 | | | | | 898,642 |
| 364.30 | Solid Waste Collection and Disposal Charge (trash) | | | | | | | |
| 364.60 | Host Municipality Benefit Fee for Solid Waste Facility | | | | | | | |
| 364.00 | All Other Charges for Sanitation Services | | | | | | | |
| 365.00 | Health | | | | | | | |
| 366.00 | Human Services | | | | | | | |
| 367.00 | Culture and Recreation | | | | | | | |
| 368.00 | Airports | | | | | | | |

MALVERN BORO, CHESTER County
STATEMENT OF REVENUES AND EXPENDITURES

December 31, 2016

| | 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 | |
| 88,434 | | | | | | | | | 88,434 |
| 839 | | | | | | | | | 839 |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| 1,087,792 | | | | | | | | | 1,087,792 |

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, 2016

| | 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 | |
| | | | 10,594 | | | | | 10,594 |
| | 114 | | | | | | | 114 |
| | 1,044 | | | | | | | 1,044 |
| | 303,542 | | | | | | | 303,542 |
| | | | 111,603 | | | | | 111,603 |
| | 725,333 | | 238,231 | | | | | 963,564 |

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 |
| | Total Culture and Recreation |

MALVERN BORO, CHESTER County
STATEMENT OF REVENUES AND EXPENDITURES
 December 31, 2016

| | Governmental Funds | | | | Proprietary Funds | | Fiduciary Fund | Total |
|---------|--------------------|--|------------------|--------------|-------------------|------------------|----------------|---------|
| | General Fund | Special Revenue (Including State Liquid Fuels) | Capital Projects | Debt Service | Enterprise | Internal Service | | |
| 15,875 | | | | | | | | |
| 12,180 | | | | | | | | 15,875 |
| 58,000 | | | | | | | | 12,180 |
| | | | | | | | | 58,000 |
| | | | | | | | | |
| | | | | | | | | |
| 153,111 | | | | | | | | 153,111 |

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, 2016

| 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 | 30,471 | | | | | | | 30,471 |

| 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 | 36,973 | | | | | | | 36,973 |
| Total Insurance | 36,973 | | | | | | | 36,973 |

| 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 | | | | | | | 135,945 | 135,945 |
| 489.00 All Other Unclassified Expenditures | | | | | | | | |
| Total Unclassified Operating Expenditures | | | | | | | 135,945 | 135,945 |

| 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 | 284,052 | 48,826 | | | | | | 332,878 |
| 493.00 All Other Financing Uses | | | | | | | | |
| Total Other Financing Uses | 284,052 | 48,826 | | | | | | 332,878 |

| | | | | | | | | |
|---------------------------|-----------|--------|---------|--|---------|--|---------|-----------|
| TOTAL EXPENDITURES | 3,117,569 | 48,826 | 549,020 | | 711,910 | | 156,698 | 4,584,023 |
|---------------------------|-----------|--------|---------|--|---------|--|---------|-----------|

| | | | | | | | | |
|---|---------|--------|----------|--|---------|--|---------|---------|
| EXCESS/DEFICIT OF REVENUES OVER EXPENDITURES | 519,312 | 35,896 | -259,794 | | 193,819 | | 241,789 | 731,022 |
|---|---------|--------|----------|--|---------|--|---------|---------|

MALVERN BORO
December 31, 2016

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 | 244,000 | | 29,000 | | 215,000 | | 215,000 |
| Non-Electoral | Note | 2002 | 2022 | 2,500,000 | 1,598,000 | | 218,000 | | 1,380,000 | | 1,380,000 |
| Revenue Bonds and Notes | | | | | | | | | | | |
| Lease Rental Debt | | | | | | | | | | | |
| Other | | | | | | | | | | | |

(1) - excludes unamortized premium/discount

Total bonds and notes outstanding

1,595,000

Capitalized lease obligations

0

Net debt

1,595,000

MALVERN BORO, CHESTER County
STATEMENT OF CAPITAL EXPENDITURES

December 31, 2016

| Category | Capital Purchases | Capital Construction | Total |
|-----------------------------------|-------------------|----------------------|----------------|
| Community Development | | | |
| Electric | | | |
| Fire | | | |
| Gas System | | | |
| General Government | 4,951 | 36,307 | 41,258 |
| Health | | | |
| Housing | | | |
| Libraries | | | |
| Mass Transit | | | |
| Parks | | 116,034 | 116,034 |
| Police | 922 | 67,365 | 68,287 |
| Recreation | | | |
| Sewer | | | |
| Solid Waste | | | |
| Streets / Highways | 77,703 | 37,534 | 115,237 |
| Water | | | |
| Other: _____ | | | |
| TOTAL CAPITAL EXPENDITURES | 83,576 | 257,240 | 340,816 |

EMPLOYEE COMPENSATION

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

1,176,357

December 31, 2016

NOTES / COMMENTS

BOROUGH of MALVERN, CHESTER COUNTY, PENNSYLVANIA

Note to the DCED Annual Audit & Financial Report
31st December 2016**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, 2016

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 \$ 7,518,830

Revenues & Other Financing Sources

| | | |
|---|--------------|------------------|
| Taxes | \$ 3,111,477 | |
| Licenses & Permits | 205,638 | |
| Fines & Forfeits | 25,125 | |
| Interest, Rents, & Royalties | 60,869 | |
| Grants | 188,310 | |
| Charges for Services | 973,158 | |
| Inter-Governmental Transfers | 332,878 | |
| Miscellaneous Revenues | 19,103 | |
| | | |
| Total Revenues & Other Financing Sources | | 4,916,558 |

Expenditures (Expenses) & Other Financing Uses

| | | |
|--|-----------|------------------|
| General Government | 656,846 | |
| Public Safety | 1,087,792 | |
| Public Works - Sanitation | 934,016 | |
| Public Works - Highway & Streets | 922,305 | |
| Culture & Recreation | 153,111 | |
| Insurance, Employee Benefits, P/R Taxes, &c | 67,444 | |
| Debt Service | 272,932 | |
| Inter-Governmental Transfers | 332,878 | |
| All Other Expenditures | - | |
| | | |
| Total Expenditures or Expenses and Other Financing Uses | | 4,427,324 |
| Excess (Deficiency) of Revenues & Other Financing Sources over Expenditures (Expenses) & Other Financing Uses | | 489,234 |

Prior Period Adjustments 25,527

Fund Balances, end of year \$ 8,008,064

Other Required Information:

| | | |
|-----------------------------------|---------------------------|----------------|
| Gross Debt of the Borough | <i>as of 31 Dec 2016</i> | \$ 1,595,000 |
| Net Debt of the Borough | <i>as of 31 Dec 2016</i> | \$ 1,595,000 |
| Assessed Valuation of the Borough | <i>as of 1 Jan'y 2016</i> | \$ 265,730,332 |

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