

Borough of Malvern
Chester County, Pennsylvania
Annual Audit & Financial Report
for the year ended December 31, 2017

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 \$ 8,033,591

Revenues & Other Financing Sources

Taxes	\$	3,239,868
Licenses & Permits		199,838
Fines & Forfeits		37,094
Interest, Rents, & Royalties		70,523
Grants		184,103
Charges for Services		961,059
Inter-Governmental Transfers		1,210,953
Miscellaneous Revenues		28,225
		5,931,663

Total Revenues & Other Financing Sources 5,931,663

Expenditures (Expenses) & Other Financing Uses

General Government		660,545
Public Safety		1,131,610
Public Works - Sanitation		1,012,304
Public Works - Highway & Streets		855,693
Culture & Recreation		123,053
Insurance, Employee Benefits, P/R Taxes, &c		70,142
Debt Service		273,322
Inter-Governmental Transfers		1,210,953
		5,337,622

Total Expenditures or Expenses and Other Financing Uses 5,337,622

Excess (Deficiency) of Revenues & Other Financing

Sources over Expenditures (Expenses) & Other Financing Uses 594,041

Prior Period Adjustments -

Fund Balances, end of year \$ 8,627,632

Other Required Information:

Gross Debt of the Borough	<i>as of 31 Dec 2017</i>	\$	1,344,000
Net Debt of the Borough	<i>as of 31 Dec 2017</i>	\$	1,344,000
Assessed Valuation of the Borough	<i>as of 1 Jan'y 2017</i>	\$	270,416,152

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.

**2017 MUNICIPAL ANNUAL AUDIT
AND
FINANCIAL REPORT**

150993 MALVERN BORO, CHESTER COUNTY

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INDEPENDENT AUDITORS' REPORT

To the Mayor & Borough Council of
Malvern Borough, Chester County, Pennsylvania

We have audited the Borough of Malvern's Municipal Annual Audit & Financial Report, Form DCED-CLGS-30 as of 31st December 2017 and for the year ended.

Management's Responsibility. Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting practices prescribed or permitted by the Pennsylvania Department of Economic Development (DCED). Management is also responsible for the design, implementation, and maintenance of internal controls 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 the audit evidence we have obtained is sufficient & appropriate to provide a basis for our audit opinion.

Opinion. In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets (i.e., fund balances) of the Borough of Malvern as of 31st December 2017, and its support, revenue, and expenses for the year then ended in accordance with the financial reporting practices prescribed or permitted by the DCED as described in Note #1.

Basis of Accounting. 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 and permitted by the DCED.

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

Peterson, Fieo & Co.

Peterson, Fieo & Co.
17th May 2018

MALVERN BORO, CHESTER County

BALANCE SHEET

December 31, 2017

		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
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		176,938									176,938

Fund and Account Group Equity											
281-284	Contributed Capital										
290.00	Investment in General Fixed Assets										
270-289	Fund Balance / Retained Earnings on 12/31	2,291,286	171,001	2,041,393		4,123,952		6,381,780			15,009,412
291-299	Other Equity										
Total Fund and Account Group Equity		2,291,286	171,001	2,041,393		4,123,952		6,381,780			15,009,412

TOTAL LIABILITIES AND FUND AND ACCOUNT GROUP EQUITY											15,186,350
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MALVERN BORO, CHESTER County
STATEMENT OF REVENUES AND EXPENDITURES

December 31, 2017

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

REVENUES

Taxes

301.00	Real Estate Taxes	1,033,316						1,033,316
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	14,618						14,618
310.10	Real Estate Transfer Taxes	128,695						128,695
310.20	Earned Income Taxes / Wage Taxes	1,934,975						1,934,975
310.30	Business Gross Receipts Taxes							
310.40	Occupation Taxes (levied under Act 511)							
310.50	Local Services Tax **	128,264						128,264
310.60	Amusement / Admission Taxes							
310.70	Mechanical Device Taxes							
310.90	Other: _____							
	Other: _____							
Total Taxes		3,239,868						3,239,868

Licenses and Permits

320-322	All Other Licenses and Permits	107,506						107,506
321.80	Cable Television Franchise Fees	92,332						92,332
Total Licenses and Permits		199,838						199,838

Fines and Forfeits

330-332	Fines and Forfeits	37,094						37,094
Total Fines and Forfeits		37,094						37,094

MALVERN BORO, CHESTER County
STATEMENT OF REVENUES AND EXPENDITURES

December 31, 2017

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

REVENUES

State								
355.00	All Other State Shared Revenues and Entitlements							
356.00	State Payments in Lieu of Taxes							
Total State		82,636	88,609					171,245

Local Government Units								
357.03	Highways and Streets							
357.00	All Other Local Governmental Units Capital and Operating Grants	12,858						12,858
358.00	Local Government Unit Shared Payments for Contracted Intergovernmental Services							
359.00	Local Governmental Units and Authorities Payments in Lieu of Taxes							
Total Local Government Units		12,858						12,858

Charges for Service								
361.00	General Government	32,267						32,267
362.00	Public Safety	22,355						22,355
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.)				904,003			904,003
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	1,748						1,748
365.00	Health							
366.00	Human Services							
367.00	Culture and Recreation	686						686
368.00	Airports							
369.00	Bars							

MALVERN BORO, CHESTER County
STATEMENT OF REVENUES AND EXPENDITURES

December 31, 2017

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

REVENUES

Charges for Service								
370.00	Cemeteries							
372.00	Electric System							
373.00	Gas System							
374.00	Housing System							
375.00	Markets							
377.00	Transit Systems							
378.00	Water System							
379.00	All Other Charges for Service							
Total Charges for Service		57,056				904,003		961,059

Unclassified Operating Revenues								
383.00	Special Assessments							
386.00	Escheats (sale of personal property)							
387.00	Contributions and Donations from Private Sectors	18,259					16,336	34,595
388.00	Fiduciary Fund Pension Contributions						33,394	33,394
389.00	All Other Unclassified Operating Revenues	3,897						3,897
Total Unclassified Operating Revenues		22,156					49,730	71,886

Other Financing Sources								
391.00	Proceeds of General Fixed Asset Disposition	4,900						4,900
392.00	Interfund Operating Transfers	48,265	1,162,688					1,210,953
393.00	Proceeds of General Long-Term Debt							
394.00	Proceeds of Short Term-Debt							
395.00	Refunds of Prior Year Expenditures	1,169						1,169
Total Other Financing Sources		54,334	1,162,688					1,217,022

MALVERN BORO, CHESTER County
STATEMENT OF REVENUES AND EXPENDITURES

December 31, 2017

	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
TOTAL REVENUES	3,761,450	89,320	1,167,723		913,170		882,338	6,814,001

EXPENDITURES

General Government								
400.00	Legislative (Governing) Body	5,150						5,150
401.00	Executive (Manager or Mayor)	98,850						98,850
402.00	Auditing Services / Financial Administration	11,781					13,674	25,455
403.00	Tax Collection	26,188						26,188
404.00	Solicitor / Legal Services	84,366						84,366
405.00	Secretary / Clerk	47,594						47,594
406.00	Other General Government Administration	152,756	18,411		10,446			181,613
407.00	IT-Networking Services-Data Processing							
408.00	Engineering Services	56,737	36,013		21,713			114,463
409.00	General Government Buildings and Plant	90,540						90,540
Total General Government		573,962	54,424		32,159		13,674	674,219

Public Safety								
410.00	Police	906,770						906,770
411.00	Fire	134,194						134,194
412.00	Ambulance / Rescue							
413.00	UCC and Code Enforcement	90,646						90,646
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		1,131,610						1,131,610

MALVERN BORO, CHESTER County
STATEMENT OF REVENUES AND EXPENDITURES

December 31, 2017

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

EXPENDITURES

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)	222,314						222,314
428.00	Weed Control							
429.00	Wastewater / Sewage Treatment and Collection				789,990			789,990
Total Public Works - Sanitation		222,314			789,990			1,012,304

Public Works - Highways and Streets								
430.00	General Services - Administration	354,658						354,658
431.00	Cleaning of Streets and Gutters							
432.00	Winter Maintenance – Snow Removal	10,346						10,346
433.00	Traffic Control Devices	7,479						7,479
434.00	Street Lighting	46,545						46,545
435.00	Sidewalks and Crosswalks		75,375					75,375
436.00	Storm Sewers and Drains	3,227						3,227
437.00	Repairs of Tools and Machinery	1,214						1,214
438.00	Maintenance and Repairs of Roads and Bridges	260,333						260,333
439.00	Highway Construction and Rebuilding Projects		96,516					96,516
Total Public Works - Highways and Streets		683,802	171,891					855,693

MALVERN BORO, CHESTER County
STATEMENT OF REVENUES AND EXPENDITURES

December 31, 2017

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

EXPENDITURES

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	23,350						23,350
453.00	Spectator Recreation							
454.00	Parks	46,607						46,607
455.00	Shade Trees	9,250						9,250
456.00	Libraries	12,180						12,180
457.00	Civil and Military Celebrations	30,000						30,000
458.00	Senior Citizens' Centers							
459.00	All Other Culture and Recreation	1,666						1,666
Total Culture and Recreation		123,053						123,053

Community Development								
461.00	Conservation of Natural Resources							

MALVERN BORO, CHESTER County
STATEMENT OF REVENUES AND EXPENDITURES

December 31, 2017

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

EXPENDITURES

Community Development								
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)			251,000				251,000
472.00	Debt Interest (short-term and long-term)			22,322				22,322
475.00	Fiscal Agent Fees							
Total Debt Service				273,322				273,322

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	33,394						33,394
484.00	Worker Compensation Insurance							
487.00	Other Group Insurance Benefits							
Total Employer Paid Benefits and Withholding Items		33,394						33,394

Insurance								
486.00	Insurance, Casualty, and Surety	36,748					135,945	172,693
Total Insurance		36,748					135,945	172,693

MALVERN BORO, CHESTER County
STATEMENT OF REVENUES AND EXPENDITURES

December 31, 2017

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

EXPENDITURES

Unclassified Operating Expenditures								
488.00	Fiduciary Fund Benefits and Refunds Paid							
489.00	All Other Unclassified Expenditures							
Total Unclassified Operating Expenditures								

Other Financing Uses								
491.00	Refund of Prior Year Revenues							
492.00	Interfund Operating Transfers	1,162,688	48,265					1,210,953
493.00	All Other Financing Uses							
Total Other Financing Uses		1,162,688	48,265					1,210,953

TOTAL EXPENDITURES	3,967,571	48,265	499,637		822,149		149,619	5,487,241
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EXCESS/DEFICIT OF REVENUES OVER EXPENDITURES	-206,121	41,055	668,086		91,021		732,719	1,326,760
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MALVERN BORO
December 31, 2017

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	215,000		29,000		186,000		186,000
Non-Electoral	Note	2002	2022	2,500,000	1,380,000		222,000		1,158,000		1,158,000
Revenue Bonds and Notes											
Lease Rental Debt											
Other											

(1) - excludes unamortized premium/discount

Total bonds and notes outstanding	1,344,000
Capitalized lease obligations	0
Net debt	1,344,000

MALVERN BORO, CHESTER County
STATEMENT OF CAPITAL EXPENDITURES

December 31, 2017

Category	Capital Purchases	Capital Construction	Total
Community Development			
Electric			
Fire			
Gas System			
General Government	11,505		11,505
Health			
Housing			
Libraries			
Mass Transit			
Parks			
Police		38,000	38,000
Recreation			
Sewer	85,905	33,379	119,284
Solid Waste			
Streets / Highways	398,487	70,516	469,003
Water			
Other: _____			
TOTAL CAPITAL EXPENDITURES	495,897	141,895	637,792

EMPLOYEE COMPENSATION

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

1,304,344

Independent Public Accountant/Certified Public Accountant Submission Page
Opinion page was provided in lieu of signature page.

SIGNATURE AND VERIFICATION

Signed: George Fieo, CPA Appointed Auditor/CPA

December 31, 2017

NOTES / COMMENTS

BOROUGH of MALVERN, CHESTER COUNTY, PENNSYLVANIA

Note to the DCED Annual Audit & Financial Report
31st December 2017

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
AUDITED FINANCIAL STATEMENTS
31st DECEMBER 2017

BOROUGH of MALVERN

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017

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 the Borough continued implementing traffic calming measures in 2017. New measures included the installation of speed humps on Monument Avenue. In addition, the Borough received a Vision Partnership Program Grant from Chester County to conduct a Borough-wide traffic study. There were fifteen (15) intersections evaluated. Data collection occurred in 2017 and the report will be finalized in 2018.

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.

Changes in personnel occurred in 2017. Borough Council appointed a new full-time patrol officer in July 2017, bringing the total full-time patrol staff to five (5) officers. A sixth full-time officer will be appointed in 2018. The part-time Administrative Assistant resigned in December 2017 after 20 years with the Borough. During the preparation of the 2018 budget, the position was converted into a full-time position and a new employee was hired in the beginning of 2018.

In 2017, the Borough residents elected two (2) new Council members and one (1) member, who was originally appointed to fill an unexpired term, was elected. There was also one member of Borough Council who resigned in the second quarter of 2017 and the seat was filled shortly after the resignation. During the 2017 budget process, the tax rate remained static. The Borough continued the practice of transferring funds into the Capital Reserve Fund. Several projects budgeted in 2017 did not come to fruition and have been carried into 2018.

In 2014, there were three (3) sewer line breaks in the Valley Creek Trunk Sewer line in Tredyfffin 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. Discussions began in 2016 to sell the Valley Creek Trunk Sewer line. In the third quarter of 2017, all parties agreed to begin the process of selling the Valley Creek Trunk Sewer line.

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 (4) 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 2017. Collection of current year real estate taxes in 2017 exceed the collection levels realized in 2016.

All Act 511 Taxes witnessed a 5% increase in 2017. Revenue categories allocated in this grouping finished 2017 near their budgeted levels. Earned Income Tax revenue was 6% higher in 2017 and finished 4% over budgeted projections. Real Estate Transfer Tax revenue exceeded budgeted projections by 37% in 2017 and were 43% higher compared to the actual collections in 2016. Overall, collection from Act 511 Taxes ended 2017 at 5% over the budgeted projections.

Revenues from Motor Vehicle Code Violations showed a 44% increase in 2017. This may be primarily attributed to the establishment of a dedicated Traffic Enforcement Unit in the Malvern Police Depart. False Alarm Penalties showed a 44% decline in 2017. 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 2017 36% above budgeted projections and showed a 13% increase and Plumbing Permits and Registrations showed a 38% decline compared to 2016. Permit activity was comparable in 2017 compared 2016. Overall, total revenue from construction permits exceeded budgeted projections by 8%, but did decline by 2% compared to 2016. Revenues collected from Violations of Ordinances increased by 268% in 2017 compared to 2016. Earnings on Investments increase of 64% in 2017. The Borough has begun to further evaluate investment opportunities and began to diversify its reserve funds, which has resulted in higher returns.

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 2017. This is the same rate as in 2016. Revenue from Sewer Rents finished 2017 at 104% of budget; this is comparable to 2016. During 2017, the Borough worked diligently to collect on delinquent accounts. The revenue from Other Income decreased by 14% due a reduction in the refund received from the Valley Forge Sewer Authority. The Borough received a \$23,562 refund from the Valley Forge Sewer Authority. This was due to the Borough based on their audit.

Expenditures –

The budgeted 2017 General Fund Expenditures increased by 2% over the budgeted 2016 expenditures. This increase is attributed to an increase in costs associated with increased costs for fire protection services, increased insurance costs, increased contributions for civic activities, and an increased transfer to the Capital

Reserve Fund due to projected grant funding. The Borough also transferred additional cash from the contingency accounts into the Capital Reserve Fund. The Borough completed substantial paving work in 2017, which included paving S. Warren Ave., Bridge St., and a section of King St. While budgeted expenditures increased, final General Fund expenditures finished 2017 21% under budget. Actual expenditures finished 2017 27% higher than 2016 actual expenditures.

The Sewer Fund decreased by 1% in budgeted expenditures over the 2016 budget. This may be primarily attributed to changes to health care coverage for employees. Actual expenditures finished 2017 16% under budgeted projections. Actual expenditures in 2017 declined by 2% compared to the 2016 actual expenditures. The Sewer Capital Reserve Fund saw significantly more activity as the Borough continued engineering work related to budgeted projects. Most of these projects have been forwarded to the 2018 budget.

Challenges continue to be in the areas of healthcare coverage for our employees and police protection to our community. In the 2017 budget, 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 2017 included engineering work related to the Borough's projects on N. Warren Ave. and Woodland Ave., data collection for the Borough-wide traffic study, and engineering work for the upgrade of the HVAC system in Borough Hall.

Capital Expenses and Debt Service

The Borough has outstanding debt of \$1,344,000 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.

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 2017 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 2017, 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.
7th May 2018

BOROUGH of MALVERN

Statement of Net Position as of December 31, 2017

	Governmental Activities	Business-Like Activities	Total
ASSETS			
Current Assets:			
Cash & Cash Equivalents	\$ 4,680,620	\$ 2,137,627	\$ 6,818,247
Taxes/Accounts Receivable	34,418	246,196	280,614
Other Receivables	-	-	-
Net Pension Asset	2,034,878	-	2,034,878
Non-Current Assets:			
Capital Assets, net of Depreciation	8,341,029	1,381,313	9,722,342
TOTAL ASSETS	\$ 15,090,945	\$ 3,765,136	\$ 18,856,081
DEFERRED OUTFLOWS of RESOURCES			
Deferred outflows from pensions	\$ 62,728	\$ -	\$ 62,728
LIABILITIES & NET ASSETS			
Current Liabilities:			
Accounts Payable and Accrued Expenses	\$ 104,774	\$ 3,709	\$ 108,483
Bonds & Notes Payable	255,000	-	255,000
Escrow Liabilities Payable	158,438	-	158,438
Total Current Liabilities	518,212	3,709	521,921
Non-Current Liabilities:			
Compensated Absences	84,492	-	84,492
Bonds & Notes Payable	1,089,000	-	1,089,000
Total Non-Current Liabilities	1,173,492	-	1,173,492
TOTAL LIABILITIES	\$ 1,691,704	\$ 3,709	\$ 1,695,413
DEFERRED INFLOWS of RESOURCES			
Deferred inflows from pensions	\$ 364,695	\$ 68,357	\$ 433,052
NET POSITION			
Invested in Capital Assets, Net of Related Debt	6,997,029	1,381,313	8,378,342
Restricted for Pensions	1,732,911	(68,357)	1,664,554
Unrestricted Net Position (Deficit)	4,367,334	2,380,114	6,747,448
Total Net Position	\$ 13,097,274	\$ 3,693,070	\$ 16,790,344

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

BOROUGH of MALVERN

**Statement of Activities
for the year ended December 31, 2017**

	Expenses	Program Revenues			Primary Government		Total
		Charges for Services	Operating Grants	Capital Grants	Governmental Activities	Business-Like Activities	
<i>Governmental Activities:</i>							
General Government	\$ 719,763	\$ -	\$ -	\$ -	\$ (719,763)	\$ -	\$ (719,763)
Public Safety	1,021,200	22,355			(998,845)		(998,845)
Highways & Streets	365,483		88,609		(276,874)		(276,874)
Culture & Recreation	89,318				(89,318)		(89,318)
Garbage Collection	215,007				(215,007)		(215,007)
Employee Benefits	207,612				(207,612)		(207,612)
Civic Contributions	44,500				(44,500)		(44,500)
Debt Service	22,322				(22,322)		(22,322)
Total Governmental Activities	\$ 2,685,205	\$ 22,355	\$ 88,609	\$ -	\$ (2,574,241)		\$ (2,574,241)
<i>Business-Like Activities</i>							
Sewer Services	782,851	904,003	-	-	-	121,152	121,152
Total Primary Government	\$ 3,468,056	\$ 926,358	\$ 88,609	\$ -	\$ (2,574,241)	\$ 121,152	\$ (2,453,089)
General Government Revenues							
Taxes					\$ 3,286,641	\$ -	\$ 3,286,641
Grants					62,100		62,100
Earnings on Investments					14,605	9,167	23,772
All other Revenues					353,476		353,476
Transfers, net					51,920	(51,920)	-
Total					\$ 3,768,742	\$ (42,753)	\$ 3,725,989
Change in Net Assets					\$ 1,194,501	\$ 78,399	\$ 1,272,900
Net Position, Beginning of Year					11,902,773	3,614,671	15,517,444
Net Position, End of Year					\$ 13,097,274	\$ 3,693,070	\$ 16,790,344

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

BOROUGH of MALVERN

**Reconciliation of Total Government Activities Fund Balances
to Net Position of Government Activities, December 31, 2017**

Total Governmental Fund Balances	
Unrestricted Net Assets (Deficit)	\$ 4,367,334
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	8,341,029
Net Pension Asset (Liability) incurred by governmental activities are not financial resources and therefore, are not reported as assets in gov't funds	1,732,911
Short term liabilities due & payable within one year.	(255,000)
Long term liabilities not due & payable within one year.	
Bonds & Notes Payable	<u>(1,089,000)</u>
Total Net Assets of Governmental Activities (p.2)	<u><u>\$ 13,097,274</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, 2017**

	Governmental Funds			Totals	Business-Like Funds 2017
	General Fund	Capital Projects Fund	Highway Aid Fund	2017	
ASSETS					
Cash & Cash Equivalents	\$ 2,468,224	\$ 2,041,393	\$ 171,001	\$ 4,680,618	\$ 2,137,628
Other Receivables				-	246,196
Fixed Assets				-	1,740,128
TOTAL ASSETS	\$ 2,468,224	\$ 2,041,393	\$ 171,001	\$ 4,680,618	\$ 4,123,952
LIABILITIES & FUND BALANCES					
LIABILITIES					
Accounts Payable	18,500	-	-	18,500	-
Escrow Liabilities Payable	158,438			158,438	
TOTAL LIABILITIES	176,938	-	-	176,938	-
FUND BALANCES					
Reserved for Capital Projects	-	2,041,393	-	2,041,393	-
Unreserved (Deficit)	2,291,286		171,001	2,462,287	4,123,952
TOTAL FUND BALANCES	2,291,286	2,041,393	171,001	4,503,680	4,123,952
TOTAL LIABILITIES & FUND BALS.	\$ 2,468,224	\$ 2,041,393	\$ 171,001	\$ 4,680,618	\$ 4,123,952

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, 2017

	General Fund	Capital Reserve Fund	Highway Aid Fund	Totals 2017	Business-Like Funds 2017
REVENUES					
Taxes	\$ 3,239,868	\$ -	\$ -	\$ 3,239,868	\$ -
Licenses & Permits	199,838			199,838	
Fines, Forfeits, & Costs	37,094			37,094	
Interest, Rents, & Franchise Fees	55,610	5,035	711	61,356	9,167
Intergovernmental Revenues	95,494		88,609	184,103	
Charges for Services/Fees	57,056			57,056	904,003
Miscellaneous Revenue	28,225			28,225	
TOTAL REVENUES	3,713,185	5,035	89,320	3,807,540	913,170
EXPENDITURES - Current					
General Government	573,962	54,424		628,386	32,159
Public Safety	1,131,610			1,131,610	
Public Works - Sewer & Garbage Collection	222,314			222,314	789,990
Public Works - Highways & Streets	683,802	171,891		855,693	
Civic Contributions	30,000			30,000	
Culture & Recreation	93,053			93,053	
Insurance, Employee Benefits, P/R Taxes, &c	70,142			70,142	-
EXPENDITURES - Debt Service					
Principal	-	251,000		251,000	-
Interest	-	22,322		22,322	-
TOTAL EXPENDITURES	2,804,883	499,637	-	3,304,520	822,149
EXCESS (DEFICIENCY) of REVENUES OVER EXPENDITURES	908,302	(494,602)	89,320	503,020	91,021
OTHER FINANCING SOURCES (USES)					
Transfers In	48,265	1,162,688	-	1,210,953	-
Transfers Out	(1,162,688)		(48,265)	(1,210,953)	-
TOTAL OTHER FINANCING SOURCES (USES)	(1,114,423)	1,162,688	(48,265)	-	-
NET CHANGE IN FUND BALANCES	(206,121)	668,086	41,055	503,020	91,021
FUND BALANCES (DEFICIT), BEGINNING of YEAR	2,497,407	1,373,307	129,946	4,000,660	4,032,931
FUND BALANCES (DEFICIT), END of YEAR	\$ 2,291,286	\$ 2,041,393	\$ 171,001	\$ 4,503,680	\$ 4,123,952

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, 2017**

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

Net Changes in Fund Balances - total governmental funds (p.6)	\$ 503,020
Decrease (Increase) in Accounts Payable and Accrued Expenses	696
Increase (Decrease) in Receivables	9,679
Principal Payments on Bonds & Notes Payable	251,000
Issuance of New Debt	-
Expenditures for Capital Assets	514,983
Decrease (Increase) in Accrual for Compensated Absences	(1,392)
Additional Pension Expense claimed on GAAP Statement of Activities	99,833
Depreciation Expense claimed on GAAP Statement of Activities	(235,238)
Equity Transfers to Business-Like Funds	<u>51,920</u>
Change in Net Position of Governmental Funds (p.3)	<u><u>\$ 1,194,501</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, 2017**

CASH FLOWS FROM OPERATING ACTIVITIES

Operating Income	\$ 78,399	
Add: Depreciation	64,126	
Changes in Working Capital:		
Decrease (Increase) in Accounts Receivables	(13,614)	
Increase (Decrease) In Accounts Payable & Accrued Exps.	(577)	
Increase (Decrease) In Deferred Inflows of Pension Resources	<u>68,357</u>	
Cash Flows from Operating Activities		\$ 196,691
CASH FLOWS FROM CAPITAL & FINANCING ACTIVITIES		
Purchase of Capital Assets	<u>(119,284)</u>	
CASH FLOWS FROM CAPITAL & FINANCING ACTIVITIES		(119,284)
CASH FLOWS FROM INVESTING ACTIVITIES		<u>-</u>
NET INCREASE IN CASH		77,407
Cash Balance, BEGINNING of YEAR		<u>2,060,221</u>
Cash Balance, END of YEAR		<u><u>\$ 2,137,628</u></u>

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

BOROUGH of MALVERN

Statement of Fiduciary Net Position (cash basis) as of December 31, 2017

	Police Plan	Non-Uniform Plan	Total
Assets			
Cash & cash equivalents	\$ 81,683	\$ 113,896	\$ 195,579
Member Contributions Receivable	-	-	-
Employer Contributions Receivable	-	-	-
Investments			
Fixed Income	909,136	1,393,807	2,302,943
US Equities	1,006,856	1,533,737	2,540,593
International Equities	530,292	812,373	1,342,665
Total Investments	<u>2,446,284</u>	<u>3,739,917</u>	<u>6,186,201</u>
Total Assets	\$ 2,527,967	\$ 3,853,813	\$ 6,381,780
Liabilities			
Accrued administrative expenses	\$ -		\$ -
Benefits payable	-		-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Net Position	<u>\$ 2,527,967</u>	<u>\$ 3,853,813</u>	<u>\$ 6,381,780</u>

**Statement of Changes in Fiduciary Net Position (cash basis)
for the year ended December 31, 2017**

	Police Plan	Non-Uniform Plan	Total
Additions			
Contributions			
State Aid	\$ -	\$ 33,394	\$ 33,394
Members' Contributions	-	16,336	16,336
Employer Contribution	-	-	-
Total Contributions	<u>-</u>	<u>49,730</u>	<u>49,730</u>
Investment Income			
Interest & Dividends	5,644	12,330	17,974
Net Appreciation (Depreciation) in fair value of investments	334,345	480,289	814,634
Total Investment Income	<u>339,989</u>	<u>492,619</u>	<u>832,608</u>
Less Investment Expenses			-
Net Investment Income	339,989	492,619	832,608
Total Additions	339,989	542,349	882,338
Deductions			
Pension Benefit Payments	30,785	105,160	135,945
Administrative Expenses	6,001	7,673	13,674
Total Deductions	<u>36,786</u>	<u>112,833</u>	<u>149,619</u>
Net Increase (Decrease)	303,203	429,516	732,719
Net Position			
Net Position (cash basis), January 1 st	2,224,764	3,424,297	5,649,061
Net Position (cash basis), December 31 st	<u>\$ 2,527,967</u>	<u>\$ 3,853,813</u>	<u>\$ 6,381,780</u>

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

BOROUGH of MALVERN
NOTES to FINANCIAL STATEMENTS
31st DECEMBER 2017

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 2017

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 2017 the liability for accrued vacation and sick time is \$84,491. 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 2017

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 2017, the carrying value and market value of the Borough's deposits was \$6,818,247 (excluding fiduciary funds) and the bank balances totaled \$6,863,191. Of those bank balances, \$500,000 were covered by insurance provided by the FDIC and \$6,363,191 were covered by collateral held in pooled accounts.

	<u>FDIC</u>	<u>Pooling</u>	<u>Total</u>
Category 1	500,000	6,363,191	6,863,191
Category 2			-
Category 3			-
Bank Balances	<u>\$ 500,000</u>	<u>\$ 6,363,191</u>	<u>\$ 6,863,191</u>
Carrying Value	<u>\$ 500,000</u>	<u>\$ 6,318,247</u>	<u>\$ 6,818,247</u>

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
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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	9,358,099	218,150	(131,071)	9,707,320
Machinery & Equipment	2,172,404	305,128	131,071	2,346,461
Total	11,530,503	523,278	0	12,053,781
<i>less:</i>				
Accumulated Depreciation	3,477,514	235,238		3,712,752
Net Book Value	8,052,989	288,040	0	8,341,029

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	119,284	0	3,554,042
<i>less:</i>				
Accumulated Depreciation	2,108,603	64,126	0	2,172,729
Net Book Value	1,326,155	55,158	0	1,381,313

Total depreciation expense recorded for 2017 was \$299,364.

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

As of December 31, 2017 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
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Ordinance 2012-7 dated December 18, 2012, authorized the incurring of non-electoral debt in the amount of \$300,000. The proceeds were used for New Pole Barn and HVAC Upgrade. The bonds have staggered redemption dates between 2014 and 2023. Optional prepayments may be made at any time with 30 days written notice. The loan bears interest at a floating rate and is paid monthly.

As of December 31, 2017, the annual principal payment requirements of the outstanding long-term debt of the Borough were as follows:

	Portion due during 2018	Portion due post-2018	Total
Building Renovation Bonds	225,000	933,000	1,158,000
2013 Note Payable	30,000	156,000	186,000
	\$ 255,000	\$ 1,089,000	\$ 1,344,000

Annual debt service requirements are as follows:

	Principal	Interest
2018	255,000	19,059
2019	258,000	15,337
2020	262,000	11,569
2021	266,000	7,741
2022	271,000	3,856
2023	32,000	484
	\$ 1,344,000	\$ 58,046

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 I-n-R, a funds advisory firm in media Pennsylvania. 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, 2017, 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
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Current membership in the plan (as of January 1st of the year indicated) is as follows:

Table 1	Police Plan		Non-Uniform Plan	
	2017	2018	2017	2018
active employees	3	5	10	11
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	8	15	16

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
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(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 2017

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 2017

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, 2017 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	6.58%	6.58%	30%	6.58%
Domestic Equity Mid Cap	7.39%	7.39%	5%	7.39%
Domestic Equity Small Cap	7.39%	7.39%	5%	7.39%
International Equity	7.34%	7.34%	21%	7.34%
Fixed Income	2.84%	3.09%	36%	2.84%
Emerging Markets	0%	10.93%	0%	10.68%
Cash	.50%	.75%	3%	.50%
Total	100.00%	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, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was

- Police Plan 15.26%
- Non-Uniformed Plan 14.37%

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

(i.) Net Pension Liability. The components of the net pension liability of the plans as of December 31, 2017 were as follows:

Table 3	Police Plan	Non-Uniform Plan	Total
Total Pension Liability	\$ 1,176,785	\$ 3,170,117	\$ 4,346,902
Plan Fiduciary Net Position	\$ 2,527,967	\$ 3,853,813	\$ 6,381,780
Net Pension Liability	\$ (1,351,182)	\$ (683,696)	\$ (2,034,878)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	214.8%	121.6%	146.81%

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

Malvern Borough
Notes to Financial Statements, Note #6 Continued
December 31, 2017

Changes in Net Pension Liability

The following table shows the changes in net pension liability recognized over the year January 1, 2017 to December 31, 2017.

	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)	
Balances at 12/31/2015	\$ 1,195,492	\$ 2,224,764	\$ (1,029,272)	\$ 3,099,796	\$ 3,424,297	\$ (324,501)	\$ (1,353,773)
Changes for the year:							
Service Cost	22,554		22,554	72,451		72,451	95,005
Interest on Total Pension Liability	67,482		67,482	182,417		182,417	249,899
Changes in Benefit Terms			-			-	-
Differences Between Expected and Actual Experience	(153,646)		(153,646)	(66,583)		(66,583)	(220,229)
Changes of Assumptions	75,688		75,688	(12,804)		(12,804)	62,884
Contributions - Employer			-			-	-
Contributions - State Aid			-		33,394	(33,394)	(33,394)
Contributions - Member			-		16,336	(16,336)	(16,336)
Net Investment Income		336,863	(336,863)		487,821	(487,821)	(824,684)
Benefit Payments	(30,785)	(30,785)	-	(105,160)	(105,160)	-	-
Administrative Expense		(2,875)	2,875		(2,875)	2,875	5,750
Other Changes			-			-	-
Net Changes	\$ (18,707)	\$ 303,203	\$ (321,910)	\$ 70,321	\$ 429,516	\$ (359,195)	\$ (681,105)
Balances at 12/31/2017	\$ 1,176,785	\$ 2,527,967	\$ (1,351,182)	\$ 3,170,117	\$ 3,853,813	\$ (683,696)	\$ (2,034,878)

Malvern Borough
Notes to Financial Statements, Note #6 Continued
December 31, 2017

Pension Expense for Fiscal Year Ended December 31, 2017

	Police Plan	Non-Uniformed Plan	Total
Service Cost	\$ 22,554	\$ 72,451	\$ 95,005
Interest on Total Pension Liability	67,482	182,417	249,899
Changes in Benefit Terms	-		-
Differences Between Expected and Actual Experience	(26,309)	(10,653)	(36,962)
Changes of Assumptions	12,960	(2,049)	10,911
Employee Contributions	-	(16,336)	(16,336)
Projected Earnings on Pension Plan Investments	(132,476)	(203,208)	(335,684)
Differences Between Projected and Actual Earnings on Investments	(6,478)	(16,107)	(22,585)
Administrative Expense	2,875	2,875	5,750
Other Changes in Fiduciary Net Position			-
Total Pension Expense	\$ (59,392)	\$ 9,390	\$ (50,002)

Malvern Borough
Notes to Financial Statements, Note #6 Continued
December 31, 2017

Deferred Outflows and Deferred Inflows of Resources

For the year ended December 31, 2017, Malvern Borough recognized a pension expense of \$-59,392 (i.e., negative expense) and \$9,390 for its Police Plan and Non-Uniformed Plan, respectively. At December 31, 2017, 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	-	(127,337)	-	(55,930)
Changes in Assumptions	62,728	-	-	(10,755)
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	(92,098)	-	(146,932)
Total	\$ 62,728	\$ (219,435)	\$ -	\$ (213,617)

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:		
2018	(19,827)	(28,809)
2019	(19,826)	(28,809)
2020	(51,613)	(70,499)
2021	(54,228)	(69,623)
2022	(11,213)	(12,702)
Thereafter	-	(3,175)

Malvern Borough
Notes to Financial Statements, Note #6 Continued
December 31, 2017

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	Police Plan 2017	Non- Uniformed Plan 2017
Total Pension Liability						
Service Cost	\$ 35,615	\$ 62,386	\$ 37,396	\$ 65,505	\$ 22,554	\$ 72,451
Interest on Total Pension Liability	73,656	169,368	79,217	178,436	67,482	182,417
Changes of Benefit Terms	-	-	-	-	-	-
Differences Between Expected and Actual Experience	-	-	-	-	(153,646)	(66,583)
Changes of Assumptions	-	-	-	-	75,688	(12,804)
Benefit Payments, Including Refunds of Member Contributions	(32,435)	(62,308)	(30,785)	(105,160)	(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>	<u>(18,707)</u>	<u>70,321</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>	<u>1,195,492</u>	<u>3,099,796</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>	<u>\$ 1,176,785</u>	<u>\$ 3,170,117</u>
Plan Fiduciary Net Position						
Contributions - Employer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions - State Aid	-	66,791	-	30,471	-	33,394
Contributions - Member	-	13,499	-	16,909	-	16,336
Net Investment Income	(8,603)	(12,196)	134,400	199,204	336,863	487,821
Benefit Payments, Including Refunds of Member Contributions	(32,435)	(62,308)	(30,785)	(105,160)	(30,785)	(105,160)
Administrative Expense	-	-	(1,650)	(1,600)	(2,875)	(2,875)
Net Change in Plan Fiduciary Net Position	<u>(41,038)</u>	<u>5,786</u>	<u>101,965</u>	<u>139,824</u>	<u>303,203</u>	<u>429,516</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>	<u>2,224,764</u>	<u>3,424,297</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>	<u>\$ 2,527,967</u>	<u>\$ 3,853,813</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>	<u>\$ (1,351,182)</u>	<u>\$ (683,696)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	191.3%	110.9%	186.1%	110.5%	214.8%	121.6%
Covered Employee Payroll	\$ 323,461	\$ 669,275	\$ 293,850	\$ 677,220	\$ 260,210	\$ 772,700
Municipality's Net Pension Liability as a Percentage of Covered Employee Payroll	-313.2%	-48.3%	-350.3%	-47.9%	-519.3%	-88.5%

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, 2017

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

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
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	\$ 293,850	\$ 260,210
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 exceeded the present value of benefits; therefore, no contribution was required.

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

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Actuarially Determined Contribution	\$ 33,074	\$ 31,400	\$ 33,378	\$ 35,982	\$ 69,370	\$ 76,495	\$ 55,296	\$ 66,385	\$ 26,021	\$ 32,666
Contributions in Relation to the Actuarially Determined Contribution	37,835	31,400	33,378	35,982	69,370	76,495	59,436	66,791	30,471	33,394
Contribution Deficiency (Excess)	\$ (4,761)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (4,140)	\$ (406)	\$ (4,450)	\$ (728)
Covered Employee Payroll	\$ 536,827	\$ 479,630	\$ 497,662	\$ 544,495	\$ 544,495	\$ 598,096	\$ 556,479	\$ 669,275	\$ 677,220	\$ 772,700
Contributions as a Percentage of Covered Employee Payroll	7.0%	6.5%	6.7%	6.6%	12.7%	12.8%	10.7%	10.0%	4.5%	4.3%

Notes to schedules: none

Malvern Borough
Notes to Financial Statements, Note #6 Continued
December 31, 2017

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

	2015	2016	2017
Annual Money-Weighted Rate of Return, Net of Investment Expenses	-0.40%	6.39%	15.26%

Notes to schedules: none

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

	2015	2016	2017
Annual Money-Weighted Rate of Return, Net of Investment Expenses	-0.37%	6.13%	14.37%

Notes to schedules: none

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

BOROUGH of MALVERN
NOTES to FINANCIAL STATEMENTS
31st DECEMBER 2017

(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 5.00%	Current Rate 6.00%	1% Increase 7.00%
Police Plan			
Net Pension Liability (Asset)	(\$1,218,047)	(\$1,351,182)	(\$1,462,955)
	1% Decrease 5.00%	Current Rate 6.00%	1% Increase 7.00%
Non-Uniformed Plan			
Net Pension Liability (Asset)	(\$432,117)	(\$683,696)	(\$904,136)

(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, 2017, using the Entry Age Normal cost method and the following actuarial assumptions based on the census data as of January 1, 2017:

Table 5	Police Plan	Non-Uniform Plan
A. Economic Assumptions		
Investment Return	6% per annum, net of investment expenses	6% per annum, net of investment expenses
Salary Increases	3.25%, compounded annually	3.25%, 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 2017 using Scale AA	RP-2000 Mortality Table projected to 2017 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 2017

8. PACT 2

The Borough is a member of the Valley Forge Sewer Authority (VFSA), which treats and processes effluent from the Borough and the other member municipalities. As such, the Borough is responsible for a proportionate share of the costs related to construction and maintenance of the VFSA facilities. VFSA contracted with Pact 2 in 2013 to undertake an expansion of the plant and the project lasted until 2015. At the project's conclusion, Pact 2 sought delay-based damages from VFSA in the United States District Court for the Eastern District of Pennsylvania in Philadelphia. VFSA's engineer who oversaw the project, Buchart Horn, has joined as a party. The case is currently in mediation, which has produced meaningful discussions. A settlement amount has not yet been determined. The Borough would be responsible for its proportionate share of a settlement.

9. 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.

In September 2017, the Malvern Borough Council approved a settlement agreement that authorized the sale of their respective and collective interests in the VCTS line.

9. SUBSEQUENT EVENTS.

The Borough has evaluated all events through 7th May 2018, 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.

BOROUGH of MALVERN

REQUIRED SUPPLEMENTAL INFORMATION

**Budgetary Comparison Statement - General Fund
for the year ended December 31, 2017**

	Final Appropriated Budget	Actual Amounts (Budgetary Basis)	Variance
REVENUES:			
Taxes	\$ 3,120,300	\$ 3,239,868	\$ 119,568
Licenses & Permits	184,750	199,838	15,088
Fines, Forfeits, & Costs	25,700	37,094	11,394
Interest & Rents	46,000	55,610	9,610
Intergovernmental Revenues	1,161,823	95,494	(1,066,329)
Charges For Sevices & Fees	50,147	57,056	6,909
Miscellaneous Revenue	50,600	28,225	(22,375)
TOTAL BUDGETED REVENUES	<u>\$ 4,639,320</u>	<u>\$ 3,713,185</u>	<u>\$ (926,135)</u>
EXPENDITURES - CURRENT			
General Government	\$ 669,540	\$ 573,962	\$ 95,578
Public Safety	1,295,376	1,131,610	163,766
Public Works: Highways & Streets	794,434	683,802	110,632
Public Works: Garbage Collection	249,000	222,314	26,686
Culture & Recreation	112,122	93,053	19,069
All Other Expenses	108,373	100,142	8,231
TOTAL EXPENDITURES - CURRENT	<u>\$ 3,228,845</u>	<u>\$ 2,804,883</u>	<u>\$ 423,962</u>
DEBT SERVICE			
Principal	\$ -	\$ -	\$ -
Interest	-	-	-
TOTAL DEBT SERVICE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL EXPENDITURES	<u>\$ 3,228,845</u>	<u>\$ 2,804,883</u>	<u>\$ 423,962</u>
EXCESSS of REVENUES OVER EXPENDITURES	\$ 1,410,475	\$ 908,302	\$ (502,173)
Transfers In	49,000	48,265	(735)
Transfers Out	(1,459,475)	(1,162,688)	296,787
			-
			-
NET TRANSFERS	<u>\$ (1,410,475)</u>	<u>\$ (1,114,423)</u>	<u>\$ 296,052</u>
NET CHANGE in FUND BALANCE	<u>\$ -</u>	<u>\$ (206,121)</u>	<u>\$ (206,121)</u>

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

BOROUGH of MALVERN
FINANCIAL MONITORING SYSTEM
for the years
2013 THROUGH 2017

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

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INDEPENDENT ACCOUNTANTS' REPORT

To the Members of Council
The Borough of Malvern, Pennsylvania

The management of Malvern Borough is responsible for the Financial Monitoring System ("FMS") for the Borough of Malvern for the years ending 31st December 2013 through 31st December 2017. This system, devised by the Pennsylvania Department of Community & Economic Development's Center for Local Government Services, is designed to give a multi-year look at the municipality's finances as an aid to developing a comprehensive understanding of same going forward, consists of a grid showing 19 areas of selected metrics. The financial information of which is derived from corresponding DCED Municipal Annual Audit & Financial Reports audited by our firm for each of the five years presented in the table. We have performed a compilation engagement on this FMS in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the FMS, nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express any opinion or any conclusion thereon, nor provide any form of assurance on this FMS.

Management has elected to omit all of the disclosures required by generally accepted accounting principles. If the omitted disclosures were included in the FMS, they might influence the user's conclusions about the Borough's financial position, changes in net assets, and cash flows. Accordingly, this FMS are not designed for those not informed about such matters.

Peterson, Fieo & Co.

Peterson, Fieo & Co.
16th May 2018

Borough of Malvern Financial Monitoring System

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
	<i>(certain 2013-2016 figures restated)</i>				
Population <i>(from most recent US census)</i>	2,998	2,998	2,998	2,998	2,998
Revenue Per Capita	1,575	1,529	1,567	1,612	1,453
Expenditures Per Capita	1,376	1,366	1,345	1,446	1,281
Employee Benefit Total Cost <i>(excluding taxes)</i>	256,577	283,181	318,068	288,902	297,625
Grand Total Salaries	1,304,344	1,176,357	1,138,578	1,076,536	1,021,980
Benefit Cost as a % of Salaries	19.67%	24.07%	27.94%	26.84%	29.12%
Cash Position	6,818,246	6,115,614	5,701,286	5,016,129	4,544,986
Debt Service as % of Revenue	7.35%	7.60%	7.29%	7.03%	7.92%
Long Term Debt	1,344,000	1,595,000	1,842,000	2,085,000	2,175,000
Debt per Capita	448	532	614	695	725
Debt as a % of Assessed Valuation	0.57%	0.69%	0.82%	0.97%	1.04%
Operating Position <i>(GF expenditures % GF revenues)</i>	87.58%	92.78%	84.90%	91.63%	86.82%
Net Pension Liability (Asset)					
Police Pension	(1,351,182)	(1,029,272)	(1,013,135)	(1,131,009)	pre-2014 not
NonUniformed Pension	(683,696)	(324,501)	(323,458)	(252,681)	pre-2014 not
Actual GF Revenue vs. Budget	80.04%	73.14%	92.86%	103.05%	101.16%
Actual GF Expenditures vs. Budget	86.87%	91.27%	83.95%	78.88%	79.91%
Assessed Taxable					
Valuation, per Capita	79,002	77,350	75,300	71,761	70,056
Real Estate Millage	4.4200	4.4200	4.4200	4.4200	3.9697
% Increase (Decrease) in Millage	0.00%	0.00%	0.00%	11.34%	0.00%
Capital Outlays % of Expenditures	15.64%	10.01%	12.62%	20.15%	9.59%
Fund Balance Increases	2,359,696	489,234	(1,073,222)	496,377	517,500

See accompanying accountants' compilation report.