

Borough of Malvern
Chester County, Pennsylvania
Annual Audit & Financial Report
for the year ended December 31, 2018

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 \$ 8,627,632

Revenues & Other Financing Sources

Taxes	\$ 3,195,610
Licenses & Permits	229,304
Fines & Forfeits	35,900
Interest, Rents, & Royalties	99,474
Grants	567,048
Charges for Services	923,607
Inter-Governmental Transfers	714,653
Miscellaneous Revenues	<u>277,581</u>

Total Revenues & Other Financing Sources 6,043,177

Expenditures (Expenses) & Other Financing Uses

General Government	880,045
Public Safety	1,265,062
Public Works - Sanitation	1,024,117
Public Works - Highway & Streets	1,289,633
Culture & Recreation	149,319
Insurance, Employee Benefits, P/R Taxes, &c	48,435
Debt Service	273,644
Inter-Governmental Transfers	<u>714,653</u>

Total Expenditures or Expenses and Other Financing Uses 5,644,908

Excess (Deficiency) of Revenues & Other Financing

Sources over Expenditures (Expenses) & Other Financing Uses 398,269

Fund Balances, end of year \$ 9,025,901

Other Required Information:

Gross Debt of the Borough	<i>as of 31 Dec 2018</i>	\$ 108,900
Net Debt of the Borough	<i>as of 31 Dec 2018</i>	\$ 108,900
Assessed Valuation of the Borough	<i>as of 1 Jan'y 2018</i>	\$ 273,307,600

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.

**2018 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 2018 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.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles. The financial report was prepared in conformity with accounting practices prescribed or permitted by the Pennsylvania Department of Community & Economic Development. Malvern Borough prepares its financial report on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial report of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles. In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial report referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of Malvern Borough as of 31st December 2018, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting. In our opinion, the accompanying financial report referred to above presents fairly, in all material respects, the cash balances of each fund of Malvern Borough as of 31st December 2018, and the revenues it received and the expenditures it paid for the year then ended in accordance with the basis of accounting described above and on the basis of the financial reporting provisions of the Pennsylvania Department of Community & Economic Development as noted above.

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.
25th April 2019

MALVERN BORO, CHESTER County

BALANCE SHEET

December 31, 2018

		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		112,172									112,172
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	2,845,818	217,955	1,503,904		4,458,224		5,901,261			14,927,162
291-299	Other Equity										
Total Fund and Account Group Equity		2,845,818	217,955	1,503,904		4,458,224		5,901,261			14,927,162
TOTAL LIABILITIES AND FUND AND ACCOUNT GROUP EQUITY											15,039,334

MALVERN BORO, CHESTER County
STATEMENT OF REVENUES AND EXPENDITURES

December 31, 2018

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	1,114,615						1,114,615
305.00	Occupation Taxes (levied under municipal code)							
308.00	Residence Taxes (levied by cities of the 3rd Class)							
309.00	Regional Asset District Sales Tax (Allegheny County municipalities only)							
310.00	Per Capita Taxes	15,265						15,265
310.10	Real Estate Transfer Taxes	84,825						84,825
310.20	Earned Income Taxes / Wage Taxes	1,851,088						1,851,088
310.30	Business Gross Receipts Taxes							
310.40	Occupation Taxes (levied under Act 511)							
310.50	Local Services Tax **	129,817						129,817
310.60	Amusement / Admission Taxes							
310.70	Mechanical Device Taxes							
310.90	Other: _____							
	Other: _____							
Total Taxes		3,195,610						3,195,610

Licenses and Permits								
320-322	All Other Licenses and Permits	140,509						140,509
321.80	Cable Television Franchise Fees	88,795						88,795
Total Licenses and Permits		229,304						229,304

Fines and Forfeits								
330-332	Fines and Forfeits	35,900						35,900
Total Fines and Forfeits		35,900						35,900

MALVERN BORO, CHESTER County
STATEMENT OF REVENUES AND EXPENDITURES

December 31, 2018

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		53,672	92,238					145,910

Local Government Units								
357.03	Highways and Streets							
357.00	All Other Local Governmental Units Capital and Operating Grants	421,138						421,138
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		421,138						421,138

Charges for Service								
361.00	General Government	23,413						23,413
362.00	Public Safety	17,935						17,935
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.)				871,984			871,984
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	10,008						10,008
365.00	Health							
366.00	Human Services							
367.00	Culture and Recreation	267						267
368.00	Airports							

MALVERN BORO, CHESTER County
STATEMENT OF REVENUES AND EXPENDITURES

December 31, 2018

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								
369.00	Bars							
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		51,623			871,984			923,607

Unclassified Operating Revenues								
383.00	Special Assessments							
386.00	Escheats (sale of personal property)							
387.00	Contributions and Donations from Private Sectors					17,787		17,787
388.00	Fiduciary Fund Pension Contributions					15,119		15,119
389.00	All Other Unclassified Operating Revenues	26,406				167		26,573
Total Unclassified Operating Revenues		26,406				33,073		59,479

Other Financing Sources								
391.00	Proceeds of General Fixed Asset Disposition				238,656			238,656
392.00	Interfund Operating Transfers	46,411		668,242				714,653
393.00	Proceeds of General Long-Term Debt							
394.00	Proceeds of Short Term-Debt							

MALVERN BORO, CHESTER County
STATEMENT OF REVENUES AND EXPENDITURES

December 31, 2018

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

Other Financing Sources								
395.00	Refunds of Prior Year Expenditures	12,519						12,519
Total Other Financing Sources		58,930		668,242		238,656		965,828
TOTAL REVENUES		4,144,234	93,365	676,184		1,129,394	185,935	6,229,112

EXPENDITURES

General Government								
400.00	Legislative (Governing) Body	7,200						7,200
401.00	Executive (Manager or Mayor)	103,362						103,362
402.00	Auditing Services / Financial Administration	11,850					22,219	34,069
403.00	Tax Collection	15,781						15,781
404.00	Solicitor / Legal Services	145,623						145,623
405.00	Secretary / Clerk	51,490						51,490
406.00	Other General Government Administration	168,853		196,369	7,964			373,186
407.00	IT-Networking Services-Data Processing							
408.00	Engineering Services	36,649		34,219	9,759			80,627
409.00	General Government Buildings and Plant	88,226		2,700				90,926
Total General Government		629,034		233,288	17,723		22,219	902,264

Public Safety								
410.00	Police	1,015,575						1,015,575
411.00	Fire	160,444						160,444
412.00	Ambulance / Rescue							
413.00	UCC and Code Enforcement							

MALVERN BORO, CHESTER County
STATEMENT OF REVENUES AND EXPENDITURES

December 31, 2018

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

Public Safety

414.00	Planning and Zoning	89,043						89,043
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		1,265,062						1,265,062

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)	246,718						246,718
428.00	Weed Control							
429.00	Wastewater / Sewage Treatment and Collection				777,399			777,399
Total Public Works - Sanitation		246,718			777,399			1,024,117

Public Works - Highways and Streets

430.00	General Services - Administration	378,368						378,368
431.00	Cleaning of Streets and Gutters							
432.00	Winter Maintenance – Snow Removal	21,550						21,550
433.00	Traffic Control Devices	5,285						5,285
434.00	Street Lighting	46,350						46,350

MALVERN BORO, CHESTER County
STATEMENT OF REVENUES AND EXPENDITURES

December 31, 2018

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

Public Works - Highways and Streets								
435.00	Sidewalks and Crosswalks			49,696				49,696
436.00	Storm Sewers and Drains	3,050						3,050
437.00	Repairs of Tools and Machinery	1,024						1,024
438.00	Maintenance and Repairs of Roads and Bridges	127,265						127,265
439.00	Highway Construction and Rebuilding Projects			657,045				657,045
Total Public Works - Highways and Streets		582,892		706,741				1,289,633

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	20,509						20,509
453.00	Spectator Recreation							
454.00	Parks	61,241						61,241

MALVERN BORO, CHESTER County
STATEMENT OF REVENUES AND EXPENDITURES

December 31, 2018

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

Culture and Recreation								
455.00	Shade Trees	14,389						14,389
456.00	Libraries	12,180						12,180
457.00	Civil and Military Celebrations	41,000						41,000
458.00	Senior Citizens' Centers							
459.00	All Other Culture and Recreation							
Total Culture and Recreation		149,319						149,319

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

Debt Service								
471.00	Debt Principal (short-term and long-term)			255,000				255,000
472.00	Debt Interest (short-term and long-term)			18,644				18,644
475.00	Fiscal Agent Fees							
Total Debt Service				273,644				273,644

Employer Paid Benefits and Withholding Items								
481.00	Employer Paid Withholding Taxes and Unemployment Compensation							
482.00	Judgments and Losses						483,002	483,002
483.00	Pension / Retirement Fund Contributions	15,286						15,286

MALVERN BORO, CHESTER County
STATEMENT OF REVENUES AND EXPENDITURES

December 31, 2018

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

Employer Paid Benefits and Withholding Items								
484.00	Worker Compensation Insurance							
487.00	Other Group Insurance Benefits							
Total Employer Paid Benefits and Withholding Items		15,286					483,002	498,288

Insurance								
486.00	Insurance, Casualty, and Surety	33,149						33,149
Total Insurance		33,149						33,149

Unclassified Operating Expenditures								
488.00	Fiduciary Fund Benefits and Refunds Paid						161,233	161,233
489.00	All Other Unclassified Expenditures							
Total Unclassified Operating Expenditures							161,233	161,233

Other Financing Uses								
491.00	Refund of Prior Year Revenues							
492.00	Interfund Operating Transfers	668,242	46,411					714,653
493.00	All Other Financing Uses							
Total Other Financing Uses		668,242	46,411					714,653

TOTAL EXPENDITURES	3,589,702	46,411	1,213,673		795,122		666,454	6,311,362
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EXCESS/DEFICIT OF REVENUES OVER EXPENDITURES	554,532	46,954	-537,489		334,272		-480,519	-82,250
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MALVERN BORO
December 31, 2018

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	186,000		30,000		156,000		156,000
Non-Electoral	Note	2002	2022	2,500,000	1,158,000		225,000		933,000		933,000
Revenue Bonds and Notes											
Lease Rental Debt											
Other											

(1) - excludes unamortized premium/discount

Total bonds and notes outstanding	1,089,000
Capitalized lease obligations	0
Net debt	1,089,000

MALVERN BORO, CHESTER County
STATEMENT OF CAPITAL EXPENDITURES

December 31, 2018

Category	Capital Purchases	Capital Construction	Total
Community Development			
Electric			
Fire			
Gas System			
General Government	50,469	179,444	229,913
Health			
Housing			
Libraries			
Mass Transit			
Parks			
Police			
Recreation			
Sewer	25,964		25,964
Solid Waste			
Streets / Highways	773,462	3,500	776,962
Water			
Other: _____			
TOTAL CAPITAL EXPENDITURES	849,895	182,944	1,032,839

EMPLOYEE COMPENSATION

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

1,434,355

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

SIGNATURE AND VERIFICATION

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

December 31, 2018

NOTES / COMMENTS

BOROUGH of MALVERN, CHESTER COUNTY, PENNSYLVANIA

Note to the DCED Annual Audit & Financial Report
31st December 2018

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 2018

BOROUGH of MALVERN

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Borough of Malvern (a Pennsylvania Municipality) as of 31st December 2018 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 2018, 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 Supplemental Information. Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension plan trend 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 supplemental 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.
25th April 2019

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(unaudited)**

December 31, 2018

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 (2) four-year consecutive terms, which was amended in 2016 as approved by the electors of the Borough. Additional amendments were approved in November 2018, which included advertising requirements for the annual budgets, provisions for remote participation in meetings, and clarification of the attendance requirements at regular meetings.

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 was approved by Borough Council on September 4, 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 to personnel occurred in 2018. In January 2018, a new Administrative Assistant was hired to fill an existing vacancy. This position was expanded beyond the original scope and was converted into a full-time position. Both a part-time and full-time administrative position were budgeted, but only the full-time position was filled. In addition, the Borough hired new police officers to fill vacancies in the department, which included the first full-time female police officer in the department's history. These hires brought the full-time officer contingent to six (6) at the close of 2018.

During the 2018 budget process, the tax rate was increased by 0.25 mills (a 5% increase). This was the first tax increase since 2014. This tax increase was necessary due to the following:

1. A 9% increase in basic operating costs from 2014 to 2016.
2. Continued funding of capital projects.
3. Continued maintenance of a healthy reserve balance.
4. Costs related to unfunded mandates.
5. Plateauing of the Borough's overall assessment.

The Borough continued the practice of transferring funds into the Capital Reserve Fund. Several projects budgeted in 2018 did not come to fruition and have been carried into 2019. Borough Council completed a review and update to the Borough's five-year capital improvement plan. This was adopted on October 16, 2018 and will continue to be reviewed annually.

In 2014, there were three (3) sewer line breaks in the Valley Creek Trunk Sewer line in Tredyffrin Township. One of the breaks spilled sewage into the Valley Forge National Park. Consulting engineers were 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. A public bidding process for the sale of the Valley Creek Trunk Sewer line occurred in 2018. On December 4, 2018, Borough Council approved the sale of the line to Aqua Resources, Inc. Proceeds were divided among the partners based on flow allocation after repayment to certain partners based on contributions for repairs. As a result, the Borough received approximately \$240,000 in sale proceeds. Additionally, the Borough did not need to pay for the repairs through bond financing as originally anticipated.

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 were increased to 4.6700 mills in 2018. Collection of current year real estate taxes in 2018 exceed budgeted projections by 2%.

Total Act 511 Tax collections witnessed a 6% decline in 2018. Revenue categories allocated in this grouping finished 2018 below budgeted levels in four (4) out of the seven (7) categories. Earned Income Tax revenue was 10% below collections when comparing 2018 to 2017. This was primarily due to a significant refund that was due. Real Estate Transfer Tax revenue finished 15% under budgeted projections and witnessed a 34% decline compared to actual collections in 2017. Overall, collection from Act 511 Taxes ended 2018 at 2% below budgeted projections.

In 2018, Borough Council took steps to increase the Borough's revenue from investment earnings. This including placing funds in CDs and adjusting the types of accounts that were utilized with approved depositories. As a result, revenue from Earnings on Investments finished 2018 295% over budget and witnessed a 60% increase when comparing 2018 to 2017.

Revenues from Motor Vehicle Code Violations finished 31% over budget and showed a modest increase from 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 53% decline in 2018. 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 2018 92% above budgeted projections and showed a 58% increase and Plumbing Permits and Registrations showed a 48% increase compared to 2017. Permit activity was comparable in 2018 compared 2017. Overall, total revenue from construction permits exceeded budgeted projections by 19% and exceeded actual collections in 2017 by

15%. A major contributing factor to this was the start of a sizeable construction project at Malvern Preparatory School, which was approved by Borough Council in 2017 and began construction in 2018.

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 2018. This is the same rate as in 2017. Revenue from Sewer Rents finished 2018 at 101% of budget; this was a 3% decline compared to 2017. During 2018, the Borough worked diligently to collect on delinquent accounts. The revenue from Other Income increased significantly due to receipt of the proceeds from the sale of the Valley Creek Trunk Sewer line. These proceeds were invested in CD by the Borough.

Expenditures –

The budgeted 2018 General Fund Expenditures decreased by 5% over the budgeted 2018 expenditures. This reduction in projected expenditures was due to a reduction in anticipated interfund transfers to the Capital Reserve Fund. The Borough completed two (2) paving projects in 2018, which included paving a section of King Street and Daisey Lane. The Borough also entered into a new trash and recycling collection contract with Charles Blosenski Disposal Co., Inc. This contract resulted in costs remaining relatively stable. The 2018 budget also outlined expansions in the Malvern Police Department and enhancements to services in the Borough’s administration. Final General Fund expenditures finished 2018 25% under budget. Actual expenditures finished 2018 9% lower than in 2017 when evaluating actual expenditures.

The Sewer Fund increased by 3% in budgeted expenditures over the 2017 budget. This may be primarily attributed to increased costs related to sewage disposal, additional personnel expenditures, and increased maintenance costs. Actual expenditures finished 2018 12% under budgeted projections. Actual expenditures in 2018 increased by 8% compared to the 2017 actual expenditures. This increase was due primarily to a significant repair that was required in the force main along Channing Ave. 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 2019 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 2018 budget.

Capital projects in 2018 included engineering work related to the Borough's project on N. Warren Ave., construction of an improvement to streetscape of Woodland Ave., data collection for the Borough-wide traffic study, and completion of an upgrade to a portion of the HVAC system in Borough Hall. It should be noted that 60% of the Woodland Ave. streetscape project's costs were funded through a grant from Chester County.

Capital Expenses and Debt Service

The Borough has outstanding debt of \$933,000 at an interest rate of 1.45% through 2022 for renovations to the municipal building made in 2002 and \$156,000 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.

BOROUGH of MALVERN

Statement of Net Position as of December 31, 2018

	Governmental Activities	Business-Like Activities	Total
ASSETS			
Current Assets:			
Cash & Cash Equivalents	\$ 4,673,918	\$ 2,486,073	\$ 7,159,991
Taxes/Accounts Receivable	33,229	230,785	264,014
Other Receivables	-	-	-
Prepaid Expenses	5,931	1,238	7,169
Total Current Assets	\$ 4,713,078	\$ 2,718,096	\$ 7,431,174
Non-Current Assets:			
Net Pension Asset	1,355,636	-	1,355,636
Non-Current Assets:			
Capital Assets, net of Depreciation	9,104,827	1,341,421	10,446,248
TOTAL ASSETS	\$ 15,173,541	\$ 4,059,517	\$ 19,233,058
DEFERRED OUTFLOWS of RESOURCES			
Deferred outflows from pensions	\$ 347,208	\$ 71,069	\$ 418,277
LIABILITIES & NET POSITION			
Current Liabilities:			
Accounts Payable and Accrued Expenses	\$ 176,539	\$ 12,134	\$ 188,673
Bonds & Notes Payable	258,000	-	258,000
Escrow Liabilities Payable	110,550	-	110,550
Total Current Liabilities	545,089	12,134	557,223
Non-Current Liabilities:			
Compensated Absences	109,821	-	109,821
Bonds & Notes Payable	831,000	-	831,000
Total Non-Current Liabilities	940,821	-	940,821
TOTAL LIABILITIES	\$ 1,485,910	\$ 12,134	\$ 1,498,044
DEFERRED INFLOWS of RESOURCES			
Deferred inflows from pensions	\$ 137,737	\$ 17,274	\$ 155,011
NET POSITION			
Invested in Capital Assets, Net of Related Debt	8,015,827	1,341,421	9,357,248
Restricted for Pensions	1,565,107	53,795	1,618,902
Unrestricted Net Position (Deficit)	4,316,168	2,705,962	7,022,130
Total Net Position	\$ 13,897,102	\$ 4,101,178	\$ 17,998,280

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

BOROUGH of MALVERN

**Statement of Activities
for the year ended December 31, 2018**

	Expenses	Program Revenues Charges for Services	Operating Grants	Capital Grants	Primary Government Governmental Activities	Business-Like Activities	Total
<i>Governmental Activities:</i>							
General Government	\$ 929,421	\$ -	\$ -	\$ -	\$ (929,421)	\$ -	\$ (929,421)
Public Safety	1,200,575	17,935			(1,182,640)		(1,182,640)
Highways & Streets	504,620		92,238		(412,382)		(412,382)
Culture & Recreation	113,462				(113,462)		(113,462)
Garbage Collection	236,263				(236,263)		(236,263)
Employee Benefits	226,044				(226,044)		(226,044)
Civic Contributions	26,500				(26,500)		(26,500)
Debt Service	18,644				(18,644)		(18,644)
Total Governmental Activities	\$ 3,255,529	\$ 17,935	\$ 92,238	\$ -	\$ (3,145,356)		\$ (3,145,356)
<i>Business-Like Activities</i>							
Sewer Services	863,872	871,984	-	-	-	8,112	8,112
Total Primary Government	\$ 4,119,401	\$ 889,919	\$ 92,238	\$ -	\$ (3,145,356)	\$ 8,112	\$ (3,137,244)
General Government Revenues							
Taxes					\$ 3,230,322	\$ -	\$ 3,230,322
Grants					459,693		459,693
Earnings on Investments					28,160	18,754	46,914
All other Revenues					369,595	238,656	608,251
Transfers, net					(142,586)	142,586	-
Total					\$ 3,945,184	\$ 399,996	\$ 4,345,180
Change in Net Assets					\$ 799,828	\$ 408,108	\$ 1,207,936
Net Position, Beginning of Year					13,097,274	3,693,070	16,790,344
Net Position, End of Year					\$ 13,897,102	\$ 4,101,178	\$ 17,998,280

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

BOROUGH of MALVERN

**Reconciliation of Net Position of Governmental Activities to
Total Net Position of Governmental Activities, December 31, 2018**

Unrestricted Net Position of Governmental Activities (p.8)	\$ 4,316,168
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	9,104,827
Net Pension Asset (Liability) incurred by governmental activities are not financial resources and therefore, are not reported as assets in gov't funds	1,565,107
Short term liabilities due & payable within one year.	(258,000)
Long term liabilities not due & payable within one year. Bonds & Notes Payable	<u>(831,000)</u>
Total Net Position of Governmental Activities (p.9)	<u><u>\$ 13,897,102</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, 2018**

	Governmental Funds			Totals	Business-Like Funds 2018
	General Fund	Capital Projects Fund	Highway Aid Fund	2018	
ASSETS					
Cash & Cash Equivalents	\$ 2,952,059	\$ 1,503,904	\$ 217,955	\$ 4,673,918	\$ 2,486,073
Taxes Receivable	-	-	-	-	-
Other Receivables	5,931	-	-	5,931	232,023
Fixed Assets	-	-	-	-	1,740,128
TOTAL ASSETS	\$ 2,957,990	\$ 1,503,904	\$ 217,955	\$ 4,679,849	\$ 4,458,224
LIABILITIES & FUND BALANCES					
LIABILITIES					
Accounts Payable	1,622	-	-	1,622	-
Escrow Liabilities Payable	110,550	-	-	110,550	-
Deferred Revenue	-	-	-	-	-
TOTAL LIABILITIES	112,172	-	-	112,172	-
FUND BALANCES					
Reserved for Capital Projects	-	1,503,904	-	1,503,904	-
Unreserved (Deficit)	2,845,818	-	217,955	3,063,773	4,458,224
TOTAL FUND BALANCES	2,845,818	1,503,904	217,955	4,567,677	4,458,224
TOTAL LIABILITIES & FUND BALS.	\$ 2,957,990	\$ 1,503,904	\$ 217,955	\$ 4,679,849	\$ 4,458,224

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, 2018

	General Fund	Capital Reserve Fund	Highway Aid Fund	Totals 2018	Business-Like Funds 2018
REVENUES					
Taxes	\$ 3,195,610	\$ -	\$ -	\$ 3,195,610	\$ -
Licenses & Permits	229,304			229,304	
Fines, Forfeits, & Costs	35,900			35,900	
Interest, Rents, & Franchise Fees	71,651	7,942	1,127	80,720	18,754
Intergovernmental Revenues	474,810		92,238	567,048	
Charges for Services/Fees	51,623			51,623	871,984
Sale of Assets				-	238,656
Miscellaneous Revenue	38,925			38,925	
TOTAL REVENUES	4,097,823	7,942	93,365	4,199,130	1,129,394
EXPENDITURES - Current					
General Government	629,034	233,288		862,322	17,723
Public Safety	1,265,062			1,265,062	
Public Works -					
Sewer & Garbage Collection	246,718			246,718	777,399
Public Works - Highways & Streets	582,892	706,741		1,289,633	
Health & Welfare				-	
Civic Contributions	41,000			41,000	
Community Development				-	
Culture & Recreation	108,319			108,319	
Insurance, Employee Benefits, P/R					
Taxes, &c	48,435			48,435	-
Miscellaneous Expenses				-	
EXPENDITURES - Debt Service					
Principal	-	255,000		255,000	-
Interest	-	18,644		18,644	-
TOTAL EXPENDITURES	2,921,460	1,213,673	-	4,135,133	795,122
EXCESS (DEFICIENCY) of REVENUES OVER EXPENDITURES	1,176,363	(1,205,731)	93,365	63,997	334,272
OTHER FINANCING SOURCES (USES)					
Transfers In	46,411	668,242	-	714,653	-
Transfers Out	(668,242)		(46,411)	(714,653)	-
TOTAL OTHER FINANCING SOURCES (USES)	(621,831)	668,242	(46,411)	-	-
NET CHANGE IN FUND BALANCES	554,532	(537,489)	46,954	63,997	334,272
FUND BALANCES (DEFICIT), BEGINNING of YEAR	2,291,286	2,041,393	171,001	4,503,680	4,123,952
PRIOR PERIOD ADJUSTMENTS	-	-	-	-	-
FUND BALANCES (DEFICIT), END of YEAR	\$ 2,845,818	\$ 1,503,904	\$ 217,955	\$ 4,567,677	\$ 4,458,224

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, 2018**

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

Net Changes in Fund Balances - total governmental funds (p.12)	\$ 63,997
Decrease (Increase) in Accounts Payable and Accrued Expenses	(88,646)
Increase (Decrease) in Receivables	(1,189)
Principal Payments on Bonds & Notes Payable	255,000
Issuance of New Debt	-
Expenditures for Capital Assets	1,006,875
Decrease (Increase) in Accrual for Compensated Absences	(25,329)
Additional Pension Expense claimed on GAAP Statement of Activities	(25,218)
Depreciation Expense claimed on GAAP Statement of Activities	(243,076)
Equity Transfers to Business-Like Funds	<u>(142,586)</u>
Change in Net Position of Governmental Funds (p.9)	<u>\$ 799,828</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, 2018**

CASH FLOWS FROM OPERATING ACTIVITIES

Operating Income	\$ 408,108	
Add: Depreciation	65,856	
Changes in Working Capital:		
Decrease (Increase) in Accounts Receivables	14,172	
Increase (Decrease) In Accounts Payable & Accrued Exps.	8,425	
Increase (Decrease) In Deferred Inflows of Pension Resources	(51,083)	
Decrease (Increase) In Deferred Outflows of Pension Resources	<u>(71,069)</u>	
Cash Flows from Operating Activities		\$ 374,409
CASH FLOWS FROM CAPITAL & FINANCING ACTIVITIES		
Purchase of Capital Assets	<u>(25,964)</u>	
CASH FLOWS FROM CAPITAL & FINANCING ACTIVITIES		(25,964)
CASH FLOWS FROM INVESTING ACTIVITIES		<u>-</u>
NET INCREASE IN CASH		348,445
Cash Balance, BEGINNING of YEAR		<u>2,137,628</u>
Cash Balance, END of YEAR		<u><u>\$ 2,486,073</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, 2018**

	Police Plan	Non-Uniform Plan	Total
Assets			
Cash & cash equivalents	\$ 67,520	\$ 127,364	\$ 194,884
Member Contributions Receivable			-
Employer Contributions Receivable			-
Investments			
Fixed Income	925,907	1,408,797	2,334,704
US Equities	877,374	1,333,103	2,210,477
International Equities	461,042	700,154	1,161,196
Total Investments	<u>2,264,323</u>	<u>3,442,054</u>	<u>5,706,377</u>
Total Assets	\$ 2,331,843	\$ 3,569,418	\$ 5,901,261
Liabilities			
Accrued administrative expenses	\$ -		\$ -
Benefits payable	-		-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Net Position	<u>\$ 2,331,843</u>	<u>\$ 3,569,418</u>	<u>\$ 5,901,261</u>

**Statement of Changes in Fiduciary Net Position (cash basis)
for the year ended December 31, 2018**

	Police Plan	Non-Uniform Plan	Total
Additions			
Contributions			
State Aid		\$ 15,119	\$ 15,119
Members' Contributions		17,787	17,787
Employer Contribution		167	167
Total Contributions	<u>-</u>	<u>33,073</u>	<u>33,073</u>
Investment Income			
Interest & Dividends	60,587	92,275	152,862
Net Appreciation (Depreciation) in fair value of investments	(191,825)	(291,177)	(483,002)
Total Investment Income	<u>(131,238)</u>	<u>(198,902)</u>	<u>(330,140)</u>
Less Investment Expenses			-
Net Investment Income	(131,238)	(198,902)	(330,140)
Total Additions	(131,238)	(165,829)	(297,067)
Deductions			
Pension Benefit Payments	56,073	105,160	161,233
Administrative Expenses	8,813	13,406	22,219
Total Deductions	<u>64,886</u>	<u>118,566</u>	<u>183,452</u>
Net Increase (Decrease)	(196,124)	(284,395)	(480,519)
Net Position			
Net Position (cash basis), January 1 st	<u>2,527,967</u>	<u>3,853,813</u>	<u>6,381,780</u>
Net Position (cash basis), December 31 st	<u>\$ 2,331,843</u>	<u>\$ 3,569,418</u>	<u>\$ 5,901,261</u>

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

BOROUGH of MALVERN
NOTES to FINANCIAL STATEMENTS
31st DECEMBER 2018

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 2018

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 2018 the liability for accrued vacation and sick time is \$109,819. 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.

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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 2018, the carrying value and market value of the Borough's deposits was \$7,159,991 (excluding fiduciary funds) and the bank balances totaled \$7,234,627. Of those bank balances, \$500,000 were covered by insurance provided by the FDIC and \$6,734,627 were covered by collateral held in pooled accounts.

	FDIC	Pooling	Total
Category 1	\$ 500,000	\$ 6,734,627	\$ 7,234,627
Category 2			-
Category 3			-
Bank Balances	\$ 500,000	\$ 6,734,627	\$ 7,234,627
Carrying Value	\$ 500,000	\$ 6,659,991	\$ 7,159,991

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.

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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:

Total	12,053,781	1,006,874	0	13,060,655
<i>less:</i>				
Accumulated Depreciation	3,712,752	243,076		3,955,828
Net Book Value	8,341,029	763,798	0	9,104,827

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

Sewer System

Improvements & Equipment	3,554,042	25,964	0	3,580,006
<i>less:</i>				
Accumulated Depreciation	2,172,729	65,856	0	2,238,585
Net Book Value	1,381,313	(39,892)	0	1,341,421

Total depreciation expense recorded for 2018 was \$308,932.

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

As of December 31, 2018 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.

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, 2018, the annual principal payment requirements of the outstanding long-term debt of the Borough were as follows:

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	Portion due during 2018	Portion due post-2018	Total
Building Renovation Bonds	228,000	705,000	933,000
2013 Note Payable	30,000	126,000	156,000
	\$ 258,000	\$ 831,000	\$ 1,089,000

Annual debt service requirements are as follows:

	Principal	Interest
2019	\$ 258,000	\$ 15,337
2020	262,000	11,569
2021	266,000	7,741
2022	271,000	3,856
2023	32,000	484
2024	-	-
	\$ 1,089,000	\$ 38,987

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.

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

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Table 1	Police Plan		Non-Uniform Plan	
	2018	2019	2018	2019
active employees	5	3	11	12
retirees & beneficiaries currently receiving benefits	3	4	5	5
terminated employees entitled to benefits but not yet receiving them	0	0	0	0
total	8	7	16	17

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.

(iii.) Retirement Benefits.

Police Plan.

BOROUGH of MALVERN
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- 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.

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

BOROUGH of MALVERN
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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.

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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, 2018 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	28%	6.44%	28%	6.44%
Domestic Equity Mid Cap	5%	7.22%	5%	7.22%
Domestic Equity Small Cap	5%	7.22%	4%	7.22%
International Equity	20%	7.26%	20%	7.26%
Fixed Income	39%	3.62%	39%	3.62%
Emerging Markets	0%	10.68%	0%	10.68%
Cash	3%	.75%	4%	.75%
Total	100%		100%	

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, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was

- Police Plan -5.60%
- Non-Uniformed Plan -5.56%

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, 2018 were as follows:

Table 3	Police Plan	Non-Uniform Plan	Total
Total Pension Liability	\$ 1,214,321	\$ 3,331,304	\$ 4,545,625
Plan Fiduciary Net Position	\$ 2,331,843	\$ 3,569,418	\$ 5,901,261
Net Pension Liability	\$ (1,117,522)	\$ (238,114)	\$ (1,355,636)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	192.0%	107.1%	129.8%

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

Malvern Borough
Notes to Financial Statements, Note #6 Continued
December 31, 2018

Changes in Net Pension Liability

The following table shows the changes in net pension liability recognized over the year January 1, 2018 to December 31, 2018.

	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 12/31/2017	\$ 1,176,785	\$ 2,527,967	\$ (1,351,182)	\$ 3,170,117	\$ 3,853,813	\$ (683,696)	\$ (2,034,878)
Changes for the year:							
Service Cost	23,287		23,287	74,806		74,806	98,093
Interest on Total Pension Liability	70,322		70,322	191,541		191,541	261,863
Changes in Benefit Terms			-			-	-
Differences Between Expected and Actual Experience			-			-	-
Changes of Assumptions			-			-	-
Contributions - Employer			-		167	(167)	(167)
Contributions - State Aid			-		15,119	(15,119)	(15,119)
Contributions - Member			-		17,787	(17,787)	(17,787)
Net Investment Income		(140,051)	140,051		(212,308)	212,308	352,359
Benefit Payments	(56,073)	(56,073)	-	(105,160)	(105,160)	-	-
Administrative Expense			-			-	-
Other Changes			-			-	-
Net Changes	\$ 37,536	\$ (196,124)	\$ 233,660	\$ 161,187	\$ (284,395)	\$ 445,582	\$ 679,242
Balances at 12/31/2018	\$ 1,214,321	\$ 2,331,843	\$ (1,117,522)	\$ 3,331,304	\$ 3,569,418	\$ (238,114)	\$ (1,355,636)

Malvern Borough
Notes to Financial Statements, Note #6 Continued
December 31, 2018

Pension Expense for Fiscal Year Ended December 31, 2018

	Police Plan	Non-Uniformed Plan	Total
Service Cost	\$ 23,287	\$ 74,806	\$ 98,093
Interest on Total Pension Liability	70,322	191,541	261,863
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	-	(17,787)	(17,787)
Projected Earnings on Pension Plan Investments	(149,996)	(228,837)	(378,833)
Differences Between Projected and Actual Earnings on Investments	51,531	72,122	123,653
Administrative Expense	-	-	-
Other Changes in Fiduciary Net Position			-
Total Pension Expense	\$ (18,205)	\$ 79,143	\$ 60,938

Malvern Borough
Notes to Financial Statements, Note #6 Continued
December 31, 2018

Deferred Outflows and Deferred Inflows of Resources

For the year ended December 31, 2018, Malvern Borough recognized a pension expense of \$-18,205 (i.e., negative expense) and \$79,143 for its Police Plan and Non-Uniformed Plan, respectively. At December 31, 2018, 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	-	(101,028)	-	(45,277)
Changes in Assumptions	49,768	-	-	(8,706)
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	146,418		222,091	-
Total	<u>\$ 196,186</u>	<u>\$ (101,028)</u>	<u>\$ 222,091</u>	<u>\$ (53,983)</u>

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

	Police Plan	Non-Uniformed Plan
Year Ended December 31:		
2019	38,183	59,420
2020	6,396	17,730
2021	3,781	18,606
2022	46,798	75,527
2023	-	(3,175)
Thereafter	-	-

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(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)	(\$982,884)	(\$1,117,522)	(\$1,230,608)
	1% Decrease 5.00%	Current Rate 6.00%	1% Increase 7.00%
Non-Uniformed Plan			
Net Pension Liability (Asset)	\$11,018	(\$238,114)	(\$455,908)

(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, 2018, using the Entry Age Normal cost method and the following actuarial assumptions based on the census data as of January 1, 2018:

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	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
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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. For the PACT TWO v. VFSA matter, a settlement agreement was approved on July 26, 2018. The Borough's contribution towards the settlement was \$3,742, all of which was deducted from our refund from the 2017 VFSA audit. Please note, the Borough did not issue any payments for this settlement (i.e., checks).

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 & 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 was ~~is~~ pending in the Chester County Court of Common Pleas asking the Court to confirm that Tredyffrin Township had authority, under the various agreements, to sell the assets. Malvern's share of the cost of repairs was estimated at 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) were used.

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. The Borough Council approved the actual sale of the VCTS line to Aqua Resources, Inc. on December 4, 2018. No payment was issued by the Borough for the repairs. Tredyffrin Township covered the cost of the above-mentioned repairs and was reimbursed from the sale proceeds. Payment to the Borough for the sale was approximately \$240,000.

BOROUGH of MALVERN
NOTES to FINANCIAL STATEMENTS
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10. SUBSEQUENT EVENTS.

The Borough has evaluated all events through 25th April 2019, 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, 2018**

	Final Appropriated Budget	Actual Amounts (Budgetary Basis)	<i>variance</i>
REVENUES:			
Taxes	\$ 3,194,116	\$ 3,195,610	\$ 1,494
Licenses & Permits	192,000	229,304	37,304
Fines, Forfeits, & Costs	29,200	35,900	6,700
Interest & Rents	51,500	71,651	20,151
Intergovernmental Revenues	1,162,145	474,810	(687,335)
Charges For Sevices & Fees	53,117	51,623	(1,494)
Miscellaneous Revenue	50,600	38,925	(11,675)
TOTAL BUDGETED REVENUES	<u>\$ 4,732,678</u>	<u>\$ 4,097,823</u>	<u>\$ (634,855)</u>
EXPENDITURES - CURRENT			
General Government	\$ 697,304	\$ 629,034	\$ 68,270
Public Safety	1,457,031	1,265,062	191,969
Public Works: Highways & Streets	731,698	582,892	148,806
Public Works: Garbage Collection	261,000	246,718	14,282
Culture & Recreation	114,384	108,319	6,065
All Other Expenses	119,951	89,435	30,516
TOTAL EXPENDITURES - CURRENT	<u>\$ 3,381,368</u>	<u>\$ 2,921,460</u>	<u>\$ 459,908</u>
DEBT SERVICE			
Principal	\$ -	\$ -	\$ -
Interest	-	-	-
TOTAL DEBT SERVICE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL EXPENDITURES	<u>\$ 3,381,368</u>	<u>\$ 2,921,460</u>	<u>\$ 459,908</u>
EXCESSS of REVENUES OVER EXPENDITURES	\$ 1,351,310	\$ 1,176,363	\$ (174,947)
Transfers In	49,000	46,411	(2,589)
Transfers Out	(1,400,310)	(668,242)	732,068
			-
			-
NET TRANSFERS	<u>\$ (1,351,310)</u>	<u>\$ (621,831)</u>	<u>\$ 729,479</u>
NET CHANGE in FUND BALANCE	<u>\$ -</u>	<u>\$ 554,532</u>	<u>\$ 554,532</u>

See notes to required supplementary information.

Malvern Borough
Schedule of Investment Returns
December 31, 2018

Police Plan

	2015	2016	2017	2018
Annual Money-Weighted Rate of Return, Net of Investment Expenses	-0.40%	6.39%	15.26%	-5.60%

Notes to schedules: none

Non-Uniform Plan

	2015	2016	2017	2018
Annual Money-Weighted Rate of Return, Net of Investment Expenses	-0.37%	6.13%	14.37%	-5.56%

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
Schedule of Changes in Net Pension Liability and Related Ratios
December 31, 2018

	Police Plan 2015	Non-Uniformed Plan 2015	Police Plan 2016	Non-Uniformed Plan 2016	Police Plan 2017	Non-Uniformed Plan 2017	Police Plan 2018	Non-Uniformed Plan 2018
Total Pension Liability								
Service Cost	\$ 35,615	\$ 62,386	\$ 37,396	\$ 65,505	\$ 22,554	\$ 72,451	\$ 23,287	\$ 74,806
Interest on Total Pension Liability	73,656	169,368	79,217	178,436	67,482	182,417	70,322	191,541
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)	(56,073)	(105,160)
Net Change in Total Pension Liability	76,836	169,446	85,828	138,781	(18,707)	70,321	37,536	161,187
Total Pension Liability - Beginning	1,032,828	2,791,569	1,109,664	2,961,015	1,195,492	3,099,796	1,176,785	3,170,117
Total Pension Liability - Ending	\$ 1,109,664	\$ 2,961,015	\$ 1,195,492	\$ 3,099,796	\$ 1,176,785	\$ 3,170,117	\$ 1,214,321	\$ 3,331,304

Plan Fiduciary Net Position								
Contributions - Employer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 167
Contributions - State Aid	-	66,791	-	30,471	-	33,394	-	15,119
Contributions - Member	-	13,499	-	16,909	-	16,336	-	17,787
Net Investment Income	(8,603)	(12,196)	134,400	199,204	336,863	487,821	(140,051)	(212,308)
Benefit Payments, Including Refunds of Member Contributions	(32,435)	(62,308)	(30,785)	(105,160)	(30,785)	(105,160)	(56,073)	(105,160)
Administrative Expense	-	-	(1,650)	(1,600)	(2,875)	(2,875)	-	-
Plan Net Position - Beginning	(41,038)	5,786	101,965	139,824	303,203	429,516	(196,124)	(284,395)
Plan Net Position - Ending	2,163,837	3,278,687	2,122,799	3,284,473	2,224,764	3,424,297	2,527,967	3,853,813
Municipality's Net Pension Liability (Asset)	\$ 2,122,799	\$ 3,284,473	\$ 2,224,764	\$ 3,424,297	\$ 2,527,967	\$ 3,853,813	\$ 2,331,843	\$ 3,569,418
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	\$ (1,013,135)	\$ (323,458)	\$ (1,029,272)	\$ (324,501)	\$ (1,351,182)	\$ (683,696)	\$ (1,117,522)	\$ (238,114)
Covered Employee Payroll	191.3%	110.9%	186.1%	110.5%	214.8%	121.6%	192.0%	107.1%
Municipality's Net Pension Liability as a Percentage of Covered Employee Payroll	\$ 323,461	\$ 669,275	\$ 293,850	\$ 677,220	\$ 260,210	\$ 772,700	\$ 369,762	\$ 819,324
Notes to schedules:	-313.2%	-48.3%	-350.3%	-47.9%	-519.3%	-88.5%	-302.2%	-29.1%

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
Schedule of Employer Contributions to Pension Plans
December 31, 2018

Police Plan

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Actuarially Determined Contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in Relation to the Actuarially Determined Contribution	-	-	-	-	-	-	-	-	-	-	-
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 323,461	\$ 293,850	\$ 260,210	\$ 369,762
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%	0.0%

Notes to schedules:

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

Non-Uniform Plan

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Actuarially Determined Contribution	\$ 33,074	\$ 31,400	\$ 33,378	\$ 35,982	\$ 69,370	\$ 76,495	\$ 55,296	\$ 66,385	\$ 26,021	\$ 32,666	\$ 15,286
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	15,286
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	\$ 819,324
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%	1.9%

Notes to schedules: none

BOROUGH of MALVERN
NOTES to REQUIRED SUPPLEMENTAL INFORMATION
31st DECEMBER 2018

NOTE A - BUDGETARY POLICY

The Malvern Borough Council annually adopts the budget for the General Fund of the Borough. Borough Management may not amend the budget without the approval of the Borough Council. Uncommitted appropriations lapse at year-end.

NOTE B - BUDGETARY BASIS of ACCOUNTING

The Budget for the General Fund was adopted on the cash basis of accounting; revenues reflect those funds actually expected to be received and expenditures reflect those funds actually expected to be spent.

NOTE C - EXCESS of EXPENDITURES OVER APPROPRIATIONS

For the year ended December 31, 2018, expenditures in all general fund departments were less than budgeted amounts. However, revenues for the same period fell short of budgeted amounts in the following General Fund department levels (the legal level of budgetary control):

Intergovernmental Revenues	\$ 687,335
Charges for Services	\$ 1,494
Miscellaneous Revenues	\$ 11,675
Transfers-In	\$ 2,589

These revenue shortfalls were offset in part by each general fund department having spent less than budgeted, and in part by reducing transfers out of the general fund to other funds.

BOROUGH of MALVERN
FINANCIAL MONITORING SYSTEM
for the years
2014 THROUGH 2018

Richard M. Peterson, CPA
Giorgio E. Fieo, CPA*, CFE
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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 2014 through 31st December 2018. 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.
25th April 2019

Borough of Malvern Financial Monitoring System

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Population					
<i>(from most recent US census)</i>	2,998	2,998	2,998	2,998	2,998
Revenue Per Capita	1,777	1,575	1,529	1,567	1,612
Expenditures Per Capita	1,645	1,376	1,366	1,345	1,446
Employee Benefit Total Cost					
<i>(excluding taxes)</i>	280,300	256,577	283,181	318,068	288,902
Grand Total Salaries	1,434,355	1,304,344	1,176,357	1,138,578	1,076,536
Benefit Cost as a % of Salaries	19.54%	19.67%	24.07%	27.94%	26.84%
Cash Position	7,159,991	6,818,246	6,115,614	5,701,286	5,016,129
Debt Service as % of Revenue	6.66%	7.35%	7.60%	7.29%	7.03%
Long Term Debt	1,089,000	1,344,000	1,595,000	1,842,000	2,085,000
Debt per Capita	363	448	532	614	695
Debt as a % of Assessed Valuation	0.45%	0.57%	0.69%	0.82%	0.97%
Operating Position					
<i>(GF expenditures % GF revenues)</i>	99.58%	87.58%	92.78%	84.90%	91.63%
Net Pension Liability (Asset)					
Police Pension	(1,117,522)	(1,351,182)	(1,029,272)	(1,013,135)	(1,131,009)
NonUniformed Pension	(238,114)	(683,696)	(324,501)	(323,458)	(252,681)
Actual GF Revenue vs. Budget	86.59%	80.04%	73.14%	92.86%	103.05%
Actual GF Expenditures vs. Budget	86.40%	86.87%	91.27%	83.95%	78.88%
Assessed Taxable					
Valuation, per Capita	79,934	79,002	77,350	75,300	71,761
Real Estate Millage	4.4670	4.4200	4.4200	4.4200	4.4200
% Increase (Decrease) in Millage	1.06%	0.00%	0.00%	0.00%	11.34%
Capital Outlays % of Expenditures	21.15%	15.64%	10.01%	12.62%	20.15%
Net Position Increases (Decreases)	398,269	2,359,696	489,234	(1,073,222)	496,377
<i>(formerly titled "Fund Balance")</i>					

See accompanying accountants' compilation report.