

Borough of Baldwin

Primary Government Financial Statements and Required Supplementary and Supplementary Information

Year Ended December 31, 2014 with
Independent Auditor's Report

MaherDuessel
Certified Public Accountants

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BOROUGH OF BALDWIN

YEAR ENDED DECEMBER 31, 2014

TABLE OF CONTENTS

Independent Auditor's Report

Primary Government Financial Statements:

Government-Wide Financial Statements:

Statement of Net Position 1

Statement of Activities 2

Fund Financial Statements:

Balance Sheet - Governmental Funds 3

Statement of Revenues, Expenditures, and Changes in Fund
Balance - Governmental Funds 4

Statement of Revenues, Expenditures, and Changes in Fund
Balance - Budget and Actual - General Fund 5

Statement of Net Position - Proprietary Funds 6

Statement of Revenues, Expenses, and Changes in Fund
Net Position - Proprietary Funds 7

Statement of Cash Flows - Proprietary Funds 8

Statement of Net Position - Fiduciary Funds 9

Statement of Changes in Net Position - Fiduciary Funds 10

Notes to the Primary Government Financial Statements 11

BOROUGH OF BALDWIN

YEAR ENDED DECEMBER 31, 2014

TABLE OF CONTENTS

(Continued)

Required Supplementary Information:

Pension Plans:

Schedule of Changes in the Borough's Net Pension Liability and Related Ratios – Service Employees Plan	39
Schedule of Changes in the Borough's Net Pension Liability and Related Ratios – Police Plan	40
Schedule of the Borough's Contributions and Investment Returns	41
Notes to Required Supplementary Information – Pension Plan	42
Employer Pension Plan and OPEB:	
Schedules of Funding Progress - Pension Plans	43
Schedules of Contributions from Employers and Other Contributing Entities - Pension Plans	44
Schedule of Funding Progress – Post-Employment Benefits Other Than Pension Benefits (OPEBs)	45
Notes to Required Supplementary Information - Employer	46

Supplementary Information:

Combining Balance Sheet – Other Governmental Funds	50
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Other Governmental Funds	51

Independent Auditor's Report

Members of Council
Borough of Baldwin

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Baldwin (Borough), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Borough's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinions on Governmental Activities and Discretely Presented Component Units

As described in Note 2, the Borough prepares its statement of net position and statement of activities for governmental activities using the modified accrual basis of accounting. Accounting principles generally accepted in the United States of America require the preparation of these government-wide financial statements using the full-accrual basis of accounting, including capitalizing and depreciating capital assets, recognizing long-term debt and post-employment benefit obligations, and allocating certain expenses by function. The amount by which this departure would affect the assets, deferred outflows,

liabilities, deferred inflows, net position, revenues, and expenses of the governmental activities has not been determined.

The financial statements referred to above do not include financial data for the Borough's legally separate component unit. Accounting principles generally accepted in the United States of America require financial data for that component unit to be reported with the financial data of the Borough's primary government unless the Borough also issues financial statements for the financial reporting entity that include the financial data for its component unit. The Borough has not issued such reporting entity financial statements. The amount by which this departure would affect the assets, liabilities, net position, revenues, and expenses of the government-wide financial statements has not been determined.

Adverse Opinions on Governmental Activities and Discretely Presented Component Units

In our opinion, because of the significance of the matter discussed in the first paragraph of the "Basis for Adverse Opinions" section, the financial statements referred to above do not present fairly the financial position of the governmental activities of the Borough, as of December 31, 2014, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, because of the significance of the matter discussed in the second paragraph of the "Basis for Adverse Opinions" section, the financial statements referred to above do not present fairly the financial position of the discretely presented component unit of the Borough as of December 31, 2014, or the changes in financial position thereof for the year then ended.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information for the Borough as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the pension and other post-employment benefit information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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. The Borough has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the financial statements.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the primary government of the Borough. The combining other governmental fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining other governmental fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Maher Duessel

Pittsburgh, Pennsylvania
June 15, 2015

BOROUGH OF BALDWIN

STATEMENT OF NET POSITION

DECEMBER 31, 2014

Assets	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Current assets:			
Cash and cash equivalents	\$ 325,500	\$ 1,846,495	\$ 2,171,995
Cash and cash equivalents - restricted	-	10,051,628	10,051,628
Taxes receivable	1,413,835	-	1,413,835
Accounts receivable - sewage, net	-	38,833	38,833
Accrued sewer billings receivable	-	389,868	389,868
Other receivables	95,124	-	95,124
Prepaid expenses	128,943	-	128,943
Due from other funds	34,099	473,302	507,401
Total current assets	1,997,501	12,800,126	14,797,627
Capital assets, net of accumulated depreciation:			
Construction in progress	-	545,835	545,835
Infrastructure	-	9,747,567	9,747,567
Machinery and equipment	-	121,058	121,058
Total capital assets	-	10,414,460	10,414,460
Total Assets	\$ 1,997,501	\$ 23,214,586	\$ 25,212,087
Liabilities, Deferred Inflows of Resources, and Net Position			
Liabilities:			
Current liabilities:			
Accounts payable	\$ 124,407	\$ 638,676	\$ 763,083
Accrued payroll	-	22,898	22,898
Long-term debt - current portion	-	276,084	276,084
Other liabilities	238,991	-	238,991
Due to other funds	494,956	12,445	507,401
Total current liabilities	858,354	950,103	1,808,457
Noncurrent liabilities:			
Long-term debt - long-term portion	-	20,587,040	20,587,040
Less discount on bonds	-	(251,278)	(251,278)
Total noncurrent liabilities	-	20,335,762	20,335,762
Total Liabilities	858,354	21,285,865	22,144,219
Deferred Inflows of Resources:			
Unavailable revenue	914,486	-	914,486
Total Liabilities and Deferred Inflows of Resources	1,772,840	21,285,865	23,058,705
Net Position:			
Net investment in capital assets	-	(145,758)	(145,758)
Restricted:			
Supplies and street lighting	19,082	-	19,082
Unrestricted	205,579	2,074,479	2,280,058
Total Net Position	224,661	1,928,721	2,153,382
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 1,997,501	\$ 23,214,586	\$ 25,212,087

The notes to the primary government financial statements are an integral part of this statement.

BOROUGH OF BALDWIN

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2014

Functions/Programs	Program Revenues			Net (Expense) Revenue and Change in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:						
General government	\$ 691,648	\$ 176,606	\$ -	\$ (515,042)	\$ -	\$ (515,042)
Public safety - police	3,739,857	234,769	22,354	(3,482,734)	-	(3,482,734)
Public safety - fire	344,802	-	101,778	(243,024)	-	(243,024)
Public safety - other	290,584	-	-	(290,584)	-	(290,584)
Public works - sanitation	1,446,051	-	16,007	(1,430,044)	-	(1,430,044)
Public works - highways	1,725,364	-	448,389	(1,276,975)	-	(1,276,975)
Culture and recreation - library	180,000	-	-	(180,000)	-	(180,000)
Culture and recreation - other	362,364	1,768	-	(360,596)	-	(360,596)
Capital outlay	216,476	-	-	(216,476)	-	(216,476)
Debt service	416,013	-	-	(416,013)	-	(416,013)
Insurance and employee benefits	1,323,392	-	259,470	(1,063,922)	-	(1,063,922)
Total governmental activities	10,736,551	413,143	847,998	(9,475,410)	-	(9,475,410)
Business-Type Activities:						
Swimming pool	124,008	49,208	-	-	(74,800)	(74,800)
Sewer system	5,089,505	4,117,421	-	-	(972,084)	(972,084)
Total business-type activities	5,213,513	4,166,629	-	-	(1,046,884)	(1,046,884)
Total Primary Government	\$ 15,950,064	\$ 4,579,772	\$ 847,998	(9,475,410)	(1,046,884)	(10,522,294)
General revenues:						
Taxes:						
Property taxes, levied for general purposes				4,819,872	-	4,819,872
Earned income taxes				2,367,662	-	2,367,662
Other taxes levied for general purposes				379,993	-	379,993
County sales tax (Act 77)				566,414	-	566,414
Cable franchise fees				503,987	-	503,987
PURTA and alcohol beverage tax				16,532	-	16,532
Investment earnings				7,975	-	7,975
Refund of prior year expenditures (revenues), net				8,799	-	8,799
Capital lease proceeds				156,570	-	156,570
Miscellaneous				78,751	12,882	91,633
Transfers				(65,000)	65,000	-
Total general revenues				8,841,555	77,882	8,919,437
			Change in Net Position	(633,855)	(969,002)	(1,602,857)
			Net Position:			
			Beginning of year	858,516	2,897,723	3,756,239
			End of year	\$ 224,661	\$ 1,928,721	\$ 2,153,382

The notes to the primary government financial statements are an integral part of this statement.

BOROUGH OF BALDWIN

BALANCE SHEET - GOVERNMENTAL FUNDS

DECEMBER 31, 2014

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 283,860	\$ 41,640	\$ 325,500
Taxes receivable, net	1,413,835	-	1,413,835
Other receivables	95,124	-	95,124
Prepaid expenses	128,943	-	128,943
Due from other funds	31,527	2,572	34,099
Total Assets	\$ 1,953,289	\$ 44,212	\$ 1,997,501
Liabilities, Deferred Inflows of Resources, and Fund Balance			
Liabilities:			
Accounts payable	\$ 124,407	\$ -	\$ 124,407
Other liabilities	238,991	-	238,991
Due to other funds	475,874	19,082	494,956
Total Liabilities	839,272	19,082	858,354
Deferred Inflows of Resources:			
Unavailable revenues	914,486	-	914,486
Total Liabilities and Deferred Inflows of Resources	1,753,758	19,082	1,772,840
Fund Balance:			
Nonspendable - prepaids	128,943	-	128,943
Restricted:			
Supplies and street lighting	-	19,082	19,082
Assigned - capital improvements	-	6,048	6,048
Unassigned	70,588	-	70,588
Total Fund Balance	199,531	25,130	224,661
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 1,953,289	\$ 44,212	\$ 1,997,501

The notes to the primary government financial statements are an integral part of this statement.

BOROUGH OF BALDWIN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2014

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 8,133,941	\$ -	\$ 8,133,941
Licenses and permits	504,227	-	504,227
Fines and forfeitures	85,472	-	85,472
Interest and rents	7,909	66	7,975
Intergovernmental	451,696	412,834	864,530
Charges for services	327,431	-	327,431
Miscellaneous	-	78,751	78,751
	9,510,676	491,651	10,002,327
Expenditures:			
General government	691,648	-	691,648
Public safety - police	3,739,857	-	3,739,857
Public safety - fire	344,802	-	344,802
Public safety - other	290,584	-	290,584
Public works - sanitation	1,446,051	-	1,446,051
Public works - highway	1,198,138	527,226	1,725,364
Culture and recreation - library	180,000	-	180,000
Culture and recreation - other	362,364	-	362,364
Capital outlay	216,476	-	216,476
Debt service	416,013	-	416,013
Insurance and employee benefits	1,323,392	-	1,323,392
	10,209,325	527,226	10,736,551
Excess (Deficiency) of Revenues Over Expenditures	(698,649)	(35,575)	(734,224)
Other Financing Sources (Uses):			
Refund of prior year expenditures	79,839	-	79,839
Refunds of prior year revenues	(71,040)	-	(71,040)
Proceeds from capital lease obligation	156,570	-	156,570
Operating transfers in	300,000	76,669	376,669
Operating transfers out	(141,669)	(300,000)	(441,669)
	323,700	(223,331)	100,369
Net Change in Fund Balance	(374,949)	(258,906)	(633,855)
Fund Balance:			
Beginning of year	574,480	284,036	858,516
End of year	\$ 199,531	\$ 25,130	\$ 224,661

The notes to the primary government financial statements are an integral part of this statement.

BOROUGH OF BALDWIN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

YEAR ENDED DECEMBER 31, 2014

	Budget		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 8,466,105	\$ 8,466,105	\$ 8,133,941	\$ (332,164)
Licenses and permits	375,215	375,215	504,227	129,012
Fines and forfeitures	115,400	115,400	85,472	(29,928)
Interest and rents	9,250	9,250	7,909	(1,341)
Intergovernmental	449,700	449,700	451,696	1,996
Charges for services	257,250	257,250	327,431	70,181
Total revenues	9,672,920	9,672,920	9,510,676	(162,244)
Expenditures:				
General government	656,611	656,611	691,648	(35,037)
Public safety - police	3,810,399	3,810,399	3,739,857	70,542
Public safety - fire	357,000	357,000	344,802	12,198
Public safety - other	254,517	254,517	290,584	(36,067)
Public works - sanitation	1,122,720	1,122,720	1,446,051	(323,331)
Public works - highway	549,950	549,950	1,198,138	(648,188)
Culture and recreation - library	180,000	180,000	180,000	-
Culture and recreation - other	359,810	359,810	362,364	(2,554)
Capital outlay	-	-	216,476	(216,476)
Debt service	232,200	232,200	416,013	(183,813)
Insurance and employee benefits	1,300,591	1,300,591	1,323,392	(22,801)
Total expenditures	8,823,798	8,823,798	10,209,325	(1,385,527)
Excess (Deficiency) of Revenues Over Expenditures	849,122	849,122	(698,649)	(1,547,771)
Other Financing Sources (Uses):				
Refund of prior year expenditures	74,575	74,575	79,839	5,264
Refunds of prior year revenues	(13,500)	(13,500)	(71,040)	(57,540)
Proceeds from capital lease obligation	-	-	156,570	156,570
Operating transfers in	-	-	300,000	300,000
Operating transfers out	(910,197)	(910,197)	(141,669)	768,528
Total other financing sources (uses)	(849,122)	(849,122)	323,700	1,172,822
Net Change in Fund Balance	\$ -	\$ -	(374,949)	\$ (374,949)
Fund Balance:				
Beginning of year			574,480	
End of year			\$ 199,531	

A - Capital leases are accounted for as an other financing source and expenditures in the year the lease was entered into for the full value of the lease. The Borough does not budget for the full amount of the capital lease.

The notes to the primary government financial statements are an integral part of this statement.

BOROUGH OF BALDWIN

STATEMENT OF NET POSITION PROPRIETARY FUNDS

DECEMBER 31, 2014

	Swimming Pool Fund	Sewer System Fund	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,693	\$ 1,844,802	\$ 1,846,495
Cash and cash equivalents - restricted	-	10,051,628	10,051,628
Accounts receivable - sewage, net	-	38,833	38,833
Accrued sewage billings receivable	-	389,868	389,868
Due from other funds	-	473,302	473,302
Total current assets	1,693	12,798,433	12,800,126
Noncurrent assets:			
Sewer infrastructure	-	12,813,282	12,813,282
Swimming pool	828,480	-	828,480
Equipment	-	498,278	498,278
Construction in progress	-	545,835	545,835
Accumulated depreciation	(828,480)	(3,442,935)	(4,271,415)
Total noncurrent assets	-	10,414,460	10,414,460
Total Assets	\$ 1,693	\$ 23,212,893	\$ 23,214,586
Liabilities and Net Position			
Liabilities:			
Current liabilities:			
Accounts payable	\$ 1,345	\$ 637,331	\$ 638,676
Accrued payroll	7,429	15,469	22,898
Long-term debt - current portion	-	276,084	276,084
Due to other funds	12,445	-	12,445
Total current liabilities	21,219	928,884	950,103
Noncurrent liabilities:			
Long-term debt - long-term portion	-	20,587,040	20,587,040
Less discount on bonds	-	(251,278)	(251,278)
Total Noncurrent Liabilities	-	20,335,762	20,335,762
Total Liabilities	21,219	21,264,646	21,285,865
Net Position:			
Net investment in capital assets	-	(145,758)	(145,758)
Unrestricted	(19,526)	2,094,005	2,074,479
Total Net Position	(19,526)	1,948,247	1,928,721
Total Liabilities and Net Position	\$ 1,693	\$ 23,212,893	\$ 23,214,586

The notes to the primary government financial statements are an integral part of this statement.

BOROUGH OF BALDWIN

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2014

	Swimming Pool Fund	Sewer System Fund	Total
Operating Revenues:			
User charges	\$ 49,208	\$ 4,098,639	\$ 4,147,847
Tap-in fees	-	8,202	8,202
Charges for services - liens	-	10,580	10,580
Miscellaneous	-	12,882	12,882
Total operating revenues	49,208	4,130,303	4,179,511
Operating Expenses:			
Administration	113,499	863,568	977,067
Engineering services	-	622,212	622,212
Maintenance	10,509	171,058	181,567
Depreciation	-	339,810	339,810
Insurance and employee benefits	-	69,185	69,185
Sanitation - ALCOSAN	-	1,547,689	1,547,689
Sanitation - Pleasant Hills	-	783,319	783,319
Total operating expenses	124,008	4,396,841	4,520,849
Net Operating Income (Loss)	(74,800)	(266,538)	(341,338)
Non-operating Revenues (Expenses):			
Interest expense	-	(692,664)	(692,664)
Income (Loss) before Transfers	(74,800)	(959,202)	(1,034,002)
Other Financing Sources (Uses):			
Transfers in	65,000	-	65,000
Total other financing sources (uses)	65,000	-	65,000
Change in Net Position	(9,800)	(959,202)	(969,002)
Net Position:			
Beginning of year	(9,726)	2,907,449	2,897,723
End of year	\$ (19,526)	\$ 1,948,247	\$ 1,928,721

The notes to the primary government financial statements are an integral part of this statement.

BOROUGH OF BALDWIN

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2014

	Swimming Pool Fund	Sewer System Fund	Total
Cash Flows From Operating Activities:			
Cash received from user charges	\$ 49,208	\$ 4,508,851	\$ 4,558,059
Cash received from miscellaneous sources	-	12,882	12,882
Cash paid to employees for salaries and benefits	(5,909)	(622,606)	(628,515)
Cash paid to vendors for goods and services	(117,697)	(3,492,509)	(3,610,206)
Net cash provided by (used in) operating activities	(74,398)	406,618	332,220
Cash Flows From Capital and Related Financing Activities:			
Purchase of equipment	-	(1,134,111)	(1,134,111)
Principal debt service payments	-	(240,000)	(240,000)
Interest debt service payments	-	(692,664)	(692,664)
Net cash provided by (used in) capital and related financing activities	-	(2,066,775)	(2,066,775)
Cash Flows From Non-Capital Financing Activities:			
Transfers from other funds	75,014	-	75,014
Cash paid to General Fund to cover operating expenses	-	(473,302)	(473,302)
Cash received from General Fund to repay interfund loan	-	640,100	640,100
Net cash provided by (used in) non-capital financing activities	75,014	166,798	241,812
Net Increase (Decrease) in Cash and Cash Equivalents	616	(1,493,359)	(1,492,743)
Cash and Cash Equivalents:			
Beginning of year	1,077	13,389,789	13,390,866
End of year	\$ 1,693	\$ 11,896,430	\$ 11,898,123
Reconciliation of Net Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:			
Net operating income (loss)	\$ (74,800)	\$ (266,538)	\$ (341,338)
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	-	339,810	339,810
Amortization expense	-	8,665	8,665
Change in assets and liabilities:			
Accounts receivable - sewage	-	392,341	392,341
Accrued sewer billings receivable	-	(911)	(911)
Accrued payroll	5,909	11,322	17,231
Accounts payable	(5,507)	(78,071)	(83,578)
Net cash provided by (used in) operating activities	\$ (74,398)	\$ 406,618	\$ 332,220

The notes to the primary government financial statements are an integral part of this statement.

BOROUGH OF BALDWIN

STATEMENT OF NET POSITION FIDUCIARY FUNDS

DECEMBER 31, 2014

	<u>Police Pension Fund</u>	<u>Service Employees Pension Fund</u>	<u>Total</u>
<hr/> Assets <hr/>			
Cash and cash equivalents	\$ 1,508	\$ 1,501	\$ 3,009
Investments:			
Equity mutual funds	4,853,188	2,148,280	7,001,468
Guaranteed investment contracts	-	462	462
Bond funds	<u>8,722,177</u>	<u>729,755</u>	<u>9,451,932</u>
Total Assets	<u><u>\$ 13,576,873</u></u>	<u><u>\$ 2,879,998</u></u>	<u><u>\$ 16,456,871</u></u>
<hr/> Net Position <hr/>			
Restricted for pension benefits	<u>\$ 13,576,873</u>	<u>\$ 2,879,998</u>	<u>\$ 16,456,871</u>
Net Position	<u><u>\$ 13,576,873</u></u>	<u><u>\$ 2,879,998</u></u>	<u><u>\$ 16,456,871</u></u>

The notes to the primary government financial statements are an integral part of this statement.

BOROUGH OF BALDWIN

STATEMENT OF CHANGES IN NET POSITION FIDUCIARY FUNDS

YEAR ENDED DECEMBER 31, 2014

	Police Pension Fund	Service Employees Pension Fund	Total
Additions:			
Contributions:			
Employer	\$ 663,538	\$ 45,947	\$ 709,485
Plan members	242,636	23,679	266,315
State aid	194,602	64,867	259,469
Total contributions	1,100,776	134,493	1,235,269
Investment earnings:			
Net increase (decrease) in fair value of investments	(252,296)	(21,015)	(273,311)
Interest and dividends	560,654	141,334	701,988
Total investment earnings	308,358	120,319	428,677
Total additions	1,409,134	254,812	1,663,946
Deductions:			
Benefits	940,073	126,253	1,066,326
Administrative expenses	49,222	22,672	71,894
Other expenses	-	41,043	41,043
Total deductions	989,295	189,968	1,179,263
Change in Net Position	419,839	64,844	484,683
Net Position:			
Beginning of year	13,157,034	2,815,154	15,972,188
End of year	\$ 13,576,873	\$ 2,879,998	\$ 16,456,871

The notes to the primary government financial statements are an integral part of this statement.

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

1. THE REPORTING ENTITY

The Borough of Baldwin (Borough) was incorporated under the laws of the Commonwealth of Pennsylvania in 1952 and operates under an elected Mayor-Council form of government. Members of Council (Council) appoint a Borough Secretary to administer the day-to-day operations of the Borough. The major functions of the Borough include public safety, maintenance of the Borough infrastructure, sanitation and sewage control, maintenance of parks and other recreational facilities for use by Borough residents, and general administrative functions necessary to facilitate Borough resident needs and responsibilities.

Consistent with applicable guidance, the criteria used by the Borough to evaluate the possible inclusion of related entities within its reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given situation, the Borough reviews the applicability of the following criteria:

The Borough is financially accountable for:

1. Organizations that make up the legal municipal entity.
2. Legally separate organizations if the Council appoints a voting majority of the organizations' governing body and the Borough is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Borough.
 - a. Impose its Will - If the Borough can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.
 - b. Financial Benefit or Burden - Exists if the Borough (1) is entitled to the organization's resources, (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization, or (3) is obligated in some manner for the debt of the organization.
3. Organizations that are fiscally dependent on the Borough. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the Borough.

Component Unit

The following separately administered organization meets the criteria for inclusion in the Borough's reporting entity.

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Baldwin Public Library

The Baldwin Public Library (Library) is a non-profit educational institution. The Library is primarily funded through public donations and an annual subsidy from the Borough. The Borough contributed \$180,000 to the Library during 2014. All members of the Library Board must be approved and appointed by the Council. Although the Library qualifies for inclusion in the Borough's financial reporting entity, Borough management has opted to exclude the Library from these primary government financial statements. Separate financial statements for the Library are available at the Library.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the Borough. For the most part, the effect of inter-fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

Separate fund financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The business-type information on the government-wide financial statements is reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements and the governmental-type activities on the government-wide statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Governmental-type activities reported under this focus and basis of accounting is not in accordance with generally accepted accounting principles (GAAP). Revenues are recognized as soon as they are both

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Borough considers revenues to be available if they are collected within sixty days from the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under the accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, earned income taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent they have been collected within sixty days of year end. All other revenue items are considered to be measurable and available only when cash is received by the Borough.

The Borough reports the following major governmental funds:

The *General Fund* is the Borough's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Additionally, the Borough reports on the following governmental funds:

The *Highway Aid Fund* is established and restricted under Act 655 of the Commonwealth of Pennsylvania. Funding is received from the Commonwealth of Pennsylvania and is restricted in use for the maintenance, repair, and construction of roads, streets, and bridges for which the Borough is responsible.

The *Capital Improvements Fund* is used to account for disbursements related to capital projects within the Borough.

The Borough reports the following major proprietary fund:

The *Sewer System Fund* is used to account for resources derived from sewer billings to Borough residents and related disbursements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing goods and services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Borough's proprietary funds are charges to customers for sales and services.

Additionally, the Borough reports on the following proprietary fund:

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

The *Swimming Pool Fund* is used to account for resources derived from the swimming pool user fees and related disbursements.

Additionally, the Borough reports the following fiduciary funds:

The *Pension Trust Funds* are used to account for assets held by the Borough in a trustee capacity for employee retirement. These funds were established to provide pension benefits for the Borough's eligible policemen and service employees.

Revenue Classification on the Government-Wide Statement of Activities

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Amounts reported as program revenues include 1) charges to customers for services provided and rents, 2) operating grants, and 3) capital grants. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Use of Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is the Borough's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Borough considers all investments with maturities of three months or less when purchased as cash.

Investments

Investments are reported at fair value with the exception of the Pension Trust Funds' guaranteed investment contracts which are recorded at amortized cost. Funds are invested in accordance with the Borough's investment policy guidelines as described in Note 3.

Allowance for Doubtful Accounts

Sewer receivables are reported at their net value. Where appropriate, receivables are reduced by the estimated portion that is expected to be uncollectible. Receivables also include sewer charges based on billings made during the following month and unbilled charges. Allowance for doubtful sewer accounts receivable for the Sewer System Fund is \$99,096 at December 31, 2014.

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable proprietary fund and business-type activities columns in the government-wide financial statements. The Borough does not maintain a specific threshold for fixed asset capitalization. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Borough are depreciated using the straight-line method over the following estimated useful lives:

Sewer infrastructure	40 years
Swimming pool	30 years
Parks and playgrounds	20 years
Equipment	5-10 years

Compensated Absences

In accordance with the terms of its various collective bargaining unit agreements, the Borough is responsible to pay eligible employees up to 100 days (police) and 75 days (service employees) of accumulated unused sick days at their daily rate of pay upon separation of service from the Borough. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee retirements. As of December 31, 2014, the value of accumulated sick days to be paid in future years is \$831,612.

Long-term Obligations

In the business-type activities on the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable business-type activities or proprietary fund type

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

statements of net position. Bond premiums and discounts are amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements and governmental-type activities on the government-wide statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. The amount of long-term obligations, while not reported on the government-wide statements, are included in Note 6.

Fund Balance

In the fund financial statements, governmental funds report fund balance in categories based on the level of restriction placed upon the funds. These levels are as follows:

- Nonspendable - This category represents funds that are not in spendable form and includes prepaid expenses.
- Restricted - This category represents funds that are limited in use due to constraints on purpose and circumstances of spending that are legally enforceable by outside parties.
- Committed - This category represents funds that are limited in use due to constraints on purpose and circumstances of spending imposed by the Council. Such commitment is made via a Council resolution and must be made prior to the end of the fiscal year. Removal of this commitment requires a Council resolution. The Borough currently does not have any committed funds.
- Assigned - This category represents intentions of the Council to use the funds for specific purposes.
- Unassigned - This category represents all other funds not otherwise defined.

The Borough's policy is to use funds in the order of the most restrictive to the least restrictive.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ than those estimates.

Budgets and Budgetary Accounting

Formal budgetary accounting is employed as a management control for all funds. Annual operating budgets are adopted each fiscal year through the passage of an annual budget ordinance. The same basis of accounting is used to reflect actual revenues and expenditures/expenses recognized on a GAAP basis, with exception of capital leases. Capital leases are accounted for as an other financing source and expenditure in the year the lease is entered into for the full value of the lease. The difference between the basis used and that which is consistent with GAAP is not material.

The Borough may, in its reasonable discretion, modify the budget after its final adoption provided such modifications are within the current year's revenues or such additional monies as required therefore are promptly made available through borrowing as allowed by law.

All annual appropriations lapse at year-end. The level of control (level at which expenditures cannot legally exceed appropriations) over expenditures in budgeted funds is by department.

Excess of Expenditures over Appropriations

For the year ended December 31, 2014, expenditures within in the General Fund exceeded appropriations in general government, public safety (other), public works (sanitation and highway), culture and recreation (other), and insurance and employee benefits. The excess of expenditures within the General Fund for general government, public safety, culture and recreation, and insurance and employee benefits was not material. The excess of expenditures within the General Fund for public works (highway) was principally due to the payment of road and other construction costs which were budgeted for in the Capital Improvements Fund. The excess expenditures were funded by not transferring revenue to the Capital Improvements Fund from the General Fund. The excess of expenditures within the General Fund for public works (sanitation) was principally due to the overcharging from a vendor for services during 2014. The Borough will be issued a credit from this vendor in 2015.

Interfund Receivables, Payables, and Transfers

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds."

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Individual fund receivable and payable balances at December 31, 2014, as well as interfund transfers for the year ended December 31, 2014, were as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>	<u>Due To</u>	<u>Due From</u>
Governmental activities:				
General Fund	\$ 300,000	\$ 141,669	\$ 475,874	\$ 31,527
Capital Improvements Fund	-	300,000	19,082	-
Highway Aid Fund	76,669	-	-	2,572
Business-type activities:				
Swimming Pool Fund	65,000	-	12,445	-
Sewer System Fund	-	-	-	473,302
Total	<u>\$ 441,669</u>	<u>\$ 441,669</u>	<u>\$ 507,401</u>	<u>\$ 507,401</u>

Transactions between funds that are not expected to be repaid are accounted for as transfers. In those cases when repayment is expected within the next fiscal year, the transactions are accounted for through the various due from and due to accounts.

The due from the General Fund to the Sewer System Fund relates to cash transferred from the Sewer System Fund to the General Fund to cover operational expenses, since no tax anticipation note was taken out in the current year.

Deferred Inflows

Deferred inflows at December 31, 2014 consists of unavailable revenue, which is made up of \$352,206 of earned income taxes and \$562,280 of real estate taxes.

Net Position

The Borough classifies net position into three components – net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

- Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount is not included in the calculation of net

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

investment in capital assets. Instead, that portion of the debt or deferred inflow of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

- Restricted - This component of net position consists of constraints placed on net position use through external restrictions.
- Unrestricted - This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Adopted Pronouncements

The Borough has adopted GASB Statement No. 67, “*Financial Reporting for Pension Plans.*” This statement revises existing guidance for the financial reports of most pension plans, and establishes new financial reporting requirements for most governments that provide their employees with pension benefits.

GASB has issued Statement No. 69, “*Government Combinations and Disposals of Government Operations,*” which was effective for the Borough’s 2014 financial statements. GASB Statement No. 69 provides new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold. This statement did not affect the financial statements of the Borough.

GASB has issued Statement No. 70, “*Accounting and Financial Reporting for Non-exchange Financial Guarantees,*” which was effective for the Borough’s 2014 financial statements. This statement specifies the information required to be disclosed by governments that extend non-exchange financial guarantees, and requires a government that extends a non-exchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This statement did not affect the financial statements of the Borough.

Pending Pronouncements

GASB has issued Statement No. 68, “*Accounting and Financial Reporting for Pensions,*” effective for fiscal years beginning after June 15, 2014 (the Borough’s December 31, 2015 financial statements) and Statement No. 71, “*Pension Transition for Contributions Made Subsequent to the Measurement Date,*” effective for fiscal years beginning after June 15, 2014 (the Borough’s December 31, 2015 financial statements). These statements revise existing guidance for the financial reports of most pension plans, and establish new

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

financial reporting requirements for most governments that provide their employees with pension benefits. The effect of these statements has not yet been determined.

3. DEPOSITS AND INVESTMENTS

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, equities, insured or collateralized time deposits, and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of funds for investment purposes. Fiduciary fund investments may also be made in corporate stocks and bonds, real estate and other investments consistent with sound business practice.

The Borough does not have a formal deposit and investment policy; as such, the Borough has no policy on custodial credit risk, credit risk, interest rate risk, or concentration of credit risk. The Borough adheres to state statutes and prudent business practice. Deposits of the governmental funds are either maintained in demand deposits or savings accounts. There were no deposit or investment transactions during the year that were in violation of state statutes.

The following is a description of the Borough's deposit and investment risks:

Deposits

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the Borough's deposits may not be returned to it. As of December 31, 2014, \$2,037,079 of the Borough's bank balance of \$2,287,107 was exposed to custodial credit risk, which is collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name. As of December 31, 2014, the carrying amounts of the Borough's deposits were \$2,171,995.

In addition to the deposits noted above, included in cash and cash equivalents is the following short-term investment:

Pennsylvania Local Government Investment Trust (PLGIT) of \$10,051,628. PLGIT has received an AAA rating from Standard & Poor's. The investments in PLGIT are "pooled" with other local governments and school districts in an effort to maximize return and minimize costs associated with investing. PLGIT invests in two basic types of federal securities: obligations backed by the full faith and credit of the United States

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Government and short-term obligations of the United States Government or its agencies or instrumentalities (which may or may not be backed by the full faith and credit of the United States Government). The PLGIT Trust may also invest in full faith and credit obligations of the Commonwealth of Pennsylvania and its agencies and may also have repurchase agreements. Finally, the trust is also authorized to invest in certificates of deposit which are insured by the FDIC or which are collateralized as provided by law. PLGIT investments are subject to oversight by the Commonwealth of Pennsylvania.

Pension

The Pension Trust Funds' investments are held separately from those of other Borough funds. Assets in the Pension Trust Funds are stated at fair value with the exception of the guaranteed investment contracts which are recorded at amortized cost.

The Pension Trust Fund investments are not exposed to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.

The following is a description of the Pension Trust Funds' deposit and investment risks:

Credit risk - For investments, the risk that an issuer or other counterparty to an investment will not fulfill its obligations is called credit risk. The Pension Trust Funds have an investment policy that limits its investment choices based on credit ratings by nationally recognized statistical rating organizations. As of December 31, 2014, the Borough's entire investment portfolio was unrated.

Interest Rate Risk - The Pension Trust Funds investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Pension Trust Funds investment in the guaranteed investment contracts do not have a set maturity date and are permitted to be liquidated on demand but are subject to a market value adjustment upon termination of the account.

Concentration of credit risk - The Pension Trust Funds place no limit on the amount invested in any one issuer.

4. CAPITAL ASSETS

The following is a summary of changes in business-type capital assets for the year ended December 31, 2014:

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

	Balance at January 1, 2014	Additions	Deletions	Balance at December 31, 2014
Business-Type Activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 545,835	\$ -	\$ 545,835
Capital assets, being depreciated:				
Sewer infrastructure	12,225,006	588,276	-	12,813,282
Swimming pool	828,480	-	-	828,480
Equipment	498,278	-	-	498,278
Total capital assets, being depreciated	13,551,764	588,276	-	14,140,040
Less: accumulated depreciation for:				
Sewer infrastructure	(2,731,766)	(312,983)	-	(3,044,749)
Swimming pool	(828,480)	-	-	(828,480)
Equipment	(371,359)	(26,827)	-	(398,186)
Total accumulated depreciation	(3,931,605)	(339,810)	-	(4,271,415)
Total capital assets being depreciated net	9,620,159	248,466	-	9,868,625
Business activities capital assets, net	\$ 9,620,159	\$ 794,301	\$ -	\$ 10,414,460

5. REAL ESTATE TAXES

Real estate taxes based on assessed valuations provided by Allegheny County (County) are levied on April 1 of the taxable year. The 2014 assessed value of real estate property totaled approximately \$761 million. Real estate taxes are billed and collected by an elected tax collector. Taxes paid by April 30 are given a 2% discount. Amounts paid after June 30 are assessed a 10% penalty. Any uncollected balances at the end of the year following the taxable year are collected by an outside service. No provision has been made for amounts estimated to be uncollectible.

Under the Borough Code, the Borough is permitted to levy real estate taxes up to 30 mills for general purposes. Additional taxes may be levied for certain specified purposes. Borough real estate taxes were levied at the rate of 5.410 mills.

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

6. LONG-TERM DEBT

Capital Leases

The Borough has entered into various capital leases for vehicles and a sewer camera with maturity dates ranging from 2015 to 2019. Interest rates for these leases range from 3.09% to 6.50%. These leases require either quarterly or annual payments of principal and interest and contain a bargain purchase option at the end of the lease term. During the year ended December 31, 2014, the Borough made lease payments of \$227,513.

The future minimum lease obligations and the net present value of the minimum lease payments related to these capital leases as of December 31, 2014 were as follows:

2015	\$	181,652
2016		131,358
2017		35,517
2018		35,517
2019		30,971
Less: amounts representing interest		<u>(32,175)</u>
Present value of minimum lease payments	\$	<u>382,840</u>

Long-term debt activity for the year ended December 31, 2014 was as follows:

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

	January 1, 2014	Additions	Repayments	Refunding	December 31, 2014	Due Within One Year
<u>Governmental activities:</u>						
G.O. Bonds - 2004	\$ 220,000	\$ -	\$ (220,000)	\$ -	\$ -	\$ -
Capital leases	385,025	156,570	(191,888)	-	349,707	149,365
Governmental activities long-term liabilities	\$ 605,025	\$ 156,570	\$ (411,888)	\$ -	\$ 349,707	\$ 149,365
<u>Business-type activities:</u>						
G.O. Bonds - 2011	\$ 6,805,000	\$ -	\$ -	\$ -	\$ 6,805,000	\$ 10,000
G.O. Bonds - 2012 A	3,255,000	-	(240,000)	-	3,015,000	240,000
G.O. Bonds - 2012 B	11,010,000	-	-	-	11,010,000	10,000
Capital leases	48,304	-	(15,180)	-	33,124	16,084
Business-type activities long-term liabilities	\$ 21,118,304	\$ -	\$ (255,180)	\$ -	\$ 20,863,124	\$ 276,084

General Obligation Bonds - 2004

- In 2004, the Borough issued \$2,650,000 in General Obligation Bonds Series of 2004 (2004 bonds) with interest rates from 2.0% to 3.75%. The 2004 Bonds were due serially through May 2014. Payments made semi-annually on May 1 and November 1. Proceeds were used to currently refund the Borough's General Obligation Bonds Series of 1999 and pay for the reconstruction of Borough roads. These bonds were paid off in full in the current year.

General Obligation Bonds - 2011

- In 2011, the Borough issued \$7,425,000 in General Obligation Bonds Series of 2011 (2011 bonds) with interest rates from 1.0% to 4.0%. The 2011 Bonds are due serially through November 2032. Payments made semi-annually on May 1 and November 1. Proceeds were used to currently refund the Borough's two Pennvest 2002 notes and the Pennvest 2003 note and pay for sewer repairs. At December 31, 2012, \$620,000 of the principal of this note was refinanced by the 2012 bonds. As of December 31, 2014, \$200,000 of the defeased \$620,000 remained outstanding. These bonds are expected to be repaid from future sewer system revenues.

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

General Obligation Bonds – 2012

- In 2012, the Borough issued \$3,360,000 in General Obligation Bonds Series 2012 A (2012A bonds) and \$11,010,000 in General Obligation Bonds Series of 2012 B (2012B bonds) with interest rates from 1.0% to 3.65%. The 2012 Bonds are due serially through November 2043. Payments made semi-annually on May 1 and November 1. Proceeds were used to currently refund \$3,315,179 of the Borough's Pennvest 2004 note and \$620,000 of the 2011 bonds and pay for sewer repairs. These bonds are expected to be repaid from future sewer system revenues.

Annual debt service requirements of the Borough are as follows:

	Business-type Activites	
	Principal	Interest
2015	\$ 260,000	\$ 677,848
2016	470,000	672,021
2017	485,000	663,589
2018	505,000	654,550
2019	515,000	644,260
2020-2024	2,760,000	3,032,149
2025-2029	3,205,000	2,589,513
2030-2034	3,845,000	1,953,868
2035-2039	4,540,000	1,254,325
2040-2043	4,245,000	392,030
Total	<u>\$ 20,830,000</u>	<u>\$ 12,534,153</u>

7. PENSION PLANS

Summary of Significant Accounting Policies

Financial information of the Borough's pensions plans (Plans) is presented on the accrual basis of accounting. Employer contributions to each plan are recognized when due as required by applicable law.

Benefits and refunds are recognized when due and payable in accordance with the terms of the Plans.

Investments of the plans are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sales price.

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

At December 31, 2014, the plans held investments in equity mutual funds, guaranteed investment contracts, and bond funds. In addition, the plans did not have any investment transactions with related parties during the year.

Plan Descriptions

The Borough administers two single-employer defined benefit pension plans that cover substantially all full-time employees: Police Pension Plan (Police Plan) and Service Employees Pension Plan (Service Employees' Plan). Both plans provide retirement benefits and special provisions for death benefits to plan members.

Plan provisions are established by municipal ordinance with the authority for municipal contributions required by Act 205 of the Commonwealth of Pennsylvania (Act). The plans do not issue separate reports.

The plans are governed by the Council, which is responsible for the management of Plan assets. Signature Financial Planning and the Hartford Life Insurance Company have been designated by the Borough to handle investment management in both plans. Resources accumulated to provide pension benefits are presented in the Borough's financial statements as the Pension Trust Funds.

At December 31, 2014, Plan membership consisted of the following:

	<u>Police</u>	<u>Service Employees</u>
Inactive plan members or beneficiaries currently receiving benefits	26	13
Inactive plan members entitled to but not yet receiving benefits	0	9
Active plan members	<u>24</u>	<u>14</u>
Total plan members	<u><u>50</u></u>	<u><u>36</u></u>

The pension plans provide pension benefits, deferred allowances, and death and disability benefits. The Borough makes annual contributions to the pension plans equal to the amount required to adequately fund the benefits provided under the plans.

Specific provisions of each plan are presented below:

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Police:

A policeman hired prior to January 1, 2010, may retire after reaching the age of 50 with 25 years of service with the Borough. Those hired on or after January 1, 2010, may retire after reaching the age of 55 with 25 years of service. Benefits vest after 12 years of service. Policemen who retire at or after age 50 with 25 or more years of service are entitled to pension payments for the remainder of their lives equal to 50% of their final monthly average salary plus a service increment, if any. The final monthly average salary is the average monthly compensation earned during the last 36 months of active service. The service increment is \$20 per month for each year service exceeds 25 years, up to a maximum of \$100 per month. The plan also contains a cost-of-living adjustment for policemen.

Pension provisions include death and disability benefits whereby the disabled policeman or surviving spouse is entitled to receive payments. A surviving spouse, until death, will continue to receive a survivor benefit in the amount of 50% of the monthly retirement benefit. In the event of death, each of the participant's dependent children will receive an equal share of the benefit until their 18th birthday. The disabled policeman is entitled to receive disability payments for life equal to 50% of final 36 months' average salary offset by Social Security disability benefits.

Service Employees:

A member may retire after reaching the age of 62 and accumulating 12 years of aggregate service with the Borough. Participants are fully vested after completion of seven years of service. Employees who retire are entitled to pension payments for the remainder of their lives equal to 1.5% of their final 60 months' average compensation times the number of full years for which they were employed by the Borough. The maximum benefit is 40% of average earnings.

Pension provisions include death and disability benefits whereby the disabled employee or surviving spouse is entitled to receive payments. A surviving spouse will receive a refund of contributions with interest and a lump sum of vested accrued benefit if death occurs before retirement; after retirement the surviving spouse receives the benefit payment in force at the time death occurs. The disabled employee is entitled to receive a refund of contribution with interest and a monthly benefit equal to the vested accrued benefit a date of disablement.

Both plans provide terminated employees with a return of their contributions, plus interest.

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Contributions and Funding Policy

The Plans are funded by the Borough on an annual basis pursuant to the provisions of the Act. The Act requires that annual contributions be based upon the calculation of the Minimum Municipal Obligation (MMO). The MMO calculation is based upon the biennial actuarial valuation. Employees are not required to contribute under the Act; such contributions are subject to collective bargaining. The Commonwealth of Pennsylvania allocates certain funds to assist in pension funding. Any financial requirement established by the MMO, which exceeds the Commonwealth of Pennsylvania allocation must be funded by the Borough.

For the year ended December 31, 2014, employee contributions were required as follows: Police contributed 8.0% and Service Employees contributed 3.0%. During the year, the Borough made their required contributions of \$110,814 and \$858,140 to the Non-uniform and Police Plans, respectively, based upon the MMO.

Administrative costs, including investment, custodial trustee, and actuarial services are charged to the appropriate plan and funded from investment earnings.

Net Pension Liability

The components of the net pension liability of the Plans at December 31, 2014 were as follows:

	<u>Police</u>	<u>Service Employees</u>
Total pension liability	\$ 17,368,537	\$ 3,123,631
Plan fiduciary net position	<u>(13,576,873)</u>	<u>(2,879,998)</u>
Net pension liability	<u>\$ 3,791,664</u>	<u>\$ 243,633</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>78.17%</u>	<u>92.20%</u>

Actuarial assumptions – The total pension liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods in the measurement:

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

	Police	Service Employees
Actuarial valuation date	1/1/2013	1/1/2013
Actuarial cost method	Entry Age Normal	Entry Age Normal
Actuarial assumptions:		
Investment rate of return	7.5%	7.5%
Projected salary increases	5.0%	4.5%
Underlying inflation rate	3.0%	3.0%
Cost-of-living adjustments increase	A	n/a

n/a = not applicable

A = Cost-of-living adjustment is determined by Council and is not to exceed 30% of original benefit.

RP-2000 Combined Healthy Mortality Table with Blue Collar Adjustment, with rates set forward 5 years for disabled lives. Rates are projected to improve with 75% of scale AA.

Changes in Actuarial Assumptions – Based upon an actuarial valuation performed as of January 1, 2013, there were no changes in actuarial assumptions.

Investment policy – The Plans’ policies in regard to the allocation of invested assets is established and may be amended by the Board by a majority vote of its members. It is the policy of the Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plans’ investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans.

Long Term Expected Rate of Return – The long-term expected rate of return on 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 investment expense and inflation) 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 asset allocation percentage and by adding expected inflation.

The following was the asset allocation policy and best estimates of arithmetic real rates of return for each major asset class included in the Plans’ target asset allocation as of December 31, 2014:

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Asset Class	Target Allocation		Long Term Expected Real Rate of Return	
	Police	Service Employees	Police	Service Employees
Equities	60.0%	60.0%	6.3%	6.3%
Fixed income	40.0%	40.0%	2.0%	2.0%
	100.0%	100.0%		

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, 2014, the annual money-weighted rate of return on the Police and Service Employees Plan investments, net of investment expense, was 2.35% and 4.32%, respectively.

Concentrations – At December 31, 2014, the Plan had no investments (other than U.S. Government and U.S. Government guaranteed obligations, mutual funds or other pooled investments) in any one issuer that represented 5% or more of either Plan’s fiduciary net position.

Discount rate – The discount rate used to measure the total pension liability for the Police Plan and Service Employees Plan was 7.5%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the Borough’s contributions will be made based on the yearly MMO calculation. Based on those assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate – The following presents the net pension liability of the Plans calculated using the discount rates described above, as well as what the Plans’ net pension liabilities would be if they were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rates:

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Police Plan	\$ 6,007,109	\$ 3,791,664	\$ 1,889,120
	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Service Employees Plan	\$ 599,157	\$ 243,633	\$ (66,046)

Additional Employer Disclosures Required by GASB Statements No. 27 and 50

The information below is with regard to employer pension activity for the year ended December 31, 2014. Costs and contributions were based upon an actuarial valuation performed as of January 1, 2013, as required by Act 205.

The Plan assumptions under Act 205 are as follows:

	Police	Service Employees
Actuarial valuation date	1/1/2013	1/1/2013
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar Closed	Level Dollar Closed
Asset valuation method	4 year Smoothing	4 year Smoothing
Amortization period	11 years	8 years
Actuarial assumptions:		
Investment rate of return	7.5%	7.5%
Projected salary increases	5.0%	4.5%
Underlying inflation rate	3.0%	3.0%
Cost of living adjustments	A	N/A

N/A = not applicable

A = Cost-of-living adjustment is determined by Council and is not to exceed 30% of original benefit.

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Three-Year Trend Information

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
Police:	12/31/2012	\$ 644,360	86%	\$ 171,345
	12/31/2013	791,866	101%	165,804
	12/31/2014	852,184	101%	159,848
Service Employees:	12/31/2012	\$ 132,648	93%	\$ 37,300
	12/31/2013	104,645	102%	35,258
	12/31/2014	108,618	102%	33,062

The Borough has a net pension obligation (NPO) as of December 31, 2014 is calculated as follows:

	<u>Police</u>	<u>Service Employees</u>
Annual required contribution	\$ 858,140	\$ 110,814
Interest on NPO	12,436	2,644
Adjustment to the ARC	<u>(18,392)</u>	<u>(4,840)</u>
Annual pension cost	852,184	108,618
Contribution made	<u>858,140</u>	<u>110,814</u>
Change in NPO	(5,956)	(2,196)
NPO, 12/31/2013	<u>165,804</u>	<u>35,258</u>
NPO, 12/31/2014	<u><u>\$ 159,848</u></u>	<u><u>\$ 33,062</u></u>

The Borough's funded status and related information for the Plans as of the latest actuarial valuation date, January 1, 2013, under Act 205, are as follows:

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Police:

Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Excess of Assets Over (Under) AAL	Funded Ratio	Covered Payroll	Excess (Deficiency) as a Percentage of Covered Payroll
\$ 11,398,834	\$ 15,683,424	\$ (4,284,590)	72.68%	\$ 2,309,257	-185.54%

Service Employees:

Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Excess of Assets Over (Under) AAL	Funded Ratio	Covered Payroll	(Deficiency) as a Percentage of Covered Payroll
\$ 2,510,482	\$ 2,818,393	\$ (307,911)	89.07%	\$ 799,573	-38.51%

The excess of actuarial accrued liability over assets for the police and non-uniformed employees is \$4,284,590 and \$307,911, respectively, as of the actuarial valuation performed as of January 1, 2013. The schedule of funding progress included as required supplementary information following the notes to financial statements on page 43 presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

8. DEFINED CONTRIBUTION PLAN

The Borough also provides pension benefits for its service employees hired after January 1, 2011 through a defined contribution pension plan (plan). This plan is in accordance with Internal Revenue Code Section 414(H). Benefits to retired employees depend on amounts contributed plus investment earnings. Employee contributions to the plan as specified in the plan document are 2% of base compensation for all service employees.

Employee contributions during 2014 were \$22,841. There were no employer contributions during 2014.

9. DEFERRED COMPENSATION PLAN

The Borough provides all full-time employees an option to participate in a deferred compensation plan (Plan) created in accordance with Internal Revenue Code Section 457

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

(Section 457). The Plan permits participants to defer a portion of their salary until future years. Participation in the Plan is optional. The deferred compensation is not available to the employee until termination, retirement, or death. At December 31, 2014, all amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, are held in trust solely for the benefit of the participants. Deferred compensation assets at December 31, 2014 totaled approximately \$1,033,000. Under the provisions of GASB Statement No. 32, *“Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans,”* the Plan is not required to be included in the Borough’s financial statements.

10. COMMITMENTS AND CONTINGENT LIABILITIES

Various claims and lawsuits are pending against the Borough. The ultimate outcome of these claims and lawsuits cannot presently be determined and, accordingly, no provision for amounts arising from settlements has been made in these financial statements. In the opinion of management and legal counsel, the effect on the financial statements of potential losses on any claim and/or lawsuit should not be material.

In 1997, the United States Environmental Protection Agency (USEPA) identified 51 communities tributary to the Allegheny County Sanitary Authority (ALCOSAN) whose sanitary sewers had been subject to wet weather overflows. The Borough signed an Administrative Consent Order (ACO) in 2004. The ACO details the timetable for completion of each phase which will involve inspecting, mapping, correcting, and monitoring the sewer system. The Borough is subject to a civil penalty for untimely completion of each term or provision of the ACO. The Borough has paid no civil penalties for the year ended December 31, 2014. The Borough has estimated the remaining completion cost of the projects mandated by the consent decree to be approximately \$3.5 million.

The Borough participates in a number of federal, state, and county programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the Borough may be required to reimburse the grantor government. The Borough believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the Borough.

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

11. RISK MANAGEMENT

The Borough is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Borough carries commercial insurance. There have been no significant changes in insurance coverage since the prior year.

For its workers' compensation insurance coverage, the Borough participates in the Municipal Risk Management Worker's Compensation Pooled Trust (Trust), a public entity risk pool operated for the benefit of 199 cities, municipalities, boroughs, townships, and municipal authorities. Trust underwriting and rate-setting policies are established after consultation with an independent actuary and certain approvals of the Pennsylvania Department of Labor and Industry as mandated by Act 44 of 1993 (Act 44). All Trust participants may be subject to a supplemental assessment/dividend based on the overall experience of the participants, pursuant to Act 44. Each participant of the Trust agrees to jointly and severally assume and discharge the liabilities arising under the Workers' Compensation Act and Occupational Disease act of each and every participant of the Trust. Political subdivisions joining the Trust must remain members for a minimum of four years; a member may withdraw from the Trust after that time by giving ninety days notice, subject to approval by the Trust actuary under specified circumstances related to the continued fiscal stability of the pool. At the time of withdrawal, the participant is responsible for their share of assessments but has no claim on any other assets of the Trust.

12. OTHER POST-EMPLOYMENT BENEFITS (OPEBS)

Plan Description

In addition to the pension benefits described in Note 7, the Borough provides post-employment health care benefits to all retired police officers and non-uniformed union employees, in accordance with collective bargaining agreements, as well as certain non-union employees. The plan is a single-employer defined benefit plan. The benefit limits and employee and employer contributions are established through the agreements. The plan is not accounted for as a trust fund, an irrevocable trust has not been established, and the plan does not issue a separate report. Expenditures for post-retirement health care benefits are recognized in the General Fund when paid by the Borough.

The Borough provides post-retirement medical, dental, and vision coverage to all eligible police retirees in accordance with the requirements set forth by the collective bargaining agreement. Upon early, normal, or disability retirement, the Borough will provide coverage at the level in effect at retirement. The coverage will continue until the earlier of eligibility

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

for similar coverage from another source, the retiree's Medicare eligibility, or the retiree's death. Retirees hired after December 31, 2005 must contribute, on a monthly basis, the dollar amount equal to the premium increases from the time of retirement. Retirees who waive coverage shall receive annual compensation equal to 33% of the premium for applicable coverage.

The Borough provides post-retirement medical, dental, and vision coverage to all eligible non-uniformed, union, and certain non-union retirees. Upon attaining age 62, the Borough will provide coverage at the individual level. The coverage will continue until the retiree's Medicare eligibility. Retirees are not required to contribute.

As of January 1, 2012 (the date of the latest actuarial valuation), 13 retirees met the eligibility requirements to receive OPEBs.

Funding Policy

These benefits are expensed when incurred and are financed on a pay-as-you-go basis. During 2014, the Borough paid \$303,147 in OPEB costs.

The Borough's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the component of the Borough's annual OPEB cost for the year, the amount actually contributed, and changes in the Borough's net OPEB obligation:

Annual required contribution	\$ 506,280
Interest on net OPEB obligation	46,484
Adjustment to annual required contribution	<u>(63,416)</u>
Annual OPEB cost	489,348
Contributions made	<u>(303,147)</u>
Increase in net OPEB obligation	186,201
Net OPEB obligation - beginning of year	<u>1,101,915</u>
Net OPEB obligation - end of year	<u><u>\$ 1,288,116</u></u>

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

The Borough's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation were as follows:

Fiscal Year Ending	Annual OPEB Cost	% of AOC Contributed	Net OPEB Obligation
December 31, 2014	\$ 489,348	61.95%	\$ 1,288,116
December 31, 2013	492,612	49.41%	1,101,915
December 31, 2012	496,041	49.59%	852,684

The ARC for the current year was computed as of January 1, 2012 using the following actuarial assumptions:

- actuarial cost method - entry age normal cost;
- amortization method - level dollar;
- amortization period - 30 year open period;
- discount rate - 4.5% compounded annually;
- mortality – RP-2000 Combined Healthy Mortality Table with Blue Collar Adjustment and ages set forward 5 years for disabled lives

The schedule of funding progress as of January 1, 2012 for the post-employment medical and benefits is as follows:

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)
Police:	\$ -	\$ 5,316,284	\$ (5,316,284)	0.0%	N/A
Non-Uniformed:	\$ -	\$ 218,683	\$ (218,683)	0.0%	N/A

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the employer subsidy. Amounts determined regarding the funded status and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required schedules of

BOROUGH OF BALDWIN

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

funding progress present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

13. MUNICIPAL EMPLOYERS INSURANCE TRUST

The Borough participates as a member in Municipal Employers Insurance Trust (d/b/a Municipal Benefit Services (MBS)), a public entity risk pool. MBS provides certain benefits including, but not limited to, the following coverages: health benefits, short-term accident and sickness disability benefits, long-term accident and sickness disability benefits, dental benefits, vision care, prescription drugs, and life insurance for those eligible employers. All participants of MBS may be subject to supplemental premiums based on the overall experience of the participating members. Reserves generated by MBS for self-insured health premiums paid by members exceeding claims and expenses are held by MBS for the benefit of all participating members. During 2014, a portion of the excess reserves were deposited in eligible clients' Rate Mitigation Accounts (RMA) as determined by the MBS's actuary. RMA funds are held by MBS and are available to the Borough to reduce future costs associated with participating coverage. RMA funds are forfeited if the member terminates participation in the MBS medical insurance program. The Borough's RMA funds were approximately \$18,000 as of December 31, 2014.

**Required Supplementary
Information – Pension Plan
Disclosures**

BOROUGH OF BALDWIN

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN

SCHEDULE OF CHANGES IN THE BOROUGH'S NET PENSION LIABILITY AND RELATED RATIOS

SERVICE EMPLOYEES PLAN

YEAR ENDED DECEMBER 31, 2014

Total Pension Liability:	
Service cost	\$ 114,244
Interest	433,433
Benefit payments, including refunds of member contributions	<u>(242,439)</u>
Net Changes in Total Pension Liability	305,238
Total Pension Liability - Beginning	<u>2,818,393</u>
Total Pension Liability - Ending (a)	<u><u>\$ 3,123,631</u></u>
Plan Fiduciary Net Position:	
Contributions - employer	\$ 110,814
Contributions - member	23,679
Net investment income	120,319
Benefit payments, including refunds of member contributions	(126,253)
Administrative expense	(22,672)
Other	<u>(41,043)</u>
Net Change in Plan Fiduciary Net Position	64,844
Plan Fiduciary Net Position - Beginning	<u>2,815,154</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 2,879,998</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 243,633</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u><u>92.20%</u></u>
Covered Employee Payroll	<u><u>\$ 789,011</u></u>
Net Pension Liability as a Percentage of Covered Employee Payroll	30.88%

See accompanying notes to required supplementary schedules.

BOROUGH OF BALDWIN

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN

SCHEDULE OF CHANGES IN THE BOROUGH'S NET PENSION LIABILITY AND RELATED RATIOS

POLICE PLAN

YEAR ENDED DECEMBER 31, 2014

Total Pension Liability:	
Service cost	\$ 912,010
Interest	2,421,649
Benefit payments, including refunds of member contributions	<u>(1,648,546)</u>
Net Changes in Total Pension Liability	1,685,113
Total Pension Liability - Beginning	<u>15,683,424</u>
Total Pension Liability - Ending (a)	<u><u>\$ 17,368,537</u></u>
Plan Fiduciary Net Position:	
Contributions - employer	\$ 858,140
Contributions - member	242,636
Net investment income	308,358
Benefit payments, including refunds of member contributions	(940,073)
Administrative expense	(49,222)
Other	<u>-</u>
Net Change in Plan Fiduciary Net Position	419,839
Plan Fiduciary Net Position - Beginning	<u>13,157,034</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 13,576,873</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 3,791,664</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u><u>78.17%</u></u>
Covered Employee Payroll	<u><u>\$ 2,526,389</u></u>
Net Pension Liability as a Percentage of Covered Employee Payroll	150.08%

See accompanying notes to required supplementary schedules.

BOROUGH OF BALDWIN

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLAN

SCHEDULES OF THE BOROUGH'S CONTRIBUTIONS AND INVESTMENT RETURNS

YEAR ENDED DECEMBER 31, 2014

SERVICE EMPLOYEES PLAN:

Schedule of Baldwin Borough's Contributions

Actuarially determined contribution	\$ 110,814
Contributions in relation to the actuarially determined contribution	<u>110,814</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	<u>\$ 789,011</u>
Contributions as a percentage of covered employee payroll	14.04%

Investment Returns

Annual money-weighted rate of return, net of investment expense	4.32%
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POLICE PLAN:

Schedule of Baldwin Borough's Contributions

Actuarially determined contribution	\$ 858,140
Contributions in relation to the actuarially determined contribution	<u>858,140</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	<u>\$ 2,526,389</u>
Contributions as a percentage of covered employee payroll	33.97%

Investment Returns

Annual money-weighted rate of return, net of investment expense	2.35%
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See accompanying notes to required supplementary schedules.

BOROUGH OF BALDWIN

NOTES TO SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION – PENSION PLAN

YEAR ENDED DECEMBER 31, 2014

1. PENSION INFORMATION

Actuarial Methods and Assumptions under GASB Statement No. 67

The information presented in the required supplementary pension schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

	Police	Service Employees
Actuarial valuation date	1/1/2013	1/1/2013
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar Closed	Level Dollar Closed
Amortization period	11 years	8 years
Asset valuation method	4-Year Smoothing	4-Year Smoothing
Actuarial assumptions:		
Investment rate of return	7.5%	7.5%
Projected salary increases	5.0%	4.5%
Underlying inflation rate	3.0%	3.0%
Cost-of-living adjustments	A	n/a

n/a = not applicable

A = Cost-of-living adjustment is determined by Council and is not to exceed 30% of original benefit.

The January 1, 2013 valuation does not recognize any significant assumption changes for either the Service Employees' Plan or the Police Pension Plan when compared to the January 1, 2011 valuation.

**Required Supplementary
Information – Employer Pension
Plan and OPEB Disclosures**

BOROUGH OF BALDWIN

SCHEDULES OF FUNDING PROGRESS - PENSION PLANS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age Normal	Excess of AAL Over Assets	Funded Ratio	Covered Payroll	Excess as a Percentage of Covered Payroll
Police:						
1/1/2009	\$ 9,218,554	\$ 12,461,858	\$ (3,243,304)	73.97%	\$ 1,962,053	-165.30%
1/1/2011	10,272,359	14,416,277	(4,143,918)	71.26%	2,038,073	-203.33%
1/1/2013	11,398,834	15,683,424	(4,284,590)	72.68%	2,309,257	-185.54%
Service Employees:						
1/1/2009	\$ 2,062,010	\$ 2,447,789	\$ (385,779)	84.24%	\$ 849,461	-45.41%
1/1/2011	2,243,115	2,513,344	(270,229)	89.25%	815,152	-33.15%
1/1/2013	2,510,482	2,818,393	(307,911)	89.07%	799,573	-38.51%

Note: State law requires biennial valuations on the odd-numbered years.

See accompanying notes to required supplementary schedules.

BOROUGH OF BALDWIN

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES - PENSION PLANS

Calendar Year	Police		Service Employees	
	Annual Required Contributions	Percentage Contributed	Annual Required Contributions	Percentage Contributed
2009	\$ 411,859	100%	\$ 126,524	100%
2010	425,576	100%	126,961	100%
2011	619,859	85%	157,174	90%
2012	646,327	86%	134,140	92%
2013	797,407	100%	106,687	100%
2014	858,140	100%	110,814	100%

Note: Contributions include state pension aid.

See accompanying notes to required supplementary schedules.

BOROUGH OF BALDWIN

SCHEDULES OF FUNDING PROGRESS - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEBs)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age Normal	Excess of AAL Over Assets	Funded Ratio	Covered Payroll	Excess as a Percentage of Covered Payroll
Police:						
1/1/2009	\$ -	\$ 3,840,468	\$ (3,840,468)	0.00%	N/A	N/A
1/1/2012	-	5,316,284	(5,316,284)	0.00%	N/A	N/A
Non-Uniformed:						
1/1/2009	\$ -	\$ 243,273	\$ (243,273)	0.00%	N/A	N/A
1/1/2012	-	218,683	(218,683)	0.00%	N/A	N/A

Note: Valuation as of 01/01/09 represents the initial valuation for the plan as required under GASB Statement No. 45 (implemented in 2009).

See accompanying notes to required supplementary schedules.

BOROUGH OF BALDWIN

NOTES TO SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - EMPLOYER

YEAR ENDED DECEMBER 31, 2014

1. PENSION INFORMATION

Actuarial Methods and Assumptions

The information presented in the required supplementary pension schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

	Police	Service Employees
Actuarial valuation date	1/1/2013	1/1/2013
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar Closed	Level Dollar Closed
Amortization period	11 years	8 years
Asset valuation method	4-Year Smoothing	4-Year Smoothing
Actuarial assumptions:		
Investment rate of return	7.5%	7.5%
Projected salary increases	5.0%	4.5%
Underlying inflation rate	3.0%	3.0%
Cost-of-living adjustments	A	n/a

n/a = not applicable

A = Cost-of-living adjustment is determined by Council and is not to exceed 30% of original benefit.

The January 1, 2013 valuation does not recognize any significant assumption changes for either the Service Employees' Plan or the Police Pension Plan when compared to the January 1, 2011 valuation.

BOROUGH OF BALDWIN

NOTES TO SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - EMPLOYER

YEAR ENDED DECEMBER 31, 2014

2. OPEB INFORMATION

The information presented in the required supplementary OPEB schedule was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

BOROUGH OF BALDWIN

NOTES TO SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - EMPLOYER

YEAR ENDED DECEMBER 31, 2014

Valuation Date: January 1, 2012
Actuarial Cost Method: Entry age normal cost
Amortization Method: Level dollar

Economic Assumptions:

Interest Rate: 4.50%

Annual Trend Rates for OPEB Costs:

Year	Medical	Dental/Vision
2014 - 2015	5.75%	3.00%
2016 - 2017	5.50%	3.00%
2018 - 2019	5.25%	3.00%
2020 and later	5.00%	3.00%

Demographic Assumptions:

Mortality: RP-2000 Combined Healthy Mortality Table with Blue Collar Adjustment and ages set forward 5 years for disabled lives

Mortality Improvement: Rates projected to improve with 75% of Scale AA

Withdrawal: Police: Table T-1, Actuary's Pension Handbook
Non-Uniformed: Table T-2, Actuary's Pension Handbook

Disablement: Police: 60% of the rates of disablement from Advanced Pension Tables
Non-Uniformed: None assumed

Valuation Retirement Age: Normal Retirement Age, or attained age if currently eligible to retire

Participation: Police: 90% of eligible retirees elect coverage; 10% opt out

Coverage Level: Future Police Retirees: 50% Individual, 40% Husband/Wife, 10% Family

BOROUGH OF BALDWIN

NOTES TO SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION - EMPLOYER

YEAR ENDED DECEMBER 31, 2014

Participation:	Police: 100% of eligible retirees Non-Uniformed: 100% of eligible retirees
Coverage Level:	Future Police Retirees: Before 1/1/2006: 20% Individual, 65% Husband/Wife, 15% Family After 1/1/2006: 50% Individual, 40% Husband/Wife, 10% Family Future Non-Uniformed Retirees: 35% Individual, 65% Husband/Wife Current Retirees: Continuation of current coverage level
Spouse Age:	Female spouse assumed to be three years younger than male spouse
Child Coverage:	Future and Current Police Retirees: Two dependents through retiree's age 57 and one through retiree's age 62

Insurance Premiums:

Current Premium Schedules:	The reported annual applicable rates for medical, dental, and vision coverage for 2012
Age Adjustments:	Costs for medical benefits are projected with age-adjusted rates derived from the 2012 premium schedules for the available plan Dental and vision coverages are not age dependent; therefore, the premiums were not age-adjusted

Supplementary Information

BOROUGH OF BALDWIN

COMBINING BALANCE SHEET - OTHER GOVERNMENTAL FUNDS

DECEMBER 31, 2014

	Highway Aid Fund	Capital Improvements Fund	Total Other Governmental Funds
Assets			
Cash and cash equivalents	\$ 16,510	\$ 25,130	\$ 41,640
Due from other funds	2,572	-	2,572
	\$ 19,082	\$ 25,130	\$ 44,212
Liabilities and Fund Balance			
Liabilities:			
Due to other funds	\$ -	\$ 19,082	\$ 19,082
Total Liabilities	-	19,082	19,082
Fund Balance:			
Restricted	19,082	-	19,082
Assigned	-	6,048	6,048
	19,082	6,048	25,130
Total Liabilities and Fund Balance	\$ 19,082	\$ 25,130	\$ 44,212

BOROUGH OF BALDWIN

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OTHER GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2014

	Highway Aid Fund	Capital Improvements Fund	Total Other Governmental Funds
Revenues:			
Interest and rents	\$ 39	\$ 27	\$ 66
Intergovernmental	412,834	-	412,834
Miscellaneous	-	78,751	78,751
Total revenues	412,873	78,778	491,651
Expenditures:			
Public works - highway	508,144	19,082	527,226
Excess (Deficiency) of Revenues Over Expenditures	(95,271)	59,696	(35,575)
Other Financing Sources (Uses):			
Operating transfers in	76,669	-	76,669
Operating transfers out	-	(300,000)	(300,000)
Net Change in Fund Balance	(18,602)	(240,304)	(258,906)
Fund Balance:			
Beginning of year	37,684	246,352	284,036
End of year	\$ 19,082	\$ 6,048	\$ 25,130