

FINANCIAL STATEMENTS

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BOROUGH OF FOUNTAIN HILL, PENNSYLVANIA

DECEMBER 31, 2015

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BOROUGH OF FOUNTAIN HILL  
FINANCIAL STATEMENTS  
DECEMBER 31, 2015

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**BOROUGH OF FOUNTAIN HILL**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

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**INDEPENDENT AUDITORS' REPORT**

To the Borough Council  
Borough of Fountain Hill  
Fountain Hill, Pennsylvania

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Fountain Hill, Pennsylvania, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Borough's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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.

**Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 Borough'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 Borough's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles 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.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Fountain Hill, Pennsylvania, as of December 31, 2015, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

### **Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

### **Other Matters**

#### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the budgetary comparison on page 45 and the historical pension information on pages 46 through 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Borough has omitted the management discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate

operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

#### Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole that collectively comprise the Borough of Fountain Hill's basic financial statements. The supplementary information presented in the table of contents under the heading Other Supplementary Information is presented for purposes of additional analysis and is not part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole on the basis of accounting described in Note 1.

#### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2016, on our consideration of the Borough of Fountain Hill, Pennsylvania's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Borough of Fountain Hill, Pennsylvania's internal control over financial reporting and compliance.

A handwritten signature in cursive script, likely belonging to the auditor, is written across the page.

Emmaus, Pennsylvania  
September 30, 2016

**BOROUGH OF FOUNTAIN HILL**  
**STATEMENT OF NET POSITION – MODIFIED CASH BASIS**  
**DECEMBER 31, 2015**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 1,357,329	\$ 443,607	\$ 1,800,936
Internal balances	3,625	-	3,625
Total Current Assets	<u>1,360,954</u>	<u>443,607</u>	<u>1,804,561</u>
<b>Noncurrent Assets:</b>			
Taxpayer receivable	-	7,341	7,341
Capital assets:			
Land	899,842	-	899,842
Building, plant & improvements, net	525,996	3,408,351	3,934,347
Machinery & equipment, net	54,148	101,287	155,435
Vehicles, net	189,713	-	189,713
Infrastructure, net	2,247,016	-	2,247,016
Total Capital Assets	<u>3,916,715</u>	<u>3,509,638</u>	<u>7,426,353</u>
Total Assets	<u>\$ 5,277,669</u>	<u>\$ 3,960,586</u>	<u>\$ 9,238,255</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b><u>LIABILITIES</u></b>			
<b>Current Liabilities:</b>			
Retirement withholding	\$ 2,806	\$ -	\$ 2,806
Internal balances	-	3,625	3,625
Current portion of long-term debt	92,759	13,739	106,498
Total Current Liabilities	<u>95,565</u>	<u>17,364</u>	<u>112,929</u>
<b>Noncurrent Liabilities:</b>			
Escrow deposits	4,835	-	4,835
Long-term debt, net of current portion	800,253	14,522	814,775
Other postemployment benefits	1,175,390	-	1,175,390
Total Noncurrent Liabilities	<u>1,980,478</u>	<u>14,522</u>	<u>1,995,000</u>
Total Liabilities	<u>2,076,043</u>	<u>31,886</u>	<u>2,107,929</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b><u>NET POSITION</u></b>			
Invested in capital assets, net of related debt	3,023,703	3,481,377	6,505,080
Restricted	412,550	-	412,550
Unrestricted	<u>(234,627)</u>	<u>447,323</u>	<u>212,696</u>
Total Net Position	<u>\$ 3,201,626</u>	<u>\$ 3,928,700</u>	<u>\$ 7,130,326</u>

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





**BOROUGH OF FOUNTAIN HILL**  
**STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

<u>Net (Expense) Revenue and Changes in Net Position</u>		
<u>Governmental</u>	<u>Business-type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Total</u>
\$ (297,586)	\$ -	\$ (297,586)
(837,253)	-	(837,253)
(1,150)	-	(1,150)
(62,921)	-	(62,921)
(17,226)	-	(17,226)
(115,888)	-	(115,888)
(100)	-	(100)
(634,309)	-	(634,309)
(24,621)	-	(24,621)
<u>(213,028)</u>	<u>-</u>	<u>(213,028)</u>
 \$ (2,204,082)	 \$ -	 \$ (2,204,082)
 \$ -	 \$ (16,404)	 \$ (16,404)
<u>-</u>	<u>69,017</u>	<u>69,017</u>
 -	 52,613	 52,613
<u>\$ (2,204,082)</u>	<u>\$ 52,613</u>	<u>\$ (2,151,469)</u>
 1,317,533	 -	 1,317,533
965,454	-	965,454
77,190	-	77,190
48,920	-	48,920
15,366	2,733	18,099
66,112	-	66,112
<u>77,481</u>	<u>-</u>	<u>77,481</u>
 2,568,056	 2,733	 2,570,789
 363,974	 55,346	 419,320
<u>2,837,652</u>	<u>3,873,354</u>	<u>6,711,006</u>
 \$ 3,201,626	 \$ 3,928,700	 \$ 7,130,326
<u>\$ 3,201,626</u>	<u>\$ 3,928,700</u>	<u>\$ 7,130,326</u>

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

**BOROUGH OF FOUNTAIN HILL**  
**STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES**  
**MODIFIED CASH BASIS - GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2015**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS and DEFERRED OUTFLOWS of RESOURCES</u></b>			
Cash and cash equivalents	\$ 944,779	\$ 412,550	\$ 1,357,329
Due from other funds	<u>3,625</u>	<u>-</u>	<u>3,625</u>
Total Assets	948,404	412,550	1,360,954
Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 948,404</u>	<u>\$ 412,550</u>	<u>\$ 1,360,954</u>
<b><u>LIABILITIES, DEFERRED INFLOWS of RESOURCES and FUND BALANCES</u></b>			
<b><u>LIABILITIES</u></b>			
Retirement withholding	\$ 2,806	\$ -	\$ 2,806
Escrow deposits	<u>4,835</u>	<u>-</u>	<u>4,835</u>
Total Liabilities	<u>7,641</u>	<u>-</u>	<u>7,641</u>
Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
<b><u>FUND BALANCES</u></b>			
<b><u>Restricted for:</u></b>			
Public safety	-	157,111	157,111
Public works	-	176,910	176,910
Library	-	58,560	58,560
<b><u>Assigned to:</u></b>			
Recreation	-	19,969	19,969
<b><u>Unassigned:</u></b>	<u>940,763</u>	<u>-</u>	<u>940,763</u>
Total Fund Balances	<u>940,763</u>	<u>412,550</u>	<u>1,353,313</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 948,404</u>	<u>\$ 412,550</u>	<u>\$ 1,360,954</u>

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

**BOROUGH OF FOUNTAIN HILL**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT**  
**OF ASSETS, LIABILITIES AND FUND BALANCES – MODIFIED CASH BASIS**  
**TO THE STATEMENT OF NET POSITION – MODIFIED CASH BASIS**  
**DECEMBER 31, 2015**

Total Fund Balances - Governmental Funds	\$	1,353,313
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Amounts reported for governmental activities in the  
statement of net position are different because:

Capital assets and land used in governmental activities are not current financial resources and, therefore are not reported as assets in governmental funds. The cost of the assets is \$ 6,112,602.		6,112,602
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Accumulated depreciation from capital assets used in governmental activities are not current financial resources and therefore is not reported in the governmental funds balance sheet.		(2,195,887)
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Accrued other postemployment benefits are not accrued in governmental-type funds.		(1,175,390)
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Long-term liabilities are not due and payable in the current period and, therefore are not reported as liabilities in the funds. Long-term liabilities at year end consists of notes and installment loans payable of \$ 893,012.		<div style="border-top: 1px solid black; display: inline-block;">(893,012)</div>
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Total Net Position - Governmental Activities	\$	<div style="border-bottom: 3px double black; display: inline-block;">3,201,626</div>
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The accompanying notes are an integral part of the financial statements.

**BOROUGH OF FOUNTAIN HILL**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**MODIFIED CASH BASIS - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	General	Other	Total
	Fund	Governmental	Governmental
		Funds	Funds
<b>REVENUES</b>			
Taxes	\$ 2,175,808	\$ 107,179	\$ 2,282,987
Licenses and permits	77,190	-	77,190
Fines and forfeits	48,920	-	48,920
Interest and rents	15,227	139	15,366
Intergovernmental revenues	328,937	222,342	551,279
Charges for services	77,772	-	77,772
Miscellaneous revenues	129,673	13,920	143,593
TOTAL REVENUES	2,853,527	343,580	3,197,107
<b>EXPENDITURES</b>			
Current			
General government	296,041	-	296,041
Public safety	930,580	-	930,580
Health and human services	1,150	-	1,150
Public works - highways and streets	257,179	13,709	270,888
Public works - other services	17,226	-	17,226
Culture and recreation	76,904	82,290	159,194
Community development	100	-	100
Insurance, employee benefits and misc	717,506	-	717,506
Debt service - principal	-	95,551	95,551
Debt service - interest and fiscal charges	-	24,621	24,621
Capital outlay	186,771	122,882	309,653
TOTAL EXPENDITURES	2,483,457	339,053	2,822,510
EXCESS (DEFICIENCY) OF REVENUES			
OVER (UNDER) EXPENDITURES	370,070	4,527	374,597
<b>OTHER FINANCING SOURCES (USES)</b>			
Operating transfers in	-	120,172	120,172
Operating transfers out	(92,506)	(27,666)	(120,172)
TOTAL OTHER FINANCING			
SOURCES (USES)	(92,506)	92,506	-
Net change in fund balances	277,564	97,033	374,597
Fund Balances - January 1	663,199	315,517	978,716
Fund Balances - December 31	\$ 940,763	\$ 412,550	\$ 1,353,313

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

**BOROUGH OF FOUNTAIN HILL**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES – MODIFIED CASH BASIS**  
**TO THE STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

Net Change in Fund Balances - Governmental Funds		\$ 374,597
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those expenditures is not reported, but treated as a capital asset on the statement of net position. The capital outlay for the current year is \$ 309,653.		309,653
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net positions, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds.		(213,028)
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. This includes the net (increase) in other post employment benefits.		(202,799)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debts consumes the current financial resources of government funds. However, this transaction has no effect on net position. Repayment of note and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. The effect of this transaction in the statement is shown below:		
Proceeds from issuance of debt	-	
Repayment of note and loan principal	<u>95,551</u>	<u>95,551</u>
Change in Net Position of Governmental Activities		<u>\$ 363,974</u>

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

**BOROUGH OF FOUNTAIN HILL**  
**STATEMENT OF NET POSITION**  
**MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2015**

	Enterprise Funds		Total
	Sewer Fund	Health and Sanitation Fund	Proprietary Funds
<b><u>ASSETS</u></b>			
Current Assets:			
Cash and cash equivalents	\$ 306,882	\$ 136,725	\$ 443,607
Total Current Assets	306,882	136,725	443,607
Noncurrent Assets:			
Taxpayer receivable	7,341	-	7,341
Sewer system, net of accumulated depreciation	3,434,782	-	3,434,782
Machinery and equipment, net of accumulated depreciation	-	74,856	74,856
Total Noncurrent Assets	3,442,123	74,856	3,516,979
Total Assets	3,749,005	211,581	3,960,586
Deferred Outflows of Resources	-	-	-
<b><u>LIABILITIES</u></b>			
Current Liabilities:			
Due to other funds	3,625	-	3,625
Current portion of long-term debt	13,739	-	13,739
Total Current Liabilities	17,364	-	17,364
Long-term debt	14,522	-	14,522
Total Liabilities	31,886	-	31,886
Deferred Inflows of Resources	-	-	-
<b><u>NET POSITION</u></b>			
Invested in capital assets, net of related debt	3,406,521	74,856	3,481,377
Unrestricted	310,598	136,725	447,323
Total Net Position	\$3,717,119	\$ 211,581	\$ 3,928,700

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

**BOROUGH OF FOUNTAIN HILL**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET POSITION – MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Enterprise Funds</u>		<u>Total</u>
	<u>Sewer</u>	<u>Health and</u>	<u>Proprietary</u>
	<u>Fund</u>	<u>Sanitation Fund</u>	<u>Funds</u>
OPERATING REVENUES			
Charges for services	\$ 1,087,582	\$ 646,607	\$ 1,734,189
Miscellaneous	<u>9,062</u>	<u>949</u>	<u>10,011</u>
Total Operating Revenues	1,096,644	647,556	1,744,200
OPERATING EXPENSES			
Administration	60,203	59,173	119,376
Engineering and legal services	13,939	-	13,939
Sewer collection and treatment	522,287	-	522,287
Sanitation collection	-	350,421	350,421
Payroll taxes and employment benefits	266,590	150,075	416,665
Insurance	16,169	15,920	32,089
Miscellaneous	-	785	785
Depreciation	<u>235,818</u>	<u>7,745</u>	<u>243,563</u>
Total Operating Expenses	<u>1,115,006</u>	<u>584,119</u>	<u>1,699,125</u>
OPERATING INCOME (LOSS)	<u>(18,362)</u>	<u>63,437</u>	<u>45,075</u>
NONOPERATING REVENUES (EXPENSES)			
Intergovernmental revenue	3,246	5,580	8,826
Interest income	2,671	62	2,733
Interest expense	<u>(1,288)</u>	<u>-</u>	<u>(1,288)</u>
Total Nonoperating Revenues (Expenses)	<u>4,629</u>	<u>5,642</u>	<u>10,271</u>
CHANGE IN NET POSITION	(13,733)	69,079	55,346
NET POSITION - BEGINNING OF YEAR	<u>3,730,852</u>	<u>142,502</u>	<u>3,873,354</u>
NET POSITION - END OF YEAR	<u>\$ 3,717,119</u>	<u>\$ 211,581</u>	<u>\$ 3,928,700</u>

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

**BOROUGH OF FOUNTAIN HILL**  
**STATEMENT OF CASH FLOWS**  
**MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	Enterprise Funds		Total
	Sewer Fund	Health and Sanitation Fund	Proprietary Funds
<b><u>Cash Flows from Operating Activities</u></b>			
Operating income (loss)	\$ (18,362)	\$ 63,437	\$ 45,075
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	235,818	7,745	243,563
(Increase) decrease in taxpayer receivable	(7,341)	-	(7,341)
Increase (decrease) in due to other funds	3,625	-	3,625
Total adjustments	232,102	7,745	239,847
Net Cash Provided by (Used in) Operating Activities	213,740	71,182	284,922
<b><u>Cash Flows from Noncapital Activities</u></b>			
Intergovernmental revenue	3,246	5,580	8,826
Operating transfers	-	-	-
Net Cash Provided by (Used in) Noncapital Activities	3,246	5,580	8,826
<b><u>Cash Flows from Financing Activities</u></b>			
Additions to sewer system	(3,695)	-	(3,695)
Purchase of machinery and equipment		(69,150)	(69,150)
Interest expense	(1,288)	-	(1,288)
Repayment of installment loan	(13,280)	-	(13,280)
Net Cash Provided by (Used in) Financing Activities	(18,263)	(69,150)	(87,413)
<b><u>Cash Flows from Investing Activities</u></b>			
Interest income	2,671	62	2,733
Net Cash Provided by Investing Activities	2,671	62	2,733
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	201,394	7,674	209,068
<b>Cash and Cash Equivalents, January 1</b>	105,488	129,051	234,539
<b>Cash and Cash Equivalents, December 31</b>	<u>\$ 306,882</u>	<u>\$ 136,725</u>	<u>\$ 443,607</u>

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



**BOROUGH OF FOUNTAIN HILL**  
**STATEMENT OF NET POSITION**  
**MODIFIED CASH BASIS**  
**FIDUCIARY FUNDS**  
**DECEMBER 31, 2015**

	Police Pension Plan	Non-Uniform Pension Plan	Total Fiduciary Funds
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ -	\$ -	\$ -
Investments, at fair value:			
Assets with MRT	2,386,540	-	2,386,540
Investments, at fair value:			
Assets with PMRS	<u>-</u>	<u>216,179</u>	<u>216,179</u>
Total Assets	<u>2,386,540</u>	<u>216,179</u>	<u>2,602,719</u>
Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
<b><u>LIABILITIES</u></b>			
Other liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
<b><u>NET POSITION:</u></b>			
Restricted for pension benefits	<u><u>\$ 2,386,540</u></u>	<u><u>\$ 216,179</u></u>	<u><u>\$ 2,602,719</u></u>

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

**BOROUGH OF FOUNTAIN HILL**  
**STATEMENT OF CHANGES IN NET POSITION**  
**MODIFIED CASH BASIS**  
**FIDUCIARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	Police Pension Plan	Non-Uniform Pension Plan	Total Fiduciary Funds
<b><u>ADDITIONS TO NET POSITION</u></b>			
Contributions			
Employer	\$ 138,474	\$ 28,376	\$ 166,850
Employee	26,296	9,920	36,216
State aid	<u>55,166</u>	<u>27,172</u>	<u>82,338</u>
Total Contributions	219,936	65,468	285,404
Investment Income			
Net (depreciation) in fair value of investments	(50,353)	-	(50,353)
Interest and dividends	<u>34,483</u>	<u>16,314</u>	<u>50,797</u>
	(15,870)	16,314	444
Less: Investment expenses	<u>-</u>	<u>-</u>	<u>-</u>
Net Investment Income (Loss)	<u>(15,870)</u>	<u>16,314</u>	<u>444</u>
<b>TOTAL ADDITIONS TO NET POSITION</b>	204,066	81,782	285,848
<b><u>DEDUCTIONS FROM NET POSITION</u></b>			
Benefits	275,168	392,378	667,546
Administrative expenses	21,186	775	21,961
Other	<u>2,916</u>	<u>-</u>	<u>2,916</u>
<b>TOTAL DEDUCTIONS FROM NET POSITION</b>	<u>299,270</u>	<u>393,153</u>	<u>692,423</u>
<b>Change in net position</b>	(95,204)	(311,371)	(406,575)
<b>Net position restricted for pension benefits</b>			
Beginning of year	<u>2,481,744</u>	<u>527,550</u>	<u>3,009,294</u>
End of year	<u>\$ 2,386,540</u>	<u>\$ 216,179</u>	<u>\$ 2,602,719</u>

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

**BOROUGH OF FOUNTAIN HILL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**NOTE 1 Summary of Significant Accounting Policies**

The Borough of Fountain Hill, Lehigh County, Pennsylvania operates under the Commonwealth of Pennsylvania Borough Code Act of February 1, 1966 (1965 P.L. 1656 No. 581), as amended. The Borough is organized as a Council-Mayor form of governance, with an elected Borough Council, and provides governmental services to its residents, including public safety, highway, road and street maintenance, sanitation, culture and recreation, planning and zoning, and general administrative services.

The accompanying primary government financial statements conform to the modified cash basis of accounting as applicable to governmental units. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Accounting principles generally accepted in the United States of America include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The following is a summary of the more significant accounting policies used by the Borough.

Principles Determining Scope of Reporting Entity

In evaluating how to define the Borough, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the financial reporting entity was made by applying the criteria set forth in GASB Statement 14, as amended. The criteria for including a potential component unit within the financial reporting entity is the significance of the potential component unit's operational or financial relationship with the Borough. Based upon the application of these criteria, there are no component units to be included in the financial reporting entity of the Borough.

Government-wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the Borough as a whole excluding fiduciary activities such as employee pension plans. For the most part, the effect of interfund 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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to

**BOROUGH OF FOUNTAIN HILL**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2015**

**NOTE 1 Summary of Significant Accounting Policies (Continued)**

Government-wide and Fund Financial Statements (Continued)

customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus and the modified cash basis of accounting.

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus, as applied to the modified cash basis of accounting is used as appropriate:

- a. All governmental funds utilize a current financial resources measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Proprietary fund equity is classified as net position.

**BOROUGH OF FOUNTAIN HILL**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2015**

**NOTE 1 Summary of Significant Accounting Policies (Continued)**

Basis of Accounting

In the government-wide financial statements and the fund financial statements, governmental and business-like activities are presented using a modified cash basis of accounting. This basis of accounting recognizes assets, liabilities, net position/fund equity, revenues and expenditures when they result from cash transactions with a provision for other post employment benefits and depreciation in the government-wide statements and depreciation in the proprietary fund statements. The basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of this modified cash basis of accounting, certain assets, deferred inflows and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities, deferred outflows and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the Borough utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

Financial Statement Presentation

The Borough reports the following major governmental fund types:

The General Fund is the general operating fund of the Borough. Substantially all tax revenues, federal and state aid (except revenues and aid restricted for use in the Special Revenue Fund) and other operating revenues are accounted for in the General Fund. This fund also accounts for expenditures and transfers as appropriated in the budget, which provides for the Borough's day-to-day operations.

The State Liquid Fuels Highway Aid Fund (Liquid Fuels Fund), Fire Fund, Library Fund, and Playground Fund are the Borough's special revenue funds. Special Revenue Funds are used to account for the proceeds of specific revenue sources other than expendable trusts, or major capital projects that are legally restricted to expenditures for specific purposes.

The Debt Service Fund accounts for the accumulation of resources for, and payment of, interest and principal on long-term obligations.

**BOROUGH OF FOUNTAIN HILL**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2015**

**NOTE 1 Summary of Significant Accounting Policies (Continued)**

Financial Statement Presentation (Continued)

The Borough reports the following enterprise fund types:

The Sewer Fund and Health and Sanitation Fund are Enterprise Funds. Enterprise Funds account for the provisions of sanitary sewer and trash collection services to some residents of the Borough. All activities necessary to provide such services are accounted for in these funds including, but not limited to, administration, operations, maintenance, financing and related debt service, and billings and collections.

The Borough also reports the following fiduciary fund types:

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others, and therefore are not available to support Borough programs. The reporting focus is on net position and changes in net position and are reported using accounting principles similar to proprietary funds.

The Police Pension Plan and Non-Uniform Pension Plan are used to account for fiduciary resources legally held in trust for the receipt, investment, and distribution of retirement benefits.

Net Position

Net position represents the difference between assets, deferred outflows, liabilities and deferred inflows. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Borough or through external restrictions imposed by creditors, grantors, or laws or other regulations of other governments.

Fund Balance Reporting

Fund balance is divided into five classifications based primarily on the extent to which the Borough is bound to observe constraints imposed upon the use of the resources. The classifications are as follows:

Nonspendable - The nonspendable fund balance category includes amounts that cannot be spent because they are not in the spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criteria includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

**BOROUGH OF FOUNTAIN HILL**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2015**

**NOTE 1 Summary of Significant Accounting Policies (Continued)**

Fund Balance Reporting (Continued)

Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

Enabling legislation authorizes the Borough to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

Legal enforceability means that the Borough can be compelled by an external party – such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action of the Borough Council. Those committed amounts cannot be used for any other purpose unless the Borough Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classifications may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the Borough Council separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the Borough for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Borough Council.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The Borough applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned)

BOROUGH OF FOUNTAIN HILL  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2015

**NOTE 1 Summary of Significant Accounting Policies (Continued)**

Fund Balance Reporting (Continued)

amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**OTHER SIGNIFICANT ACCOUNTING POLICIES**

Budgets and Budgetary Accounting

The Borough follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with the Borough Code and Borough procedures, at least thirty days prior to adoption, the Borough Manager submits to the Borough Council, with whom the legal level of budgetary control resides, a proposed budget for the fiscal year commencing the following January 1. The budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year. Departments for budgetary purposes are general government, public safety, public works, culture and recreation, insurance, employee benefits, and miscellaneous.
2. Public hearings are conducted to obtain taxpayer comment.
3. By December 31, the budget is legally enacted through passage of a resolution. Expenditures for the budget may not legally exceed appropriations and prior year fund balance reserves. This is done as a level of budgetary control.
4. All modifications, transfers and amendments must be approved by the Borough Council.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund, Liquid Fuels Fund, Sewer Fund, and Health and Sanitation Fund.
6. The legally adopted budgets of the Borough are for the General Fund, Liquid Fuels Fund, Sewer Fund and Health and Sanitation Fund.
7. Budgets for the General Fund, Liquid Fuels Fund, Sewer Fund, and Health and Sanitation Fund are adopted on the modified cash basis of accounting discussed above. (The basis of accounting for budget purposes is the same as for financial statement reporting purposes).
8. Borough Council may authorize supplemental appropriations during the year. No supplemental appropriations were made during fiscal 2015. Borough Council must approve all over expenditures of appropriations or transfers of appropriated amounts.



**BOROUGH OF FOUNTAIN HILL**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2015**

**NOTE 1 Summary of Significant Accounting Policies (Continued)**

**OTHER SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Cash and Cash Equivalents

Statutes allow the Borough to invest in obligations of the U.S. Treasury, U.S. Agencies, obligations of the Commonwealth of Pennsylvania, savings accounts or time deposits of institutions insured by the Federal Deposit Insurance Corporation (FDIC) and deposits in excess of FDIC amounts if collateralized by the depository. For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are stated at market. See Note 2 for additional disclosures about investments.

Capital Assets

The Borough's modified cash basis of accounting reports capital assets resulting from cash transactions and reports depreciation where appropriate. The accounting treatment over property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund. Fixed assets and related depreciation are reported on in the government-wide financial statements.

Property Taxes

The property tax calendar for the fiscal year is as follows:

March 1	- Levy Date
March 1 to April 30	- 2% Discount Period
May 1 to June 30	- Face Payment Period
July 1 to December 31	- 10% Penalty Period
January 1 (following year)	- Lien Date

Sewer Systems in Service

The sewer system is stated substantially at cost, net of accumulated depreciation. The policy is to capitalize all acquisitions of property, plant and equipment in excess of \$ 5,000. Depreciation is provided using the straight-line method over the estimated useful life of the system components ranging, from five to fifty years.

BOROUGH OF FOUNTAIN HILL  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2015

**NOTE 1 Summary of Significant Accounting Policies (Continued)**

**OTHER SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Transfers and Interfund Balances

Legally authorized payments or authorizations to make payments from a fund receiving revenue to a fund through which the resources are to be expended are reported as operating transfers.

Other outstanding balances between funds are reported as "due to / from other funds."

Statement of Cash Flows

For purposes of the statement of cash flows, the Borough considers time deposits and all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities. There were no encumbrances as of December 31, 2015.

Total Columns on Combined Statements

Total columns on the combined statements are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Nor is such data comparable to a consolidation.

Public Employee Retirement Systems

The Borough participates in two public employee retirement systems. Both systems, single employer public retirement systems, are defined benefit pension plans which cover all uniform and non-uniform personnel employed on a full-time basis.

**BOROUGH OF FOUNTAIN HILL**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2015**

**NOTE 1 Summary of Significant Accounting Policies (Continued)**

**OTHER SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Use of Estimates

The preparation of financial statements in conformity with the other comprehensive basis of accounting (OCBOA) used by the Borough requires management to make estimates and assumptions that affect certain reported amount and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

Reclassifications

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Recent Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement No. 27. The Borough adopted GASB Statement No. 68 for its December 31, 2015 financial statements. The adoption of this Statement affected disclosures and supplementary information only, as the Borough reports on modified cash basis of accounting.

**NOTE 2 Deposits and Investments**

The Borough's investment policy is to place as much of the available funds into interest bearing accounts as feasible. Current cash requirements are kept in bank demand deposits.

Deposits

As of December 31, 2015, the carrying amount of the Borough's deposits is \$ 1,800,936 and the bank balance is \$ 1,868,223. Of the bank balance, \$ 250,000 is covered by federal depository insurance (FDIC).

The Borough requires all deposits and investments to be covered by federal depository insurance or to be fully collateralized by the financial institution issuing the investment or acquiring the deposit. Deposits that are not fully insured by the Federal Deposit Insurance Corporation, \$ 1,618,223 at December 31, 2015 are collateralized using the pooled asset method to 100% of value as required by Pennsylvania Law. The securities pledged as collateral are held by the trust department of a financial institution or by its agents in the financial institution's name, not in the Borough's name, and are considered uncollateralized for credit risk purposes.

**BOROUGH OF FOUNTAIN HILL**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2015**

**NOTE 2 Deposits and Investments (Continued)**

Investments

Authorized types of investments for Borough funds are as follows:

- a) United States Treasury Bills and Notes.
- b) Short-term obligations of the United States, its agencies or instrumentalities.
- c) Deposits in savings accounts or time deposits insured by the Federal Deposit Insurance Corporation or similar insurance and provided that approved collateral for public deposits is pledged by the depository for excess amounts over the insured maximum.
- d) Obligations of the United States and the Commonwealth of Pennsylvania or any of their agencies or instrumentalities backed by the full faith and credit of the United States, Commonwealth of Pennsylvania, or political subdivisions.
- e) Shares of an investment company provided that the only investments of the company are in the investments listed in a) through d) above.

Investments made by the Borough as of December 31, 2015, are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

- Category 1 - Insured or registered, or securities held by the Borough or its agent in the Borough's name.
- Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Borough's name.
- Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the Borough's name.

Investments, categorized by level of risk, are:

	Category			Fair Value / Carrying Amount	Market Value
	<u>1</u>	<u>2</u>	<u>3</u>		
Mutual Funds	\$ -	\$ -	\$ 2,602,719	\$ 2,602,719	\$ 2,602,719
		Total		\$ 2,602,719	\$ 2,602,719

**BOROUGH OF FOUNTAIN HILL**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2015**

**NOTE 3 Capital Assets**

The following is a summary of the changes in the capital asset activity for the year ended December 31, 2015:

Governmental Activities

<u>Cost Basis</u>		Balance			Balance
	<u>Life</u>	<u>1/1/2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2015</u>
Land		\$ 899,842	\$ -	\$ -	\$ 899,842
Buildings and improvements	10 - 40 yrs.	1,068,184	21,500	-	1,089,684
Machinery and equipment	5 yrs.	191,468	44,951	-	236,419
Vehicles	5 - 10 yrs.	1,288,429	68,178	-	1,356,607
Infrastructure	30 yrs.	2,355,026	175,024	-	2,530,050
		<u>\$ 5,802,949</u>	<u>\$ 309,653</u>	<u>\$ -</u>	<u>\$ 6,112,602</u>
<u>Accumulated Depreciation</u>		Balance			Balance
	<u>Life</u>	<u>1/1/2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2015</u>
Land		\$ -	\$ -	\$ -	\$ -
Buildings and improvements	10 - 40 yrs.	512,124	51,564	-	563,688
Machinery and equipment	5 yrs.	168,448	13,823	-	182,271
Vehicles	5 - 10 yrs.	1,100,671	66,223	-	1,166,894
Infrastructure	30 yrs.	201,616	81,418	-	283,034
		<u>\$ 1,982,859</u>	<u>\$ 213,028</u>	<u>\$ -</u>	<u>\$ 2,195,887</u>
<b>Net Capital Assets</b>		<u><b>\$ 3,820,090</b></u>			<u><b>\$ 3,916,715</b></u>

Depreciation expense of \$ 213,028 in the governmental activities was recorded as an unallocated expense because the Borough does not breakdown the expenses into functional areas.

**BOROUGH OF FOUNTAIN HILL**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2015**

**NOTE 3 Capital Assets (Continued)**

The following is a summary of proprietary fund type property, plant and equipment for the primary government at December 31, 2015:

Enterprise Funds:

<u>Cost Basis</u>		Balance			Balance
	<u>Life</u>	<u>1/1/2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2015</u>
Buildings, plant and improvements	40 - 50 yrs.	\$ 9,956,612	\$ -	\$ -	\$ 9,956,612
Machinery	5 - 7 yrs.	90,908	72,845	-	163,753
		<u>\$ 10,047,520</u>	<u>\$ 72,845</u>	<u>\$ -</u>	<u>\$ 10,120,365</u>
<u>Accumulated Depreciation</u>		Balance			Balance
	<u>Life</u>	<u>1/1/2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2015</u>
Buildings, plant and improvements	40 - 50 yrs.	\$ 6,326,729	\$ 221,532	\$ -	\$ 6,548,261
Machinery	5 - 7 yrs.	40,435	22,031	-	62,466
		<u>\$ 6,367,164</u>	<u>\$ 243,563</u>	<u>\$ -</u>	<u>\$ 6,610,727</u>
 Net Capital Assets		 <u>\$ 3,680,356</u>			 <u>\$ 3,509,638</u>

Depreciation charged to operations for the Sewer Fund and Health and Sanitation Fund was \$ 235,818 and \$ 7,745 respectively, for the year ended December 31, 2015.

**NOTE 4 Long-Term Debt**

The following is a summary of the details of outstanding long-term debt as of December 31, 2015:

PEMA Note, in the aggregate principal amount of \$ 150,000. Proceeds of the Note were used to purchase fire safety equipment. The interest indebtedness is payable monthly at 2.0%. Maturity date is March 1, 2020.

General Obligation Note, Series of 2013 (original issue up to \$ 2,000,000). Proceeds of the Note were used to finance the reconstruction of Delaware Avenue. The interest indebtedness is payable semi-annually at 2.62%. Maturity date is June 1, 2028.

**BOROUGH OF FOUNTAIN HILL**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2015**

**NOTE 4 Long-Term Debt (Continued)**

The Borough entered into a lease-purchase agreement for the purchase of a Ford F-550. The capital lease requires quarterly payments of \$ 3,884, including principal and interest of 2.75% over 5 years.

The Borough entered into a lease-purchase agreement for the purchase of a truck. The capital lease requires quarterly payments of \$ 4,262, including principal and interest of 2.771% over 6 years.

The Borough entered into a lease-purchase agreement for the purchase of truck equipment. The capital lease requires quarterly payments of \$ 907, including principal and interest of 2.771% over 6 years.

The Borough entered into a lease-purchase agreement for the purchase of truck equipment. The capital lease requires quarterly payments of \$ 907, including principal and interest of 2.771% over 6 years.

The Borough entered into a lease-purchase agreement for the purchase of sewer jet equipment. The capital lease requires quarterly payments of \$ 2,736, including principal and interest of 2.75% over 5 years.

The following is a summary of long-term debt transactions for the year ended December 31, 2015:

<b><u>Governmental-type</u></b>	Balance			Balance
Long-Term Debt:	<u>1/1/2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2015</u>
PEMA Note	\$ 55,992	\$ -	\$ 9,720	\$ 46,272
2013 GO Note	827,561	-	52,166	775,395
Capital Lease	68,950	-	13,779	55,171
Capital Lease	29,027	-	16,416	12,611
Capital Lease	<u>7,033</u>	<u>-</u>	<u>3,470</u>	<u>3,563</u>
Total Governmental-type	988,563	-	95,551	893,012
<b><u>Business-type</u></b>				
Capital Lease	7,033	-	3,470	3,563
Capital Lease	<u>34,509</u>	<u>-</u>	<u>9,811</u>	<u>24,698</u>
Total Business-type	<u>41,542</u>	<u>-</u>	<u>13,281</u>	<u>28,261</u>
Total Long-Term Debt	<u>\$ 1,030,105</u>	<u>\$ -</u>	<u>\$ 108,832</u>	<u>\$ 921,273</u>

**BOROUGH OF FOUNTAIN HILL**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2015**

**NOTE 4 Long-Term Debt (Continued)**

Debt Service Requirements

The annual debt service requirements to maturity for governmental-type general obligation bonds and notes including interest are as follows, as of December 31, 2015:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 62,423	\$ 21,542	\$ 83,965
2017	65,462	19,468	84,930
2018	67,141	17,789	84,930
2019	68,862	16,068	84,930
2020	61,846	14,399	76,245
2021	60,574	12,773	73,347
2022	62,194	11,153	73,347
2023	63,857	9,490	73,347
2024	65,542	7,805	73,347
2025	67,317	6,030	73,347
2026	69,117	4,230	73,347
2027	70,966	2,381	73,347
2028	36,366	485	36,851
Total	<u>\$ 821,667</u>	<u>\$ 143,613</u>	<u>\$ 965,280</u>

The annual debt service requirements to maturity for governmental-type capital leases are as follows, as of December 31, 2015:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 30,336	\$ 1,609	\$ 31,945
2017	14,556	978	15,534
2018	14,960	574	15,534
2019	11,493	158	11,651
Total	<u>\$ 71,345</u>	<u>\$ 3,319</u>	<u>\$ 74,664</u>



**BOROUGH OF FOUNTAIN HILL**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2015**

**NOTE 4 Long-Term Debt (Continued)**

The annual debt service requirements to maturity for business-type capital leases are as follows, as of December 31, 2015:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 13,739	\$ 828	\$ 14,567
2017	10,554	388	10,942
2018	3,968	48	4,016
Total	<u>\$ 28,261</u>	<u>\$ 1,264</u>	<u>\$ 29,525</u>

**NOTE 5 Retirement Plans**

The Borough maintains two single-employer, defined benefit pension plans.

One plan, the Pension Plan of the Borough of Fountain Hill, covers substantially all nonuniformed full-time employees of the Borough. This plan is a member of the statewide Pennsylvania Municipal Retirement System (PMRS), an agent multiple-employer, public employee retirement system. PMRS is the trustee of the Pension Plan of the Borough of Fountain Hill.

The other plan maintained by the Borough is the Borough of Fountain Hill Police Pension Plan. This plan is a single-employer, defined benefit pension plan (Police Pension Fund) which covers members of the Borough's police force employed on a full-time basis. The Borough has retained its trustee relationship for the Borough of Fountain Hill Police Pension Plan.

**Pension Plan of the Borough of Fountain Hill**

**Summary of Significant Accounting Policies**

The financial statements of the Nonuniformed Plan prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due, in accordance with Act 205, as amended. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investments are reported at fair value. The plan's assets with PMRS are pooled for investment purposes and, therefore, do not represent specific identifiable investment securities. Disclosures required by Statement No. 3 of the Governmental Accounting Standards Board for aggregate PMRS investments are included in PMRS's separately issued CAFR.

**BOROUGH OF FOUNTAIN HILL**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2015**

**NOTE 5 Retirement Plans (Continued)**

**Pension Plan of the Borough of Fountain Hill (Continued)**

For purposes of measuring the net pension liability, deferred outflows or resources and deferred inflows of resources related to pensions and pension expense for the Nonuniformed Pension Plan and additions to/deductions from the Nonuniformed Pension Plan's fiduciary net position have been determined on the same basis. Investments are valued as of the measurement date.

Plan Description, Contribution Information and Funding Policy

The Pension Plan of the Borough of Fountain Hill is a single-employer defined benefit pension plan controlled by the provisions of Ordinance No. 326, adopted pursuant to Act 15, of the Commonwealth of Pennsylvania. The Plan participates in the Pennsylvania Municipal Retirement System (PMRS) which was created by the Pennsylvania General Assembly to administer pension plans on a contracted basis for any municipality within Pennsylvania. This agent, multiple-employer public employee retirement system acts as a common investment and administrative agent for participating municipal pension plans. The Borough may withdraw from this contracted service upon giving proper notice.

PMRS maintains each municipality's account separately with that municipality's contributions and related employee contributions, and earnings going into separate accounts. The authority under which the benefit provisions have been established, or may be amended, remains with the Borough Council of the Borough of Fountain Hill. The Pennsylvania Municipal Retirement System issues a publicly available Comprehensive Financial Report (CAFR) that may be obtained by writing to PMRS, PO Box 1165, Harrisburg, PA 17108-1165 or by calling 1-800-622-7968.

All full-time non-uniformed Borough employees are eligible to participate in the System. Benefits vest after 5 years of service. The normal retirement date is age 65. Early retirement is available for employees with 8 to 20 years of service.

The normal form of payment of retirement benefits is a monthly annuity available for life with survivor benefit of a lump sum or annuity at the option of the member. Retirement benefits are calculated to equal .02 times years of credited service times the last three years average salary. The plan also provides disability benefits.

Act 205, of the Commonwealth of Pennsylvania, requires that annual contributions be based upon the plan's minimum municipal obligation (MMO). The MMO is based upon the plan's biennial actuarial valuation. The most recent actuarial valuation was performed January 1, 2013.

In accordance with the plan's governing ordinance, members are required to contribute 3.5% of their compensation to the plan.

**BOROUGH OF FOUNTAIN HILL**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2015**

**NOTE 5 Retirement Plans (Continued)**

**Pension Plan of the Borough of Fountain Hill (Continued)**

The plan may also be eligible to receive an allocation of state aid from the General Municipal Pension System Aid Program which must be used for pension funding. Any funding requirements established by the MMO in excess of aid must be paid by the municipality in accordance with Act 205.

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

**Plan Membership Information**

Membership in the pension plan as of December 31, 2014, (the most recent date available) is as follows:

Active plan members	9
Retirees and beneficiaries	
currently receiving benefits	2
Terminated plan members entitled	
to benefits but not yet receiving them	<u>-</u>
Total	<u><u>11</u></u>

**Annual Pension Cost and Net Pension Obligation**

The Borough's annual pension cost and net pension obligation for the current year are as follows:

Annual required contribution	\$ 55,548
Interest on net pension obligation	-
Adjustment to annual required contribution	<u>-</u>
Annual pension costs	55,548
Contributions made	<u>55,548</u>
Increase (decrease) in net pension obligation	-
Net pension obligation, beginning of year	<u>-</u>
Net pension obligation, end of year	<u><u>\$ -</u></u>

The annual required contribution for the current year was determined as part of the January 1, 2013, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 5.50% investment rate of return, and (b) projected salary increases of

**BOROUGH OF FOUNTAIN HILL**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2015**

**NOTE 5 Retirement Plans (Continued)**

**Pension Plan of the Borough of Fountain Hill (Continued)**

“age-related scale for merit”, per year. Both (a) and (b) include an inflation component for moderate cost-of-living increases. The assumptions did not include postretirement benefit increases. The actuarial value of assets for the plan was determined using market value as determined by the trustee. The unfunded actuarial accrued liability (AAL) amortization method is the level dollar method on a closed basis.

**Three-Year Trend Information**

<u>Year Ending</u>	<u>Pension Cost (APC)</u>	<u>of APC Contributed</u>	<u>Pension Obligation</u>
12/31/2013	\$ 41,462	100%	\$ -
12/31/2014	\$ 42,714	100%	\$ -
12/31/2015	\$ 55,548	100%	\$ -

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Nonuniformed Employees Pension Plan**

At December 31, 2015, the Borough’s net pension liability is \$255,393. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by rolling forward the Plan’s total pension liability as of December 31, 2013, to December 31, 2014.

For the year ended December 31, 2015, the actuarial determined nonuniformed employees plan pension expense is \$140,858. However, the Borough recognizes pension expense on the modified cash basis which totaled \$55,548.

At December 31, 2015, the Borough has deferred outflows of resources and deferred inflows of resources related to the nonuniformed employees pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 7,385	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	551	-
Total	<u>\$ 7,936</u>	<u>\$ -</u>

BOROUGH OF FOUNTAIN HILL  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2015

**NOTE 5 Retirement Plans (Continued)**

**Pension Plan of the Borough of Fountain Hill (Continued)**

Actuarially determined deferred outflows of resources related and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending Dec. 31, 2016	1,193
2017	1,193
2018	1,193
2019	1,192
2020	1,055
Thereafter	2,110

Actuarial assumptions

The beginning of year total pension liability is based upon the January 1, 2013 actuarial valuation, with liabilities measured at December 31, 2012, rolled forward to December 31, 2013. The end of year total pension liability is based upon the January 1, 2015 actuarial valuation with liabilities measured at December 31, 2014.

The actuarial assumptions used in this report are as follows:

- Actuarial cost method - Entry Age Normal
- Investment return - 5.50%, includes inflation at 3.00%
- Salary increases - Effective average of 3.50%, which reflects an allowance for inflation of 3.00%.
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 1 year for males and 5 years for females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with 10 year set forward for both males and females.

These assumptions are based on the PMRS Experience Study for the period covering January 1, 2005, through December 31, 2008, issued by the actuary in July 2010 as well as subsequent Board approved assumptions changes, such as the decrease in the regular interest to 5.50% for the January 1, 2013 actuarial valuation.

The PMRS System's long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return are developed for each major asset class, for the portfolio as a whole and at different levels

**BOROUGH OF FOUNTAIN HILL**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2015**

**NOTE 5 Retirement Plans (Continued)**

**Pension Plan of the Borough of Fountain Hill (Continued)**

of probability or confidence. 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 System's policy in regards to the investment income allocation on invested assets is established and may be amended by the PMRS Board. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of PMRS.

<u>Asset Class</u>	<u>Target allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equities (large capitalized firms)	25%	8.7%
Domestic Equities (small capitalized firms)	15%	8.4%
International Equities (international developed markets)	15%	4.6%
International Equities (emerging markets)	10%	8.1%
Real Estate	20%	6.7%
Fixed Income	15%	-1.0%
	<u>100%</u>	

The above was the Board's adopted asset allocation policy and best estimates of real rates of return by asset class as of December 31, 2014.

**Discount Rate**

The discount rate used to measure the total pension liability was 5.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and the contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension 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 Borough's proportionate share of the net pension liability to changes in the discount rate**

The following presents the net pension liability, calculated using the discount rate of 5.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (4.50%) or 1-percentage-point higher (6.50%) than the current rate:

**BOROUGH OF FOUNTAIN HILL**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2015**

**NOTE 5 Retirement Plans (Continued)**

**Pension Plan of the Borough of Fountain Hill (Continued)**

	<u>1% Decrease</u> <u>4.50%</u>	<u>Current Discount Rate</u> <u>5.50%</u>	<u>1% Increase</u> <u>6.50%</u>
Borough's proportionate share of the net pension liability	\$ 392,109	\$ 255,393	\$ 140,192

**Police Pension Plan**

**Summary of Significant Accounting Policies**

The financial statements have been prepared on the accrual basis of accounting. Contributions and pension payments are recognized in the period that they are due. Plan investments are listed at fair value as reported by the PSAB Municipal Retirement Trust

**Plan Description, Contribution Information and Funding Policy**

The Pension Plan for the Uniformed Employees of the Borough of Fountain Hill is a single-employer defined benefit plan established by the Borough of Fountain Hill, controlled by the provisions of Act 600 of 1955, as amended by Act 30 of 2002, of the Commonwealth of Pennsylvania.

The Plan covers all full-time uniformed employees of the Borough. The normal retirement date is age 55 with 25 years of service. Participants become 100% vested upon completing 12 years of credited service to the plan. The Plan also provides early retirement, death and disability benefits. The authority under which the benefit provisions have been established, or may be amended, remains with the Borough Council of the Borough of Fountain Hill.

The normal form of retirement benefit is a monthly payment equal to 50% of the members' gross pay averaged over the last 36 months of employment, plus a service increment if any.

Act 205, of the Commonwealth of Pennsylvania, requires that annual contributions be based upon the plan's minimum municipal obligation (MMO). The MMO is based upon the plan's biennial actuarial valuation. The most recent actuarial valuation was performed January 1, 2015.

**BOROUGH OF FOUNTAIN HILL**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2015**

**NOTE 5 Retirement Plans (Continued)**

**Police Pension Plan (Continued)**

In accordance with the plan's governing provisions, members are required to contribute 5% of covered payroll for 2015 plan year. Effective January 1, 2016, member contributions increase to 6%.

The plan may also be eligible to receive an allocation of state aid from the General Municipal Pension System Aid Program which must be used for pension funding. Any funding requirements established by the MMO in excess of employee contributions and state aid must be paid by the municipality in accordance with Act 205.

The Plan does not issue a stand-alone financial report.

**Plan Membership Information**

Membership in the pension plan as of December 31, 2015, (the most recent date available) is as follows:

Active plan members	7
Retirees and beneficiaries	
currently receiving benefits	8
Terminated employees entitled	
to benefits but not yet receiving them	<u>-</u>
Total	<u>15</u>

**Annual Pension Cost and Net Pension Obligation**

The Borough's annual pension cost and net pension obligation for the current year are as follows:

Annual required contribution	\$ 193,640
Interest on net pension obligation	-
Adjustment to annual required contribution	<u>-</u>
Annual pension costs	193,640
Contributions made	<u>193,640</u>
Increase (decrease) in net pension obligation	-
Net pension obligation, beginning of year	<u>-</u>
Net pension obligation, end of year	<u>\$ -</u>



**BOROUGH OF FOUNTAIN HILL**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2015**

**NOTE 5 Retirement Plans (Continued)**

**Police Pension Plan (Continued)**

The annual required contribution for the current year was determined as part of the January 1, 2013, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return, and (b) projected salary increases of 5.00% per year. Both (a) and (b) include an inflation component for moderate cost-of-living increases. The assumptions did not include postretirement benefit increases. The actuarial value of assets for the plan was determined using market value as determined by the trustee. The unfunded actuarial accrued liability (AAL) amortization method is the level dollar method on a closed basis.

**Three-Year Trend Information**

<u>Year</u> <u>Ending</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
12/31/2013	\$ 213,908	100%	\$ -
12/31/2014	\$ 195,280	100%	\$ -
12/31/2015	\$ 193,640	100%	\$ -

**Investments**

The Plan is authorized to invest in legal investments permitted under the Pennsylvania Fiduciaries Investment Act. The plan has no formally adopted investment policy. It is the policy of the PSABMRT General Balanced Fund to invest approximately 55% of assets in equities, approximately 40% of assets in fixed income investments and approximately 5% of assets in alternative investments.

At December 31, 2015, the plan had no investments (other than investments issued or guaranteed by the U.S. Government) in any one issuer that represents five percent or more of Fiduciary Net Position.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Uniformed Employees Pension Plan**

At December 31, 2015, the Borough's net pension liability is \$1,747,773. The total pension liability of \$4,134,313 was determined as part of an actuarial valuation at January 1, 2015. Update procedures were used to roll forward to the plan's fiscal year ending December 31, 2015.

**BOROUGH OF FOUNTAIN HILL**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2015**

**NOTE 5 Retirement Plans (Continued)**

**Police Pension Plan (Continued)**

For the year ended December 31, 2015, the actuarial determined uniformed employees plan pension expense is \$275,440. However, the Borough recognizes pension expense on the modified cash basis which totaled \$193,640.

At December 31, 2015, the Borough reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 245,015	\$ -
Net difference between projected and actual investment earnings on pension plan	151,594	-
Changes of assumptions	-	-
Total	<u>\$ 396,609</u>	<u>\$ -</u>

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

Year ending Dec. 31,	2016	65,428
	2017	65,428
	2018	65,428
	2019	65,430
	2020	27,530
	Thereafter	107,365

**Actuarial assumptions**

The total pension liability in the January 1, 2015, actuarial valuations were determined using the following actuarial assumptions, applied to all periods in the measurements:

- Actuarial cost method - Entry Age Normal
- Investment return - 7.25%, includes inflation at 3.00%
- Salary increases - Effective average of 5.00%
- Mortality rates were based on the RP-2000 Combined Healthy Mortality Table with Blue Collar Adjustments, rates set forward 2 years for disabled members.

BOROUGH OF FOUNTAIN HILL  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2015

**NOTE 5 Retirement Plans (Continued)**

**Police Pension Plan**

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

<u>Asset Class</u>	<u>Target allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equities	55.00%	6.30%
Fixed Income	40.00%	2.00%
High Yield	5.00%	0.00%
	<u>100%</u>	

**Discount Rate**

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and the contributions from employers will be made equal to the Minimum Municipal Obligation. Based on those assumptions, the pension 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 Borough's proportionate share of the net pension liability to changes in the discount rate**

The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

**BOROUGH OF FOUNTAIN HILL**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2015**

**NOTE 5 Retirement Plans (Continued)**

**Police Pension Plan (Continued)**

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
Net Pension Liability	\$ 2,252,772	\$ 1,747,773	\$ 1,328,428

**NOTE 6 Postemployment Benefits Plan**

*Plan Description.* The Borough provides coverage for medical benefits to Borough employees based on eligibility requirements set for each group of employees pursuant to Governmental Accounting Standards Board Statement No. 45. The benefits are based on negotiated memorandums of understanding with employee contracts. The Plan provides medical, dental, and vision benefits to eligible retirees, spouses, and dependents. The costs of retiree health care benefits are recognized as expenditures and a net other post employment benefit payable based on an actuarial valuation. The Plan also provides life insurance in the amount of \$4,000 at time of retirement.

*Funding Policy.* The contribution requirements of plan members and the Borough are established and may be amended by the Borough. The required contribution is based on projected pay-as-you-go financing requirements.

*Annual OPEB Cost and Net OPEB Obligation.* The Borough's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Borough's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the Borough's net OPEB obligation to the Plan:

Annual required contribution	\$ 407,318
Interest on net OPEB obligation	38,904
Adjustment to annual required contribution	<u>(56,244)</u>
Annual OPEB cost	389,978
Projected contributions made	<u>(187,179)</u>
Increase in net OPEB obligation	202,799
Net OPEB obligation - beginning of year	<u>972,591</u>
Net OPEB obligation - end of year	<u><u>\$ 1,175,390</u></u>

**BOROUGH OF FOUNTAIN HILL**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2015**

**NOTE 6 Postemployment Benefits Plan (Continued)**

The Borough's annual OPEB cost, the percentage of estimated annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015 were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	<u>OPEB Obligation</u>
December 31, 2015	<u>\$389,977</u>	<u>48.0%</u>	<u>\$202,799</u>

*Funded Status and Funding Progress.* As of January 1, 2015, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$3,239,192 and the actuarial value of assets was \$ -0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,239,192.

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 healthcare cost trend. Amounts determined regarding the funded status of the plan 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.

*Actuarial Methods and Assumptions.* 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.

In the January 1, 2015, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.0% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical and dental/vision cost trend rate of 9.0% and 0% respectively, in 2015, with the medical cost trend rate decreasing to 6.25% and dental/vision increasing to 3.0% in the year 2016. The actuarial value of assets was determined using the market value of investments. The UAAL is being amortized as a level dollar basis. The remaining amortization period at January 1, 2015, was thirty years.

**BOROUGH OF FOUNTAIN HILL**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**DECEMBER 31, 2015**

**NOTE 7    Litigation**

Various claims and lawsuits are pending against the Borough. Defenses are being conducted by counsel for the Borough or the insurance carrier, and losses, if any, are not anticipated to have a significant effect on the Borough's financial position.

**NOTE 8    Contingencies**

The Borough participates in a number of state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs including the year ended December 31, 2015, have not yet been conducted. Accordingly, the Borough's compliance with the applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Borough expects such amounts, if any, to be immaterial.

**NOTE 9    Deficit Fund Balances**

No funds of the Borough had a deficit fund balance at December 31, 2015.

The General Fund's: General Government, Public Safety, Public Works, Insurance, Employee Benefits and Miscellaneous, and Capital Outlay budget categories had expenditures in excess of appropriations for the year ended December 31, 2015.

**NOTE 10   Risk Management**

Significant losses are covered by commercial insurance for all major programs. There has been no significant reduction in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

**NOTE 11   Subsequent Events**

Subsequent events have been evaluated through September 30, 2016, which was the date the financial statements were available to be issued.

## REQUIRED SUPPLEMENTARY INFORMATION

**BOROUGH OF FOUNTAIN HILL**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE – BUDGET AND ACTUAL**  
**GENERAL FUND – MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**  
**(An Integral Part of the Financial Statements)**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
Taxes	\$ 1,919,200	\$ 1,919,200	\$ 2,175,808	\$ 256,608
Licenses and permits	68,000	68,000	77,190	9,190
Fines and forfeits	63,200	63,200	48,920	(14,280)
Interest and rents	14,830	14,830	15,227	397
Intergovernmental revenues	311,563	311,563	328,937	17,374
Charges for services	82,400	82,400	77,772	(4,628)
Donations and miscellaneous	45,959	45,959	129,673	83,714
<b>TOTAL REVENUES</b>	<u>2,505,152</u>	<u>2,505,152</u>	<u>2,853,527</u>	<u>348,375</u>
<b>EXPENDITURES</b>				
Current				
General government	276,930	276,930	296,041	(19,111)
Public safety	881,215	881,215	930,580	(49,365)
Health and human services	1,650	1,650	1,150	500
Public works - Highways and streets	251,800	251,800	257,179	(5,379)
Public works - other services	16,000	16,000	17,226	(1,226)
Culture and recreation	84,500	84,500	76,904	7,596
Community development	1,500	1,500	100	1,400
Insurance, employee benefits and misc	618,088	618,088	717,506	(99,418)
Debt service - principal	72,419	72,419	-	72,419
Debt service - interest and fiscal charges	23,714	23,714	-	23,714
Capital outlay	185,531	185,531	186,771	(1,240)
<b>TOTAL EXPENDITURES</b>	<u>2,413,347</u>	<u>2,413,347</u>	<u>2,483,457</u>	<u>(70,110)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	91,805	91,805	370,070	278,265
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	-	-	-	-
Operating transfers out	(48,000)	(48,000)	(92,506)	(44,506)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(48,000)</u>	<u>(48,000)</u>	<u>(92,506)</u>	<u>(44,506)</u>
Net change in fund balances	43,805	43,805	277,564	233,759
Fund Balances - January 1	-	-	663,199	663,199
Fund Balances - December 31	<u>\$ 43,805</u>	<u>\$ 43,805</u>	<u>\$ 940,763</u>	<u>\$ 896,958</u>



**BOROUGH OF FOUNTAIN HILL**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY - NONUNIFORMED PENSION PLAN**  
**DEFINED BENEFIT PENSION PLANS**  
**(An Integral Part of the Financial Statements)**

**EMPLOYEES PENSION PLAN (NONUNIFORMED PLAN)**

Last 10 Fiscal Years\*\*

	<u>12/31/2015*</u>
<b><u>Total Pension Liability</u></b>	
Service cost (beginning of year)	\$ 59,230
Interest (includes interest on service costs)	50,544
Changes of benefit terms	83,347
Differences between expected and actual experience	8,440
Transfers	(12,372)
Benefit payments, including refunds of member contributions	<u>(24,838)</u>
<b>Net change in total pension liability</b>	164,351
<b>Total pension liability - beginning</b>	<u>878,100</u>
<b>Total pension liability - ending</b>	<u><u>\$ 1,042,451</u></u>
<b><u>Plan Fiduciary Net Position</u></b>	
Contributions - employer	\$ 42,714
Contributions - member	15,066
Net investment income	40,171
Market value investment income	(689)
Transfers	(12,372)
Benefit payments, including refunds of member contributions	(24,838)
Administrative expense	<u>(1,781)</u>
<b>Net change in plan fiduciary net position</b>	58,271
<b>Plan fiduciary net position - beginning</b>	<u>728,787</u>
<b>Plan fiduciary net position - ending</b>	<u><u>\$ 787,058</u></u>
<b>Municipality's net position liability</b>	<u><u>\$ 255,393</u></u>
 Covered-employee payroll ***	 \$ 445,714
Net pension liability as a percentage of its covered-employee payroll	57.30%
Plan fiduciary net position as a percentage of the total pension liability	75.50%

\* Measurement date of 12/31/2014 has been used for the fiscal year ending 12/31/15.

\*\* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complete, available information is presented.

\*\*\* Covered-employee payroll for this schedule was furnished by the Plan, and is a year behind.

**BOROUGH OF FOUNTAIN HILL**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY - UNIFORMED PENSION PLAN**  
**DEFINED BENEFIT PENSION PLANS**  
**(An Integral Part of the Financial Statements)**

**POLICE PENSION PLAN (UNIFORMED PLAN)**

Last 10 Fiscal Years\*

	<u>12/31/2014</u>	<u>12/31/2015</u>
<b><u>Total Pension Liability</u></b>		
Service cost	\$ 113,097	\$ 99,705
Interest	263,953	289,039
Differences between expected and actual experience	-	272,545
Changes of assumptions	-	-
Benefit payments, including refunds of member contributions	<u>(301,878)</u>	<u>(278,084)</u>
Net change in total pension liability	75,172	383,205
Total pension liability - beginning	<u>3,675,936</u>	<u>3,751,108</u>
Total pension liability - ending	<u><u>\$ 3,751,108</u></u>	<u><u>\$ 4,134,313</u></u>
<b><u>Plan Fiduciary Net Position</u></b>		
Contributions - employer	\$ 195,280	\$ 193,640
Contributions - employee	19,697	26,296
Net investment income	143,373	(15,870)
Benefit payments, including refunds of member contributions	(301,878)	(278,084)
Administrative expense	<u>(17,326)</u>	<u>(21,186)</u>
Net change in plan fiduciary net position	39,146	(95,204)
Plan fiduciary net position - beginning	<u>2,442,598</u>	<u>2,481,744</u>
Plan fiduciary net position - ending	<u><u>\$ 2,481,744</u></u>	<u><u>\$ 2,386,540</u></u>
Municipality's net position liability	<u><u>\$ 1,269,364</u></u>	<u><u>\$ 1,747,773</u></u>
Covered-employee payroll	\$ 524,894	\$ 522,861
Net pension liability as a percentage of its covered-employee payroll	241.8%	334.3%
Plan fiduciary net position as a percentage of the total pension liability	66.2%	57.7%

\* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complete, available information is presented.

BOROUGH OF FOUNTAIN HILL  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER CONTRIBUTIONS  
NONUNIFORMED PENSION PLAN  
DEFINED BENEFIT PENSION PLANS  
(An Integral Part of the Financial Statements)

EMPLOYEES PENSION PLAN (NONUNIFORMED PLAN)

Last 10 Fiscal Years\*

	<u>December 31, 2014</u>
Actuarially determined contribution	42,714
Contributions in relation to the actuarially required contribution	<u>(42,714)</u>
Contribution deficiency (excess)	-
Covered-employee payroll	445,189
Contributions as a percentage of covered-employee payroll	9.59%

**BOROUGH OF FOUNTAIN HILL**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
**UNIFORMED PENSION PLAN**  
**DEFINED BENEFIT PENSION PLANS**  
**(An Integral Part of the Financial Statements)**

	Last 10 Fiscal Years *									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	
Actuarially Determined Contribution	\$ 113,906	\$ 125,120	\$ 161,164	\$ 167,988	\$ 183,491	\$ 221,357	\$ 213,908	\$ 195,280	\$ 193,640	
Contributions in Relation to the Actuarially Determined Contribution	113,906	125,120	161,164	167,988	183,491	221,357	213,908	195,280	193,640	
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Covered Employee Payroll		\$ 556,555		\$ 643,160		\$ 598,685		\$ 524,894	\$ 522,861	
Contributions as a Percentage of Covered Employee Payroll		22.5%		26.1%		37.0%		37.2%	37.0%	
<b>Notes to schedules:</b>										
<b>NONE</b>										

\* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complete, available information is presented.

**BOROUGH OF FOUNTAIN HILL**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**DEFINED BENEFIT PENSION PLANS**  
**(An Integral Part of the Financial Statements)**

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

**PENSION PLAN OF THE BOROUGH OF FOUNTAIN HILL (NONUNIFORMED PLAN)**

Valuation date:	1/1/13
Actuarial cost method:	Entry age normal
Amortization method:	Level Dollar Closed
Remaining amortization period:	11.35 years
Asset valuation method:	Fair Value as determined by the trustee
Actuarial assumptions:	
Investment rate of return	5.50%
Projected salary increases	Age-related scale for merit
Includes inflation at	3.00%

**POLICE PENSION PLAN (UNIFORMED PLAN)**

Valuation date:	1/1/15
Actuarial cost method:	Entry age normal
Amortization method:	Level Dollar Closed
Remaining amortization period:	15 years
Asset valuation method:	Asset Smoothing
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	5.00%
Includes inflation	Moderate cost of living

## OTHER SUPPLEMENTARY INFORMATION

**BOROUGH OF FOUNTAIN HILL**  
**COMBINING STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES**  
**MODIFIED CASH BASIS - NONMAJOR GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2015**

<u>ASSETS</u>	<u>Highway</u> <u>Fund</u>	<u>Fire</u> <u>Fund</u>	<u>Library</u> <u>Fund</u>	<u>Playground</u> <u>Fund</u>	<u>Debt Service</u> <u>Fund</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 176,910	\$ 157,111	\$ 58,560	\$ 19,969	\$ -	\$ 412,550
Total Assets	\$ 176,910	\$ 157,111	\$ 58,560	\$ 19,969	\$ -	\$ 412,550

**LIABILITIES AND FUND BALANCES**

<u>FUND BALANCES</u>						
<u>Restricted for:</u>						
Public safety	\$ -	\$ 157,111	\$ -	\$ -	\$ -	\$ 157,111
Public works	176,910					176,910
Library			58,560			58,560
<u>Assigned to:</u>						
Recreation	-	-	-	19,969	-	19,969
Total Fund Balances	176,910	157,111	58,560	19,969	-	412,550
Total Liabilities and Fund Balances	\$ 176,910	\$ 157,111	\$ 58,560	\$ 19,969	\$ -	\$ 412,550

**BOROUGH OF FOUNTAIN HILL**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**MODIFIED CASH BASIS – NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	Highway	Fire	Library	Playground	Debt Service	Total
	Fund	Fund	Fund	Fund	Fund	
<b>REVENUES</b>						
Taxes	\$ -	\$ 17,863	\$ 89,316	\$ -	\$ -	\$ 107,179
Interest	58	47	26	8	-	139
Intergovernmental	222,342	-	-	-	-	222,342
Donations	-	-	-	13,920	-	13,920
<b>TOTAL REVENUES</b>	<b>222,400</b>	<b>17,910</b>	<b>89,342</b>	<b>13,928</b>	<b>-</b>	<b>343,580</b>
<b>EXPENDITURES</b>						
Current						
Public works	13,709	-	-	-	-	13,709
Culture and recreation	-	-	78,295	3,995	-	82,290
Debt service - principal	-	-	-	-	95,551	95,551
Debt service - interest	-	-	-	-	24,621	24,621
Capital Outlay	122,882	-	-	-	-	122,882
<b>TOTAL EXPENDITURES</b>	<b>136,591</b>	<b>-</b>	<b>78,295</b>	<b>3,995</b>	<b>120,172</b>	<b>339,053</b>
Excess (deficiency) of revenues over (under) expenditures	85,809	17,910	11,047	9,933	(120,172)	4,527
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfers in					120,172	120,172
Operating transfers out	(17,048)	(10,618)	-	-	-	(27,666)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(17,048)</b>	<b>(10,618)</b>	<b>-</b>	<b>-</b>	<b>120,172</b>	<b>92,506</b>
Net change in fund balances	68,761	7,292	11,047	9,933	-	97,033
Fund Balances - January 1	108,149	149,819	47,513	10,036	-	315,517
Fund Balances - December 31	\$ 176,910	\$ 157,111	\$ 58,560	\$ 19,969	\$ -	\$ 412,550



FRANCE, ANDERSON, BASILE and COMPANY, P.C.  
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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Borough Council  
Borough of Fountain Hill, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Fountain Hill, Pennsylvania as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Borough of Fountain Hill, Pennsylvania's basic financial statements, and have issued our report thereon dated September 30, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Borough of Fountain Hill, Pennsylvania's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Borough of Fountain Hill, Pennsylvania's internal control. Accordingly, we do not express an opinion on the effectiveness of the Borough of Fountain Hill, Pennsylvania's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Borough's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We

did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies, finding reference number 2015-1.

### **Compliance and Other Matters**

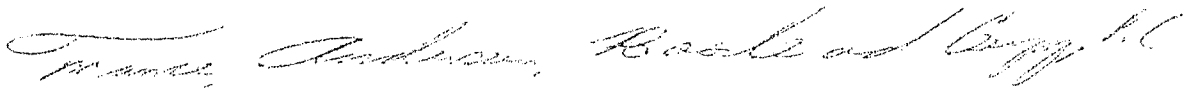
As part of obtaining reasonable assurance about whether the Borough of Fountain Hill, Pennsylvania's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2015-1.

### **Borough of Fountain Hill, Pennsylvania's Response to Findings**

The Borough of Fountain Hill, Pennsylvania's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Borough of Fountain Hill, Pennsylvania's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Borough's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Borough's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script, likely reading "Emmaus, Pennsylvania", is written in dark ink.

Emmaus, Pennsylvania  
September 30, 2016

BOROUGH OF FOUNTAIN HILL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2015

**FINDINGS**

SIGNIFICANT DEFICIENCIES

Finding No. 2015-1: Segregation of Duties

*Condition:* Due to the size of the office staff of the Borough, there lacks enough personnel to provide for proper segregation of accounting functions.

*Criteria:* Internal controls should be in place that provide for proper segregation of accounting functions.

*Effect:* Because of the inadequate segregation of accounting duties the possibility arises that there is more than a remote likelihood that a misstatement of the Borough's financial statements that is more than inconsequential will not be prevented or detected by the Borough's internal control.

*Auditors' Recommendation:* We understand it is impractical to have an accounting staff large enough to provide for proper segregation of all duties and the additional cost of adding staff does not justify the benefits that would be provided. However, the Borough Council needs to monitor the accounting of the Borough and remain involved in the day-to-day functions of the office to provide additional safeguards.

*Views of Responsible Officials and Planned Corrective Actions:* The Borough Council agrees with the finding and the auditors' recommendation has been adopted.

**QUESTIONED COSTS**

None

