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**BOROUGH OF SWARTHMORE**  
**BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

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BOROUGH OF SWARTHMORE

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## INDEPENDENT AUDITOR'S REPORT

Barbacane, Thornton & Company LLP  
200 Springer Building  
3411 Silverside Road  
Wilmington, Delaware 19810

T 302.478.8940  
F 302.468.4001  
www.btcpa.com

October 6, 2014

To the Borough Council  
Borough of Swarthmore  
Swarthmore, Pennsylvania

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Swarthmore, Delaware County, Pennsylvania as of and for the year ended December 31, 2013, 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 cash basis of accounting as described in Note 1; this includes determining that the 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.

### Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

To the Borough Council  
Borough of Swarthmore

### Opinions

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position - cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Swarthmore, Delaware County, Pennsylvania, as of December 31, 2013, and the respective changes in financial position - cash basis, thereof and the respective budgetary comparisons for the General Fund, Highway Aid Fund, and Pension Tax Fund, for the year then ended in conformity with the 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 cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

### Other Matters

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough of Swarthmore's financial statements as a whole. The supplementary information on pages 35 to 41 and the combining and individual fund financial statements on pages 42 to 44 are presented for purposes of additional analysis and are not a required part of the financial statements. The supplementary information and combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2014 on our consideration of the Borough of Swarthmore'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 Swarthmore's internal control over financial reporting and compliance.

  
BARBACANE, THORNTON & COMPANY LLP

**BOROUGH OF SWARTHMORE**  
**STATEMENT OF NET POSITION - CASH BASIS**  
**DECEMBER 31, 2013**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 1,266,632	\$ 203,613	\$ 1,470,245
<b>TOTAL ASSETS</b>	<b>1,266,632</b>	<b>203,613</b>	<b>1,470,245</b>
<b>LIABILITIES AND NET POSITION</b>			
<b>LIABILITIES</b>			
Payroll Liabilities	17,881	-	17,881
Payable to pension plans	16,391	-	16,391
<b>TOTAL LIABILITIES</b>	<b>34,272</b>	<b>-</b>	<b>34,272</b>
<b>NET POSITION</b>			
Restricted for:			
Pension	115,799	-	115,799
Highways and streets	109,713	-	109,713
Debt service	39,458	-	39,458
Downtown revivlization	27,886	-	27,886
Unrestricted	939,504	203,613	1,143,117
<b>TOTAL NET POSITION</b>	<b>\$ 1,232,360</b>	<b>\$ 203,613</b>	<b>\$ 1,435,973</b>

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

**BOROUGH OF SWARTHMORE  
STATEMENT OF ACTIVITIES - CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>GOVERNMENTAL ACTIVITIES</b>						
Administrative	\$ 1,086,500	\$ 900	\$ 15,930	\$ (969,778)	\$ -	\$ (969,778)
Permits and licenses	-	307,117	-	307,117	-	307,117
Public safety	1,227,024	157,243	-	(1,016,980)	-	(1,016,980)
Public works	564,541	67,513	-	(356,688)	-	(356,688)
Library	120,000	-	27,182	(120,000)	-	(120,000)
Community development	23,058	-	-	(23,058)	-	(23,058)
Culture and recreation	85,741	-	-	(65,446)	-	(65,446)
Debt service	235,629	-	-	(235,629)	-	(235,629)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>3,342,493</b>	<b>553,068</b>	<b>43,112</b>	<b>(2,480,462)</b>	<b>-</b>	<b>(2,480,462)</b>
<b>BUSINESS-TYPE ACTIVITIES</b>						
Solid waste	615,827	524,738	-	-	(77,768)	(77,768)
Sewer	787,869	923,948	-	-	136,079	136,079
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>1,403,696</b>	<b>1,448,686</b>	<b>-</b>	<b>-</b>	<b>58,311</b>	<b>58,311</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 4,746,189</b>	<b>\$ 2,001,754</b>	<b>\$ 43,112</b>	<b>(2,480,462)</b>	<b>58,311</b>	<b>(2,422,151)</b>
<b>GENERAL REVENUES</b>						
Taxes:						
Real estate taxes				2,000,708	-	2,000,708
Real estate transfer taxes				201,272	-	201,272
Local services tax				89,509	-	89,509
Investment earnings				322	168	490
Grants and contributions not restricted to specific programs				116,000	-	116,000
Proceeds from debt issuance				537,523	-	537,523
Miscellaneous				53,734	-	53,734
<b>TOTAL GENERAL REVENUES</b>				<b>2,999,068</b>	<b>168</b>	<b>2,999,236</b>
<b>CHANGE IN NET POSITION</b>				<b>518,606</b>	<b>58,479</b>	<b>577,085</b>
<b>NET POSITION, BEGINNING OF YEAR</b>				<b>938,129</b>	<b>(75,773)</b>	<b>862,356</b>
<b>PRIOR PERIOD ADJUSTMENTS</b>				<b>(224,375)</b>	<b>220,907</b>	<b>(3,468)</b>
<b>NET POSITION, BEGINNING OF YEAR, RESTATED</b>				<b>713,754</b>	<b>145,134</b>	<b>858,888</b>
<b>NET POSITION, END OF YEAR</b>				<b>\$ 1,232,360</b>	<b>\$ 203,613</b>	<b>\$ 1,435,973</b>

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

**BOROUGH OF SWARTHMORE  
BALANCE SHEET - GOVERNMENTAL FUNDS - CASH BASIS  
DECEMBER 31, 2013**

	General Fund	Pension Tax	Capital Reserve Fund	Capital Projects	Highway Aid	Debt Service	Nonmajor Governmental Fund Community Revitalization	Total Governmental Funds
<b>ASSETS</b>								
Cash and cash equivalents	\$ 624,427	\$ 115,799	\$ 107,495	\$ 241,854	\$ 109,713	\$ 39,458	\$ 27,886	\$ 1,266,632
<b>TOTAL ASSETS</b>	<u>\$ 624,427</u>	<u>\$ 115,799</u>	<u>\$ 107,495</u>	<u>\$ 241,854</u>	<u>\$ 109,713</u>	<u>\$ 39,458</u>	<u>\$ 27,886</u>	<u>\$ 1,266,632</u>
<b>LIABILITIES AND FUND BALANCES</b>								
<b>LIABILITIES:</b>								
Payroll liabilities	\$ 17,881	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,881
Due to other funds	16,391	-	-	-	-	-	-	16,391
<b>TOTAL LIABILITIES</b>	<u>34,272</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,272</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>								
Unavailable revenue - property taxes	-	-	-	-	-	-	-	-
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES:</b>								
Restricted for:								
Pension	-	115,799	-	-	-	-	-	115,799
Highways and streets	-	-	-	-	109,713	-	-	109,713
Debt service	-	-	-	-	39,458	-	-	39,458
Downtown revitalization	-	-	-	-	-	-	27,886	27,886
Committed for:								
Post-retirement benefits	188,351	-	-	-	-	-	-	188,351
Assigned for:								
Capital costs	-	-	107,495	241,854	-	-	-	349,349
Unassigned	401,804	-	-	-	-	-	-	401,804
<b>TOTAL FUND BALANCES</b>	<u>590,155</u>	<u>115,799</u>	<u>107,495</u>	<u>241,854</u>	<u>109,713</u>	<u>39,458</u>	<u>27,886</u>	<u>1,232,360</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 624,427</u>	<u>\$ 115,799</u>	<u>\$ 107,495</u>	<u>\$ 241,854</u>	<u>\$ 109,713</u>	<u>\$ 39,458</u>	<u>\$ 27,886</u>	<u>\$ 1,266,632</u>

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

**BOROUGH OF SWARTHMORE  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	General Fund	Pension Tax	Capital Reserve Fund	Capital Projects	Highway Aid	Debt Service	Nonmajor Governmental Fund Community Revitalization	Total
<b>REVENUES</b>								
Taxes								
Real estate tax	\$ 1,644,437	\$ 184,026	\$ -	\$ -	\$ -	\$ 172,245	\$ -	\$ 2,000,708
Transfer tax	201,272	-	-	-	-	-	-	201,272
Local service tax	89,509	-	-	-	-	-	-	89,509
Licenses and permits	117,914	-	-	-	-	-	-	117,914
Fines and forfeits	30,739	-	-	-	-	-	-	30,739
Interest, rents, and royalties	211	-	17	68	18	-	8	322
Intergovernmental revenues	71,514	97,109	-	27,182	113,158	-	-	308,963
Charges for services	404,415	-	-	-	-	-	-	404,415
Miscellaneous revenue/other	121,571	-	-	33,293	7,198	-	-	162,062
<b>TOTAL REVENUES</b>	<u>2,681,582</u>	<u>281,135</u>	<u>17</u>	<u>60,543</u>	<u>120,374</u>	<u>172,245</u>	<u>8</u>	<u>3,315,904</u>
<b>EXPENDITURES</b>								
Current:								
General government	297,436	-	-	20,000	-	-	2,000	319,436
Public safety	1,221,510	-	5,514	-	-	-	-	1,227,024
Health	1,100	-	-	-	-	-	-	1,100
Public works - highways and streets	152,990	-	-	350,401	60,050	-	-	563,441
Other public works	-	-	-	-	-	-	-	-
Library	120,000	-	-	-	-	-	-	120,000
Culture and recreation	85,741	-	-	-	-	-	-	85,741
Community development	20,000	-	-	-	-	-	3,058	23,058
Miscellaneous expenditures	463,486	303,578	-	-	-	-	-	767,064
Debt service:								
Principal	47,829	-	-	-	-	141,568	-	189,397
Interest	7,266	-	-	-	-	36,716	-	43,982
Fiscal agent fees	-	-	-	2,250	-	-	-	2,250
<b>TOTAL EXPENDITURES</b>	<u>2,417,358</u>	<u>303,578</u>	<u>5,514</u>	<u>372,651</u>	<u>60,050</u>	<u>178,284</u>	<u>5,058</u>	<u>3,342,493</u>
<b>EXCESS (DEFICIENCY) OF REVENUES (OVER) UNDER EXPENDITURES</b>	<u>264,224</u>	<u>(22,443)</u>	<u>(5,497)</u>	<u>(312,108)</u>	<u>60,324</u>	<u>(6,039)</u>	<u>(5,050)</u>	<u>(26,569)</u>
<b>OTHER FINANCING SOURCES (USES)</b>								
Proceeds from long-term debt	37,523	-	-	500,000	-	-	-	537,523
Refunds of prior year revenues	(16,813)	-	-	-	-	-	-	(16,813)
Refunds of prior year expenditures	24,485	-	-	-	-	-	-	24,485
Transfers in	-	-	42,000	-	35,362	-	-	77,362
Transfers out	(77,362)	-	-	-	-	-	-	(77,362)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(32,167)</u>	<u>-</u>	<u>42,000</u>	<u>500,000</u>	<u>35,362</u>	<u>-</u>	<u>-</u>	<u>545,195</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>232,057</u>	<u>(22,443)</u>	<u>36,503</u>	<u>187,892</u>	<u>95,686</u>	<u>(6,039)</u>	<u>(5,050)</u>	<u>518,606</u>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	610,548	138,242	70,992	53,682	28,795	2,934	32,936	938,129
<b>PRIOR PERIOD ADJUSTMENT</b>	(252,450)	-	-	280	(14,768)	42,563	-	(224,375)
<b>FUND BALANCES, BEGINNING OF YEAR, RESTATED</b>	<u>358,098</u>	<u>138,242</u>	<u>70,992</u>	<u>53,962</u>	<u>14,027</u>	<u>45,497</u>	<u>32,936</u>	<u>713,754</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 590,155</u>	<u>\$ 115,799</u>	<u>\$ 107,495</u>	<u>\$ 241,854</u>	<u>\$ 109,713</u>	<u>\$ 39,458</u>	<u>\$ 27,886</u>	<u>\$ 1,232,360</u>

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

**BOROUGH OF SWARTHMORE**  
**BUDGETARY COMPARISON STATEMENT - GENERAL FUND - CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Original and Final Budget</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
<b>REVENUES</b>			
Taxes:			
Real estate tax	\$ 1,665,350	\$ 1,644,437	\$ (20,913)
Transfer tax	210,000	201,272	(8,728)
Local service tax	-	89,509	89,509
Licenses and permits	82,000	117,914	35,914
Fines and forfeits	40,000	30,739	(9,261)
Interest, rents, and royalties	150	211	61
Intergovernmental revenues	10,900	71,514	60,614
Charges for services	219,026	404,415	185,389
Miscellaneous revenue/other	225,304	121,571	(103,733)
<b>TOTAL REVENUES</b>	<u>2,452,730</u>	<u>2,681,582</u>	<u>228,852</u>
<b>EXPENDITURES</b>			
Current:			
General government	276,042	297,436	(21,394)
Public safety	1,155,894	1,221,510	(65,616)
Health	1,500	1,100	400
Public works - highways and streets	161,132	152,990	8,142
Other public works	-	-	-
Library	120,000	120,000	-
Culture and recreation	94,100	85,741	8,359
Community development	20,000	20,000	-
Miscellaneous expenditures	590,489	463,486	127,003
Debt service:			
Principal	-	47,829	(47,829)
Interest	-	7,266	(7,266)
<b>TOTAL EXPENDITURES</b>	<u>2,419,157</u>	<u>2,417,358</u>	<u>1,799</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>33,573</u>	<u>264,224</u>	<u>230,651</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from long-term debt	-	37,523	37,523
Refunds of prior year revenues	-	(16,813)	(16,813)
Refunds of prior year expenditures	-	24,485	24,485
Transfers in	-	-	-
Transfers out	-	(77,362)	(77,362)
<b>TOTAL OTHER FINANCING USES</b>	<u>-</u>	<u>(32,167)</u>	<u>(32,167)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>33,573</u>	<u>232,057</u>	<u>198,484</u>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	610,548	610,548	-
<b>PRIOR PERIOD ADJUSTMENT</b>	<u>-</u>	<u>(252,450)</u>	<u>(252,450)</u>
<b>FUND BALANCES, BEGINNING OF YEAR, RESTATED</b>	<u>610,548</u>	<u>358,098</u>	<u>(252,450)</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 644,121</u>	<u>\$ 590,155</u>	<u>\$ (53,966)</u>

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

**BOROUGH OF SWARTHMORE**  
**BUDGETARY COMPARISON STATEMENT - PENSION TAX FUND - CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	Original and Final Budget	Actual Amounts (Budgetary Basis)	Variance Positive (Negative)
REVENUES			
Property taxes	\$ 187,225	\$ 184,026	\$ (3,199)
Intergovernmental revenues	87,500	97,109	9,609
TOTAL REVENUES	<u>274,725</u>	<u>281,135</u>	<u>6,410</u>
EXPENDITURES			
Current:			
Miscellaneous	<u>303,578</u>	<u>303,578</u>	<u>-</u>
TOTAL EXPENDITURES	<u>303,578</u>	<u>303,578</u>	<u>-</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(28,853)	(22,443)	6,410
FUND BALANCE, BEGINNING OF YEAR	<u>138,242</u>	<u>138,242</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 109,389</u>	<u>\$ 115,799</u>	<u>\$ 6,410</u>

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

**BOROUGH OF SWARTHMORE**  
**BUDGETARY COMPARISON STATEMENT - HIGHWAY AID FUND - CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	Original and Final Budget	Actual Amounts (Budgetary Basis)	Variance Positive (Negative)
REVENUES			
Interest	\$ 25	\$ 18	\$ (7)
Intergovernmental revenues	110,225	113,158	2,933
Miscellaneous revenue/other	-	7,198	7,198
TOTAL REVENUES	110,250	120,374	10,124
EXPENDITURES			
Current:			
Highways and roads	105,850	60,050	45,800
TOTAL EXPENDITURES	105,850	60,050	45,800
EXCESS OF REVENUES OVER EXPENDITURES	4,400	60,324	55,924
OTHER FINANCING SOURCES			
Transfers in	-	35,362	35,362
TOTAL OTHER FINANCING SOURCES	-	35,362	35,362
NET CHANGE IN FUND BALANCE	4,400	95,686	91,286
FUND BALANCE, BEGINNING OF YEAR	28,795	28,795	-
PRIOR PERIOD ADJUSTMENT	-	(14,768)	(14,768)
FUND BALANCES, BEGINNING OF YEAR, RESTATED	28,795	14,027	(14,768)
FUND BALANCE, END OF YEAR	\$ 33,195	\$ 109,713	\$ 76,518

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

**BOROUGH OF SWARTHMORE**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS - CASH BASIS**  
**DECEMBER 31, 2013**

	<u>Sewer and Solid Waste</u>	<u>Sanitary Sewer</u>	<u>Totals</u>
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 147,701	\$ 55,912	\$ 203,613
Due from other funds	-	-	-
Total Current Assets	<u>147,701</u>	<u>55,912</u>	<u>203,613</u>
<b>LIABILITIES AND NET POSITION</b>			
Liabilities:			
Due to other funds	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Net Position:			
Unrestricted	147,701	55,912	203,613
Total Net Position	<u>\$ 147,701</u>	<u>\$ 55,912</u>	<u>\$ 203,613</u>

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

**BOROUGH OF SWARTHMORE**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET**  
**POSITION - PROPRIETARY FUNDS - CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Sewer and Solid Waste</u>	<u>Sanitary Sewer</u>	<u>Totals</u>
<b>OPERATING REVENUES</b>			
Trash service charges	\$ 498,168	\$ -	\$ 498,168
Sewer service charges	923,948	-	923,948
Other revenues	39,891	-	39,891
<b>TOTAL OPERATING REVENUES</b>	<u>1,462,007</u>	<u>-</u>	<u>1,462,007</u>
<b>OPERATING EXPENSES</b>			
Trash service charges	371,909	-	371,909
Sewer service charges	653,133	-	653,133
General and administrative	257,520	5,975	263,495
<b>TOTAL OPERATING EXPENSES</b>	<u>1,282,562</u>	<u>5,975</u>	<u>1,288,537</u>
<b>OPERATING INCOME (LOSS)</b>	<u>179,445</u>	<u>(5,975)</u>	<u>173,470</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Net earnings on investments	160	8	168
Transfers in (out)	(30,000)	30,000	-
Interest expense	(24,791)	-	(24,791)
Principal paid on debt	(90,368)	-	(90,368)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<u>(144,999)</u>	<u>30,008</u>	<u>(114,991)</u>
<b>CHANGE IN NET POSITION</b>	<u>34,446</u>	<u>24,033</u>	<u>58,479</u>
<b>NET POSITION, BEGINNING OF YEAR</b>	(112,280)	36,507	(75,773)
<b>PRIOR PERIOD ADJUSTMENTS</b>	<u>225,535</u>	<u>(4,628)</u>	<u>220,907</u>
<b>NET POSITION, BEGINNING OF YEAR, RESTATED</b>	<u>113,255</u>	<u>31,879</u>	<u>145,134</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 147,701</u>	<u>\$ 55,912</u>	<u>\$ 203,613</u>

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

**BOROUGH OF SWARTHMORE**  
**STATEMENT OF NET POSITION - FIDUCIARY FUNDS - CASH BASIS**  
**DECEMBER 31, 2013**

	<u>Pension Trust Funds</u>	<u>Agency Funds</u>	<u>Total Fiduciary Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 123,899	\$ 14,877	\$ 138,776
Investments, at market value - mutual funds			
Mutual funds - fixed income	1,830,432	-	1,830,432
Mutual funds - equity	2,554,752	-	2,554,752
Mutual funds - international equity	1,029,128	-	1,029,128
Other assets	16,391	-	16,391
<b>TOTAL ASSETS</b>	<u>5,554,602</u>	<u>14,877</u>	<u>5,569,479</u>
 <b>LIABILITIES</b>			
Escrow payable	-	14,877	14,877
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>14,877</u>	<u>14,877</u>
 <b>NET POSITION</b>			
Net position restricted for pension benefits	<u>\$ 5,554,602</u>	<u>\$ -</u>	<u>\$ 5,554,602</u>

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

**BOROUGH OF SWARTHMORE**  
**STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS - CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Pension Trust Funds</u>
<u>ADDITIONS</u>	
Contributions:	
Municipal contributions	\$ 254,432
Employee contributions	65,726
State contributions	97,109
Total Contributions	<u>417,267</u>
Investment income:	
Net increase in fair value of investments	676,679
Realized gain on investments	93,781
Interest	79,451
Total Investment Earnings	<u>849,911</u>
Less: Investment expense	<u>(46,224)</u>
Net Investment Earnings	<u>803,687</u>
Miscellaneous	<u>9,761</u>
<b>TOTAL ADDITIONS</b>	<u><b>1,230,715</b></u>
<u>DEDUCTIONS</u>	
Benefits paid	285,400
Administrative expenses	14,869
<b>TOTAL DEDUCTIONS</b>	<u><b>300,269</b></u>
<b>CHANGE IN NET POSITION</b>	930,446
<b>NET POSITION, BEGINNING OF YEAR</b>	<u><b>4,624,156</b></u>
<b>NET POSITION, END OF YEAR</b>	<u><u><b>\$ 5,554,602</b></u></u>

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

BOROUGH OF SWARTHMORE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The Borough of Swarthmore is a municipal corporation existing and operating under the Borough Code of the Commonwealth of Pennsylvania. The accompanying financial statements present the primary government.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position - cash basis and the statement of activities - cash basis) report information on all of the non-fiduciary activities of the primary government. 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 is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to 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 and major individual enterprise 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 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 - cash basis and the statement of activities - cash basis, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the cash basis of accounting, as defined.

BOROUGH OF SWARTHMORE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

All government and proprietary funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on the balance sheet - cash basis and statement of financial position - cash basis. The operating statements present sources and uses 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.

*Basis of Accounting*

In the government-wide statement of net position - cash basis, statement of activities - cash basis, and the fund financial statements, governmental and business-like activities are presented using the cash basis of accounting. This basis recognizes assets, liabilities, net position/fund equity, revenues, and expenditures/expenses when they result from cash transactions in the government-wide statements and proprietary fund statements. This basis is a comprehensive basis of accounting other than accounting generally accepted in the United States of America. As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable capital assets and revenue for billed or provided services not yet collected), and certain liabilities and their related expenses (such as accounts payable, debt 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 financial statements would be presented on the accrual basis of accounting.

*Financial Statement Presentation*

The government reports the following major governmental funds:

- The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Pension Tax Fund* is a special revenue fund used to account for the collection of taxes used to fund the Borough's pension plans. The primary revenue stream is real estate taxes and grants revenue.
- The *Capital Reserve Fund* is a capital fund used primarily for purchase of major pieces of equipment.

BOROUGH OF SWARTHMORE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

- The *Capital Projects Fund* is a capital fund used to account for the various capital projects within the Borough.
- The *Highway Aid Fund* is a special revenue fund used to account for highway related projects in the Borough. The primary revenue stream is grant revenue.
- The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest payments on long-term debt of governmental funds.
- The *Downtown Revitalization Fund* is a capital fund used to account for community improvements.

The government reports the following proprietary fund types:

- The *Sewer and Solid Waste Fund* is a proprietary fund used to account for revenue and expenditures relating to sewer, recycling, and trash. Revenues include money from current and delinquent sewer and trash fees, and recycling sales. Expenditures include sanitary and storm sewer maintenance and repair, sanitary sewage treatment, trash collection, recycling collection, and an allocated portion of Borough administrative expenditures.
- The *Sanitary Sewer Fund* is a capital proprietary fund used for major sanitary sewer repairs. Revenue is derived from money raised by sewer fees assessed in the Sewer and Solid Waste Fund. The monies are transferred to the capital fund annually. Expenditures are restricted to repairs of the Borough's sanitary sewer lines and related engineering costs.

The government reports the following fiduciary fund type:

- The *Pension Trust Funds* account for the activities of the Police and Employees' Pension plans, which accumulate resources for pension benefit payments to qualified employees.
- The *Agency Funds* account for assets held by the Borough as an agent for individuals, private organizations, other governments, and other funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes, and other charges between the government's sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

BOROUGH OF SWARTHMORE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Proprietary funds distinguish operating revenues and expenses from non-operating items.

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

Operating expenses for enterprise funds include payroll, intergovernmental payments, and treatment costs. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

Use of Estimates

The preparation of the financial statements in conformity with the cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Assets, Liabilities, and Net Position or Equity

*Deposits and Investments*

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the Borough are reported at fair value. The Pennsylvania Local Government Investment Trust operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

With the exception of pension trust funds, state law allows the government to invest in obligations of the United States of America, the Commonwealth of Pennsylvania, or any agency or instrumentality of either, which are secured by the full faith and credit of such entity. The law also allows for the government to invest in certificates of deposit of banks, savings and loans, and savings banks both within and outside the Commonwealth of Pennsylvania, provided such amounts are insured by the Federal Deposit Insurance Corporation ("FDIC") or other like insurance, and that deposits in excess of such insurance are collateralized by the depository. The state also imposes limitations with respect to the amount of investment in certificates of deposit to the extent that such deposits may not exceed 20 percent of a bank's total capital surplus or 20 percent of a savings and loan's or savings bank's assets, net of its liabilities. The government may also invest in shares of registered investment companies, provided that investments of the company are authorized investments, as noted above. The government has adopted an investment policy.

BOROUGH OF SWARTHMORE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The law provides that the government's pension trust funds may invest in any form or type of investment, financial instrument, or financial transaction if determined by the government to be prudent. The Borough is authorized by Borough Council to invest in accordance with the laws of the Commonwealth of Pennsylvania and the approved investment policy statement.

*Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

*Property Taxes*

Property taxes are levied as of January 1 on property values assessed as of the same date.

Sewer and trash fees are assessed as of the same date. Taxes and fees are billed February 1 and payable under the following terms: a two percent discount February 1 through March 31; face amount April 1 through May 31; and a 10 percent penalty after June 1. Any unpaid bills at December 31 are subject to lien, and penalties and interest are assessed.

The Borough employs an elected Tax Collector to collect the property tax, sewer, and trash fees levied. The Tax Collector remits Borough taxes and fees at least monthly and is paid a salary.

*Compensated Absences*

It is the government's policy to permit employees to accumulate earned but unused sick pay benefits. There is no liability for unpaid accumulated sick pay benefits in the financial statements since they are being reported on the cash basis of accounting, as described in Note 1. The liability at December 31, 2013 was \$210,948.

*Long-term Obligations*

Long-term debt and other long-term obligations are expensed as paid under the cash basis of accounting. Any issuance premiums or discounts, as well as issuance costs, are recorded as other financing sources and uses at the time of issuance.

BOROUGH OF SWARTHMORE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

*Net Position*

In the government-wide financial statements and the proprietary funds, net position is classified in the following categories:

- Restricted Net Position - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position - This category represents net position of the entity, not restricted for any project or other purpose.

*Fund Balance*

Governmental funds report fund balance in classifications based primarily on the extent to which the Borough is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

- Non-spendable Fund Balance - includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.
- Restricted Fund Balance - includes amounts that are restricted for specific purposes stipulated by external resources providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- Committed Fund Balance - includes amounts that can only be used for the specific purposes determined by a formal action of the Borough's highest level of decision-making authority, the Borough Council. Commitments may be changed or lifted only by the Borough taking the same formal action that imposed the constraint originally (for example: resolution and ordinance).
- Assigned Fund Balance - includes amounts intended to be used by the Borough for specific purposes that are neither restricted nor committed. Intent is expressed by (a) the Borough Council or (b) a body (a budget, finance committee, or Borough Manager and Finance Director) to which the assigned amounts are to be used for specific purposes. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) that are not classified as non-spendable, restricted, or committed.
- Unassigned Fund Balance - this residual classification is used for all negative fund balances in Special Revenue, Capital Projects, and Debt Service funds; or any residual amounts in the General Fund.

BOROUGH OF SWARTHMORE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned. In all cases, encumbrance amounts have been assigned for specific purposes for which resources already have been allocated.

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on the cash basis of accounting which is a basis of accounting other than generally accepted accounting principles for all funds except the capital projects funds (including sanitary sewer). All appropriations lapse at year end unless the Borough Council approves a carry-over of an unused budget line item.

Beginning at least 30 days prior to the adoption of the budget, a proposed budget is prepared in a manner designated by Borough Council. Notice that the proposed budget is available for inspection is published by the Borough Secretary in a newspaper of general circulation. The budget is then made available for a 10-day period. The Council must adopt the budget through a motion by December 31. It is also the duty of Council to adopt an ordinance levying taxes as allowed by Borough Code. All budget revisions require the approval of the Borough Council.

On the budgetary comparison schedule for the General Fund, capital lease proceeds are shown net of expenses on the public safety line. In the fund statements, capital lease proceeds are shown as non-operating revenues.

Excess of Expenditures Over Appropriations

For the year ended December 31, 2013, the General Fund expenditures exceeded appropriations in the categories of general government (\$21,394), public safety (\$65,616), and debt service (\$55,095), for a total of \$142,105. These expenditures were funded by greater than anticipated revenues.

NOTE 3 DETAILED NOTES ON ALL FUNDS

Deposits and Investments

*Custodial Credit Risk - Deposits*

In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of December 31, 2013, the government's carrying amount of deposits was \$1,609,021 (includes pension trust funds), and the bank balance was \$1,610,256, the difference being outstanding checks and deposits. Of the bank balance, up to \$140,756 is

BOROUGH OF SWARTHMORE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

NOTE 3 DETAILED NOTES ON ALL FUNDS (cont'd)

covered by federal depository insurance. Any balances exceeding federal depository insurance are exposed to custodial credit risk because it is uninsured and collateralized with securities held by the pledging institution's trust department or agent, but not in the government's name. The risks of default are eliminated due to the constraints imposed upon allowable investment instruments by the Borough's investment policy and through state limitations.

As of December 31, 2013, \$1,469,500 of the Borough's deposits was in the Pennsylvania Local Government Investment Trust ("PLGIT"). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PLGIT acts like a money market mutual fund in that its objective is to maintain a stable net asset value of \$1 per share, is rated by a nationally recognized rating organization (Standard & Poor's rating of AAAM as of December 31, 2013), and is subject to an independent annual audit.

*Custodial Credit Risk - Investments*

For an investment, this is the risk that, in the event of a failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. All investments are "held in the name of the government" and, thus, not exposed to custodial credit risk.

As of December 31, 2013, the Borough had the following investments:

	Fair Value
Fiduciary Funds:	
Mutual funds -fixed income	\$ 1,830,432
Mutual funds - equity	2,554,752
Mutual funds - international equity	1,029,128
Total Fiduciary Funds	\$ 5,414,312

Investments in external investment pools, such as mutual funds, are disclosed but not subject to interest rate, custodial, credit, or concentration risks because they are not evidenced by securities that exists in physical or book entry form.

Interfund Transfers

Transfers out:		Transfers in:	
General Fund	\$ 77,362	Capital Reserve	\$ 42,000
		Highway Aid	35,362
Total	\$ 77,362	Total	\$ 77,362

General fund transfers to the capital reserve fund were made to set aside funds for future capital projects. General fund transfers to the highway aid fund were made to reimburse the highway aid fund for unallowed expenditures.

BOROUGH OF SWARTHMORE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

NOTE 3 DETAILED NOTES ON ALL FUNDS (cont'd)

Leases

*Operating Leases*

The Borough leases various pieces of office equipment under non-cancelable operating leases. Total liabilities under these leases are considered immaterial to the financial statements.

*Capital Leases*

The assets acquired through capital leases are as follows:

Asset:	Governmental Activities
Vehicles	\$70,995

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2013, were as follows:

Year Ending December 31,	Governmental Activities
2014	\$ 25,170
2015	13,303
Total Minimum Lease Payments	38,473
Less: amount representing interest	(3,110)
Present value of minimum lease payments	\$ 35,363

Long-term Debt

General Obligation Notes: The Borough obtains general obligation notes to provide funds for the acquisition and construction of major capital assets. General obligation notes have been issued for both governmental and business-type activities. The original amount of general obligation notes issued in prior years was \$4,475,000. During fiscal year ended December 31, 2013, the Borough issued general obligation series 2013 in the amount of \$500,000.

General obligation notes are direct obligations and pledge the full faith and credit of the government. These notes are generally issued as 15 - 20 year notes with varying amounts of principal maturing each year.

BOROUGH OF SWARTHMORE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

NOTE 3 DETAILED NOTES ON ALL FUNDS (cont'd)

As of December 31, 2013, general obligation notes arising from cash basis transactions, payable from governmental fund resources consisted of the following:

Purpose	Interest Rates	Amount
Governmental Activities	0.998% to 4.633%	\$ 2,407,960
Business-type Activities	0.998%	229,040
		<u>\$ 2,637,000</u>

*Interest Rate Management:* The Borough has notes outstanding with Delaware Valley Regional Finance Authority ("DVRFA") as described below. The DVRFA has issued bonds to provide funds for these loans and has entered into interest rate swap agreements with Bank of America ("BANA") and Citibank. The objective is to reduce the costs of participants in the DVRFA Loan Program and to enhance the ability of participants to manage their interest rate risks. The interest rate swaps serve as hedges against swings in the cash flows that would be required to repay outstanding debt.

*Terms:* The significant terms of the interest rate swap was as follows:

Description	Date of Issue	Maturity Date	Principal Outstanding	Type of Note	Rate in Effect at Year End	Market Value
GO Note	2000	2015	\$ 298,000	Fixed	3.585%	\$ 29,460
GO Note	2002	2022	323,000	Fixed	1.500%	41,098
GO Note	2004	2024	463,000	Fixed	2.400%	46,135
GO Note	2006	2026	644,000	Fixed	4.633%	31,240
GO Note	2008	2028	409,000	Variable	1.164%	53,697
GO Note	2013	2033	500,000	Variable	.998%	65,644
			<u>\$ 2,637,000</u>			<u>\$ 267,274</u>

*Interest Rate Risk:* The Borough has the option under the loan agreements to pay a variable rate of interest or a fixed rate. If the Borough elects the variable rate, the interest rate, based upon the Securities Industry and Financial Markets Association Municipal Swap Index (the "Municipal Swap Index"), adjusts weekly with a maximum interest rate of 15 percent. If the Borough elects a fixed rate, the rate, with terms and conditions selected by the Borough, would be set based upon the fixed rate swap market at that time with a new confirm executed by DVRFA under the DVRFA Swap Agreement. The Borough has the option to convert all or a portion of the variable rate notes to a fixed rate at any time to mitigate the exposure to changes in interest rates.

BOROUGH OF SWARTHMORE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

NOTE 3 DETAILED NOTES ON ALL FUNDS (cont'd)

*Basis Risk:* The Borough does not have a basis risk.

*Credit Risk:* The Borough is exposed to credit risk on the swaps only when their fair values are negative or liabilities. At December 31, 2013, the swap had a positive fair value and the maximum amount of loss due to credit risk is zero. The long-term unsecured, senior debt ratings of DVRFA are currently A2 and A+ by Moody's and Standards & Poor's, respectively.

*Termination Risk:* The Borough is obligated to pay any termination payment associated with the portion of the DVRFA Swap Agreement allocable to the applicable note. A termination payment may be incurred due to the termination of all or a portion of the DVRFA Swap Agreement with the mutual consent of DVRFA, BANA, Citibank, and the Borough. These termination payments could be triggered in the event of (i) a payment default by the Borough under the Loan Agreement, (ii) a payment default by DVRFA, BANA, or Citibank under the DVRF A Swap Agreement, (iii) the occurrence of events that may precipitate a payment default by DVRFA, BANA, or Citibank or (iv) the downgrading of the long-term, unsecured, senior debt ratings of BANA, Citibank, or DVRFA.

In all instances of termination, except a payment default on a note converted to a fixed rate, DVRFA would seek to replace the DVRFA Swap Agreement with a new interest rate swap agreement with similar terms and conditions. The amount of the termination payment is determined by the market value of the DVRFA Swap Agreement; therefore, the cost or income of the replacement swap should offset the cost or income from the termination payment.

DVRFA may not be able to secure the replacement interest rate swap if the swap market is not functioning normally or if DVRFA does not have access to the swap market. If DVRFA was obligated to make a payment and sufficient funds were not available, DVRFA could access each borrower its allocable share of the termination payment.

The estimated termination payment (i.e., the market value) for the DVRFA Swap Agreement allocable to the Borough debt as of December 31, 2013, is shown in the table on the previous page. In the event of a termination payment, DVRFA would assess the net loss, if any, to the Borough. Any net gain on the termination payment allocable to variable rate notes would be retained by DVRFA.

*Rollover Risk:* This is the risk that the derivative does not last as long as the associated debt is outstanding. There is rollover risk on the interest rate swaps only to the extent that the swaps may be terminated prior to the maturity of the debt, as described above. Absent a termination event, the swap is scheduled to mature at the same time as the related debt.

*Market Access Risk:* The Borough does not have this risk.

An analysis of debt service requirements including sinking fund requirements to maturity on these obligations is as follows:

BOROUGH OF SWARTHMORE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

NOTE 3 DETAILED NOTES ON ALL FUNDS (cont'd)

Governmental Activities:

Year Ending December 31,	Principal	Interest	Total Maturities
2014	\$ 173,396	\$ 41,536	\$ 214,932
2015	182,454	38,902	221,356
2016	99,638	37,239	136,877
2017	104,167	37,010	141,177
2018	108,696	35,850	144,546
2019 - 2023	581,653	124,480	706,133
2024 - 2028	348,733	38,438	387,171
2029 - 2033	107,402	7,751	115,153
	<u>\$ 1,706,139</u>	<u>\$ 361,206</u>	<u>\$ 2,067,345</u>

Business-type Activities:

Year Ending December 31,	Principal	Interest	Total Maturities
2014	\$ 94,604	\$ 22,662	\$ 117,266
2015	99,546	21,225	120,771
2016	54,362	20,318	74,680
2017	56,833	20,193	77,026
2018	59,304	19,559	78,863
2019 - 2023	317,347	67,916	385,263
2024 - 2028	190,267	20,972	211,239
2029 - 2033	58,598	4,229	62,827
	<u>\$ 930,861</u>	<u>\$ 197,074</u>	<u>\$ 1,127,935</u>

A schedule of changes in debt is as follows:

	Beginning Balance 1/1/13	Additions	Reductions	Ending Balance 12/31/13	Amounts Due Within One Year
Governmental Activities:					
Capital Lease	\$ 21,605	\$ 37,523	\$ 23,765	\$ 35,363	\$ 24,446
GO Notes	1,371,771	500,000	165,632	1,706,139	173,396
Compensated absences	200,238	29,343	18,633	210,948	-
OPEB obligation	155,240	41,556	-	196,796	-
Total Governmental Activities	<u>1,748,854</u>	<u>608,422</u>	<u>208,030</u>	<u>2,149,246</u>	<u>197,842</u>
Business-type Activities:					
GO Notes	1,021,229	-	90,368	930,861	94,604
Total Business-type Activities	<u>1,021,229</u>	<u>-</u>	<u>90,368</u>	<u>930,861</u>	<u>94,604</u>
Total	<u>\$ 2,770,083</u>	<u>\$ 608,422</u>	<u>\$ 298,398</u>	<u>\$ 3,080,107</u>	<u>\$ 292,446</u>

BOROUGH OF SWARTHMORE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

NOTE 3     DETAILED NOTES ON ALL FUNDS (cont'd)

For the year ended December 31, 2013, interest expense for the governmental activities and the business-type activities was \$43,982 and \$24,791, respectively.

NOTE 4     OTHER INFORMATION

Risk Management

The Borough is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. The Borough participates in the Delaware Valley Insurance Trust pool. The insurance expense for the year ended December 31, 2013 was \$64,284. The pooling agreement permits the pool to make additional assessments to its members. At December 31, 2013, there were no additional assessments due or anticipated; instead the pool declared a dividend of which the Borough's share was \$21,535.

The Borough is also a member of the Delaware Valley Workers' Compensation Trust ("DWWCT"), a risk retention pool. The insurance expense for the year ended December 31, 2013 was \$49,934. The Trust declared a dividend in 2013. The Borough's share of the dividend distribution was \$8,002. At December 31, 2013, there were no additional assessments due or anticipated; an audit of the reported 2013 payroll will be performed during 2014.

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustments by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial. In the normal course of business, there are various relatively minor claims and suits pending against the Borough, none of which materially affect the financial position of the Borough.

Employee Retirement Systems and Pension Plans

*Defined Benefit Pension Plan*

The Borough administers two single employer defined benefit pension plans, the Municipal Police Pension Plan and the Employees' Pension Plan. All eligible full-time police and non-uniformed employees participate in the plans, except for employees hired after January 1, 2010. Following are details of these two plans.

BOROUGH OF SWARTHMORE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

NOTE 4 OTHER INFORMATION (cont'd)

The most recent valuation was as of January 1, 2013. Details below are from the valuation.

	Police	Employees'
Retirees and beneficiaries currently receiving benefits	7	7
Terminated employees entitled to benefits not yet receiving them	-	-
Active employees	9	7
Total Membership	16	14

The Employees' plan was closed to new entrants as of January 1, 2010.

*Description of Municipal Police Pension Plan*

The pension plan covers all full-time Borough police officers as of the date of hire. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. Retirement benefits vest after 12 or more years of service to the Borough. A plan member is eligible to receive normal retirement benefits upon reaching age 55 and 25 years of service at termination. The monthly normal retirement benefit is equal to 50 percent of the final 36-month average compensation plus a Service Increment Benefit. A Service Increment Benefit is equal to a maximum of \$500 per month if the participant has at least 26 years of service at retirement. Early retirement is available after 20 or more years of service at termination. The amount of immediate monthly pension is the amount of the deferred monthly pension actuarially reduced to reflect early commencement of benefits. The deferred monthly pension is a percentage of the participant's final 36-month average salary and is payable commencing at the member's projected normal retirement date. The percentage is equal to 50 percent multiplied by the ratio of the participant's service at termination to projected service at normal retirement.

Member contributions are determined and amended through the Collective Bargaining Agreement. For the year ended December 31, 2013, member contributions were five percent of total compensation. The plan is subject to the funding and reporting requirements of the Pennsylvania Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984), Act 600, and the Collective Bargaining Agreement. The plan is governed by Borough Council, which is responsible for the management of plan assets. Benefit provisions have been established through collective bargaining. Administrative costs of the plan are financed through investment earnings.

This plan issues a stand-alone financial statement which can be obtained at the Borough's Administrative Office.

BOROUGH OF SWARTHMORE  
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

NOTE 4 OTHER INFORMATION (cont'd)

*Description of Employees' Pension Plan*

The pension plan covers all eligible full-time Borough employees (excluding police officers), except for employees hired after January 1, 2010. The plan provides retirement and death benefits to plan members and their beneficiaries. Retirement benefits vest after five or more years of service to the Borough at termination. A plan member is eligible to receive normal retirement benefits upon reaching age 58. The monthly retirement benefit is equal to 2.0 percent multiplied by the final 36-month average compensation multiplied by years of service (25 year maximum). Disability benefits have been revoked as of June 11, 2012 through Borough Council Ordinance No. 1050.

Member contributions are determined and amended through annual resolution of Borough Council. For the year ended December 31, 2013, member contributions were five percent of total compensation. The Borough is required by statute, principally Pennsylvania Act 205, to contribute the remaining amounts necessary to finance the Fund. Benefit and contribution provisions are established by Pennsylvania law and may be amended only as allowed by Pennsylvania law. Administrative costs of the plan are financed through investment earnings.

This plan issues a stand-alone financial statement which can be obtained at the Borough's Administrative Office.

Summary of Significant Accounting Policies and Plan Asset Matters

*Basis of Accounting:* The plan's financial statements are prepared using the cash basis of accounting. Plan member, employer contributions, benefits, and refund are recognized in the period in which the cash is transacted.

*Method Used to Value Investments:* Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value.

Contributions Required and Contributions Made

The pension plan funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Level percentage of payroll employer contribution rates are determined using the entry age normal actuarial funding method as required by Pennsylvania Act 205. The pension plan also uses a method defined by Act 205 to amortize the unfunded liability over a defined period.

BOROUGH OF SWARTHMORE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

NOTE 4 OTHER INFORMATION (cont'd)

Funded Status and Funding Progress

The funded status of each plan as of January 1, 2013, the most recent actuarial valuation date, is as follows:

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
Police	\$ 3,198,212	\$ 4,656,033	\$ 1,457,821	68.69%	\$ 840,800	173.38%
Employees'	\$ 1,361,156	\$ 1,600,218	\$ 239,062	85.06%	\$ 420,292	56.88%

The schedule of funding progress presented as supplementary information ("SI") immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

Annual Pension Cost and Net Pension Obligation

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

	Police	Employees'
Annual required contribution	\$ 153,093	\$ 67,990
Interest on net pension obligation	-	(4,433)
Adjustment to annual required contribution	-	(3,941)
Annual pension cost	153,093	67,498
Contributions made per MMO	(153,093)	(67,990)
Increase in pension obligation	-	(492)
Net pension obligation (asset) - beginning of year	-	(59,109)
Net pension obligation (asset) - end of year	\$ -	\$ (59,601)

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 liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

BOROUGH OF SWARTHMORE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

NOTE 4 OTHER INFORMATION (cont'd)

**Police**

In the January 1, 2013 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 7.75 percent investment rate of return and a 5 percent projected salary increase. The UAAL is being amortized based on the level percentage closed method with a 15 year amortization period.

**Employees'**

In the January 1, 2013 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 7.5 percent investment rate of return and a 3.5 percent projected salary increase. The UAAL is being amortized based on the level percentage closed method with a nine-year amortization period.

Three-year Trend Information

**Police**

Year Ended December 31,	Annual Pension Cost	Contributions	Percentage Contributed	Net OPEB Obligation (Asset)
2010	\$ 38,359	\$ 38,359	100%	\$ -
2011	\$ 115,794	\$ 115,794	100%	\$ -
2012	\$ 153,093	\$ 153,093	100%	\$ -

**Employees'**

Year Ended December 31,	Annual Pension Cost	Contributions	Percentage Contributed	Net OPEB Obligation (Asset)
2010	\$ 21,253	\$ 21,253	100%	\$ (58,475)
2011	\$ 58,359	\$ 58,359	100%	\$ (59,109)
2012	\$ 67,990	\$ 67,990	100%	\$ (59,601)

Other Post-employment Benefits

The Borough administers a public employee retirement, single-employer defined other post-employment benefit plan ("OPEB") to provide for certain postretirement healthcare benefits, the Police Post-Retirement Fund.

BOROUGH OF SWARTHMORE  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2013

NOTE 4 OTHER INFORMATION (cont'd)

Plan membership was as follows, per the last actuarial valuation dated January 1, 2013:

	Police
Retirees and beneficiaries currently receiving benefits	-
Active plan members	8
Total Membership	8

Description of the Plan

Through police contract, any officer who retires on a normal or service-related disability pension shall receive from the Borough, until the retired officer becomes eligible for Medicare, or until any other source of medical benefits becomes available through employment of the officer, or his or her spouse, a benefit equal to the cost of the basic single health coverage provided at the date of retirement.

The Borough shall also extend full coverage for the officer's spouse until the spouse is eligible for Medicare. The maximum benefit period for a spouse shall be 10 years with a maximum benefit payment of \$250 per month.

Basic coverage is defined as the medical, vision, and dental plan offered for active employees with no required co-pay. In the event of an officer's death in the line of duty, medical benefits enjoyed by the officer at the time of his or her death shall be continued for the officer's family until the death or remarriage of the widow/widower and until the children reach the age of 18, or if a full-time student, age 23. All post-retirement medical benefits will cease if any government-authorized or government-required health plan covering early retirees becomes available, provided that such plan provides the same or better level of coverage.

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

Funding Policy

Retirees are not required to make contributions to this plan. There are no required contributions of the employer. The contribution requirements of the Borough and plan members have been established and may be amended through Board Resolution and Police Labor Contracts. The Borough is accounting for these expenditures on a "pay-as-you-go" basis. For December 31, 2013, the Borough allocated \$32,000 into savings for this plan. The Borough has not established a separate trust for these benefits; therefore, allocated savings for the year are not listed in these notes as "contributions". The amounts shown as contributions are actual payments of insurance premiums for the year. The annual cost of these benefits in 2013 was \$0. There were no retirees receiving benefits in 2013.

BOROUGH OF SWARTHMORE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

NOTE 4 OTHER INFORMATION (cont'd)

Funded Status and Funding Progress

The funded status of the plan as of the most recent actuarial valuation date is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
1/1/2011	\$ -	\$338,028	\$ 338,028	0.00%	N/A*	0.00%

NA\* - Benefits are not pay related

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.

The schedule of funding progress, presented as supplementary information ("SI") following the notes to the financial statements, is to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. However, because the Borough maintains no plan assets, required disclosures over plan assets is not applicable.

Projections of benefits are based on the types of benefits provided under the substantive plan at the time of each valuation and on the pattern of sharing of benefit costs between the employer and plan members to that point, and the projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Annual OPEB Cost and Net OPEB Obligation

The Borough's annual OPEB cost is calculated based on the annual pension contribution ("APC") of the employer, an amount actuarially determined in accordance with the parameters of the GASB Standards Codification. The APC 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 of 30 years. The following table illustrates 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:

BOROUGH OF SWARTHMORE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

NOTE 4 OTHER INFORMATION (cont'd)

	<u>Police OPEB</u>
Annual required contribution	\$ 46,159
Interest on net OPEB obligation	12,419
Adjustment to annual required contribution	(17,022)
Annual OPEB cost (expense)	41,556
Contributions made	-
Increase in net OPEB obligation	41,556
Net OPEB obligation - beginning of year	155,240
Net OPEB obligation - end of year	\$ 196,796

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 liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2011 actuarial valuation, the projected unit credit age actuarial cost method was used. The actuarial assumptions included a 5.0 percent investment rate of return and an annual healthcare cost trend rate of 10 percent, reduced by decrements of 1.0 percent per year until an ultimate rate of 5.0 percent is reached. The amortization period is over 30 years and is calculated using the level dollar - open method.

Three-year Trend Information:

Year Ended December 31,	Annual OPEB Cost	Contributions	Percentage Contributed	Net OPEB Obligation (Asset)
2011	\$ 44,135	\$ 3,972	9%	\$ 112,414
2012	\$ 42,826	\$ -	0%	\$ 155,240
2013	\$ 41,556	\$ -	0%	\$ 196,796

BOROUGH OF SWARTHMORE  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

NOTE 4 OTHER INFORMATION (cont'd)

Prior Period Restatement

The beginning fund balance/net position of the governmental activities and governmental funds has been decreased by \$224,375 to correct interfund balances from the prior year. In addition, the beginning net position of the business-type activities and all proprietary funds have been increased by \$220,907 to correct interfund balances from the prior year.

Subsequent Events

The Borough has evaluated all subsequent events through October 6, 2014, the date the financial statements were available to be issued.

BOROUGH OF SWARTHMORE

SUPPLEMENTARY INFORMATION – EMPLOYEES' PENSION PLAN

SCHEDULE OF FUNDING PROGRESS

Ten-year historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The ten-year historical trend information required to be disclosed is as follows: (beginning with the January 1, 2004 valuation)

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Net Assets Available for Benefits	Pension Obligation Benefit	(Overfunded) Unfunded Pension Benefit Obligation (2)-(1)	Percentage Funded (1)/(2)	Annual Covered Payroll	(Overfunded) Unfunded Pension Benefit Obligation as a Percentage of Covered Payroll (3)/(5)
1/1/04	*	*	*	*	*	*
1/1/05	1,060,701	1,099,074	38,373	96.51%	307,145	12.49%
1/1/06	*	*	*	*	*	*
1/1/07	1,246,311	1,237,510	(8,801)	100.71%	425,442	(2.07)%
1/1/08	*	*	*	*	*	*
1/1/09	943,283	1,542,001	598,718	61.17%	432,614	138.40%
1/1/10	*	*	*	*	*	*
1/1/11	1,106,525	1,534,669	423,144	72.10%	402,494	106.37%
1/1/12	*	*	*	*	*	*
1/1/13	1,361,156	1,600,218	239,062	85.06%	420,292	56.88%

\* Information not available due to actuarial valuation required by Act 205 biennially.

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the pension benefit obligation as a factor.

BOROUGH OF SWARTHMORE

SUPPLEMENTARY INFORMATION – EMPLOYEES' PENSION PLAN

SCHEDULE OF ANNUAL REQUIRED CONTRIBUTIONS

<b>Year Ended December 31</b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
2004	\$ 32,070	100.0%
2005	33,045	100.0%
2006	33,007	100.0%
2007	43,366	100.0%
2008	49,641	100.0%
2009	48,723	100.0%
2010	51,238	100.0%
2011	105,243	100.0%
2012	95,484	100.0%
2013	95,927	100.0%

BOROUGH OF SWARTHMORE

SUPPLEMENTARY INFORMATION – EMPLOYEES' PENSION PLAN

NOTES TO SUPPLEMENTARY SCHEDULES

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

Actuarial valuation date	January 1, 2013
Actuarial cost method	Entry age normal
Amortization method	Level Percentage Closed
Amortization period	9 Years
Asset valuation method	Limited to the maximum of 115% and a minimum of 85% of the fair market value of assets
Actuarial assumptions:	
Investment rate of return	7.5% per annum
Projected salary increases	3.5% per annum
Includes inflation	None
Cost of living adjustments	Retired members may receive ad-hoc cost of living adjustments at the sole discretion of Borough

**BOROUGH OF SWARTHMORE**  
**SUPPLEMENTARY INFORMATION – POLICE PENSION PLAN**  
**SCHEDULE OF FUNDING PROGRESS**

Ten-year historical trend information about the plan is presented here with as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The ten-year historical trend information required to be disclosed is as follows: (beginning with the January 1, 2014 valuation)

	(1)	(2)	(3)	(4)	(5)	(6)
<b>Actuarial Valuation Date</b>	<b>Net Assets Available for Benefits</b>	<b>Pension Obligation Benefit</b>	<b>(Overfunded) Unfunded Pension Benefit Obligation (2)-(1)</b>	<b>Percentage Funded (1)/(2)</b>	<b>Annual Covered Payroll</b>	<b>(Overfunded) Unfunded Pension Benefit Obligation as a Percentage of Covered Payroll (3)/(5)</b>
1/1/04	*	*	*	*	*	*
1/1/05	3,354,417	3,409,672	55,255	98.38%	573,187	9.64%
1/1/06	*	*	*	*	*	*
1/1/07	3,590,477	3,468,256	(122,221)	103.52%	651,335	(18.76)%
1/1/08	*	*	*	*	*	*
1/1/09	2,491,695	3,773,230	1,281,535	66.04%	752,276	170.35%
1/1/10	*	*	*	*	*	*
1/1/11	2,756,653	4,131,669	1,375,016	66.72%	804,919	170.83%
1/1/12	*	*	*	*	*	*
1/1/13	3,198,212	4,656,033	1,457,821	68.69%	840,800	173.38%

\* Information not available due to the actuarial valuations biennially required by Act 205.

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the pension benefit obligation as a factor.

BOROUGH OF SWARTHMORE  
 SUPPLEMENTARY INFORMATION – POLICE PENSION PLAN  
 SCHEDULE OF ANNUAL REQUIRED CONTRIBUTIONS

<b>Year Ended December 31</b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
2004	\$ 39,600	100.0%
2005	39,855	100.0%
2006	92,267	100.0%
2007	98,166	100.0%
2008	82,740	100.0%
2009	88,684	100.0%
2010	92,480	100.0%
2011	208,821	100.0%
2012	205,002	100.0%
2013	255,614	100.0%

BOROUGH OF SWARTHMORE

SUPPLEMENTARY INFORMATION – POLICE PENSION PLAN

NOTES TO SUPPLEMENTARY SCHEDULES

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

Actuarial valuation date	January 1, 2013
Actuarial cost method	Entry age normal
Amortization method	Level Percentage Closed
Amortization period	15 Years
Asset valuation method	Limited to the maximum of 115% and a minimum of 85% of the fair market value of assets
Actuarial assumptions:	
Investment rate of return	7.75% per annum
Projected salary increases	5% per annum
Includes inflation	None
Cost of living adjustments	A participant's initial pension is subject to annual cost-of-living increases. A participant's ultimate pension cannot exceed the lesser of (a) 130% of the participant's initial pension and (b) 75% of the salary upon which the participant's initial pension was based.

BOROUGH OF SWARTHMORE

SUPPLEMENTARY INFORMATION – POLICE OTHER POST-EMPLOYMENT BENEFITS

SCHEDULE OF FUNDING PROGRESS AND SCHEDULE OF ANNUAL REQUIRED CONTRIBUTIONS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The historical trend information required to be disclosed is below. The January 1, 2011 valuation was the latest valuation for the plan.

SCHEDULE OF FUNDING PROGRESS

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
01/01/11	\$ -	\$ 338,028	\$ 338,028	0.0%	N/A	0.0%

N/A – Benefits are not pay related

SCHEDULE OF ANNUAL REQUIRED CONTRIBUTIONS

Actuarial Valuation	Annual Required Contribution	Percentage Contributed
01/01/11	\$ 46,159	0.0%

**BOROUGH OF SWARTHMORE**  
**COMBINING STATEMENT OF NET POSITION - PENSION TRUST FUNDS - CASH BASIS**  
**DECEMBER 31, 2013**

	<u>Police Pension</u>	<u>Employees' Pension</u>	<u>Total Pension Trust Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 85,801	\$ 38,098	\$ 123,899
Receivables	12,062	4,329	16,391
Investments, at market value - mutual funds			
Mutual funds - fixed income	1,211,336	619,096	1,830,432
Mutual funds - equity	1,820,610	734,142	2,554,752
Mutual funds - international equity	<u>723,670</u>	<u>305,458</u>	<u>1,029,128</u>
<b>TOTAL ASSETS</b>	<u>3,853,479</u>	<u>1,701,123</u>	<u>5,554,602</u>
<b>LIABILITIES</b>			
Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET POSITION</b>			
Net position - restricted for pension benefits	<u>\$ 3,853,479</u>	<u>\$ 1,701,123</u>	<u>\$ 5,554,602</u>

**BOROUGH OF SWARTHMORE  
 COMBINING STATEMENT OF CHANGES IN NET POSITION -  
 PENSION TRUST FUNDS - CASH BASIS  
 FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Police Pension</u>	<u>Employees' Pension</u>	<u>Total</u>
ADDITIONS:			
Contributions:			
Municipal contributions	\$ 185,004	\$ 69,428	\$ 254,432
Employee contributions	44,460	21,266	65,726
State contributions	70,610	26,499	97,109
Total Contributions	<u>300,074</u>	<u>117,193</u>	<u>417,267</u>
Investment Income:			
Net increase in fair value of investments	481,820	194,859	676,679
Realized gain on investments	67,006	26,775	93,781
Interest	55,138	24,313	79,451
Total Investment Earnings	<u>603,964</u>	<u>245,947</u>	<u>849,911</u>
Less: Investment expense	<u>(31,387)</u>	<u>(14,837)</u>	<u>(46,224)</u>
Net Investment Earnings	<u>572,577</u>	<u>231,110</u>	<u>803,687</u>
Miscellaneous	<u>6,868</u>	<u>2,893</u>	<u>9,761</u>
TOTAL ADDITIONS	<u>879,519</u>	<u>351,196</u>	<u>1,230,715</u>
DEDUCTIONS:			
Benefits paid	219,119	66,281	285,400
Administrative expenses	<u>7,925</u>	<u>6,944</u>	<u>14,869</u>
TOTAL DEDUCTIONS	<u>227,044</u>	<u>73,225</u>	<u>300,269</u>
CHANGE IN NET POSITION	652,475	277,971	930,446
NET POSITION, BEGINNING OF YEAR	<u>3,201,004</u>	<u>1,423,152</u>	<u>4,624,156</u>
NET POSITION, END OF YEAR	<u>\$ 3,853,479</u>	<u>\$ 1,701,123</u>	<u>\$ 5,554,602</u>

**BOROUGH OF SWARTHMORE**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUND - CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Balance</u> 1/1/13	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> 12/31/13
ASSETS				
Cash	<u>\$ 3,267</u>	<u>\$ 14,877</u>	<u>\$ (3,267)</u>	<u>\$ 14,877</u>
LIABILITIES				
Escrow Payable	<u>\$ 3,267</u>	<u>\$ 14,877</u>	<u>\$ (3,267)</u>	<u>\$ 14,877</u>

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

INDEPENDENT AUDITOR'S  
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

Barbacane, Thornton & Company LLP  
200 Springer Building  
3411 Silverside Road  
Wilmington, Delaware 19810

T 302.478.8940  
F 302.468.4001  
www.btcpa.com

October 6, 2014

To the Borough Council  
Borough of Swarthmore  
Swarthmore, 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 financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Borough of Swarthmore, Swarthmore, Pennsylvania as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Borough of Swarthmore's basic financial statements, and have issued our report thereon dated October 6, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Borough of Swarthmore'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 Swarthmore's internal control. Accordingly, we do not express an opinion on the effectiveness of the Borough of Swarthmore's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and recommendations, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and recommendations to be a material weakness as item #13-1.

To the Borough Council  
Borough of Swarthmore

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Borough of Swarthmore's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

*Barbacane, Thornton & Company LLP*  
BARBACANE, THORNTON & COMPANY LLP

BOROUGH OF SWARTHMORE  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
YEAR ENDED DECEMBER 31, 2013

JOURNAL ENTRIES

13-1 Finding

According to the SAS No. 115 requirements, "Communicating Internal Control-Related Matters Identified in an Audit," a control deficiency exists when the auditor identifies a material misstatement in the financial statements that was not initially identified by the Borough's internal control. During our audit, we noted that the Borough of Swarthmore relies on the auditor in order to propose adjustments or corrections of the recorded amounts in its trial balance. The majority of the adjustments were to correct interfund balances and to record investment activity for the pension plans. We further noted that the journal entries that we proposed and management posted are material in the aggregate and represent a material misstatement in the financial statements for the period under audit that was not identified by the Borough's internal control.

Recommendation

We recommend that the Borough take the necessary action to properly record all of its transactions during the fiscal year in accordance with generally accepted accounting principles.