

**Borough of Indiana
80 North 8th Street
Indiana, Pennsylvania 15701**

Audit Report

**For the Year Ended
December 31, 2016**

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Independent Auditors' Report

Borough Council
Indiana Borough
80 North 8th Street
Indiana, 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 Indiana, Indiana County, Pennsylvania, as of and for the year ended December 31, 2016, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Indiana, Indiana County, as of December 31, 2016, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The Borough of Indiana, Indiana County has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to supplement, although not to be a part of, 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. Our opinion on the basic financial statements is not affected by this missing information.

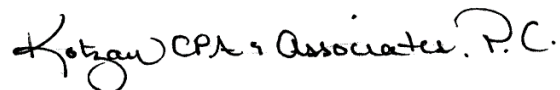
Accounting principles generally accepted in the United States of America require that the historical pension information and the budgetary comparison information on pages 58 through 64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough's financial statements as a whole. The combining governmental and proprietary fund financial statements (on pages 51-57) are presented for purposes of additional analysis and are not a required part of the financial statements. The combining governmental and proprietary 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 May 17, 2017 on our consideration of the Borough of Indiana'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 Indiana's internal control over financial reporting and compliance.



Kotzan CPA & Associates, P.C.
Johnstown, Pennsylvania
May 17, 2017

**Borough of Indiana
Statement of Net Position
December 31, 2016**

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets:			
Cash and equivalents	\$ 760,074	\$ 2,584,237	\$ 3,344,311
Investments	0	2,360,444	2,360,444
Taxes receivable	469,309	0	469,309
Internal balances	2,176,287	165,000	2,341,287
Accounts receivable, net	177,345	488,777	666,122
Intergovernmental receivables	1,928,346	30,431	1,958,777
Other receivables	771	0	771
Total current assets	5,512,132	5,628,889	11,141,021
Noncurrent assets:			
Land	81,539	434,619	516,158
Depreciable capital assets, net	5,342,930	22,043,900	27,386,830
Construction in progress	2,238,359	50,443	2,288,802
Total noncurrent assets	7,662,828	22,528,962	30,191,790
Total assets	13,174,960	28,157,851	41,332,811
Deferred Outflows of Resources			
Defined benefit pension plan:			
Difference between projected and actual investment earnings	971,950	0	971,950
Total deferred outflows of resources	971,950	0	971,950
Total assets and deferred outflows of resources	\$ 14,146,910	\$ 28,157,851	\$ 42,304,761

See accompanying notes to the basic financial statements.

**Borough of Indiana
Statement of Net Position
December 31, 2016**

	Governmental Activities	Business-type Activities	Total
Liabilities			
Current liabilities:			
Accounts payable	\$ 310,886	\$ 148,721	\$ 459,607
Payroll withholdings	14,043	0	14,043
Internal balances	165,000	2,176,287	2,341,287
Current portion of long-term debt	1,919,865	1,076,343	2,996,208
Current portion of compensated absences	37,998	0	37,998
Total current liabilities	2,447,792	3,401,351	5,849,143
Noncurrent liabilities:			
Long-term portion of debt	13,124	6,849,433	6,862,557
Long-term portion of compensated absences	24,044	17,475	41,519
Other post-employment benefits (OPEB)	3,396,889	0	3,396,889
Net pension liability	1,116,927	0	1,116,927
Total noncurrent liabilities	4,550,984	6,866,908	11,417,892
Total liabilities	6,998,776	10,268,259	17,267,035
Deferred Inflows of Resources	0	0	0
Net Position			
Invested in capital assets, net debt	5,729,839	14,603,186	20,333,025
Restricted (Note 2M)	596,203	0	596,203
Unrestricted	822,092	3,286,406	4,108,498
Total net position	7,148,134	17,889,592	25,037,726
Total liabilities, deferred inflows of resources and net position	\$ 14,146,910	\$ 28,157,851	\$ 42,304,761

See accompanying notes to the basic financial statements.

**Borough of Indiana
Statement of Activities
For the Year Ended December 31, 2016**

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	\$ 579,188	\$ 143,985	\$ 13,396	\$ 0	\$ (421,807)	\$ 0	\$ (421,807)
Public safety	3,692,028	730,754	139,537	23,199	(2,798,538)	0	(2,798,538)
Public works - highways, roads and streets	939,249	903,188	361,059	0	324,998	0	324,998
Other public works	3,544	0	3,817	0	273	0	273
Culture and recreation	237,608	0	34,603	257,738	54,733	0	54,733
Community development	87,043	0	0	1,530,840	1,443,797	0	1,443,797
Interest on indebtedness	23,877	0	0	0	(23,877)	0	(23,877)
Benefits	1,243,707	0	345,597	0	(898,110)	0	(898,110)
Insurance	73,344	0	0	0	(73,344)	0	(73,344)
Total governmental activities	<u>6,879,588</u>	<u>1,777,927</u>	<u>898,009</u>	<u>1,811,777</u>	<u>(2,391,875)</u>	<u>0</u>	<u>(2,391,875)</u>
Business-type Activities:							
Sewer	3,368,471	3,515,322	0	0	0	146,851	146,851
Parking	815,844	789,526	0	0	0	(26,318)	(26,318)
Sanitation	743,557	711,856	0	0	0	(31,701)	(31,701)
Total business-type activities	<u>4,927,872</u>	<u>5,016,704</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>88,832</u>	<u>88,832</u>
Total primary government	<u>\$ 11,807,460</u>	<u>\$ 6,794,631</u>	<u>\$ 898,009</u>	<u>\$ 1,811,777</u>	<u>(2,391,875)</u>	<u>88,832</u>	<u>(2,303,043)</u>
General Revenues:							
Taxes:							
Property tax					2,298,099	0	2,298,099
Income tax					665,435	0	665,435
Flat rate assessments					405,183	0	405,183
Investment income					236	21,133	21,369
Other					2,642	0	2,642
Total general revenues					<u>3,371,595</u>	<u>21,133</u>	<u>3,392,728</u>
Special Items:							
Gain from fixed asset disposition					3,250	0	3,250
Total special items					<u>3,250</u>	<u>0</u>	<u>3,250</u>
Change in net position					982,970	109,965	1,092,935
Net position - beginning of year, restated					6,165,164	17,779,627	23,944,791
Net position - end of year					<u>\$ 7,148,134</u>	<u>\$ 17,889,592</u>	<u>\$ 25,037,726</u>

See accompanying notes to the basic financial statements.

**Borough of Indiana
Balance Sheet
Governmental Funds
December 31, 2016**

	General Fund	Major Fund Special Revenue Fund	Non-Major Fund Capital Projects Fund	Total Governmental Funds
Assets				
Cash	\$ 0	\$ 582,177	\$ 177,897	\$ 760,074
Taxes receivable	465,217	4,092	0	469,309
Interfund receivables	2,176,287	15,160	114,000	2,305,447
Accounts receivable	41,440	0	0	41,440
Intergovernmental receivables	871,617	0	0	871,617
Other receivables	<u>0</u>	<u>771</u>	<u>0</u>	<u>771</u>
 Total assets	 3,554,561	 602,200	 291,897	 4,448,658
 Deferred Outflows of Resources	 <u>0</u>	 <u>0</u>	 <u>0</u>	 <u>0</u>
 Total assets and deferred outflows of resources	 <u>\$ 3,554,561</u>	 <u>\$ 602,200</u>	 <u>\$ 291,897</u>	 <u>\$ 4,448,658</u>
Liabilities				
Accounts payable	\$ 995,532	\$ 13,463	\$ 141,536	\$ 1,150,531
Payroll withholdings	14,043	0	0	14,043
Interfund payables	129,160	0	165,000	294,160
Compensated absences	<u>37,998</u>	<u>0</u>	<u>0</u>	<u>37,998</u>
 Total liabilities	 <u>1,176,733</u>	 <u>13,463</u>	 <u>306,536</u>	 <u>1,496,732</u>
Deferred Inflows of Resources				
Delinquent taxes receivable	<u>263,147</u>	<u>0</u>	<u>0</u>	<u>263,147</u>
 Total deferred inflows of resources	 <u>263,147</u>	 <u>0</u>	 <u>0</u>	 <u>263,147</u>
Fund Balance				
Restricted (Note 2L)	0	588,737	7,466	596,203
Unassigned	<u>2,114,681</u>	<u>0</u>	<u>(22,105)</u>	<u>2,092,576</u>
 Total fund balance	 <u>2,114,681</u>	 <u>588,737</u>	 <u>(14,639)</u>	 <u>2,688,779</u>
 Total liabilities, deferred inflows of resources, and fund balance	 <u>\$ 3,554,561</u>	 <u>\$ 602,200</u>	 <u>\$ 291,897</u>	 <u>\$ 4,448,658</u>

See accompanying notes to the basic financial statements.

Borough of Indiana
Reconciliation of the Governmental Funds Balance Sheet
To the Statement of Net Position
December 31, 2016

Total fund balance – governmental funds \$ 2,688,779

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

Capital assets used in governmental activities are not financial resources, and therefore, are not reported as assets in the governmental funds. The cost of assets is \$13,264,218 and the accumulated depreciation is \$5,601,390. 7,662,828

Property and earned income taxes receivable will be collected in the future, but are not available soon enough to pay for current period's expenditures, and therefore, are recorded as deferred inflows of resources in the funds. 263,147

Various receivables will be collected in the future, but are not available soon enough to pay for current period's expenditures and are therefore excluded from the fund financial statements. This amount represents the long-term receivable associated with the 5 year BID assessment. 135,905

Debt service paid with current financial resources is reflected in accounts payable on fund financial statements. However, this amount is reflected as current portion of long-term debt on government-wide financial statements. 839,645

Reimbursements from the state and local governments related to the Borough's acquisition of debt for the Economic Development Project has been approved and will be collected within the next year. However, this funding will not provide current financial resources, and thus, is not reported as revenue or receivable in the funds. 1,056,729

Long-term liabilities, including notes payable, 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 consist of:

Compensated absences	\$ 24,044	
OPEB liability	3,396,889	
Notes payable	1,896,373	
Other financing obligation	36,616	
Net pension liability	<u>1,116,927</u>	(6,470,849)

Deferred outflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds. 971,950

Net position of governmental activities **\$ 7,148,134**

See accompanying notes to the basic financial statements.

Borough of Indiana
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2016

	General Fund	Major Fund Special Revenue Fund	Non-Major Fund Capital Projects Fund	Total Governmental Funds
Revenues				
Taxes	\$ 3,071,454	\$ 176,017	\$ 0	\$ 3,247,471
Intergovernmental	1,408,847	566,847	23,099	1,998,793
Charges for services	1,255,348	0	0	1,255,348
Fines and forfeitures	172,805	0	0	172,805
Licenses and permits	143,861	0	0	143,861
Assessments	0	69,780	0	69,780
Interest, rents and royalties	185	149	27	361
Private sector funding	292,341	0	96,797	389,138
Miscellaneous	2,598	44	0	2,642
Total revenues	<u>6,347,439</u>	<u>812,837</u>	<u>119,923</u>	<u>7,280,199</u>
Expenditures				
General government	549,496	0	0	549,496
Public safety	3,301,130	281,336	23,099	3,605,565
Public works:				
Highways, roads and streets	677,628	235,223	0	912,851
Other public works	3,261	0	0	3,261
Culture and recreation	394,664	85,329	0	479,993
Community development	1,397,884	69,609	146,141	1,613,634
Debt service:				
Principal	881,786	0	0	881,786
Interest	23,877	0	0	23,877
Benefits	691,439	0	0	691,439
Insurance	73,344	0	0	73,344
Total expenditures	<u>7,994,509</u>	<u>671,497</u>	<u>169,240</u>	<u>8,835,246</u>
Excess (deficiency) of revenues over expenditures	<u>(1,647,070)</u>	<u>141,340</u>	<u>(49,317)</u>	<u>(1,555,047)</u>
Other financing sources (uses)				
Proceeds from the disposition of assets	2,500	0	750	3,250
Proceeds from debt	1,424,665	0	0	1,424,665
Operating transfers	154,345	10,655	(165,000)	0
Refund of prior year expenditures	0	55,923	0	55,923
Total other financing sources (uses)	<u>1,581,510</u>	<u>66,578</u>	<u>(164,250)</u>	<u>1,483,838</u>
Net change in fund balance	(65,560)	207,918	(213,567)	(71,209)
Fund balance - beginning of year, restated	<u>2,180,241</u>	<u>380,819</u>	<u>198,928</u>	<u>2,759,988</u>
Fund balance - end of year	<u>\$ 2,114,681</u>	<u>\$ 588,737</u>	<u>\$ (14,639)</u>	<u>\$ 2,688,779</u>

See accompanying notes to the basic financial statements.

Borough of Indiana
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For the Year Ended December 31, 2016

Total net change in fund balance – governmental funds \$ (71,209)

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 assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.

Capital outlays	\$1,883,166	
Depreciation expense	<u>(282,785)</u>	1,600,381

Because some taxes will not be collected for several months after the Borough’s year end, they are not considered as “available” revenues in the governmental funds. Deferred inflows of resources from tax revenues increased by this amount this year. 16,865

Because some revenue sources will not be collected for several months after the Borough’s year end, they are not considered as “available” revenues in the governmental funds. Such receivables increased by this amount this year. 562,244

In the governmental funds, compensated absences are measured by the amounts used. The statement of activities measures by the amounts earned. The liability for the long-term portion of compensated absences decreased by this amount this year. 25,759

Post-employment benefits (OPEB) are recognized as expenditures in the governmental funds when they are used. In the statement of activities, post-employment benefits are recognized as expenses when earned. The liability for OPEB increased by this amount this year. (586,319)

The proceeds and principal payments on long-term debt provide and consume current financial resources of governmental funds, respectively. However, they respectively increase or reduce long-term liabilities on the statement of net position. The effect is shown below:

Proceeds from long-term debt	\$(1,424,665)	
Principal payments	<u>881,786</u>	(542,879)

See accompanying notes to the basic financial statements.

Borough of Indiana
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For the Year Ended December 31, 2016

Governmental funds report Borough pension contributions as expenditures in the year required to be made. However, pension expense, which is the change in net pension liability, adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the statement of activities.

Borough pension contributions	\$429,472	
Pension expense	<u>(395,421)</u>	34,051

Refund of prior year expenditures represents current financial sources in the fund financial statements. However, in the statement of activities, this represents a prior year adjustment to net position.

(55,923)

Change in net position of governmental activities

\$ 982,970

See accompanying notes to the basic financial statements.

**Borough of Indiana
Statement of Net Position
Proprietary Funds
December 31, 2016**

	Major Fund Sewer Fund	Major Fund Parking Fund	Major Fund Sanitation Fund	Total
Assets				
Current assets:				
Cash and equivalents	\$ 2,070,750	\$ 33,141	\$ 480,346	\$ 2,584,237
Investments	2,360,444	0	0	2,360,444
Interfund receivables	165,000	0	0	165,000
Accounts receivable, net	247,850	40,712	200,215	488,777
Intergovernmental receivables	<u>30,431</u>	<u>0</u>	<u>0</u>	<u>30,431</u>
Total current assets	<u>4,874,475</u>	<u>73,853</u>	<u>680,561</u>	<u>5,628,889</u>
Noncurrent assets:				
Land	2,550	432,069	0	434,619
Depreciable capital assets, net	18,845,911	3,188,517	9,472	22,043,900
Construction in progress	<u>50,443</u>	<u>0</u>	<u>0</u>	<u>50,443</u>
Total noncurrent assets	<u>18,898,904</u>	<u>3,620,586</u>	<u>9,472</u>	<u>22,528,962</u>
Total assets	23,773,379	3,694,439	690,033	28,157,851
Deferred Outflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total assets and deferred outflows of resources	<u>\$ 23,773,379</u>	<u>\$ 3,694,439</u>	<u>\$ 690,033</u>	<u>\$ 28,157,851</u>
Liabilities				
Current liabilities:				
Accounts payable	\$ 78,114	\$ 4,181	\$ 66,426	\$ 148,721
Interfund payables	48,471	2,127,816	0	2,176,287
Current portion of long-term debt	<u>821,372</u>	<u>254,971</u>	<u>0</u>	<u>1,076,343</u>
Total current liabilities	<u>947,957</u>	<u>2,386,968</u>	<u>66,426</u>	<u>3,401,351</u>
Noncurrent liabilities:				
Long-term portion of debt	5,172,815	1,676,618	0	6,849,433
Compensated absences	<u>17,475</u>	<u>0</u>	<u>0</u>	<u>17,475</u>
Total noncurrent liabilities	<u>5,190,290</u>	<u>1,676,618</u>	<u>0</u>	<u>6,866,908</u>
Total liabilities	<u>6,138,247</u>	<u>4,063,586</u>	<u>66,426</u>	<u>10,268,259</u>
Deferred Inflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Position				
Invested in capital assets, net debt	12,904,717	1,688,997	9,472	14,603,186
Unrestricted	<u>4,730,415</u>	<u>(2,058,144)</u>	<u>614,135</u>	<u>3,286,406</u>
Total net position	<u>17,635,132</u>	<u>(369,147)</u>	<u>623,607</u>	<u>17,889,592</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 23,773,379</u>	<u>\$ 3,694,439</u>	<u>\$ 690,033</u>	<u>\$ 28,157,851</u>

See accompanying notes to the basic financial statements.

Borough of Indiana
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2016

	Major Fund Sewer Fund	Major Fund Parking Fund	Major Fund Sanitation Fund	Total
Operating Revenues:				
Charges for services:				
Sewer	\$ 3,515,322	\$ 0	\$ 0	\$ 3,515,322
Sanitation	0	0	711,856	711,856
Parking	0	789,526	0	789,526
	<u>3,515,322</u>	<u>789,526</u>	<u>711,856</u>	<u>5,016,704</u>
Total operating revenues				
Operating Expenses:				
Sewer	3,152,989	0	0	3,152,989
Sanitation	0	0	743,557	743,557
Parking	0	711,237	0	711,237
	<u>3,152,989</u>	<u>711,237</u>	<u>743,557</u>	<u>4,607,783</u>
Total operating expenses				
Operating income (loss)	<u>362,333</u>	<u>78,289</u>	<u>(31,701)</u>	<u>408,921</u>
Non-Operating Revenues (Expenses):				
Investment income	21,041	5	87	21,133
Interest expense and fiscal agent fees	<u>(215,482)</u>	<u>(104,607)</u>	<u>0</u>	<u>(320,089)</u>
Total non-operating revenues (expenses)	<u>(194,441)</u>	<u>(104,602)</u>	<u>87</u>	<u>(298,956)</u>
Change in net position	167,892	(26,313)	(31,614)	109,965
Total net position - beginning	<u>17,467,240</u>	<u>(342,834)</u>	<u>655,221</u>	<u>17,779,627</u>
Total net position - ending	<u>\$ 17,635,132</u>	<u>\$ (369,147)</u>	<u>\$ 623,607</u>	<u>\$ 17,889,592</u>

See accompanying notes to the basic financial statements.

**Borough of Indiana
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2016**

	Major Fund Sewer Fund	Major Fund Parking Fund	Major Fund Sanitation Fund
	<u> </u>	<u> </u>	<u> </u>
Cash Flows from Operating Activities			
Receipts from customers	\$ 3,642,270	\$ 789,559	\$ 692,120
Payments to suppliers	(1,910,863)	(237,553)	(736,756)
Payments to employees	<u>(717,438)</u>	<u>(182,412)</u>	<u>0</u>
Net cash provided by (used in) operating activities	<u>1,013,969</u>	<u>369,594</u>	<u>(44,636)</u>
Cash Flows from Capital and Related Financing Activities			
Purchase of capital assets	(73,738)	0	0
Principal paid on capital debt	(828,569)	(251,701)	0
Interest paid on capital debt	<u>(215,482)</u>	<u>(104,607)</u>	<u>0</u>
Net cash provided by (used in) capital and related financing activities	<u>(1,117,789)</u>	<u>(356,308)</u>	<u>0</u>
Cash Flows from Investing Activities			
Interest and dividends	21,041	5	87
Purchase of certificates of deposit	<u>(20,642)</u>	<u>0</u>	<u>0</u>
Net cash provided by (used in) investing activities	<u>399</u>	<u>5</u>	<u>87</u>
Net increase (decrease) in cash and cash equivalents	(103,421)	13,291	(44,549)
Cash and equivalents - beginning of year	<u>2,174,171</u>	<u>19,850</u>	<u>524,895</u>
Cash and equivalents - end of year	<u>\$ 2,070,750</u>	<u>\$ 33,141</u>	<u>\$ 480,346</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ 362,333	\$ 78,289	\$ (31,701)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	623,250	114,216	5,683
Change in assets and liabilities:			
Accounts receivable	126,948	33	(19,736)
Interfund receivables	(164,019)	0	0
Interfund payables	7,715	187,714	0
Accounts payable	57,162	(10,658)	1,118
Compensated absences	<u>580</u>	<u>0</u>	<u>0</u>
Net cash provided by (used in) operating activities	<u>\$ 1,013,969</u>	<u>\$ 369,594</u>	<u>\$ (44,636)</u>

See accompanying notes to the basic financial statements.

Borough of Indiana
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2016

	Pension			Total Fiduciary Funds
	Management	Non-Management	Police	
Assets				
Cash and equivalents	\$ 13,268	\$ 7,252	\$ 90,712	\$ 111,232
Investments:				
Fixed income	855,737	876,939	2,845,711	4,578,387
Common stocks	1,668,636	1,722,105	6,212,240	9,602,981
Mutual funds	132,688	156,541	636,906	926,135
Accrued income	8,230	9,248	29,518	46,996
Total assets	2,678,559	2,772,085	9,815,087	15,265,731
Deferred Outflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total assets and deferred outflows of resources	<u>\$ 2,678,559</u>	<u>\$ 2,772,085</u>	<u>\$ 9,815,087</u>	<u>\$ 15,265,731</u>
Liabilities	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Deferred Inflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Position				
Held in trust for employee pension benefits	<u>2,678,559</u>	<u>2,772,085</u>	<u>9,815,087</u>	<u>15,265,731</u>
Total net position	<u>2,678,559</u>	<u>2,772,085</u>	<u>9,815,087</u>	<u>15,265,731</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 2,678,559</u>	<u>\$ 2,772,085</u>	<u>\$ 9,815,087</u>	<u>\$ 15,265,731</u>

See accompanying notes to the basic financial statements.

Borough of Indiana
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended December 31, 2016

	Pension			Total Fiduciary Funds
	Management	Non-Management	Police	
Additions				
Contributions:				
Commonwealth	\$ 73,800	\$ 49,259	\$ 222,538	\$ 345,597
Municipal	59,818	0	30,888	90,706
Employee deferral	23,197	48,428	92,377	164,002
Interest and dividends	57,027	59,162	224,141	340,330
Investment gain	74,188	67,955	245,294	387,437
Other income	<u>0</u>	<u>0</u>	<u>62</u>	<u>62</u>
Total additions	<u>288,030</u>	<u>224,804</u>	<u>815,300</u>	<u>1,328,134</u>
Deductions				
Benefits	124,748	56,178	383,841	564,767
Administrative expense	<u>21,440</u>	<u>22,469</u>	<u>60,509</u>	<u>104,418</u>
Total deductions	<u>146,188</u>	<u>78,647</u>	<u>444,350</u>	<u>669,185</u>
Change in net position	141,842	146,157	370,950	658,949
Net position - beginning of year	<u>2,536,717</u>	<u>2,625,928</u>	<u>9,444,137</u>	<u>14,606,782</u>
Net position - end of year	<u>\$ 2,678,559</u>	<u>\$ 2,772,085</u>	<u>\$ 9,815,087</u>	<u>\$ 15,265,731</u>

See accompanying notes to the basic financial statements.

Borough of Indiana
Notes to Financial Statements
December 31, 2016

Note 1 – Description of Borough and Reporting Entity

Indiana Borough, Indiana County (the Borough), was incorporated in 1816 under the Commonwealth of Pennsylvania Municipalities Act. It is operated under the direction of an elected council and an appointed manager.

Component units are legally separate organizations for which the Borough is financially accountable or other organizations whose nature and significant relationship with the Borough are such that exclusion would cause the Borough's financial statements to be misleading. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and (1) either the Borough's ability to impose its will on the organization or (2) there is potential for the organization to provide a financial benefit to or impose a financial burden on the Borough. The Borough has no component units.

Note 2 – Summary of Significant Accounting Policies

The financial statements of the Borough have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The more significant of these accounting policies are described below.

A. Basis of Presentation

The Borough's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements

The statement of net position and the statement of activities display information about the Borough as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net position presents the financial condition of the governmental and business-type activities of the Borough at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Borough's governmental and business-type activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of goods and services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Borough. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Borough.

The Borough has the following program revenues in each activity:

General Government:	Licenses (including alcohol beverage tax) and permits; rents; state operating grants.
Public Safety:	Fines and forfeits; building permits; charges for police service; operating and capital grants and contributions for the fire company and police.

Borough of Indiana
Notes to Financial Statements
December 31, 2016

Public Works – Streets:	State operating grants; and internal charges for services.
Public Works – Other:	Public utility realty tax (state funds).
Culture and Recreation:	Operating and capital contributions.
Community Development:	Capital contributions.
Benefits:	Pension state aid.

All other governmental revenues are reported as general, except for revenues that are unusual or infrequent in nature and within management’s control. These items are reported as “special items”. All taxes are classified as general revenue even if restricted for specific purpose.

Fund Financial Statements

Fund financial statements are also provided in the report for all governmental funds, proprietary funds, and the fiduciary funds of the Borough. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund statements. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

B. Fund Accounting

The Borough uses funds to maintain its financial record during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources, and liabilities and deferred inflows of resources, is reported as fund balance. The following are the Borough’s major governmental funds:

General Fund – The General Fund is the primary operating fund of the Borough and is always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of the specific revenue sources that are either restricted or committed to expenditures for specified purposes other than debt service or capital projects. The Borough includes the following special revenue funds, which are combined and reported as a major fund:

Liquid Fuels Fund: Accounts for state grants restricted to road construction and maintenance.

Borough of Indiana
Notes to Financial Statements
December 31, 2016

Fire Protection Fund: Accounts for 0.189 mill of real estate taxes collected and restricted for public safety as it pertains to fire protection.

Library Fund: Accounts for 0.126 mill of real estate taxes collected and restricted for the Borough's annual operating contribution to the library.

Street Light Fund: Accounts for delinquent real estate taxes collected and restricted for street light operation and maintenance. Tax was not levied for street light purposes in 2016.

Shade Tree Fund: Accounts for 0.012 mill of real estate taxes collected and restricted for planting and maintenance of shade trees.

Bidd Loan Pool: Accounts for funds restricted for revolving loans between the Borough and community businesses for the purpose of stimulating economic growth.

5-Year BID Program Fund: Accounts for special assessment collected and restricted for the Downtown Indiana Economic Development Project – Business Improvement District (BID).

Capital Projects Funds – Account for financial resources for the acquisition or construction of capital equipment and projects. The Borough includes the following capital projects funds, which are combined and reported as a non-major fund:

- Capital Projects Fund
- Capital Projects Fund – Police

Proprietary Funds

Proprietary funds focus on the determination of net position, changes in net position and cash flows and are classified as either internal service or enterprise funds. Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the Borough. The Borough reports no internal service funds. Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods and services. The following are the Borough's major enterprise funds:

Sewer Fund (Major Fund): Accounts for the activities of the public trust in providing sewage services to Borough and, as applicable, White Township residents including operation and maintenance of the sewer plant.

Parking Fund (Major Fund): Accounts for fees and fines collected for parking including the parking garage, the surrounding parking lots, parking meter collections and parking violations as well as expenditures associated with the operation and maintenance of these facilities and equipment.

Sanitation Fund (Major Fund): Accounts for fees collected and the associated expenditures for providing recycling and trash collection services to Borough residents.

Borough of Indiana
Notes to Financial Statements
December 31, 2016

Fiduciary Fund

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Borough under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Borough's own programs. The Borough's only trust funds are pension trust funds.

Pension Trust Funds

Pension Trust Funds report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans, or other employee benefit plans. The Borough includes the following trust funds:

Management Plan: Accounts for the activity of the defined benefit plan for management-level employees.

Non-Management Plan: Accounts for the activity of the defined benefit plan for the general government employees.

Police Plan: Accounts for the activity of the defined benefit plan for the police.

C. Measurement Focus

Government-wide Financial Statements

Government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of the Borough are included on the statement of net position.

Fund Financial Statements

Fund financial statements are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e. revenues and other financing sources) and uses (i.e. expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the proprietary fund is accounted for on a flow of economic resources measurement focus. All assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement of net position. The statement of changes in net position presents increases (i.e. revenues) and decreases (i.e. expenses) in total net position. The statement of cash flows provides information about how the Borough finances and meets the cash flow needs of its proprietary activities.

Borough of Indiana
Notes to Financial Statements
December 31, 2016

Proprietary Fund types 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 operation. The principal operating revenues of the proprietary funds are charges for services. Operating expenses for proprietary funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of unearned revenue and deferred inflows and outflows of resources, and in the presentation of expenses versus expenditures. The Borough currently reports no unearned revenue. Deferred inflows/outflows of resources are addressed in Note 2K.

Revenues - Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Borough, available means expected to be received within sixty days of fiscal year-end.

Non-exchange transactions, in which the Borough receives value without directly giving equal value in return, include taxes, grants, entitlements and donations. Revenue from taxes is recognized in the fiscal year for which the taxes are levied (see Note 5). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Borough must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Borough on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: taxes available as an advance, interest, grants, fees and rentals.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

Borough of Indiana
Notes to Financial Statements
December 31, 2016

E. Budgetary Data

An operating budget is adopted each year for the Borough General Fund on a modified accrual basis of accounting in accordance with the Commonwealth of Pennsylvania Borough Code.

The Pennsylvania law dictates specific procedures relative to adoption of the Borough's budget and reporting of its financial statements specifically:

1. The Borough, before levying annual taxes, is required to prepare an operating budget for the succeeding fiscal year.
2. The Borough is required to publish by advertisement that the proposed budget has been prepared and is available for public inspection at the Borough office. Notice that public hearings will be held on the proposed operating budget must be included in the advertisement. Such hearings are required to be scheduled at least ten days prior to when final action on adoption is taken by the Borough.
3. The Borough Council may make transfers of funds appropriated to any particular item of expenditure by legislative action. An affirmative vote of two-thirds of all members of the Council is required.

Basis of Accounting

The budget is prepared on the same modified accrual basis of accounting as applied to the governmental funds in the basic financial statements. Revenues are reported in the fiscal year they become measurable and available. Expenditures are reported in the year the related fund liability is incurred, if measurable. A formal budget is not adopted for the special revenue funds.

F. Investment Valuation

The Borough categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The Borough's investments include multiple long-term, non-negotiable certificates of deposit with a local financial institution. Similar to checking and savings accounts, non-negotiable certificates of deposit are not subject to fair value or the aforementioned fair value level disclosures.

The Borough's management, non-management, and police pension plan investments, as reported on the fiduciary fund financial statements, are invested with Huntington Trust Company in various mutual funds, fixed income and equity securities. Investments are reported at fair value using Level 1 inputs. The pension investments are further discussed in Note 3.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2016, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed. The Borough reported no prepaid items at December 31, 2016.

**Borough of Indiana
Notes to Financial Statements
December 31, 2016**

H. Capital Assets

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets used by the proprietary funds are reported in both the business-type activities column in the government-wide statement of net position and in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Borough maintains a capitalization threshold of five thousand dollars (\$5,000) for governmental funds and ten thousand dollars (\$10,000) for proprietary funds. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Infrastructure	40 years
Buildings and Improvements	25 - 40 years
Furniture and Equipment	5 - 20 years
Site improvements	15 - 20 years

I. Receivables and Payables

Transactions 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 non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." In governmental fund financial statements, advances between funds are offset by an amount reported as nonspendable fund balance to indicate that they are not available for appropriation and are not expendable available financial resources.

An allowance has been established in the amount of \$77,907 for Accounts Receivable Parking Violations reflected in the Parking Fund, resulting in a net accounts receivable balance of \$40,712 for outstanding parking violations. All other receivables are determined to be collectible.

Receivables from and payables to external parties are reported separately and are not offset in the proprietary fund financial statements and business-type activities of the government-wide financial statements, unless a right of offset exists.

J. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

Borough of Indiana
Notes to Financial Statements
December 31, 2016

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Debt is recognized as a liability on the fund financial statements when due.

K. Deferred Outflows/Inflows of Resources

Deferred Outflows of Resources

The Borough reports decreases in net assets that relate to future periods as deferred outflows of resources in a separate section of its statement of net position. The deferred outflows of resources reported in this year's financial statements include a deferred outflow of resources for actual pension plan investment earnings in excess of the expected amounts included in determining pension expense. This deferred outflow of resources is amortized to pension expense over a total of five years, including the current year. See further detail on deferred outflows of resources related to the pension plan at Note 14.

Deferred Inflows of Resources

The Borough's statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net assets that applies to future period(s), and so, will not be recognized as an inflow of resources (revenue) until that time. The Borough currently reports no deferred inflows of resources in the government-wide financial statements.

In the Borough's governmental funds, the only deferred inflow of resources is for revenues that are not considered available. The Borough will not recognize the related revenues until they are available (collected not later than 60 days after the end of the Borough's fiscal year) under the modified accrual basis of accounting. Accordingly, unavailable revenues from property and earned income taxes are reported in the governmental funds balance sheet as a deferred inflow of resources (\$263,147).

L. Fund Balance Classification

GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*" provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable Fund Balance – amounts that are not in spendable form (such as inventory or prepaid items) or are required to be maintained intact.
- Restricted Fund Balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed Fund Balance – amounts constrained to specific purposes by the Borough itself, using its highest level of decision-making authority (i.e., Council). To be reported as committed, amounts cannot be used for any other purpose unless the Borough takes the same highest level action to remove or change the constraint.

Borough of Indiana
Notes to Financial Statements
December 31, 2016

- Assigned Fund Balance – amounts the Borough intends to use for a specific purpose. Intent can be expressed by the Borough Council or by an official or body to which the Borough Council delegates the authority.
- Unassigned Fund Balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

As of December 31, 2016, fund balance components, other than unassigned, consist of the following:

	Restricted	
Special Revenue Funds:		
Liquid Fuels Fund	\$ 322,637	
Fire Protection Fund	132,990	
Library Fund	7,188	
Street Light Fund	1,541	
Shade Tree Fund	5,108	
Bidd Loan Pool Fund	118,502	
5-Year BID Program Fund	771	
Total Special Revenue		\$ 588,737
Capital Projects Funds:		
Capital Projects - Police	7,466	
Total Capital Projects		7,466
Total		\$ 596,203

The Borough Council establishes (and modifies or rescinds) fund balance commitments by resolution of Council. A fund balance commitment is further indicated in the budget document as a commitment of the fund. Assigned fund balance is established by the Borough Council through adoption or amendment of the budget as intended for a specific purpose.

The Borough would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

M. Net Position

In the government-wide financial statements, equity is classified as net position and can be displayed in three components.

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets, and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
- b. Restricted net position – Includes assets reduced by liabilities and deferred inflows of resources related to those assets, with restriction constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Borough of Indiana
Notes to Financial Statements
December 31, 2016

- c. Unrestricted net position – Reflects the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

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

The government-wide statement of net position reports \$596,203 of restricted net position. Enabling legislation restricts \$322,637 for highway maintenance; \$132,990 for fire protection; \$7,188 for the library contribution; \$1,541 for street light operation and maintenance; \$5,108 for planting and maintenance of shade trees; \$771 for economic development of the Business Improvement District; and \$7,466 for capital projects. Further, state funding agencies restrict \$118,502 for revolving loans between the Borough and community businesses for purposes of stimulating economic growth.

N. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence. The Borough reported one special item on the Statement of Activities resulting from the gain recognized on the sale of capital assets in 2016.

P. Pension Plans

Substantially all full-time employees of the Borough participate in one of three single employer defined benefit pension plans. Separate plans are maintained by the Borough for management, non-management and uniform employees. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, requires government employers, such as the Borough, to recognize a liability for the net pension liability. The standard further requires the Borough to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension expense, information about the fiduciary net position of the Plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefits payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms, and investments are reported at fair value.

Borough of Indiana
Notes to Financial Statements
December 31, 2016

Note 3 – Cash and Cash Equivalents and Investments

Under the Commonwealth of Pennsylvania Borough Code, Act of February 1, 1966, as amended, the Borough is permitted to invest its monies as follows:

Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Deposits in savings or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law is pledged by the depository.

Shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, provided certain requirements are met.

Repurchase agreements with respect to U. S. Treasury bills or obligations.

Local Government Investment Pools (LGIPs) which include, but are not limited to, the Pennsylvania Local Government Investment Trust (PLGIT).

Under Pennsylvania Act 10 of 2016, effective May 24, 2016, all Pennsylvania local governments have additional investment options including commercial paper, bankers' acceptances, and negotiable certificates of deposit. These additional investments are subject to maturity terms and credit rating requirements, as defined in the Act. However, due to the collateralization requirements of the Pennsylvania Security for Public Deposits Act, and because negotiable certificates of deposit do not exist in the current investment market in a collateralized form to satisfy the requirements, they are not an investment lawfully available to local governments at this time.

The deposit and investment policy of the Borough adheres to state statutes and prudent business practice. Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and include investments with original maturities of three months or less. Cash and cash equivalents consist of cash on hand and demand deposits with a local financial institution. The market values of deposits are equal to the cost of the deposits.

The Borough's investments, as reported on the financial statements, include several long-term, non-negotiable certificates of deposit with a local financial institution. The investments are stated at cost, including accrued interest which approximates market value.

Amounts on deposit in financial institutions, which are described as cash and cash equivalents in the Borough's financial statements, are covered by federal depository insurance or collateralized in accordance with the Pennsylvania Security for Public Deposits Act ("the Act"). Under the Act, banks holding public deposits in excess of the amounts insured by the FDIC must pledge collateral in the amount of 120% of excess deposits to a collateral pool.

Borough of Indiana
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December 31, 2016

Cash

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Borough’s deposits may not be returned to it. The Borough does not have a policy for custodial credit risk however, as previously noted, the Borough’s deposits in excess of the FDIC limit are collateralized in accordance with the Pennsylvania Security for Public Deposit Act. As of December 31, 2016, \$5,371,950 of the Borough’s bank balance of \$5,871,950 was exposed to custodial risk as:

Uninsured and uncollateralized	\$ 0
Collateralized with securities held by the pledging financial institution	0
Uninsured and collateral held by the pledging bank’s trust department not in the Borough’s name	<u>5,371,950</u>
Total	<u>\$5,371,950</u>

Reconciliation to Financial Statements

Uninsured amount above	\$ 5,371,950
Plus: Insured amount	500,000
Plus: Deposits in transit	880
Less: Outstanding checks	<u>(287,259)</u>
Carrying amount – bank balances	(5,585,571)
Less: Certificates of deposit considered investments	(2,360,444)
Plus: Pension in money market funds considered cash equivalents	111,232
General Fund – negative cash balance included in accounts payable	100,230
Cash on hand (utilities)	<u>18,954</u>
 Total cash per financial statements	 <u>\$ 3,455,543</u>

Summary of Total Cash per Financial Statements

Governmental Activities	\$ 760,074
Business-type Activities	2,584,237
Fiduciary Funds	<u>111,232</u>
Total cash per financial statements	<u>\$ 3,455,543</u>

Investments

As of December 31, 2016, the Borough had the following investments and maturities:

<u>Investment</u>	<u>Maturity</u>	<u>Value</u>
Certificates of Deposit	12-60 months	\$ 2,360,444
Pension investments	N/A	<u>15,218,735</u>
Total investments		<u>\$17,579,179</u>

Pension Investments

The Borough’s pension plans are invested with Huntington Trust in various mutual funds and fixed income and equity securities. The deposits and investments of the pension plans are held separately from those of the Borough, and are under the control of the pension plans’ Board. The investments are reported at fair value using Level 1 inputs.

**Borough of Indiana
Notes to Financial Statements
December 31, 2016**

Interest Rate Risk

The Borough does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

State law limits investments to those authorized by State statutes. However, the Borough has no investment policy that would limit its investment choices to certain credit ratings.

Concentration of Credit Risk

The Borough places no limit on the amount the Borough may invest in any one issuer.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Borough will not be able to recover the value of its investments or collateral security that are in possession of an outside party. The Borough has no investment subject to custodial credit risk.

Reconciliation to Financial Statements

Total investments above	\$17,579,179
Less: Pension in money market funds considered cash equivalents	<u>(111,232)</u>
Total investments per financial statements	<u>\$17,467,947</u>

Summary of Total Investments per Financial Statements

Business-type Activities	\$ 2,360,444
Fiduciary Funds	<u>15,107,503</u>
	<u>\$17,467,947</u>

Note 4 – Property Taxes

The Borough collects property taxes based upon property valuations provided by the county assessor’s office. The taxes are collected by the local elected tax collector. In 2015, the county assessor’s office reassessed all property to 100 percent of the 2015 market value. Due to the reassessment, the Borough had to approve a lower millage rate. For 2016, the Borough levied property taxes of 3.721 mills per assessed valuation for general purposes, 0.189 mill per assessed valuation for fire protection, 0.126 mill per assessed valuation for the library, and 0.012 mill per assessed valuation for shade trees. The total tax levy of 4.048 mills per assessed valuation (\$548,557,000) would generate \$2,220,560 of property tax revenues.

Due to the county-wide property tax reassessment performed, the Indiana County property tax billing and collection periods were delayed. The following was the revised tax calendar for the year ended December 31, 2016:

Mailing date	July 1
Discount period at 2%	July 1 to August 13
Face period	August 14 to October 13
Penalty period at 10%	November 14 to December 31
Lien date	January 15

**Borough of Indiana
Notes to Financial Statements
December 31, 2016**

Note 5 – Taxes Receivable

The elected tax collectors are required to return any uncollected taxes to the county’s tax claim bureau by January 15. It has been determined the amount of outstanding taxes as of December 31, 2016 is \$469,309. The Borough, in accordance with accounting principles generally accepted in the United States of America, recognized the delinquent and unpaid taxes receivable. An allowance for uncollectible taxes was not established by Borough management. A portion of the amount estimated to be collectible which was measurable and available within 60 days was recognized as revenue and the balance recorded as a deferred inflow of resources in the fund financial statements.

Uncollected taxes for the year ended December 31, 2016:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Total</u>
Real Estate Transfer Tax	\$ 7,065	\$ 0	\$ 7,065
Local Services Tax	39,307	0	39,307
Real Estate Taxes	24,653	4,092	28,745
Earned Income Taxes	<u>131,045</u>	<u>0</u>	<u>131,045</u>
Uncollected Taxes Recognized as Revenue (received within 60 days)	202,070	4,092	206,162
Real Estate Tax - Deferred Inflow of Resources	177,945	0	177,945
Earned Income Taxes - Deferred Inflow of Resources	<u>85,202</u>	<u>0</u>	<u>85,202</u>
Total Taxes Receivable	<u>\$ 465,217</u>	<u>\$ 4,092</u>	<u>\$ 469,309</u>

Note 6 – Due From Other Governments

Amounts due from other governments represent receivables for revenues earned by the Borough or collections made by another governmental unit on behalf of the Borough. At December 31, 2016, the following amounts are due from other governmental units, as reported on the financial statements:

<u>Due From</u>	<u>General Fund</u>	<u>Proprietary Funds</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Federal	\$ 0	\$ 0	\$ 0	\$ 0
State	839,645	0	1,776,590	0
Local	<u>31,972</u>	<u>30,431</u>	<u>151,756</u>	<u>30,431</u>
	<u>\$ 871,617</u>	<u>\$ 30,431</u>	<u>\$ 1,928,346</u>	<u>\$ 30,431</u>

Borough of Indiana
Notes to Financial Statements
December 31, 2016

Note 7 – Capital Assets

Capital asset activity for the fiscal year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 81,539	\$ 0	\$ 0	\$ 0	\$ 81,539
Construction in progress	895,694 *	1,539,194	0	(196,529)	2,238,359
Total capital assets, not being depreciated	<u>977,233</u>	<u>1,539,194</u>	<u>0</u>	<u>(196,529)</u>	<u>2,319,898</u>
Capital assets, being depreciated:					
Buildings and improvements	2,420,847	251,862	0	196,529	2,869,238
Furniture and equipment	2,981,935	92,110	(48,983)	0	3,025,062
Site improvements	426,098	0	0	0	426,098
Infrastructure	4,623,922	0	0	0	4,623,922
Total capital assets, being depreciated	<u>10,452,802</u>	<u>343,972</u>	<u>(48,983)</u>	<u>196,529</u>	<u>10,944,320</u>
Less accumulated depreciation:					
Buildings and improvements	2,226,053	24,404	0	0	2,250,457
Furniture and equipment	2,604,681	123,422	(48,983)	0	2,679,120
Site improvements	140,484	19,361	0	0	159,845
Infrastructure	396,370	115,598	0	0	511,968
Total accumulated depreciation	<u>5,367,588</u>	<u>282,785</u>	<u>(48,983)</u>	<u>0</u>	<u>5,601,390</u>
Total capital assets, being depreciated, net	<u>5,085,214</u>	<u>61,187</u>	<u>0</u>	<u>196,529</u>	<u>5,342,930</u>
Governmental activities capital assets, net	<u>\$ 6,062,447</u>	<u>\$ 1,600,381</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 7,662,828</u>

*Restated to correct for understated construction in progress. See Note 18 to the financial statements.

Borough of Indiana
Notes to Financial Statements
December 31, 2016

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Business-Type Activities				
Capital assets, not being depreciated:				
Land	\$ 434,619	\$ 0	\$ 0	\$ 434,619
Construction in progress	<u>0</u>	<u>50,443</u>	<u>0</u>	<u>50,443</u>
Total capital assets, not being depreciated	<u>434,619</u>	<u>50,443</u>	<u>0</u>	<u>485,062</u>
Capital assets, being depreciated:				
Buildings and improvements	14,077,972	0	0	14,077,972
Equipment	2,858,272	23,295	0	2,881,567
Site improvements	84,006	0	0	84,006
Infrastructure	<u>21,098,313</u>	<u>0</u>	<u>0</u>	<u>21,098,313</u>
Total capital assets, being depreciated	<u>38,118,563</u>	<u>23,295</u>	<u>0</u>	<u>38,141,858</u>
Less accumulated depreciation:				
Buildings and improvements	7,916,005	268,737	0	8,184,742
Equipment	2,365,358	52,009	0	2,417,367
Site improvements	79,198	437	0	79,635
Infrastructure	<u>4,994,248</u>	<u>421,966</u>	<u>0</u>	<u>5,416,214</u>
Total accumulated depreciation	<u>15,354,809</u>	<u>743,149</u>	<u>0</u>	<u>16,097,958</u>
Total capital assets, being depreciated, net	<u>22,763,754</u>	<u>(719,854)</u>	<u>0</u>	<u>22,043,900</u>
Business-type activities capital assets, net	<u>\$ 23,198,373</u>	<u>\$ (669,411)</u>	<u>\$ 0</u>	<u>\$ 22,528,962</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:		Business-type Activities:	
General government	\$ 29,692	Sewer	\$623,250
Public safety	188,052	Parking	114,216
Public works – highways, roads and streets	48,073	Sanitation	<u>5,683</u>
Public works – other	283	Total depreciation expense	<u>\$743,149</u>
Culture and recreation	12,160		
Community development	<u>4,525</u>		
Total depreciation expense	<u>\$282,785</u>		

Borough of Indiana
Notes to Financial Statements
December 31, 2016

Note 8 – Compensated Absences

In accordance with accounting principles generally accepted in the United States of America, the Borough accrues liabilities for compensated absences. Compensated absences reflect the potential cost of vacation time and sick leave earned by employees as of December 31, 2016. The Borough allows all employees to accumulate their unused vacation time, carrying over up to a maximum of five (5) days at December 31 each year. Upon termination, employees are compensated for unused vacation time at their standard rate of pay. Employees are compensated for unused sick leave only upon retirement. Employees shall receive separation benefits based upon the total days of unused sick leave up to a maximum of fifty (50) days accumulated while in the employ of Indiana Borough at their standard rate of pay. The Borough has computed a total liability of \$79,517 at December 31, 2016 with \$62,042 reflected in the general fund and \$17,475 reflected in the proprietary funds. Due to the nature of the obligation for accrued separation benefits, annual requirements to amortize such obligations are not determinable and have not been presented. Further, the current portion of the liability has not been calculated for the proprietary funds as it has been deemed immaterial. General fund reports a current liability of \$37,998 in the fund financial statements, which reflects the retirement of two employees in 2017.

Note 9 – Post-employment Benefits

From an accrual accounting perspective, the cost of postemployment healthcare benefits, like the cost of pension benefits, should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. Under GASB Statement No. 45, the Borough recognizes the cost of postemployment healthcare in the year when employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the Borough's future cash flows. Because the Borough adopted the requirements of GASB Statement No. 45 prospectively, recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2009 liability.

Plan Description

The Borough provides continuation of medical benefits to employees who retire from the Borough.

Eligibility

- A. Police:
 - Age 55 and 25 years of service
- B. Management and Non-management Employees:
 - Age 62 and 15 years of service

Duration of Healthcare Benefits

- A. Police:
 - Retirees receive coverage until age 65 or qualification for Medicare if earlier. Spousal coverage continues to the earlier of death or Medicare eligibility without regard to the age/survivorship of the retiree.
- B. Management and Non-management Employees:
 - Retirees receive coverage until age 65 or qualification for Medicare if earlier. Spousal coverage continues to the earlier of death or Medicare eligibility without regard to the age/survivorship of the retiree.

• **Borough of Indiana**
Notes to Financial Statements
December 31, 2016

Participant Contributions

- A. Police:
- Retirees are not currently required to contribute toward coverage for themselves or spousal coverage.
- B. Management and Non-management Employees:
- Retirees are not currently required to contribute toward coverage for themselves or family members.

All contracts with the Borough's union employees will be renegotiated at various times in the future and, thus, costs and benefits are subject to change.

OPEB benefits are administered by Borough personnel. No separate financial statements are issued.

The number of participants as of January 1, 2016, the effective date of the triennial OPEB valuation, follows. There have been no significant changes in the number covered or the type of coverage since that date.

	Borough
Active employees	54
Retired employees/surviving spouse	<u>14</u>
Total	<u>68</u>

Funding Policy

The Borough currently pays for postemployment health care benefits on a pay-as-you-go basis, and these financial statements assume that pay-as-you-go funding will continue.

Annual Other Postemployment Benefit Cost

For the year ended December 31, 2016, the Borough's annual OPEB cost (i.e., expense) of \$680,493 is equal to the adjusted Annual Required Contribution. Considering the Borough's annual OPEB cost as well as the payment of current health insurance premiums, which totaled \$94,174, the result was an increase in the Borough's Net OPEB Obligation of \$586,319 for the year ended December 31, 2016.

	Borough
Actuarial Accrued Liability (AAL)	
Retired employees	\$ 412,952
Active employees	<u>7,721,247</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 8,134,199</u>
Normal cost at beginning of year	\$ 324,568
Amortization factor based on 30 years	19.6005
Annual covered payroll	\$ 3,313,483
UAAL as % of covered payroll	245.49%

Borough of Indiana
Notes to Financial Statements
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	Borough
ARC Normal Cost	\$ 324,568
Amortization of UAAL	415,001
Annual required contribution (ARC)	739,569
Interest on Net OPEB Obligation	84,317
Adjustment to ARC	(143,393)
Annual OPEB cost (expense)	680,493
Contribution for the fiscal year	(94,174)
Increase in Net OPEB Obligation	586,319
Net OPEB Obligation December 31, 2015	2,810,570
Net OPEB Obligation December 31, 2016	\$ 3,396,889
Percent of annual OPEB cost contributed	13.8%

The Borough's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation of the fiscal years ending December 31, 2016, 2015 and 2014 for the benefits were as follows:

Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
12/31/2016	\$ 680,493	13.8%	\$ 3,396,889
12/31/2015	\$ 627,440	14.9%	\$ 2,810,570
12/31/2014	\$ 627,440	15.3%	\$ 2,276,429

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 plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. Most included coverages are "community-rated" and annual premiums for community-rated coverages were used as a proxy for claims costs without age adjustment. The unfunded actuarial accrued liability is being amortized over 30 years on a level dollar basis.

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. 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.

Borough of Indiana
Notes to Financial Statements
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In the January 1, 2016 actuarial valuation, the liabilities were computed using the Entry Age Normal Actuarial Cost Method and level dollar amortization. The actuarial assumptions utilized a 3.0% discount rate. Because the plan is unfunded, reference to the general assets, which are short-term in nature (such as certificates of deposit and money market funds), was considered in the selection of the 3.0% rate. The valuation assumes a 9% healthcare cost trend increase for fiscal year 2017, reduced by decrements to a rate of 5.5% after sixteen years.

Note 10 – Long-Term Debt

During the year ended December 31, 2016, long-term debt changed as follows:

	<u>Notes Payable</u>
Beginning of year	\$ 9,556,511
Debt issuance	1,424,665
Principal retirement	<u>(1,122,411)</u>
End of year	9,858,765
Less: current portion	<u>(2,996,208)</u>
Long-term debt	<u>\$ 6,862,557</u>

Maturities of long-term debt are as follows:

Year Ended June 30,	Principal	Interest	Total
2017	\$ 2,996,208	\$ 311,161	\$ 3,307,369
2018	1,127,659	271,939	1,399,598
2019	1,143,145	231,523	1,374,668
2020	1,014,172	193,585	1,207,757
2021	1,049,916	157,840	1,207,756
2022-2026	2,281,381	273,262	2,554,643
2027-2028	<u>246,284</u>	<u>10,040</u>	<u>256,324</u>
	<u>\$ 9,858,765</u>	<u>\$ 1,449,350</u>	<u>\$ 11,308,115</u>

General Fund Debt

S&T Bank General Obligation Note, Series of 2015

The Series of 2015 General Obligation Note was issued on August 31, 2015 in the maximum par amount of \$3,250,000 for funding of Segment C of the Indiana Economic Development Project. The note is payable to S&T Bank through monthly interest payments during the drawdown and repayment period at 1.79%, reset to 1.75% on August 31, 2017. The entire outstanding principal balance, together with all accrued and unpaid interest thereon will be due and payable to S&T Bank on August 31, 2018 (the "Maturity Date"). The outstanding balance at December 31, 2016 was \$1,776,589.

Borough of Indiana
Notes to Financial Statements
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S&T Bank General Obligation Note, Series A of 2016

The Series A of 2016 General Obligation Note was issued on January 14, 2016 in the maximum par amount of \$146,000 for the purpose of funding costs associated with the acquisition and construction of repairs and improvements for the Indiana Economic Development Project. The Note, bearing an interest rate of 2.70%, is payable to S&T Bank through six monthly interest payments during the draw-down period and 36 monthly principal and interest payments of \$4,229 each. The Note is secured by a pledge of Community Development Block Grant Funding. The outstanding balance at December 31, 2016 was \$119,784.

Community First National Bank Police Car

The Borough entered into a three year financing agreement with Community First National Bank on January 21, 2015 for the purchase of a police car in the maximum amount of \$32,500 at an interest rate of 4.39%. The balance outstanding at December 31, 2016 was \$10,919.

Community First National Bank Police Car

The Borough entered into a three year financing agreement with Community First National Bank on June 1, 2016 for the purchase of a police vehicle and equipment in the maximum amount of \$39,397 at an interest rate of 4.39%. The balance outstanding at December 31, 2016 was \$25,697.

Parking Fund Debt

A general obligation note was issued in August 2008 in the amount of \$2,500,000 for parking garage renovations. This note is payable to First Commonwealth Bank in monthly installments of \$16,417, including interest at a rate of 4.87% through August 2028. The outstanding balance at December 31, 2016 was \$1,441,517.

A general obligation note was issued in December 2004 in the amount of \$1,980,000 for the refinancing of the original \$2,400,000 parking garage debt issued in June 2000. The projected savings from this refinancing is \$180,277. The note is payable to First Commonwealth Bank in monthly installments of \$14,905, including interest at 4.20% through February 2020. The outstanding balance at December 31, 2016 was \$490,072.

Sewer Fund Debt

First Commonwealth Note

A general obligation note was issued on June 29, 2001 in the amount of \$8,059,773 for sewer project construction. This note is payable to First Commonwealth Bank in monthly installments of \$52,240, including interest at various rates (4.785% at December 31, 2016) through June, 2023. The outstanding balance at December 31, 2016 was \$3,495,719.

PENNVEST Note

A general obligation note was issued in April 2001 in the amount of \$8,059,773 for sewer project construction. The note is payable to PENNVEST in monthly installments of approximately \$38,073 (including interest at 1.00%) for the first 53 months and \$39,057 (including interest at 1.349%) for the remaining 180 months through March 2023. The outstanding balance at December 31, 2016 was \$2,498,468.

**Borough of Indiana
Notes to Financial Statements
December 31, 2016**

Long-term financing arrangements entered into for governmental activity purposes are liquidated by the general fund, whereas those related to business-type activities will be liquidated by the respective proprietary fund.

Note 11 – Interfund Transactions

The following is a summary of interfund receivables and payables at December 31, 2016:

	<u>Receivables</u>	<u>Payables</u>
General Fund	\$2,176,287	\$ 129,160
Special Revenue Fund – Library	5,573	0
Special Revenue Fund – Fire Protection	9,554	0
Special Revenue Fund – Street Light	33	0
Capital Projects Fund	114,000	165,000
Proprietary Fund – Sewer	165,000	48,471
Proprietary Fund – Parking	<u>0</u>	<u>2,127,816</u>
	<u>\$2,470,447</u>	<u>\$2,470,447</u>

The General Fund retains the delinquent tax collections on behalf of the Library, Fire Protection, and Street Light Funds. As such, these delinquent tax collections are due to the respective funds at year end.

Historically, the Parking Fund was subsidized by the General Fund and the interfund balance is the result of parking-related expenses paid by the General Fund in 2013 and prior years.

The balance between the Sewer Fund and the General Fund result from sewer wages and other expenses subsidized by the General Fund in prior years.

General Fund owes Capital Projects Fund for funds transferred in 2015 to assist in the payment of operating expenditures and to maintain adequate cash balance.

Capital Projects Fund owes Sewer Fund for funds transferred to General Fund in 2016 to assist in the payment of operating expenditures and to maintain adequate cash balance. The funds were intended to be transferred from Capital Projects Fund to General Fund; however, the transfer was made from Sewer Fund in error.

Interfund transfers during the year ended December 31, 2016 were as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$165,000	\$ 10,655
Capital Projects Fund	0	165,000
Special Revenue Fund – Shade Tree	<u>10,655</u>	<u>0</u>
	<u>\$175,655</u>	<u>\$175,655</u>

General Fund transferred \$10,655 to the Shade Tree Fund to contribute to project expenses. Capital Projects Fund transferred \$165,000 to General Fund to assist in the payment of capital-related expenditures.

Borough of Indiana
Notes to Financial Statements
December 31, 2016

Note 12 – Operating Leases

The Borough entered into a 63-month operating lease agreement with Pitney Bowes in June 2013 for the lease of a postage machine. The lease payments are \$282 per month, billed in quarterly installments of \$846. The Borough entered into a 60-month operating lease agreement with Ford Business Machines, Inc. in September 2015 for the lease of a wide plotter/scanner. The lease payments are \$160 per month. Future minimum lease payments are as follows:

<u>Year</u>	<u>Payment</u>
2017	\$ 5,302
2018	4,174
2019	1,918
2020	<u>1,439</u>
	<u>\$12,833</u>

Note 13 – Pension Plans

Pension plan information is presented in accordance with GASB No. 68, *Accounting and Financial Reporting for Pensions*. The most recent valuation available is dated as of January 1, 2015, for the 2015 plan year. This valuation was prepared based on assumptions and conditions as they existed on the date of the valuation as described below. The effects of changes, if any, in assumptions or conditions occurring after the valuation date, on the valuation and information provided in this note, have not been determined.

Plan Description

The Borough contributes to three (3) single-employer defined benefit pension plans, governed by the Council of Indiana Borough. Separate retirement plans are maintained by the Borough for management, non-management and uniformed employees. Benefit provisions of the plans are established by resolution, effective January 1, 1976 for the management and non-management plans and October 6, 1970 for the uniformed (police) plan. The plans were adopted pursuant to Act 581, and may be amended by resolution of the Borough Council. The plans provide retirement, disability and death benefits and cost of living adjustments to qualifying plan members and beneficiaries.

Indiana Borough issues a publicly available financial report that includes financial statements for the plan. The report may be obtained by writing to Indiana Borough, 80 North 8th Street, Indiana, PA 15701.

Funding Policy

The contribution policy is set by ordinance and requires contributions of 5% of compensation by active employees. The contribution required by the employer is based on an actuarial valuation and is expressed as a percentage of annual compensation. For the year ended December 31, 2016, employer and employee contributions to the Plans totaled \$600,305.

**Borough of Indiana
Notes to Financial Statements
December 31, 2016**

Note 14 – Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Police Pension Plan

At December 31, 2016, the Borough reported a liability of \$759,573 for its net pension liability for the Police Pension Plan. The net pension liability was measured as of December 31, 2016, 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 January 1, 2016 to December 31, 2016.

For the year ended December 31, 2016, the Borough recognized pension expense of \$299,478. At December 31, 2016, the Borough reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 0	\$ 0
Changes in assumptions	0	0
Net difference between projected and actual investment earnings	671,755	0
Contributions subsequent to the measurement date	0	0
	\$ 671,755	\$ 0

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

Year Ended December 31:		
2017	\$	167,939
2018		167,939
2019		167,940
2020		167,936
2021		1
Thereafter		0
	\$	671,755

Actuarial assumptions

The total pension liability as of December 31, 2016 was determined by rolling forward the Police Pension Plan's total pension liability as of the January 1, 2016 actuarial valuation to December 31, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal as described in Act 205 of 1984, as amended by Act 44 of 2009.
- Investment return – 7.00%
- Salary increases – 5.00% per year

**Borough of Indiana
Notes to Financial Statements
December 31, 2016**

- Mortality rates were based on the IRS Optional Combined Mortality for 2016 plan year valuations as described in IRS Notice 2013-49.

The long-term expected rate of return on pension plan investments was determined using a building-block approach. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real returns by the target asset allocation percentage and adding expected inflation.

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Borough Council. 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>
Inflation	N/A	2.0%
Fixed income	40%	1.2% - 2.2%
Domestic equity	60%	5.6% - 7.1%

The above was the Borough Council's adopted asset allocation policy and best estimates of arithmetic rates of return for each asset class as of December 31, 2016.

Discount rate

The discount rate used to measure the total pension liability was 7.00%. 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 that contributions from employers will be made at actuarially determined amounts. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for 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.

**Borough of Indiana
Notes to Financial Statements
December 31, 2016**

Changes in Borough's Net Pension Liability

Changes in the Borough's net pension liability for the year ended December 31, 2016 were as follows:

	Increase (Decrease)		
	Total Pension Liability [a]	Plan Fiduciary Net Position [b]	Net Pension Liability (Asset) [a] - [b]
Balance, January 1, 2016	\$ 9,967,973	\$ 9,443,366	\$ 524,607
Changes for the year:			
Service cost	350,411	0	350,411
Interest	640,096	0	640,096
Difference between expected and actual experience	0	0	0
Changes in assumptions	0	0	0
Net investment income	0	417,253	(417,253)
Contributions - employees	0	93,129	(93,129)
Contributions - employer	0	253,426	(253,426)
Benefit payments, including refunds of employee contributions	(390,542)	(390,542)	0
Administrative expense	0	(8,267)	8,267
Other charges	0	0	0
Net changes	599,965	364,999	234,966
Balance December 31, 2016	\$ 10,567,938	\$ 9,808,365	\$ 759,573

Sensitivity of the Borough's net pension liability to changes in the discount rate

The following presents the net pension liability, calculated using the discount rate of 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
	<u>6.0%</u>	<u>7.0%</u>	<u>8.0%</u>
Borough's net pension liability	\$2,177,366	\$759,573	\$(422,011)

Pension plan fiduciary net position

Detailed information about the Plan's fiduciary net position is available in the valuation report which can be obtained from the Borough.

Management Pension Plan

At December 31, 2016, the Borough reported a liability of \$277,832 for its net pension liability for the Management Pension Plan. The net pension liability was measured as of December 31, 2016, 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 January 1, 2016 to December 31, 2016.

Borough of Indiana
Notes to Financial Statements
December 31, 2016

For the year ended December 31, 2016, the Borough recognized pension expense of \$36,038. At December 31, 2016, the Borough reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 0	\$ 0
Changes in assumptions	0	0
Net difference between projected and actual investment earnings	140,399	0
Contributions subsequent to the measurement date	0	0
	\$ 140,399	\$ 0

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

Year Ended December 31:			
2017	\$	42,929	
2018		42,929	
2019		42,927	
2020		11,614	
2021		0	
Thereafter		0	
	\$	140,399	

Actuarial assumptions

The total pension liability as of December 31, 2016 was determined by rolling forward the Management Pension Plan's total pension liability as of the January 1, 2016 actuarial valuation to December 31, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal as described in Act 205 of 1984, as amended by Act 44 of 2009.
- Investment return – 7.00%
- Salary increases – 4.00% per year
- Mortality rates were based on the IRS Optional Combined Mortality for 2016 plan year valuations as described in IRS Notice 2013-49.

The long-term expected rate of return on pension plan investments was determined using a building-block approach. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real returns by the target asset allocation percentage and adding expected inflation.

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

Borough of Indiana
Notes to Financial Statements
December 31, 2016

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Inflation	N/A	2.0%
Fixed income	40%	1.2% - 2.2%
Domestic equity	60%	5.6% - 7.1%

The above was the Borough Council's adopted asset allocation policy and best estimates of arithmetic rates of return for each asset class as of December 31, 2016.

Discount rate

The discount rate used to measure the total pension liability was 7.00%. 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 that contributions from employers will be made at actuarially determined amounts. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for 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.

Changes in Borough's Net Pension Liability

Changes in the Borough's net pension liability for the year ended December 31, 2016 were as follows:

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u> <u>[a]</u>	<u>Plan Fiduciary Net Position</u> <u>[b]</u>	<u>Net Pension Liability (Asset)</u> <u>[a] - [b]</u>
Balance, January 1, 2016	\$ 2,882,107	\$ 2,528,675	\$ 353,432
Changes for the year:			
Service cost	42,328	0	42,328
Interest	139,387	0	139,387
Difference between expected and actual experience	0	0	0
Changes in assumptions	0	0	0
Net investment income	0	116,347	(116,347)
Contributions - employees	0	21,662	(21,662)
Contributions - employer	0	126,787	(126,787)
Benefit payments, including refunds of employee contributions	(130,197)	(130,197)	0
Administrative expense	0	(7,481)	7,481
Other charges	0	0	0
Net changes	<u>51,518</u>	<u>127,118</u>	<u>(75,600)</u>
Balance December 31, 2016	<u>\$ 2,933,625</u>	<u>\$ 2,655,793</u>	<u>\$ 277,832</u>

Borough of Indiana
Notes to Financial Statements
December 31, 2016

Sensitivity of the Borough's net pension liability to changes in the discount rate

The following presents the net pension liability, calculated using the discount rate of 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
	<u>6.0%</u>	<u>7.0%</u>	<u>8.0%</u>
Borough's net pension liability	\$581,098	\$277,832	\$17,967

Pension plan fiduciary net position

Detailed information about the Plan's fiduciary net position is available in the valuation report which can be obtained from the Borough.

Non-Management Pension Plan

At December 31, 2016, the Borough reported a liability of \$79,522 for its net pension liability for the Non-Management Pension Plan. The net pension liability was measured as of December 31, 2016, 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 January 1, 2016 to December 31, 2016.

For the year ended December 31, 2016, the Borough recognized pension expense of \$59,905. At December 31, 2016, 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	\$ 0	\$ 0
Changes in assumptions	0	0
Net difference between projected and actual investment earnings	159,796	0
Contributions subsequent to the measurement date	0	0
	<u>\$ 159,796</u>	<u>\$ 0</u>

**Borough of Indiana
Notes to Financial Statements
December 31, 2016**

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

<u>Year Ended December 31:</u>	
2017	\$ 48,487
2018	48,487
2019	48,485
2020	14,337
2021	0
Thereafter	<u>0</u>
	<u>\$ 159,796</u>

Actuarial assumptions

The total pension liability as of December 31, 2016 was determined by rolling forward the Non-Management Pension Plan's total pension liability as of the January 1, 2016 actuarial valuation to December 31, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal as described in Act 205 of 1984, as amended by Act 44 of 2009.
- Investment return – 7.00%
- Salary increases – 4.00% per year
- Mortality rates were based on the IRS Optional Combined Mortality for 2016 plan year valuations as described in IRS Notice 2013-49.

The long-term expected rate of return on pension plan investments was determined using a building-block approach. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real returns by the target asset allocation percentage and adding expected inflation.

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Borough Council. 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>
Inflation	N/A	2.0%
Fixed income	40%	1.2% - 2.2%
Domestic equity	60%	5.6% - 7.1%

The above was the Borough Council's adopted asset allocation policy and best estimates of arithmetic rates of return for each asset class as of December 31, 2016.

Borough of Indiana
Notes to Financial Statements
December 31, 2016

Discount rate

The discount rate used to measure the total pension liability was 7.00%. 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 that contributions from employers will be made at actuarially determined amounts. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for 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.

Changes in Borough's Net Pension Liability

Changes in the Borough's net pension liability for the year ended December 31, 2016 were as follows:

	Increase (Decrease)		
	Total Pension Liability [a]	Plan Fiduciary Net Position [b]	Net Pension Liability (Asset) [a] - [b]
Balance, January 1, 2016	\$ 2,675,901	\$ 2,630,223	\$ 45,678
Changes for the year:			
Service cost	90,872	0	90,872
Interest	145,550	0	145,550
Difference between expected and actual experience	0	0	0
Changes in assumptions	0	0	0
Net investment income	0	112,469	(112,469)
Contributions - employees	0	48,672	(48,672)
Contributions - employer	0	49,259	(49,259)
Benefit payments, including refunds of employee contributions	(56,178)	(56,178)	0
Administrative expense	0	(7,822)	7,822
Other charges	0	0	0
Net changes	180,244	146,400	33,844
Balance December 31, 2016	\$ 2,856,145	\$ 2,776,623	\$ 79,522

Sensitivity of the Borough's net pension liability to changes in the discount rate

The following presents the net pension liability, calculated using the discount rate of 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease <u>6.0%</u>	Current Discount Rate <u>7.0%</u>	1% Increase <u>8.0%</u>
Borough's net pension liability	\$203,282	\$79,522	\$(362,226)

Borough of Indiana
Notes to Financial Statements
December 31, 2016

Pension plan fiduciary net position

Detailed information about the Plan's fiduciary net position is available in the valuation report which can be obtained from the Borough.

Note 15 – Liquid Fuels Tax – Liquid Fuels Fund

Revenue recorded within this special revenue fund is received annually by virtue of the Commonwealth of Pennsylvania Liquid Fuels Tax Act and expenditures are restricted to certain appropriations for highway purposes as approved by the Pennsylvania Department of Transportation. Unexpended allocations of such revenues are available for carryover and reappropriation to the succeeding year.

Note 16 – Risk Management

The Borough is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Borough has purchased various insurance policies to safeguard its assets from risk of loss. Insurance coverage appears to be consistent with previous years. During the year ended December 31, 2016 and the two previous fiscal years, no settlements exceeded insurance coverage.

Note 17 – Contingent Liabilities

Grant Program Involvement

In the normal course of operations, the Borough participates in various federal and state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

Litigation

The Borough is subject to various legal proceedings and claims which arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions, if any, will not have a material adverse effect on the financial position, operations or cash flow of the Borough.

Note 18 – Restatement of Fund Balance and Net Position

Fund balance has been restated for the general fund effective January 1, 2016 as follows:

Understated accounts receivable	\$ 60,512
Understated accounts payable	<u>(39,693)</u>
Net increase in fund balance	<u>\$ 20,819</u>

Borough of Indiana
Notes to Financial Statements
December 31, 2016

The fund balance restatements above are reflected on both the fund financial statements and the government-wide financial statements.

Net position of the governmental activities was restated effective January 1, 2016 to correct for understated receivables (\$550,796) and understated construction in progress (\$39,693). Net position was further restated effective January 1, 2016 to correct for overstated expenses (\$55,923), which is reflected as a refund of prior year expenses in the fund financial statements. The net position restatements reflected above, combined with the restatement of fund balance, resulted in an increase in net position of the governmental activities of \$667,231.

Note 19 – Subsequent Event

In January 2017, the Borough secured the General Obligation Note, Series of 2016 in the amount of \$937,750 for the purpose of refinance of an existing loan, reimbursement to the general fund for parking expenditures, and the upgrade of the payment system at the parking garage. The Note, bearing an interest rate of 2.68%, is payable to First Commonwealth Bank through 84 monthly payments of \$12,271 through January 2024.

Borough of Indiana
Combining Balance Sheet
Major Fund: Special Revenue Funds
December 31, 2016

	Liquid Fuels Fund	Fire Protection Fund	Library Fund	Street Light Fund	Shade Tree Fund	Bidd Loan Pool	5-Year BID Program	Total
Assets								
Cash and equivalents	\$ 335,864	\$ 121,307	\$ 45	\$ 1,508	\$ 4,951	\$ 118,502	\$ 0	\$ 582,177
Taxes receivable	0	2,365	1,570	0	157	0	0	4,092
Interfund receivables	0	9,554	5,573	33	0	0	0	15,160
Other receivables	0	0	0	0	0	0	771	771
Total assets	<u>\$ 335,864</u>	<u>\$ 133,226</u>	<u>\$ 7,188</u>	<u>\$ 1,541</u>	<u>\$ 5,108</u>	<u>\$ 118,502</u>	<u>\$ 771</u>	<u>\$ 602,200</u>
Liabilities and Fund Balance								
Liabilities								
Accounts payable	\$ 13,227	\$ 236	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 13,463
Total liabilities	<u>13,227</u>	<u>236</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>13,463</u>
Fund Balance								
Restricted	<u>322,637</u>	<u>132,990</u>	<u>7,188</u>	<u>1,541</u>	<u>5,108</u>	<u>118,502</u>	<u>771</u>	<u>588,737</u>
Total fund balance	<u>322,637</u>	<u>132,990</u>	<u>7,188</u>	<u>1,541</u>	<u>5,108</u>	<u>118,502</u>	<u>771</u>	<u>588,737</u>
Total liabilities and fund balance	<u>\$ 335,864</u>	<u>\$ 133,226</u>	<u>\$ 7,188</u>	<u>\$ 1,541</u>	<u>\$ 5,108</u>	<u>\$ 118,502</u>	<u>\$ 771</u>	<u>\$ 602,200</u>

See accompanying notes to the basic financial statements.

Borough of Indiana
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Major Fund: Special Revenue Funds
For the Year Ended December 31, 2016

	Liquid Fuels Fund	Fire Protection Fund	Library Fund	Street Light Fund	Shade Tree Fund	Bidd Loan Pool	5-Year BID Program	Total
Revenues								
Taxes	\$ 0	\$ 101,958	\$ 67,548	\$ 0	\$ 6,511	\$ 0	\$ 0	\$ 176,017
Interest earnings	72	15	1	0	2	59	0	149
Intergovernmental	361,059	205,788	0	0	0	0	0	566,847
Assessments	0	0	0	0	0	0	69,780	69,780
Miscellaneous	44	0	0	0	0	0	0	44
Total revenues	<u>361,175</u>	<u>307,761</u>	<u>67,549</u>	<u>0</u>	<u>6,513</u>	<u>59</u>	<u>69,780</u>	<u>812,837</u>
Expenditures								
Public safety	0	281,336	0	0	0	0	0	281,336
Public works - highways and streets	235,223	0	0	0	0	0	0	235,223
Culture and recreation	0	0	65,200	0	20,129	0	0	85,329
Community development	0	0	0	0	0	0	69,609	69,609
Total expenditures	<u>235,223</u>	<u>281,336</u>	<u>65,200</u>	<u>0</u>	<u>20,129</u>	<u>0</u>	<u>69,609</u>	<u>671,497</u>
Excess (deficiency) of revenues over expenditures	<u>125,952</u>	<u>26,425</u>	<u>2,349</u>	<u>0</u>	<u>(13,616)</u>	<u>59</u>	<u>171</u>	<u>141,340</u>
Other Financing Sources (Uses)								
Operating transfers	0	0	0	0	10,655	0	0	10,655
Refund of prior year expenditures	55,923	0	0	0	0	0	0	55,923
Total other financing sources (uses)	<u>55,923</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>10,655</u>	<u>0</u>	<u>0</u>	<u>66,578</u>
Net change in fund balance	181,875	26,425	2,349	0	(2,961)	59	171	207,918
Fund balance - beginning of year	<u>140,762</u>	<u>106,565</u>	<u>4,839</u>	<u>1,541</u>	<u>8,069</u>	<u>118,443</u>	<u>600</u>	<u>380,819</u>
Fund balance - end of year	<u>\$ 322,637</u>	<u>\$ 132,990</u>	<u>\$ 7,188</u>	<u>\$ 1,541</u>	<u>\$ 5,108</u>	<u>\$ 118,502</u>	<u>\$ 771</u>	<u>\$ 588,737</u>

See accompanying notes to the basic financial statements.

**Borough of Indiana
Combining Balance Sheet
Non-Major Fund: Capital Projects Funds
December 31, 2016**

	Capital Projects	Capital Projects Police	Total Capital Projects Funds
Assets			
Cash	\$ 165,036	\$ 12,861	\$ 177,897
Interfund receivables	114,000	0	114,000
Total assets	\$ 279,036	\$ 12,861	\$ 291,897
Liabilities and Fund Balance			
Liabilities			
Accounts payable	\$ 136,141	\$ 5,395	\$ 141,536
Interfund payable	165,000	0	165,000
Total liabilities	301,141	5,395	306,536
Fund Balance			
Restricted	0	7,466	7,466
Unassigned	(22,105)	0	(22,105)
Total fund balance	(22,105)	7,466	(14,639)
Total liabilities and fund balance	\$ 279,036	\$ 12,861	\$ 291,897

See accompanying notes to the basic financial statements.

Borough of Indiana
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances –
Non-Major Fund: Capital Projects Funds
For the Year Ended December 31, 2016

	Capital Projects	Capital Projects Police	Total Capital Projects Funds
Revenues			
Intergovernmental	\$ 0	\$ 23,099	\$ 23,099
Interest	26	1	27
Private sector funding	96,697	100	96,797
Total revenues	96,723	23,200	119,923
Expenditures			
Public safety	0	23,099	23,099
Community development	146,141	0	146,141
Total expenditures	146,141	23,099	169,240
Excess (deficiency) of revenues over expenditures	(49,418)	101	(49,317)
Other Financing Sources (Uses)			
Proceeds from the disposition of assets	0	750	750
Operating transfers	(165,000)	0	(165,000)
Total other financing sources (uses)	(165,000)	750	(164,250)
Net change in fund balance	(214,418)	851	(213,567)
Fund balance - beginning of year	192,313	6,615	198,928
Fund balance - end of year	\$ (22,105)	\$ 7,466	\$ (14,639)

See accompanying notes to the basic financial statements.

Borough of Indiana
Combining Statement of Net Position
Proprietary Funds
December 31, 2016

	Sewer			Parking	Sanitation	Total Proprietary
	Operating	Maintenance	Combined			
Assets						
Current assets:						
Cash and equivalents	\$ 1,319,824	\$ 750,926	\$ 2,070,750	\$ 33,141	\$ 480,346	\$ 2,584,237
Investments	2,360,444	0	2,360,444	0	0	2,360,444
Interfund receivables	253,129	0	253,129	0	0	253,129
Accounts receivable, net	167,025	80,825	247,850	40,712	200,215	488,777
Intergovernmental receivables	30,431	0	30,431	0	0	30,431
Total current assets	<u>4,130,853</u>	<u>831,751</u>	<u>4,962,604</u>	<u>73,853</u>	<u>680,561</u>	<u>5,717,018</u>
Noncurrent assets:						
Land	2,550	0	2,550	432,069	0	434,619
Depreciable capital assets, net	16,309,671	2,536,240	18,845,911	3,188,517	9,472	22,043,900
Construction in progress	50,443	0	50,443	0	0	50,443
Total noncurrent assets	<u>16,362,664</u>	<u>2,536,240</u>	<u>18,898,904</u>	<u>3,620,586</u>	<u>9,472</u>	<u>22,528,962</u>
Total assets	20,493,517	3,367,991	23,861,508	3,694,439	690,033	28,245,980
Deferred Outflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total assets and deferred outflows of resources	<u>\$ 20,493,517</u>	<u>\$ 3,367,991</u>	<u>\$ 23,861,508</u>	<u>\$ 3,694,439</u>	<u>\$ 690,033</u>	<u>\$ 28,245,980</u>

See accompanying notes to the basic financial statements.

**Borough of Indiana
Combining Statement of Net Position
Proprietary Funds
December 31, 2016**

	<u>Operating</u>	<u>Sewer Maintenance</u>	<u>Combined</u>	<u>Parking</u>	<u>Sanitation</u>	<u>Total Proprietary</u>
Liabilities						
Current liabilities:						
Accounts payable	\$ 74,635	\$ 3,479	\$ 78,114	\$ 4,181	\$ 66,426	\$ 148,721
Interfund payable	1,256	135,344	136,600	2,127,816	0	2,264,416
Current portion of long-term debt	<u>821,372</u>	<u>0</u>	<u>821,372</u>	<u>254,971</u>	<u>0</u>	<u>1,076,343</u>
Total current liabilities	<u>897,263</u>	<u>138,823</u>	<u>1,036,086</u>	<u>2,386,968</u>	<u>66,426</u>	<u>3,489,480</u>
Noncurrent liabilities:						
Long-term portion of debt	5,172,815	0	5,172,815	1,676,618	0	6,849,433
Compensated absences	<u>17,475</u>	<u>0</u>	<u>17,475</u>	<u>0</u>	<u>0</u>	<u>17,475</u>
Total noncurrent liabilities	<u>5,190,290</u>	<u>0</u>	<u>5,190,290</u>	<u>1,676,618</u>	<u>0</u>	<u>6,866,908</u>
Total liabilities	<u>6,087,553</u>	<u>138,823</u>	<u>6,226,376</u>	<u>4,063,586</u>	<u>66,426</u>	<u>10,356,388</u>
Deferred Inflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Position						
Invested in capital assets, net debt	10,368,477	2,536,240	12,904,717	1,688,997	9,472	14,603,186
Unrestricted	<u>4,037,487</u>	<u>692,928</u>	<u>4,730,415</u>	<u>(2,058,144)</u>	<u>614,135</u>	<u>3,286,406</u>
Total net position	<u>14,405,964</u>	<u>3,229,168</u>	<u>17,635,132</u>	<u>(369,147)</u>	<u>623,607</u>	<u>17,889,592</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 20,493,517</u>	<u>\$ 3,367,991</u>	<u>\$ 23,861,508</u>	<u>\$ 3,694,439</u>	<u>\$ 690,033</u>	<u>\$ 28,245,980</u>

See accompanying notes to the basic financial statements.

Borough of Indiana
Combining Statement of Revenues, Expenses and
Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2016

	Sewer		Parking	Sanitation	Total Proprietary
	Operating	Maintenance			
Operating Revenues					
Charges for services:					
Sewer	\$ 2,728,404	\$ 786,918	\$ 3,515,322	\$ 0	\$ 3,515,322
Sanitation	0	0	0	711,856	711,856
Parking	0	0	0	789,526	789,526
Total operating revenues	<u>2,728,404</u>	<u>786,918</u>	<u>3,515,322</u>	<u>711,856</u>	<u>5,016,704</u>
Operating Expenses					
Sewer	2,431,506	721,483	3,152,989	0	3,152,989
Sanitation	0	0	0	743,557	743,557
Parking	0	0	0	711,237	711,237
Total operating expenses	<u>2,431,506</u>	<u>721,483</u>	<u>3,152,989</u>	<u>711,237</u>	<u>4,607,783</u>
Operating income (loss)	<u>296,898</u>	<u>65,435</u>	<u>362,333</u>	<u>78,289</u>	<u>(31,701)</u>
Non-Operating Revenues (Expenses)					
Investment income	20,929	112	21,041	5	87
Operating transfers	9,089	(9,089)	0	0	0
Interest expense and fiscal agent fees	(215,482)	0	(215,482)	(104,607)	0
Total non-operating revenues (expenses)	<u>(185,464)</u>	<u>(8,977)</u>	<u>(194,441)</u>	<u>(104,602)</u>	<u>87</u>
Change in net position	111,434	56,458	167,892	(26,313)	(31,614)
Total net position - beginning	<u>14,294,530</u>	<u>3,172,710</u>	<u>17,467,240</u>	<u>(342,834)</u>	<u>655,221</u>
Total net position - ending	<u>\$ 14,405,964</u>	<u>\$ 3,229,168</u>	<u>\$ 17,635,132</u>	<u>\$ (369,147)</u>	<u>\$ 17,889,592</u>

See accompanying notes to the basic financial statements.

Borough of Indiana
Required Supplementary Information – Historical Pension Information
December 31, 2016

Schedule of Changes in the Borough's Net Pension Liability and Related Ratios - Police Pension Plan

Total Pension Liability	<u>2016</u>	<u>2015</u>
Service cost	\$ 350,411	\$ 334,348
Interest cost	640,096	605,052
Benefit payments, including refunds of member contributions	<u>(390,542)</u>	<u>(395,890)</u>
Net change in total pension liability	599,965	543,510
Total pension liability, beginning of year	<u>9,967,973</u>	<u>9,424,463</u>
Total pension liability, end of year (a)	<u><u>\$ 10,567,938</u></u>	<u><u>\$ 9,967,973</u></u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 253,426	\$ 258,961
Contributions - employee	93,129	88,752
Net investment income	417,253	49,882
Benefit payments, including refunds of member contributions	(390,542)	(395,890)
Administrative expense	(8,267)	(9,930)
Other charges	<u>0</u>	<u>0</u>
Net change in plan fiduciary net position	364,999	(8,225)
Plan fiduciary net position, beginning of year	<u>9,443,366</u>	<u>9,451,591</u>
Plan fiduciary net position, end of year (b)	<u><u>\$ 9,808,365</u></u>	<u><u>\$ 9,443,366</u></u>
Plan net pension liability, end of year (a) - (b)	<u><u>\$ 759,573</u></u>	<u><u>\$ 524,607</u></u>
Plan fiduciary net position as a percentage of total pension liability	92.81%	94.74%
Covered employee payroll	\$ 1,869,168	\$ 1,777,540
Plan net pension liability as a percentage of covered employee payroll	40.64%	29.51%

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying notes to the basic financial statements.

Borough of Indiana
Required Supplementary Information – Historical Pension Information
December 31, 2016

Schedule of the Net Pension Liability - Police Pension Plan

Fiscal Year Ended December 31	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as a % of Total Pension Liability	Covered Employee Payroll	Net Pension Liability as a % of Covered Employee Payroll
2015	\$ 9,967,973	\$ 9,443,366	\$ 524,607	94.74%	\$ 1,777,540	29.51%
2016	\$ 10,567,938	\$ 9,808,365	\$ 759,573	92.81%	\$ 1,869,168	40.64%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Schedule of Contributions - Police Pension Plan

Valuation Date	Actuarially Determined Contribution	Contributions Recognized by the Plan	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions Recognized by Plan as a % of Covered Employee Payroll
December 31, 2015	\$ 258,961	\$ 258,961	\$ 0	\$ 1,777,540	14.57%
December 31, 2016	\$ 253,426	\$ 253,426	\$ 0	\$ 1,869,168	13.56%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Schedule of Pension Investment Returns - Police Pension Plan

December 31, 2015	Annual money weighted rate of return, net of investment expense	0.53%
December 31, 2016	Annual money weighted rate of return, net of investment expense	4.47%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying notes to the basic financial statements.

Borough of Indiana
Required Supplementary Information – Historical Pension Information
December 31, 2016

Schedule of Changes in the Borough's Net Pension Liability and Related Ratios - Management Pension Plan

Total Pension Liability	<u>2016</u>	<u>2015</u>
Service cost	\$ 42,328	\$ 40,840
Interest cost	139,387	152,195
Differences between expected and actual experience	0	0
Changes in assumptions	0	0
Benefit payments, including refunds of member contributions	<u>(130,197)</u>	<u>(124,748)</u>
Net change in total pension liability	51,518	68,287
Total pension liability, beginning of year	<u>2,882,107</u>	<u>2,813,820</u>
Total pension liability, end of year (a)	<u>\$ 2,933,625</u>	<u>\$ 2,882,107</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 126,787	\$ 183,816
Contributions - employee	21,662	21,940
Net investment income	116,347	12,803
Benefit payments, including refunds of member contributions	(130,197)	(124,748)
Administrative expense	(7,481)	(10,854)
Other charges	<u>0</u>	<u>0</u>
Net change in plan fiduciary net position	127,118	82,957
Plan fiduciary net position, beginning of year	<u>2,528,675</u>	<u>2,445,718</u>
Plan fiduciary net position, end of year (b)	<u>\$ 2,655,793</u>	<u>\$ 2,528,675</u>
Plan net pension liability, end of year (a) - (b)	<u>\$ 277,832</u>	<u>\$ 353,432</u>
Plan fiduciary net position as a percentage of total pension liability	90.53%	87.74%
Covered employee payroll	\$ 438,042	\$ 442,798
Plan net pension liability as a percentage of covered employee payroll	63.43%	79.82%

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying notes to the basic financial statements.

Borough of Indiana
Required Supplementary Information – Historical Pension Information
December 31, 2016

Schedule of the Net Pension Liability - Management Pension Plan

Fiscal Year Ended December 31	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as a % of Total Pension Liability	Covered Employee Payroll	Net Pension Liability as a % of Covered Employee Payroll
2015	\$ 2,882,107	\$ 2,528,675	\$ 353,432	87.74%	\$ 442,798	79.82%
2016	\$ 2,933,625	\$ 2,655,793	\$ 277,832	90.53%	\$ 438,042	63.43%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Schedule of Contributions - Management Pension Plan

Valuation Date	Actuarially Determined Contribution	Contributions Recognized by the Plan	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions Recognized by Plan as a % of Covered Employee Payroll
December 31, 2015	\$ 183,816	\$ 183,816	\$ 0	\$ 442,798	41.51%
December 31, 2016	\$ 126,787	\$ 126,787	\$ 0	\$ 438,042	28.94%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Schedule of Pension Investment Returns - Management Pension Plan

December 31, 2015	Annual money weighted rate of return, net of investment expense	0.53%
December 31, 2016	Annual money weighted rate of return, net of investment expense	4.67%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying notes to the basic financial statements.

Borough of Indiana
Required Supplementary Information – Historical Pension Information
December 31, 2016

Schedule of Changes in the Borough's Net Pension Liability and Related Ratios - Non-Management Pension Plan

Total Pension Liability	<u>2016</u>	<u>2015</u>
Service cost	\$ 90,872	\$ 87,522
Interest cost	145,550	148,734
Differences between expected and actual experience	0	0
Changes in assumptions	0	0
Benefit payments, including refunds of member contributions	<u>(56,178)</u>	<u>(74,900)</u>
Net change in total pension liability	180,244	161,356
Total pension liability, beginning of year	<u>2,675,901</u>	<u>2,514,545</u>
Total pension liability, end of year (a)	<u>\$ 2,856,145</u>	<u>\$ 2,675,901</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 49,259	\$ 49,070
Contributions - employee	48,672	51,016
Net investment income	112,469	10,965
Benefit payments, including refunds of member contributions	(56,178)	(74,900)
Administrative expense	(7,822)	(11,185)
Other charges	<u>0</u>	<u>0</u>
Net change in plan fiduciary net position	146,400	24,966
Plan fiduciary net position, beginning of year	<u>2,630,223</u>	<u>2,605,257</u>
Plan fiduciary net position, end of year (b)	<u>\$ 2,776,623</u>	<u>\$ 2,630,223</u>
Plan net pension liability, end of year (a) - (b)	<u>\$ 79,522</u>	<u>\$ 45,678</u>
Plan fiduciary net position as a percentage of total pension liability	97.22%	98.29%
Covered employee payroll	\$ 1,006,273	\$ 1,026,954
Plan net pension liability as a percentage of covered employee payroll	7.90%	4.45%

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying notes to the basic financial statements.

Borough of Indiana
Required Supplementary Information – Historical Pension Information
December 31, 2016

Schedule of the Net Pension Liability - Non-Management Pension Plan

Fiscal Year Ended December 31	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as a % of Total Pension Liability	Covered Employee Payroll	Net Pension Liability as a % of Covered Employee Payroll
2015	\$ 2,675,901	\$ 2,630,223	\$ 45,678	98.29%	\$ 1,026,954	4.45%
2016	\$ 2,856,145	\$ 2,776,623	\$ 79,522	97.22%	\$ 1,006,273	7.90%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Schedule of Contributions - Non-Management Pension Plan

Valuation Date	Actuarially Determined Contribution	Contributions Recognized by the Plan	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions Recognized by Plan as a % of Covered Employee Payroll
December 31, 2015	\$ 49,070	\$ 49,070	\$ 0	\$ 1,026,954	4.78%
December 31, 2016	\$ 49,259	\$ 49,259	\$ 0	\$ 1,006,273	4.90%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Schedule of Pension Investment Returns - Non-Management Pension Plan

December 31, 2015	Annual money weighted rate of return, net of investment expense	0.42%
December 31, 2016	Annual money weighted rate of return, net of investment expense	4.28%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying notes to the basic financial statements.

Borough of Indiana
Schedule of Revenues, Expenditures, and Changes in Fund Balance –
Budget to Actual
General Fund
For the Year Ended December 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
Revenues				
Taxes	\$ 3,156,000	\$ 3,156,000	\$ 3,071,454	\$ (84,546)
Intergovernmental revenues	474,467	474,467	1,408,847	934,380
Charges for services	1,300,638	1,300,638	1,255,348	(45,290)
Fines and forfeitures	197,000	197,000	172,805	(24,195)
Licenses and permits	128,100	128,100	143,861	15,761
Interest, rents and royalties	600	600	185	(415)
Proceeds from debt	500,000	500,000	1,424,665	924,665
Private sector funding	0	0	292,341	292,341
Miscellaneous	10,000	10,000	2,598	(7,402)
Proceeds from the disposition of assets	0	0	2,500	2,500
Operating transfers	<u>0</u>	<u>0</u>	<u>165,000</u>	<u>165,000</u>
 Total revenues	 <u>5,766,805</u>	 <u>5,766,805</u>	 <u>7,939,604</u>	 <u>2,172,799</u>
Expenditures				
General government	593,278	593,278	549,496	43,782
Public safety	3,341,034	3,341,034	3,301,130	39,904
Public works:				
Highways, roads and streets	921,616	921,616	677,628	243,988
Other public works	1,500	1,500	3,261	(1,761)
Culture and recreation	73,045	73,045	394,664	(321,619)
Community development	39,600	39,600	1,397,884	(1,358,284)
Debt service principal	500,000	500,000	881,786	(381,786)
Debt service interest	10,000	10,000	23,877	(13,877)
Operating transfers	10,655	10,655	10,655	0
Benefits	641,319	641,319	691,439	(50,120)
Insurance	<u>84,738</u>	<u>84,738</u>	<u>73,344</u>	<u>11,394</u>
 Total expenditures	 <u>6,216,785</u>	 <u>6,216,785</u>	 <u>8,005,164</u>	 <u>(1,788,379)</u>
 Excess (deficiency) of revenues over expenditures	 <u>\$ (449,980)</u>	 <u>\$ (449,980)</u>	 (65,560)	 <u>\$ 384,420</u>
 Fund balance - beginning of year, restated			 <u>2,180,241</u>	
 Fund balance - end of year			 <u>\$ 2,114,681</u>	

See accompanying notes to the basic financial statements.

**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***

Independent Auditors' Report

Borough Council
Borough of Indiana
80 North 8th Street
Indiana, Pennsylvania 15701

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 Indiana as of and for the year ended December 31, 2016 and the related notes to the financial statements, which collectively comprise the Borough of Indiana's basic financial statements, and have issued our report thereon dated May 17, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Borough of Indiana'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Borough's internal control. Accordingly, we do not express an opinion on the effectiveness of the Borough of Indiana'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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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.

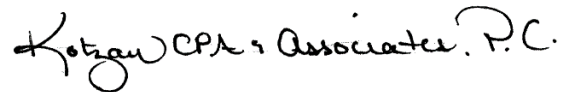
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Borough of Indiana's financial statements are free of 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 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Kotzan CPA & Associates, P.C.
Johnstown, Pennsylvania
May 17, 2017