

BOROUGH OF KENNETT SQUARE, PENNSYLVANIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ended

December 31, 2014

Prepared by:

Joseph C. Scalise
Interim Borough Manager

Kathy M. Holliday
Finance Director



Certified Public Accountants and Business Consultants

INTRODUCTORY SECTION

BOROUGH OF KENNETT SQUARE, PENNSYLVANIA

Comprehensive Annual Financial Report Year Ending December 31, 2014

Table of Contents

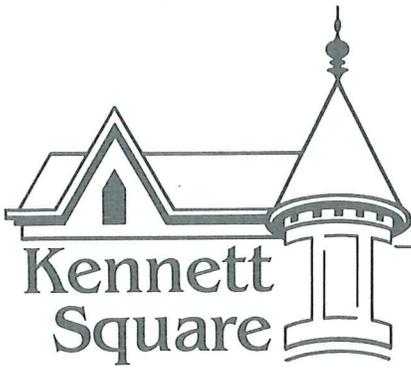
	<u>Page No.</u>
INTRODUCTORY SECTION	
Letter of Transmittal	1
Certificate of Achievement for Excellence in Financial Reporting	8
List of Elected and Appointed Officials	9
Organization Chart	10
Street Map	11
FINANCIAL SECTION	
Independent Auditors' Report	12
Management's Discussion and Analysis (unaudited)	14
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	29
Statement of Activities	30
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	31
Reconciliation of Total Governmental Funds Balances to Net Position of Governmental Activities	32
Statement of Revenues, Expenditures and Changes in Fund Balances	33
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	34
Proprietary Funds:	
Statement of Net Position	35
Statement of Revenues, Expenses and Changes in Net Position	36
Statement of Cash Flows	37
Fiduciary Funds:	
Statement of Fiduciary Net Position	38
Statement of Changes in Fiduciary Net Position	39
Notes to the Basic Financial Statements	40
Required Supplementary Information	
Budgetary Comparison Schedule	63
Notes to the Budgetary Comparison Schedule	64
Schedule of Changes in the Net Police Pension Plan Liability and Related Ratios	65
Schedule of Police Pension Plan Contributions	66
Schedule of Police Pension Plan Investment Returns	67
Non-Uniform Pension Plan Funding Progress	68

BOROUGH OF KENNETT SQUARE, PENNSYLVANIA

Comprehensive Annual Financial Report Year Ending December 31, 2014

Table of Contents

	<u>Schedules</u>	<u>Page No.</u>
SUPPLEMENTARY INFORMATION SECTION		
Combining Balance Sheet, Other Governmental Funds		69
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances, Other Governmental Funds		70
STATISTICAL SECTION		
Financial Trends		
Net Position by Components	1	71
Changes in Net Position	2, 2.2	72
Governmental Activities Tax Revenues by Source	3	74
Fund Balances, Governmental Funds	4	75
Changes in Fund Balances, Governmental Funds	5	76
Revenue Capacity		
Governmental Activities Tax Revenues by Source	6	77
Assessed Value and Estimated Actual Value of Taxable Property	7	78
All Direct and Overlapping Property Tax Rates	8	79
Principal Property Taxpayers	9	80
Property Tax Levies and Collections	10	81
Earned Income Tax Collections	11	82
Earned Income of Residents	12	83
Debt Capacity		
Ratio of Outstanding Debt by Type	13	84
Ratio of General Obligation Bonded Debt Outstanding	14	85
Direct and Overlapping Governmental Activities Debt	15	86
Legal Debt Margin Information	16	87
Pledged-Revenue Coverage of Water Fund	17	88
Pledged-Revenue Coverage of Sewer Fund	18	89
Pledged-Revenue Coverage of Parking Fund	19	90
Demographic and Economic Information		
Demographic and Economic Statistics	20	91
Principal Employers	21	92
Operating Information		
Full-Time Equivalent Borough Employees by Function	22	93
Operating Indicators by Function	23	94
Capital Asset Statistics by Function	24	95
Construction and Bank Deposits	25	96



June 30, 2015

To the Honorable Mayor, members of the Borough Council, and citizens of the Borough of Kennett Square:

The Commonwealth of Pennsylvania requires that the Borough of Kennett Square publish annually a complete set of audited financial statements. On behalf of the Finance Department and Borough Manager's office, we are pleased to submit the Borough of Kennett Square's Comprehensive Annual Financial Report for the year ended December 31, 2014.

Borough management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Generally accepted accounting principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Borough of Kennett Square's MD&A can be found immediately following the report of the independent auditors.

The Borough of Kennett Square's financial statements have been audited by Maillie, a firm of licensed certified public accountants. In the report, the independent auditors rendered an unqualified ("clean") opinion of the Borough's financial statements for the fiscal year ended December 31, 2014. This opinion states that the financial statements are fairly presented, in all material respects, in accordance with generally accepted accounting principles (GAAP).

In conformity with the provisions of the Single Audit Act of 1984, as amended, and U.S. Office of Management and Budget Circular A-133, the Borough is also required to undergo an annual "Single Audit" in years in which the Borough expends \$500,000 or more in federal funds. A Single Audit was not required in 2014 because the Borough did not meet the expenditures threshold.

Profile of the Borough of Kennett Square, Pennsylvania

The Borough of Kennett Square, incorporated in 1855, lies in the southeastern part of Chester County near the Pennsylvania Delaware state line. The Borough is approximately 30 miles southwest of Center City Philadelphia; 15 miles northwest of Wilmington, Delaware; and 12 miles south of West Chester, the county seat of Chester County. With an area of 1 square mile, the Borough has a 2010 census population of 6,072. This is an increase of 813 people compared to the 2000 census.

The Borough of Kennett Square is empowered to levy a property tax on real properties located within its boundaries. The total taxable assessed value for 2014 is \$224,330,680 which is an increase of \$7,082,150 over the last ten years. The County of Chester re-assessment last occurred back in 1998. The Borough Council approved a .60 mill increase in real estate taxes in 2004 to help support the Kennett Fire Company. The Borough tax for general purposes did not increase in 2014. The total millage for general purposes is 5.35 mills, an increase of 3 mills over the last ten years. For 2014, 1 mill equates to \$224,330 in total revenue or approximately \$138.00 annually to the average home owner.

Additional information on the Borough of Kennett Square real estate assessments and rates can be found in the Statistical Section Revenue Capacity schedules 6 through 11.

The Borough of Kennett Square is governed by the council-manager form of government. There are seven council members and a mayor who are elected by the voters at large. Council members serve four-year terms; elections are held each odd year for Council member's service. The Borough Council makes policy and legislates by way of resolutions and ordinances. The day-to-day functions of the Borough are carried out by the Council-appointed Borough Manager. The Mayor is responsible for the public safety of the community. The Borough Manager appoints department heads to oversee operations with each of the various departments within the Borough structure.

The Borough provides a full range of municipal services. The public safety program includes police, building inspection, planning, zoning, and emergency management. Public works provides street sweeping, street lighting, snow removal, traffic signalization and street markings, storm sewer maintenance and essential highway construction and maintenance. The Borough provides water and sewer utilities and operates a parking garage for the downtown area; all are supported by users fees.

An independent contractor provides refuse and recycling services. The Borough supports these services with user fees.

The Borough provides additional services through contributions for fire protection, parks and recreation, and library activities. Tax collection services are provided by an outside independent contractor.

The annual budget serves as the foundation for the Borough of Kennett Square's financial planning and control. All departments of the Borough of Kennett Square are required to submit requests for appropriations to the Borough Manager on or before the first Monday in September of each year. The Borough Manager uses these requests as the starting point for developing a proposed budget. The Borough Manager then presents his/her proposed budget to the Borough Council for review prior to November 31. The Council then holds public hearings on the proposed budget and is required to adopt a final budget by no later than December 31, the close of the Borough of Kennett Square's fiscal year. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may make transfer of appropriations within their department budget. Transfer of appropriations between departments, however, requires the special approval of the Borough Council.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the Borough of Kennett Square operates.

Local Economy. The Borough of Kennett Square is currently lucky enough to enjoy a favorable economic environment and local indicators point to continued stability. Kennett Square is a place of ethnic, cultural, and economic diversity. The county unemployment rate increased from 4.6% to 5.6%, the state rate decreased from 6.2% to 5.6% by the end of December 2014. During this same time the Borough's unemployment rate remained under 3.8%.

As part of the Kennett Consolidated School District, Kennett Square houses the district office, high school, kindergarten center, and synthetic turf multi-purpose fields. Of the 4,233 students enrolled in the school district, 1530 attend schools located in the Borough.

The headquarters of Genesis Health Care, a health care provider, occupies three facilities located in Kennett Square with two facilities located in its downtown. Genesis HealthCare is one of the largest skilled nursing providers in the Country, with more than 400 skilled nursing centers in 29 States. Along with Genesis located in downtown Kennett Square, there is a full range of retail and service stores as well as professional offices.

A four block area between State and Cypress Streets, designated as a Main Street Achiever by the Commonwealth, is the primary commercial arterial in the Borough. It features First Friday Art Strolls events with the First Friday in August as our Murder Mystery Art Stroll with the Kennett Amateur Theatrical Society (KATS) presenting a murder mystery where visitors may participate in solving the "whodunit". In 2013, The Market at Liberty Place opened a 10,000 square foot space which is home to a mix of seven vendors. The town residents celebrated New Year Eve by gathering downtown for "Midnight in the Square" with a lighted mushroom drop at midnight. A new feature, "Third Thursday's" dining in the streets during June, July and August was added to the many events featuring Main Street in 2014.

Long-Term Financial Planning. The Borough supplies the majority of water to its residents from a Borough-owned well and also purchases additional water from a local municipal authority. The Borough has an agreement with this authority to purchase 200,000 gallons a day. The Borough is in the process of developing an additional well which is expected to come online by early 2015. The new well would let the Borough reduce its monthly water purchase requirement greatly.

The Pennsylvania Department of Transportation is working with Kennett Square to upgrade traffic signals to a closed loop system. Engineering cost are the Borough's responsibility, while the Department of Transportation is covering all construction costs of approximately \$1,500,000. This project should be completed by the end of 2015.

The Borough of Kennett Square along with Historic Kennett Square and the County Economic Development Council applied for and received a \$500,000 Community Reinvestment Grant and began drawing down funds during 2010. The first project under this grant is with a private developer who is revitalizing a historic building into a downtown café. During 2012, the Borough received a second \$500,000 Community Reinvestment Grant for another revitalization of a building in the downtown which was retro-fitted for office space rentals and created The Market at Liberty Place. Both are part of the Revolving Loan Program that will keep the moneys in the Borough for other revitalization projects in the future.

The Borough has received a FFY 2012 Certified Local Government Grant from the Pennsylvania Historical & Museum Commission to assist with creating an Act 167 Ordinance (historic preservation zoning ordinance) & Historic Architectural Review Board (HARB) District.

Beginning in 2012, the largest remaining underutilized parcels in the Borough will be developed. The former Shurfine and NVF properties will be developed into mixed commercial/residential uses; this development should add a significant amount of new residents and tax base to the Borough. Construction started on the "Magnolia Place" (Shurfine) property in 2013. Magnolia Place will include 57 town houses, 22 twin homes, and 33 apartments in a mixed use building with a 250 seat restaurant on the first floor. Magnolia Place should be completed by the end of 2016. The NVF property will remain a longer term project.

The five-year Capital Improvement Program (CIP) details the continuation of addressing infrastructure and other needs through the year 2018. The 2014 adopted budget provided \$4.2 million for capital projects and improvements.

Relevant Financial Policies. In developing and evaluating the Borough's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding (1) the safeguarding of assets against loss from unauthorized use or disposition and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived and (2) the evaluation of costs and benefits requires estimates and judgments by management.

The finance department continually reviews established policies and procedures to control and reduce risks. We believe that the Borough's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Over the years, the finance department has instituted a number of financial policies in order to provide assurance that financial operations occur in a consistent manner from department to department. These policies also enhance the safeguards for internal control and budgetary compliance. Some of the more significant policies include those related to the purchasing system, including a checklist for contract compliance and approval; deposits, cash and credit transactions, and fixed assets. For the fiscal year ended December 31, 2014 the Borough of Kennett Square has incorporated GASB Statement No. 67, "Financial Reporting for Pensions – An amendment of GASB Statement No. 25".

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Borough of Kennett Square for its comprehensive annual financial report for the fiscal year ended December 31, 2014. This was the seventh (7th) year that the Borough has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements.

Acknowledgements

The preparation of this comprehensive annual financial report was made possible by the dedicated service of many of the employees of the Borough, particularly those in Administration. All of these employees have our sincere appreciation for their contributions made during the year, which assisted in making the preparation of this report a less complicated task. We also wish to thank our auditors, Maillie, for their expertise and assistance through this process.

In closing, without the leadership of the Mayor, Borough Council and the Borough Manager, preparation of this report would not have been possible.

Respectfully submitted,

Joseph C. Scalise
Joseph C. Scalise
Interim Borough Manager

Kathy M. Holliday
Kathy M. Holliday
Finance Director



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Borough of Kennett Square
Pennsylvania**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2013

Executive Director/CEO

BOROUGH OF KENNETT SQUARE, PENNSYLVANIA

List of Elected and Appointed Officials

December 31, 2014

Elected Officials

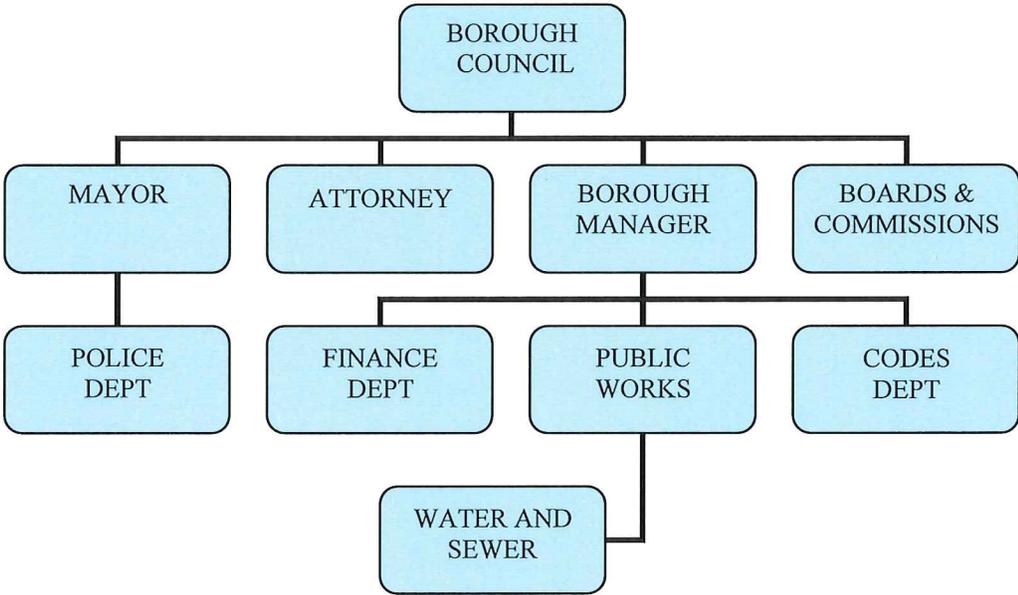
Mayor	Matthew W. Fetick
Council Member (President)	Leon R. Spencer, Jr.
Council Member (Vice President)	Danilo P. Maffei
Council Member	Geoffrey R. Bosley
Council Member	Brett M. Irwin
Council Member	Patrick B. Taylor
Council Member	George P. Plumley, III
Council Member	D. Lynn Sinclair.

Appointed Officials

Interim Borough Manager	Joseph C. Scalise
Attorney	Marc D. Jonas
Finance Director	Kathy M. Holliday
Police Chief	Edward A. Zunino, Sr.
Fire Chief	Steven T. Melton
Codes & Zoning Officer	Russell H. Drumheller
Public Works Director	Joseph C. Scalise

BOROUGH OF KENNETT SQUARE, PENNSYLVANIA

ORGANIZATION CHART



Independent Auditors' Report

To the Honorable Mayor and Members of Council
Borough of Kennett Square
Kennett Square, Pennsylvania

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 Kennett Square as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Borough of Kennett Square's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Borough of Kennett Square's 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. 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Borough of Kennett Square as of December 31, 2014, 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.

Emphasis of Matter

For the year ended December 31, 2014, the Borough of Kennett Square adopted new accounting guidance, implementing Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans - An Amendment of GASB Statement No. 25*. Our opinion is not modified with respect to this matter.

To the Honorable Mayor and Members of Council
Borough of Kennett Square
Kennett Square, Pennsylvania

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 14 through 28, budgetary comparison information on pages 63 and 64 and pension plan information on pages 65 through 68 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough of Kennett Square's basic financial statements. The combining and individual nonmajor fund financial statements and the other information, such as the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on them.



Oaks, Pennsylvania
October 12, 2015

FINANCIAL SECTION

BOROUGH OF KENNETT SQUARE

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2014

As management of the Borough of Kennett Square, we offer readers of the Borough of Kennett Square's financial statements this narrative overview and analysis of the financial activities of the Borough of Kennett Square for the fiscal year ended December 31, 2014. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the Introductory Section of this report.

FINANCIAL HIGHLIGHTS

- The assets of the Borough of Kennett Square exceeded its liabilities at the close of the most recent fiscal year by \$10,887,290 (net position). Of this amount, \$2,086,297 (unrestricted net position) may be used to meet the Borough's ongoing obligations to its citizens and creditors.
- The Borough's total net position increased by \$1,420,013. The majority of this increase is attributable to increases in governmental activities program revenues (operating grants and contributions of \$593,439), an increase in charges for services (public safety charges increased \$109,503), an increase in business-type activities program revenues (capital grants and contribution increased \$447,182) and charges for services (water charges for services increased \$184,433).
- As of the close of the current fiscal year, the Borough of Kennett Square's Governmental Funds reported negative combined ending fund balances of \$289,216, a decrease of \$429,192 or 68.76% in fund balance from the prior year. The Borough's General Fund unassigned fund balance was \$52,658.
- The total outstanding debt, including capital leases owed for the current fiscal year, \$13,130,089 is a decrease of \$387,338 or 3.2%. The Borough refinanced the majority of the outstanding debt of the Sewer Fund in 2012, the continued savings for 2014 were \$320,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Borough of Kennett Square's basic financial statements. The Borough of Kennett Square's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Borough of Kennett Square's finances in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Borough of Kennett Square's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases and decreases in net position may serve as a useful indicator of whether the future financial position of the Borough of Kennett Square is improving or deteriorating.

BOROUGH OF KENNETT SQUARE

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2014

The *statement of activities* presents information showing how the Borough's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years (e.g., uncollected taxes and earned but unused sick leave).

Both of the government-wide financial statements distinguish functions of the Borough of Kennett Square that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Borough of Kennett Square include general government, public safety (police, fire and codes), highways and streets, community development and culture and recreation. The *business-type activities* include the water, sewer, parking and solid waste operations.

The government-wide financial statements can be found on pages 29 and 30 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Borough of Kennett Square, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds are divided into three categories: Governmental Funds, Proprietary Funds and Fiduciary Funds.

Governmental Funds - *Governmental Funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, Governmental Fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of Governmental Funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *Governmental Funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the Governmental Fund balance sheet and the Governmental Fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *Governmental Funds* and *governmental activities*.

The Borough of Kennett Square maintains six individual Governmental Funds. Information is presented separately in the Governmental Fund balance sheet and in the Governmental Fund statement of revenues, expenditures and changes in fund balances for the General Fund and the Capital Project Fund which are considered to be major funds. The other four Funds (Liquid Fuels Fund, Emergency Management Fund, Equipment Replacement Fund and the Revolving Loan Fund) are combined into a single, aggregated presentation (Other Governmental Funds). Individual fund data for each of these Other Governmental Funds can be found under the Supplementary Information Section in this report.

The Borough of Kennett Square adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic Governmental Funds financial statements can be found on pages 31 to 34 of this report.

BOROUGH OF KENNETT SQUARE

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2014

Proprietary Funds - *Proprietary Funds* have two types, *Enterprise Funds* and *Internal Service Funds*. The *Enterprise Funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Borough of Kennett Square uses *Enterprise Funds* to account for its water, sewer, parking and solid waste operations. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the government's various functions. The Borough of Kennett Square has no *Internal Service Funds*.

Proprietary Funds provide the same type of information as the government-wide financial statements, only in more detail. The Proprietary Fund financial statements provide separate information for the water, sewer, parking and solid waste operations, all of which are considered to be major funds of the Borough of Kennett Square.

The Proprietary Funds financial statements can be found on pages 35 to 37 of this report.

Fiduciary Funds - *Fiduciary Funds* are used to account for resources held for the benefit of parties outside the government. *Fiduciary Funds* are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Borough of Kennett Square's own programs. The accounting used for *Fiduciary Funds* is much like that used for *Proprietary Funds*.

The basic *Fiduciary Fund* financial statements can be found on pages 38 and 39 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 40 through 62 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Borough of Kennett Square's progress in funding its obligation to provide pension benefits to its employees and the General Fund's budgetary comparison statement. *Required supplementary information* can be found on pages 63 through 68 of this report.

BOROUGH OF KENNETT SQUARE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Borough of Kennett Square, assets exceeded liabilities by \$10,887,290 at the close of FY 2014.

By far, the largest portion of the Borough of Kennett Square's net position (79.1%) reflects its net investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The Borough of Kennett Square uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Borough of Kennett Square's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Summary of Net Position - December 31, 2014 and 2013

	Governmental Activities	
	2014	2013
ASSETS		
Current and other assets	\$ 1,297,650	\$ 1,999,646
Capital assets	7,596,399	7,129,302
TOTAL ASSETS	<u>8,894,049</u>	<u>9,128,948</u>
 DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	<u>-</u>	<u>-</u>
 LIABILITIES		
Other liabilities	486,962	774,013
Long-term liabilities	3,409,869	3,641,213
TOTAL LIABILITIES	<u>3,896,831</u>	<u>4,415,226</u>
 NET POSITION		
Net investment in capital assets	4,616,182	4,172,893
Restricted	170,787	570,416
Assigned	13,310	544
Unrestricted	<u>196,939</u>	<u>(30,131)</u>
TOTAL NET POSITION, restated	<u>\$ 4,997,218</u>	<u>\$ 4,713,722</u>

An additional portion of the Borough of Kennett Square's net position (1.57%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,086,297 is the unrestricted net position of December 31, 2014.

Business-Type Activities		Totals		Total Percentage Change
2014	2013	2014	2013	2013-2014
\$ 2,148,111	\$ 1,832,129	\$ 3,445,761	\$ 3,831,775	-10.07%
13,387,174	12,613,504	20,983,573	19,742,806	6.28%
<u>15,535,285</u>	<u>14,445,633</u>	<u>24,429,334</u>	<u>23,574,581</u>	3.63%
<u>581,080</u>	<u>642,759</u>	<u>581,080</u>	<u>642,759</u>	-9.60%
258,749	83,605	745,711	857,618	-13.05%
9,967,544	10,251,232	13,377,413	13,892,445	-3.71%
<u>10,226,293</u>	<u>10,334,837</u>	<u>14,123,124</u>	<u>14,750,063</u>	-4.25%
4,000,712	3,005,037	8,616,894	7,177,930	20.02%
2	6	170,789	570,422	-76.24%
-	-	13,310	544	100.00%
<u>1,889,358</u>	<u>1,748,512</u>	<u>2,086,297</u>	<u>1,718,381</u>	23.47%
\$ <u>5,890,072</u>	\$ <u>4,753,555</u>	\$ <u>10,887,290</u>	\$ <u>9,467,277</u>	15.00%

BOROUGH OF KENNETT SQUARE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2014

Changes in Net Position - Years Ended December 31, 2014 and 2013

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
REVENUES		
Program revenues		
Charges for services	\$ 489,789	\$ 395,842
Operating grants and contributions	1,052,960	459,521
Capital grants and contributions	12,188	564,371
General revenues		
Taxes, levied for general purposes	2,664,632	2,607,142
Investment income and rents, net of expense	92,912	113,618
	<u>4,312,481</u>	<u>4,140,494</u>
EXPENSES		
General government	811,076	747,318
Public safety	2,416,397	2,444,901
Public works, highways and streets	1,307,972	889,774
Culture and recreation	78,736	76,126
Community development	23,587	19,371
Interest on long-term debt	106,967	111,219
Water, sewer and parking	-	-
TOTAL EXPENSES	<u>4,744,735</u>	<u>4,288,709</u>
CHANGE IN NET POSITION BEFORE TRANSFERS AND GAIN ON DISPOSAL OF ASSETS	(432,254)	(148,215)
TRANSFERS	714,000	972,800
GAIN ON DISPOSAL OF ASSETS	<u>1,750</u>	<u>17,800</u>
CHANGE IN NET POSITION	283,496	842,385
NET POSITION AT BEGINNING OF YEAR	<u>4,713,722</u>	<u>3,871,337</u>
NET POSITION AT END OF YEAR	<u><u>\$ 4,997,218</u></u>	<u><u>\$ 4,713,722</u></u>

Business-Type Activities		Totals		Total Percentage Change
2014	2013	2014	2013	2013-2014
\$ 4,051,136	\$ 3,891,736	\$ 4,540,925	\$ 4,287,578	5.91%
-	-	1,052,960	459,521	129.14%
673,591	226,409	685,779	790,780	-13.28%
-	-	2,664,632	2,607,142	2.21%
(312,488)	(316,314)	(219,576)	(202,696)	8.33%
<u>4,412,239</u>	<u>3,801,831</u>	<u>8,724,720</u>	<u>7,942,325</u>	9.85%
-	-	811,076	747,318	8.53%
-	-	2,416,397	2,444,901	-1.17%
-	-	1,307,972	889,774	47.00%
-	-	78,736	76,126	3.43%
-	-	23,587	19,371	21.76%
-	-	106,967	111,219	-3.82%
<u>2,561,722</u>	<u>2,340,643</u>	<u>2,561,722</u>	<u>2,340,643</u>	9.45%
<u>2,561,722</u>	<u>2,340,643</u>	<u>7,306,457</u>	<u>6,629,352</u>	10.21%
1,850,517	1,461,188	1,418,263	1,312,973	8.02%
(714,000)	(972,800)	-	-	0.00%
-	-	1,750	17,800	-90.17%
<u>1,136,517</u>	<u>488,388</u>	<u>1,420,013</u>	<u>1,330,773</u>	6.71%
<u>4,753,555</u>	<u>4,265,167</u>	<u>9,467,277</u>	<u>8,136,504</u>	16.36%
<u>\$ 5,890,072</u>	<u>\$ 4,753,555</u>	<u>\$ 10,887,290</u>	<u>\$ 9,467,277</u>	15.00%

BOROUGH OF KENNETT SQUARE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2014

At the end of the current fiscal year, the Borough of Kennett Square net position increased from the previous year by \$1,420,013 (or 15%) to \$10,887,290.

The net investment in capital assets portion of the net position increased \$1,438,964 from the prior year. The Borough of Kennett Square's business-type activities had an increased \$995,675, resulting from construction in process for a new water supply well to serve Borough residents. The governmental-activities increased \$443,289 with improvements in process of a closed loop traffic signal system; and the purchase of vehicles.

The restricted portion of net position decreased \$399,635 from the prior year to \$170,789. The governmental activities portion \$170,787 is comprised of \$33,949 for capital projects in fiscal year 2015 and \$136,838 for road improvements in fiscal year 2015.

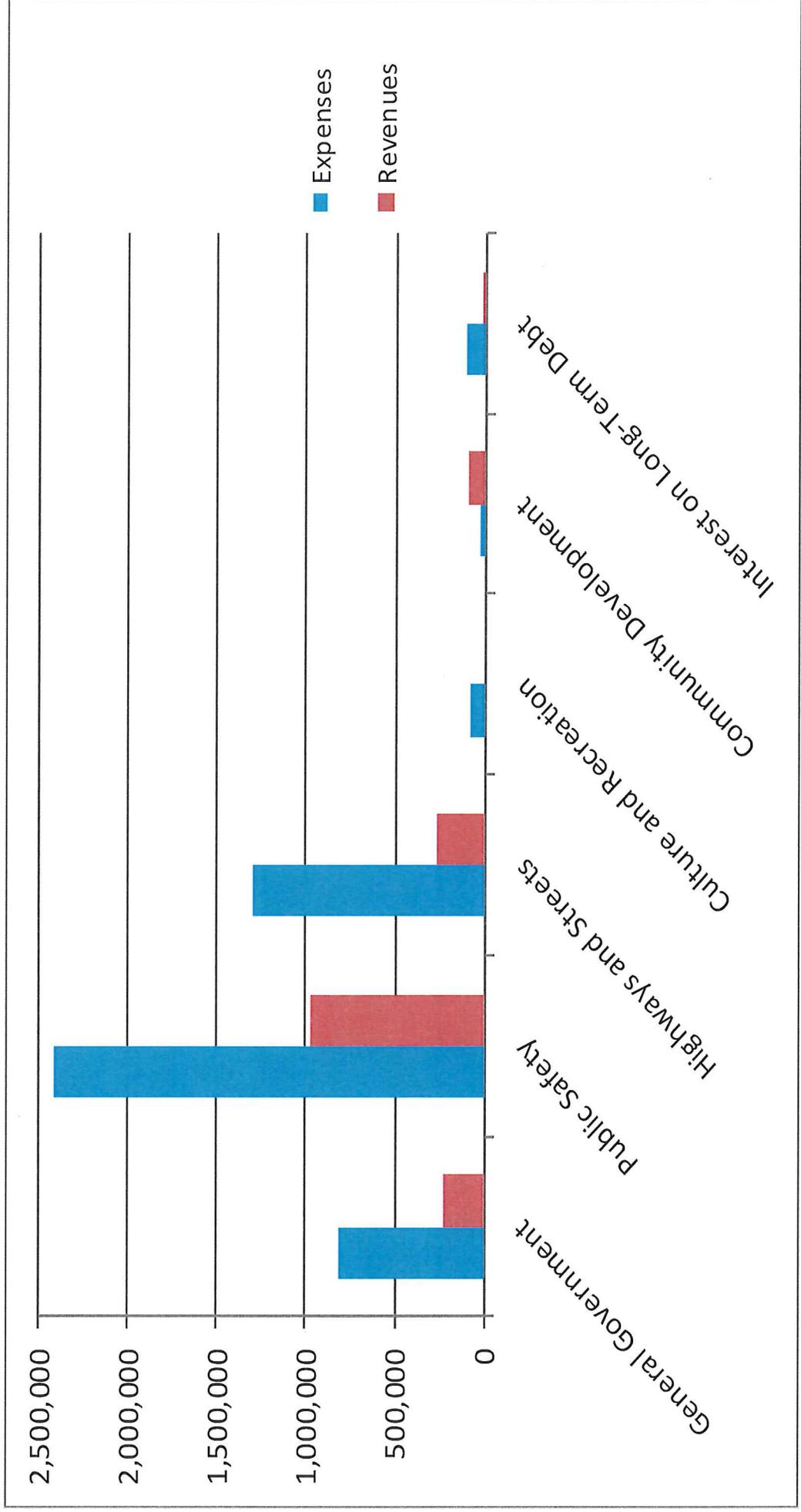
The unrestricted portion increased from the prior year of \$1,718,381 to \$2,086,297 for the current year. This \$2,086,297 represents funds available to meet its obligations to the citizens and creditors of the Borough of Kennett Square.

Governmental Activities - Governmental activities increased the Borough of Kennett Square's net position by \$283,496. Key elements of this increase are as follows:

- The total expenses of the governmental activities increased \$456,026 (or 10.64%) from the prior fiscal year. General government increased by \$63,758 due to legal issues increasing legal fees, public safety decreased by \$28,504 because of a reduction of project inspection fees for a major construction project, an increase of \$418,198 in highway/streets due to engineering fees for ongoing projects and overlay street maintenance, culture and recreation increased \$2,610 as a result of increasing contributions for recreational programs, community development increased \$4,216 with the distribution of Community Reinvestment Grant funds and interest on long-term debt decreased by \$4,252.
- The total revenues increased \$155,937 during the current year. Charges for services were increased by \$93,947 with codes inspection fees up for 2014, operating grants and contributions increased by \$593,439, grant reimbursements were received for the closed loop traffic signal project, capital grant contributions were reduced by \$552,183 as there were no county grants in 2014 for road and sidewalk improvements, taxes levied for general purposes increased \$23,620, real estate tax and transfer tax collections improved from the prior year and investments income and rents, net of expenses decreased \$20,706 with lost rental revenue from District Court moving outside the Borough.

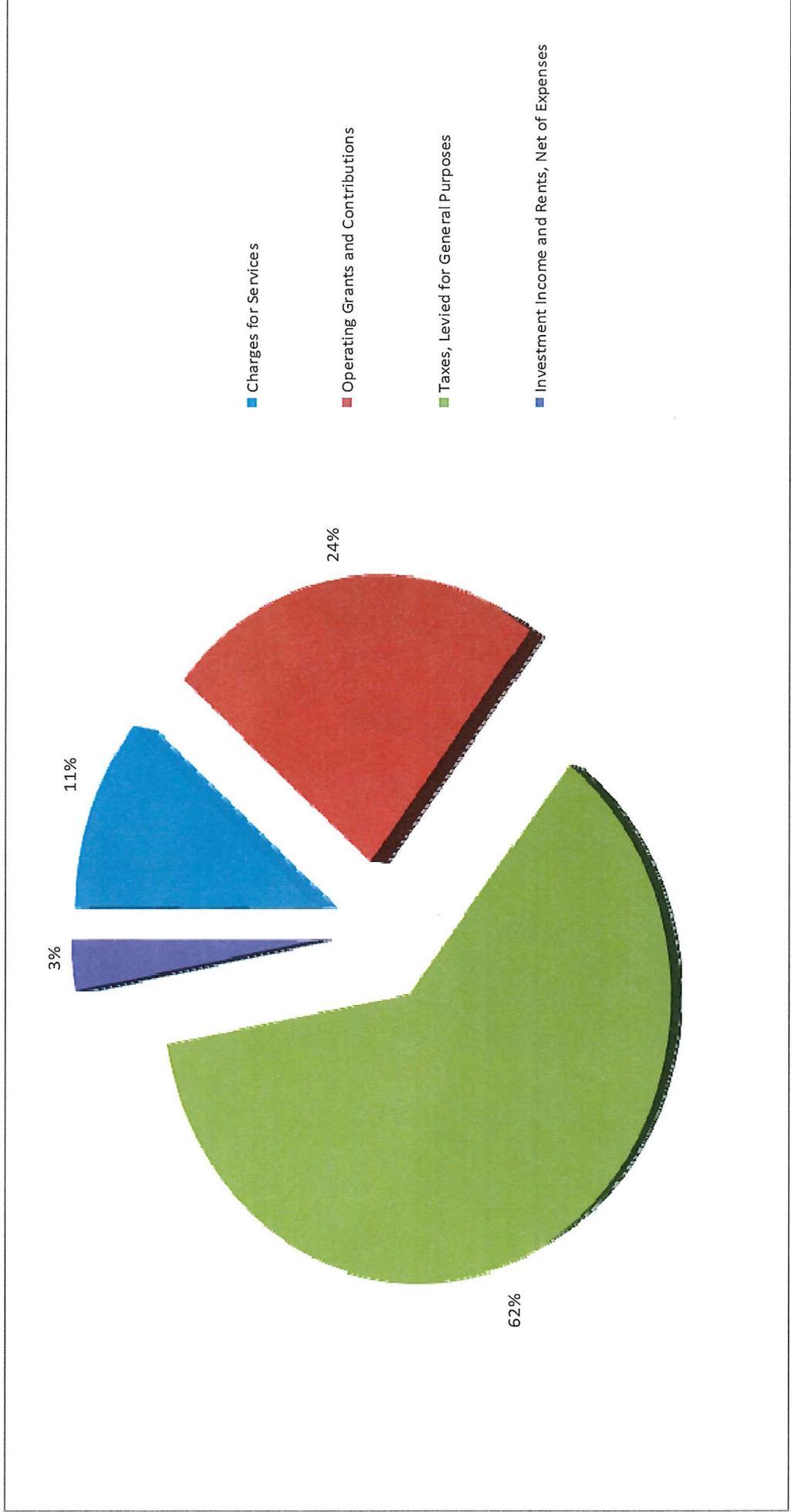
BOROUGH OF KENNETT SQUARE
 MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
 YEAR ENDED DECEMBER 31, 2014

Expenses and Program Revenues - Governmental Activities



**BOROUGH OF KENNETT SQUARE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2014**

Revenues by Source - Governmental Activities

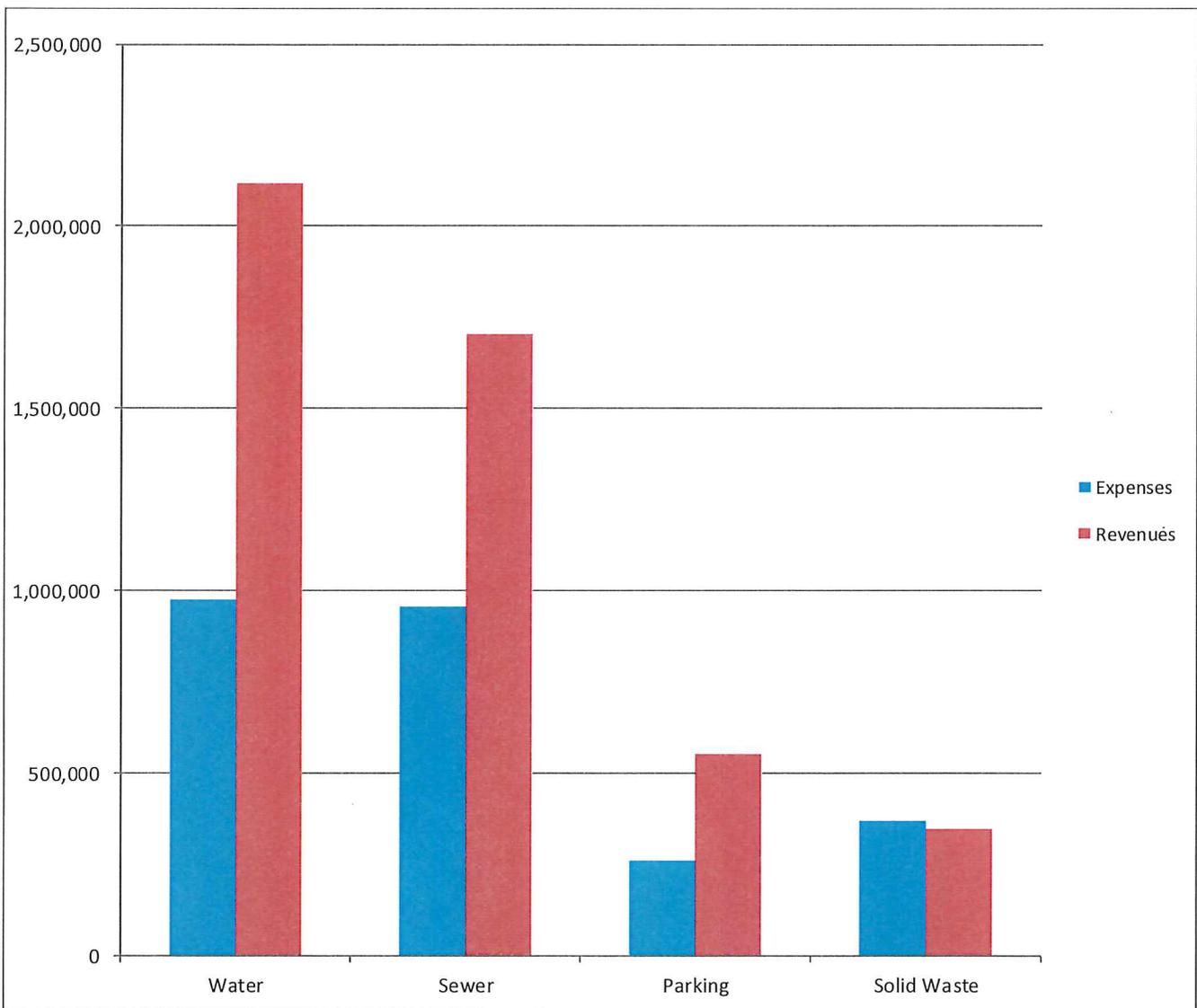


BOROUGH OF KENNETT SQUARE
 MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
 YEAR ENDED DECEMBER 31, 2014

Business-Type Activities - Business-type activities increased the Borough of Kennett Square's net position by \$1,136,517. The key elements of the increase are:

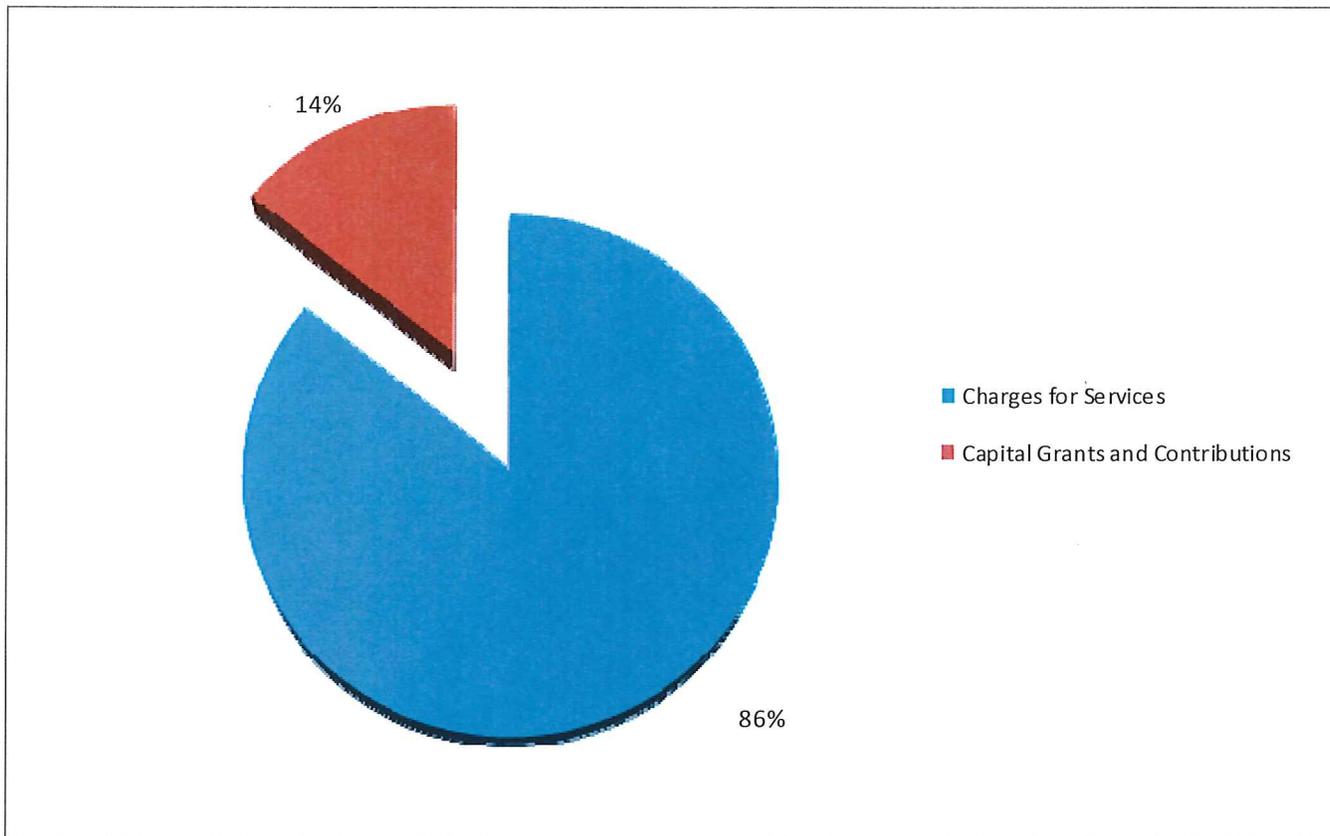
- Net Investment in capital assets increased from 2013 by \$995,675 (or 33%) to \$4,000,712 from infrastructure improvements.
- Unrestricted net position increased \$140,846 from 2013 to \$1,889,358 in 2014.
- The transfers out for 2014 are \$714,000 (please see Note C on page 49 for an explanation of interfund receivables, payables and transfers).

Expenses and Program Revenues - Business-Type Activities



BOROUGH OF KENNETT SQUARE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2014

Revenues by Source - Business-Type Activities



Financial Analysis of the Government's Funds

As noted earlier, the Borough of Kennett Square uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the Borough of Kennett Square's *Governmental Funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the Borough of Kennett Square's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current year, the Borough of Kennett Square's Governmental Funds reported a combined ending negative fund balance of \$289,216, a decrease of \$429,192 in comparison with the prior year. Of this, \$473,313 constitutes a deficit of unassigned fund balance. The restricted fund balance is \$170,787 of which \$33,949 is for capital projects and \$136,838 is for road improvements. The assigned fund balance of \$13,310 is for community development.

The General Fund is the chief operating fund of the Borough of Kennett Square. At the end of the current fiscal year, the total fund balance of the General Fund was \$52,658. As a measure of the General Fund's liquidity, it may be useful to compare the unassigned fund balance to total fund expenditures of \$3,863,910 which represents less than 1% of total General Fund expenditures.

BOROUGH OF KENNETT SQUARE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2014

The Borough of Kennett Square's General Fund balance increased \$16,653 for the current fiscal year. Key factors of this incline are as follows:

General Fund revenues increased approximately 0.6% or \$192,629:

- General Fund revenues were up by \$192,629 from the prior year. Tax revenues increased by \$29,305 (or 9%) with the increase of real estate transfer tax collections. Intergovernmental revenues increased by \$83,898 (or 29%) from the prior year due to unexpected increases in grant allocations from the County of Chester and the State of Pennsylvania. Charges for services/fees increased \$86,780 (or 25%) with more reimbursements from plan review fees, inspections fees and permits fees.

Expenditures increased approximately 1.2% or \$45,918:

- An increase in general government of \$4,686 from the prior year. Administration expenditures for 2014 were down \$45,031 and Finance, Legal and Municipal expenditures were up \$50,959 from the prior year.
- An increase in public safety of \$40,802 from the prior year. Police expenditures were up \$126,736 and Fire and Codes expenditures were down \$85,934.
- An increase in public works, highways and streets of \$10,340 from prior year. The salaries and benefits of public works were up from 2013.

The Capital Project Fund had a deficit fund balance of \$456,778 for the current year up from a deficit of \$157,203 from the prior year, all of which is restricted for capital projects and debt service. In 2014, the primary funding came from the Commonwealth of Pennsylvania grant funding for the Closed Loop Traffic Signals upgrades. Expenditures for public works traffic signals in the current year were \$895,950.

Proprietary Funds - The Borough of Kennett Square's Proprietary Funds provide the same type of information found in the government-wide financial statements, but in more detail.

The net position of the Water Fund at the end of the year amounted to \$3,120,901, the net position of the Sewer Fund at the end of the year amounted to \$1,115,917, the net position of the Parking Fund at the end of the year amounted to \$1,650,786 and the net position of the Solid Waste Fund at the end of the year amounted to \$2,468. The total increase in net position for these funds was \$840,485, \$160,941, \$122,827 and \$12,264, respectively. Other factors concerning the finances of these four funds have already been addressed in the discussion of the Borough of Kennett Square's business-type activities.

General Fund Budgetary Highlights

The budgetary comparison schedule for the General Fund can be found under required supplementary information, page 63. In 2014, the original budget remained the same for the final budget with no budget amendments being adopted. The 2014 General Fund budget was adopted in December 2013 with no millage rate increase keeping the same rate as 2013 at 5.35 mills.

During the year, revenues fell short of budget estimates by \$259,674, and expenditures fell short of budget estimates by \$220,790 creating a deficiency of revenues over expenditures by \$38,884.

BOROUGH OF KENNETT SQUARE

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2014

Tax revenues fell short of budget by \$130,094; real estate taxes did not meet its estimate by \$112,558 for the year. Act 501 taxes (earned income, local services tax, real estate transfer and mechanical devices tax) were under their budget by \$17,536. Local services tax and real estate transfer tax collections were the only Act 501 taxes that exceeded expectations for the current fiscal budget.

Licenses and permits exceeded the budget by \$6,910 primarily because cable franchise fees increased by \$7,209 and contractor permits collections fell short of budget by \$300.

Fines and forfeits did not meet the expectation of the budgeted amount by \$6,392. Vehicle code violations were down from previous year collections.

Interest and rents were short of budget by \$7,054; the rental income from the District Court building stopped when the County of Chester moved the offices outside of the Borough.

Intergovernmental the budget declined by \$132,214; the Borough's estimate of funding from the Commonwealth of Pennsylvania for its Recycling Grant allocation for fiscal year 2013 received in 2014 was lower than what was expected. The Borough budgeted for a Main Street Grant from Commonwealth of Pennsylvania that was not received in 2014.

Charges for services did exceed its budget by \$2,176 for 2014.

Miscellaneous revenues did exceed the budgeted amount by \$6,994; a premium reimbursement for the prior year workers' compensation payments was more than anticipated.

General government expenditures (administration, finance, legal and municipal building) were under budget by \$148,920; the administration expense contributed to the majority of this amount with the resignation of the Borough Manager in the last quarter of 2014.

Public safety expenditures (police, fire and codes) were \$25,231 under budget. The Police salaries and benefits were the majority of this savings.

Public works expenditures (public works and highways/streets) were \$10,149 more than budgeted. Engineering fees associated with ongoing projects was the majority of the overage.

Culture and recreation was under budget by \$13,204. The Borough did not contract for shade tree maintenance during 2014.

Community development was under budget by \$43,584. The Borough did not receive the Main Street grant that was budgeted for 2014.

BOROUGH OF KENNETT SQUARE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2014

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Borough of Kennett Square's capital assets for its governmental and business-type activities as of December 31, 2014, amounted to \$20,983,573 (net of accumulated depreciation). This includes land, buildings and improvements, furniture and equipment, automobiles and trucks, land improvements and infrastructure. Infrastructure includes roads, bridges, storm water inlets, water and sewer lines, traffic signals and street lights.

Current year additions included \$2,085,149 for the purchase of public works and police vehicles, construction of roads and, water and sewer infrastructure. Additional information can be found in Note D to the basic financial statements on pages 50 and 51.

Capital Assets at Year-End (Net of Depreciation)

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total Primary Government</u>
CAPITAL ASSETS NOT BEING DEPRECIATED			
Land	\$ 1,382,350	\$ 1,619,281	\$ 3,001,631
Construction in progress	<u>1,002,744</u>	<u>1,470,909</u>	<u>2,473,653</u>
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	<u>2,385,094</u>	<u>3,090,190</u>	<u>5,475,284</u>
CAPITAL ASSETS BEING DEPRECIATED			
Buildings and improvements, sewer and water system	3,231,399	17,207,896	20,439,295
Machinery, equipment, vehicles	1,692,282	1,036,654	2,728,936
Infrastructure	<u>6,016,505</u>	<u>-</u>	<u>6,016,505</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>10,940,186</u>	<u>18,244,550</u>	<u>29,184,736</u>
Depreciation	<u>(5,728,881)</u>	<u>(7,947,566)</u>	<u>(13,676,447)</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	<u>5,211,305</u>	<u>10,296,984</u>	<u>15,508,289</u>
CAPITAL ASSETS, net	<u><u>\$ 7,596,399</u></u>	<u><u>\$ 13,387,174</u></u>	<u><u>\$ 20,983,573</u></u>

Long-Term Debt and Liabilities

At the end of the fiscal year, the Borough of Kennett Square's total long-term liabilities were \$13,525,791. Of this amount \$13,102,006 is bonds and notes, \$28,083 is for capital leases and \$395,702 is compensated absences. Total long-term liabilities are further reduced by \$148,378 in deferred issuance discounts bringing the total at the end of 2014 to \$13,377,413.

Article IX, Section 10 of the Constitution of the Commonwealth requires the General Assembly to prescribe the debt limits of units of local government in the Commonwealth, including the Borough, based on a percentage of total revenues of such units over a period immediately preceding the borrowing.

BOROUGH OF KENNETT SQUARE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2014

Self-liquidating or subsidized debt (revenue bonds) and all debt approved by referendum are not treated as debt to which the constitutional debt limits apply.

Under the Act, the Borough may not incur any new nonelectoral debt if, following the issuance thereof, the aggregate net principal amount of outstanding nonelectoral debt of the Borough will exceed 250% of its borrowing base. In addition, the Borough may not incur any new lease rental debt or nonelectoral debt if, following the issuance thereof, the aggregate net principal amount of outstanding nonelectoral and lease rental debt of the Borough will exceed 350% of its borrowing base. The borrowing base of the Borough is defined in the Act as the arithmetic average of the total revenues of the Borough for the three full fiscal years of the Borough immediately preceding the date on which the new nonelectoral debt or new lease rental debt is incurred.

At the end of 2014, the available borrowing base of nonelectoral debt or general obligation bonds was \$16,742,762 and available nonelectoral and lease rental debt combined was \$24,620,547. More information can be found in Notes E and F in the notes to the basic financial statements and also in the Statistical Section of this report, Schedule 16 page 88.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Economic Factors

The Borough of Kennett Square serves an area of one square mile and a community of 6,072 residents according to the 2010 Census. The Borough lies in the southeastern part of the County of Chester near the Pennsylvania/Delaware state line. The Borough is approximately 30 miles southwest of Center City Philadelphia; 15 miles northwest of Wilmington, Delaware; and 12 miles south of West Chester, the county seat of the County of Chester.

The 2000 Census identified 1,976 dwelling units in the Borough. A total of 2,084 units were reported in the 2010 Census; this addition of 108 units represented a 5.5% increase in the Borough's housing stock. The majority of housing in the Borough is 64% of the single-family unit type. In the 2010 Census, 54% of housing units were owner-occupied and 46% were rentals. The median value of owner-occupied units in the Borough was \$223,400. The median value of homes for Chester County in 2009-2013 Survey was \$325,200 and for the Commonwealth of Pennsylvania was \$164,700.

The 2009-2013 Survey also reported the Borough's median family income as \$63,328, compared to \$86,050 for the County of Chester and \$52,548 for the Commonwealth of Pennsylvania.

The Borough of Kennett Square's Main Street program, for the economic revitalization of the downtown business district, is one of the Commonwealth of Pennsylvania's most successful programs in the state and has been self-sustaining for five years.

BOROUGH OF KENNETT SQUARE

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2014

Next Year's Budget

Revenues projected in the 2015 budget are of a conservative nature based on the previous three years of actual collections. The millage rate increased to 6.35 mills for 2015 for the General Fund. The water, sewer and trash rates all increased 3%. The 2014 budget was balanced using no fund balance. During 2015, aggressive management of the budget by all departments will be required to ensure that the departments live within their respective budgets. The Borough must continue looking for ways to increase revenues to cover inflation and to start building its fund balance reserve again in future years.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Borough's finances and to show the Borough's accountability for the funds it receives and disburses. If you have questions about this report or to request additional financial information, please contact the Director of Finance or Borough Manager at 120 Marshall Street, Kennett Square, PA 19348.

BOROUGH OF KENNETT SQUARE

STATEMENT OF NET POSITION

DECEMBER 31, 2014

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash and cash equivalents	\$ 632,220	\$ 1,119,592	\$ 1,751,812
Investments	72,929	2	72,931
Receivables, net	416,521	202,998	619,519
Internal balances	(825,519)	825,519	-
Loan receivable, due beyond one year, net	989,353	-	989,353
Net pension assets	12,146	-	12,146
Capital assets			
Capital assets not being depreciated	2,385,094	3,090,190	5,475,284
Capital assets being depreciated, net	5,211,305	10,296,984	15,508,289
TOTAL ASSETS	<u>8,894,049</u>	<u>15,535,285</u>	<u>24,429,334</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	-	581,080	581,080
LIABILITIES			
Accounts payable and accrued expenses	299,725	226,717	526,442
Accrued salaries and benefits	95,069	10,114	105,183
Accrued interest	4,461	10,638	15,099
Other liabilities	87,707	11,280	98,987
Long-term liabilities			
Portion due or payable within one year			
Bonds and notes payable	266,000	684,670	950,670
Capital lease payable	18,625	-	18,625
Compensated absences	6,736	-	6,736
Portion due or payable after one year			
Bonds and notes payable	2,720,083	9,282,874	12,002,957
Capital lease payable	9,458	-	9,458
Compensated absences	388,967	-	388,967
TOTAL LIABILITIES	<u>3,896,831</u>	<u>10,226,293</u>	<u>14,123,124</u>
NET POSITION			
Net investment in capital assets	4,616,182	4,000,712	8,616,894
Restricted for			
Capital projects	33,949	-	33,949
Road improvements	136,838	-	136,838
Debt service	-	2	2
Assigned for community development	13,310	-	13,310
Unrestricted	196,939	1,889,358	2,086,297
TOTAL NET POSITION	<u>\$ 4,997,218</u>	<u>\$ 5,890,072</u>	<u>\$ 10,887,290</u>

See accompanying notes to the basic financial statements.

BOROUGH OF KENNETT SQUARE

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2014

Functions/Programs	Expenses	Program Services		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES				
General government	\$ 811,076	\$ 77,307	\$ 153,985	\$ -
Public safety	2,416,397	386,828	587,887	-
Public works, highways and streets	1,307,972	25,643	236,082	-
Culture and recreation	78,736	-	-	-
Community development	23,587	-	75,006	12,188
Interest on long-term debt	106,967	11	-	-
TOTAL GOVERNMENTAL ACTIVITIES	4,744,735	489,789	1,052,960	12,188
BUSINESS-TYPE ACTIVITIES				
Water	974,593	1,444,077	-	673,591
Sewer	955,896	1,704,567	-	-
Parking	259,387	554,382	-	-
Solid waste	371,846	348,110	-	-
TOTAL BUSINESS-TYPE ACTIVITIES	2,561,722	4,051,136	-	673,591
TOTAL BOROUGH ACTIVITIES	\$ 7,306,457	\$ 4,540,925	\$ 1,052,960	\$ 685,779

GENERAL REVENUES

Property taxes, levied for general purposes
 Transfer taxes
 Earned income taxes
 Local services taxes
 Public utility taxes
 Franchise taxes
 Investment income and rents, net of interest expense
 Gain on disposal of capital assets

TOTAL GENERAL REVENUES

TRANSFERS

CHANGE IN NET POSITION

NET POSITION AT BEGINNING OF YEAR

NET POSITION AT END OF YEAR

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Position

<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Totals</u>
\$ (579,784)	\$ -	\$ (579,784)
(1,441,682)	-	(1,441,682)
(1,046,247)	-	(1,046,247)
(78,736)	-	(78,736)
63,607	-	63,607
<u>(106,956)</u>	<u>-</u>	<u>(106,956)</u>
<u>(3,189,798)</u>	<u>-</u>	<u>(3,189,798)</u>
-	1,143,075	1,143,075
-	748,671	748,671
-	294,995	294,995
<u>-</u>	<u>(23,736)</u>	<u>(23,736)</u>
<u>-</u>	<u>2,163,005</u>	<u>2,163,005</u>
<u>(3,189,798)</u>	<u>2,163,005</u>	<u>(1,026,793)</u>
1,211,273	-	1,211,273
135,106	-	135,106
1,069,701	-	1,069,701
157,414	-	157,414
2,928	-	2,928
88,210	-	88,210
92,912	(312,488)	(219,576)
1,750	-	1,750
<u>2,759,294</u>	<u>(312,488)</u>	<u>2,446,806</u>
<u>714,000</u>	<u>(714,000)</u>	<u>-</u>
283,496	1,136,517	1,420,013
<u>4,713,722</u>	<u>4,753,555</u>	<u>9,467,277</u>
<u>\$ 4,997,218</u>	<u>\$ 5,890,072</u>	<u>\$ 10,887,290</u>

BOROUGH OF KENNETT SQUARE

BALANCE SHEET GOVERNMENTAL FUNDS DECEMBER 31, 2014

	General Fund	Capital Project Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 448,618	\$ 14,329	\$ 169,273	\$ 632,220
Investments	38,980	33,949	-	72,929
Taxes receivable, net	357,355	-	-	357,355
Due from other funds	611,589	54,334	-	665,923
Due from other governments	15,458	-	-	15,458
Other receivables	43,708	-	-	43,708
TOTAL ASSETS	\$ 1,515,708	\$ 102,612	\$ 169,273	\$ 1,787,593
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICIT)				
LIABILITIES				
Accounts payable and accrued expenses	\$ 68,132	\$ 231,593	\$ -	\$ 299,725
Accrued salaries and benefits	95,069	-	-	95,069
Due to other funds	1,109,276	327,797	54,369	1,491,442
Other liabilities	87,707	-	-	87,707
TOTAL LIABILITIES	1,360,184	559,390	54,369	1,973,943
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue, property taxes	102,866	-	-	102,866
FUND BALANCES (DEFICIT)				
Restricted for				
Capital projects	-	33,949	-	33,949
Road improvements	-	-	136,838	136,838
Assigned for community development	-	-	13,310	13,310
Unassigned	52,658	(490,727)	(35,244)	(473,313)
TOTAL FUND BALANCES (DEFICIT)	52,658	(456,778)	114,904	(289,216)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICIT)	\$ 1,515,708	\$ 102,612	\$ 169,273	\$ 1,787,593

See accompanying notes to the basic financial statements.

BOROUGH OF KENNETT SQUARE
RECONCILIATION OF TOTAL GOVERNMENTAL FUNDS BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2014

TOTAL GOVERNMENTAL FUNDS BALANCES	\$ (289,216)
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. These assets consist of:</p>	
Construction in progress	1,002,744
Land and improvements	2,746,357
Buildings and improvements	1,867,392
Roads, bridges and lights	6,016,505
Machinery, equipment and vehicles	1,692,282
Accumulated depreciation	(5,728,881)
Net pension assets are not financial resources and therefore are not reported in the funds.	12,146
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	989,353
<p>Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:</p>	
Accrued interest	(4,461)
Bonds and notes payable	(2,986,083)
Capital lease payable	(28,083)
Compensated absences	(395,703)
Some of the Borough's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are not recorded as receivables or are deferred in the funds.	<u>102,866</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 4,997,218</u>

See accompanying notes to the basic financial statements.

BOROUGH OF KENNETT SQUARE
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2014

	General Fund	Capital Project Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 2,507,506	\$ -	\$ 42,157	\$ 2,549,663
Licenses and permits	93,510	-	-	93,510
Fines, forfeits and costs	38,608	-	-	38,608
Interest and rents	92,546	18	359	92,923
Intergovernmental	375,086	549,547	142,719	1,067,352
Charges for services/fees	433,676	-	-	433,676
Miscellaneous	13,494	-	-	13,494
TOTAL REVENUES	3,554,426	549,565	185,235	4,289,226
EXPENDITURES				
General government	726,580	-	-	726,580
Public safety	2,354,969	-	81,251	2,436,220
Public works, highways and streets	697,249	908,158	250,254	1,855,661
Culture and recreation	71,596	-	-	71,596
Community development	13,516	-	-	13,516
Debt service				
Principal	-	254,000	-	254,000
Interest	-	105,011	-	105,011
Bond issue costs	-	-	-	-
TOTAL EXPENDITURES	3,863,910	1,267,169	331,505	5,462,584
DEFICIENCY OF REVENUES OVER EXPENDITURES	(309,484)	(717,604)	(146,270)	(1,173,358)
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	1,750	-	-	1,750
Proceeds from capital lease	28,416	-	-	28,416
Interfund transfers in	800,371	468,400	-	1,268,771
Interfund transfers out	(504,400)	(50,371)	-	(554,771)
TOTAL OTHER FINANCING SOURCES (USES)	326,137	418,029	-	744,166
NET CHANGE IN FUND BALANCES	16,653	(299,575)	(146,270)	(429,192)
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR	36,005	(157,203)	261,174	139,976
FUND BALANCES (DEFICIT) AT END OF YEAR	\$ 52,658	\$ (456,778)	\$ 114,904	\$ (289,216)

See accompanying notes to the basic financial statements.

BOROUGH OF KENNETT SQUARE

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2014

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (429,192)
Capital outlays are reported in Governmental Funds as expenditures. However, in the statement of net position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$836,539) exceed depreciation (\$369,442) in the current period.	467,097
Because some property taxes will not be collected for several months after the Borough's fiscal year ends, they are not considered as "available" revenues in the Governmental Funds. Deferred tax revenues increased by this amount this year.	23,831
Borrowing of long-term debt is a revenue in the Governmental Funds but increases long-term liabilities in the statement of net assets. This is the amount of capital leases entered into in the current year.	(28,416)
Repayment of bond principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net position.	254,000
Repayment of capital lease principal is an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the statement of net	28,617
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the Governmental Funds.	847
Net pension assets	847
Some revenues reported in the statement of activities are not considered as "available" revenues in the Governmental Funds and therefore are not reported as revenues in the Governmental Funds.	(10,647)
Revolving loan	(10,647)
In the statement of net position, certain operating expenses--compensated absences (vacations and sick leave) and special termination benefits (early retirement)--are measured by the amounts earned during the year. In the Governmental Funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).	(20,684)
Bond proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the statement of net position. Also, Governmental Funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of net position. This is the net effect of these differences in the treatment of long-term debt and related items.	(2,172)
Interest on long-term debt in the statement of activities differs from the amount reported in the Governmental Funds because interest is recognized as an expenditure in the funds when it is due and thus requires the use of current financial resources. In the statement of net position, however, interest expense is recognized as the interest accrues, regardless of when it is due.	215
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 283,496</u>

See accompanying notes to the basic financial statements.

BOROUGH OF KENNETT SQUARE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2014

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Parking Fund</u>	<u>Solid Waste Fund</u>	<u>Total Proprietary Funds</u>
ASSETS					
Cash and cash equivalents	\$ 310,599	\$ 195,063	\$ 613,930	\$ -	\$ 1,119,592
Investments	-	2	-	-	2
Receivables, net	163,217	26,875	655	12,251	202,998
Due from other funds	8,320	1,582,270	96,423	4,013	1,691,026
	<u>482,136</u>	<u>1,804,210</u>	<u>711,008</u>	<u>16,264</u>	<u>3,013,618</u>
TOTAL CURRENT ASSETS					
PROPERTY AND EQUIPMENT, net	<u>3,671,082</u>	<u>6,142,375</u>	<u>3,573,717</u>	<u>-</u>	<u>13,387,174</u>
TOTAL ASSETS	<u>4,153,218</u>	<u>7,946,585</u>	<u>4,284,725</u>	<u>16,264</u>	<u>16,400,792</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charge on refunding	<u>-</u>	<u>402,474</u>	<u>178,606</u>	<u>-</u>	<u>581,080</u>
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable and accrued expenses	184,513	36,090	1,119	4,995	226,717
Accrued salaries and benefits	3,637	5,406	1,071	-	10,114
Accrued interest	197	6,531	3,910	-	10,638
Due to other funds	781,685	54,334	20,687	8,801	865,507
Other liabilities	11,280	-	-	-	11,280
Bonds and notes payable	25,670	439,000	220,000	-	684,670
	<u>1,006,982</u>	<u>541,361</u>	<u>246,787</u>	<u>13,796</u>	<u>1,808,926</u>
TOTAL CURRENT LIABILITIES					
NONCURRENT LIABILITIES					
Bonds and notes payable	<u>25,335</u>	<u>6,691,781</u>	<u>2,565,758</u>	<u>-</u>	<u>9,282,874</u>
TOTAL LIABILITIES	<u>1,032,317</u>	<u>7,233,142</u>	<u>2,812,545</u>	<u>13,796</u>	<u>11,091,800</u>
NET POSITION					
Net investment in capital assets	3,620,077	(585,930)	966,565	-	4,000,712
Restricted for debt service	-	2	-	-	2
Unrestricted	(499,176)	1,701,845	684,221	2,468	1,889,358
	<u>(499,176)</u>	<u>1,701,845</u>	<u>684,221</u>	<u>2,468</u>	<u>1,889,358</u>
TOTAL NET POSITION	<u>\$ 3,120,901</u>	<u>\$ 1,115,917</u>	<u>\$ 1,650,786</u>	<u>\$ 2,468</u>	<u>\$ 5,890,072</u>

See accompanying notes to the basic financial statements.

BOROUGH OF KENNETT SQUARE
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2014

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Parking Fund</u>	<u>Solid Waste Fund</u>	<u>Total Proprietary Funds</u>
OPERATING REVENUES					
Charges for services	\$ 1,444,077	\$ 1,704,567	\$ 554,382	\$ 348,110	\$ 4,051,136
OPERATING EXPENSES					
Water pump/purification	177,362	-	-	-	177,362
Water collection/distribution	629,348	-	-	-	629,348
Water transport/facility	22,384	-	-	-	22,384
Sewer collection and disposal	-	669,276	-	-	669,276
Operating expenditures	-	-	96,515	7,612	104,127
Contractual and professional services	-	-	-	364,234	364,234
Legal fees	-	2,877	-	-	2,877
Administration	15,267	71,462	30,445	-	117,174
Depreciation	130,232	212,281	132,427	-	474,940
TOTAL OPERATING EXPENSES	<u>974,593</u>	<u>955,896</u>	<u>259,387</u>	<u>371,846</u>	<u>2,561,722</u>
OPERATING INCOME (LOSS)	<u>469,484</u>	<u>748,671</u>	<u>294,995</u>	<u>(23,736)</u>	<u>1,489,414</u>
NONOPERATING REVENUES (EXPENSES)					
Interest and investment revenue	248	136	1,821	-	2,205
Intergovernmental revenues	673,591	-	-	-	673,591
Interest expense	(2,838)	(197,866)	(113,989)	-	(314,693)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>671,001</u>	<u>(197,730)</u>	<u>(112,168)</u>	<u>-</u>	<u>361,103</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>1,140,485</u>	<u>550,941</u>	<u>182,827</u>	<u>(23,736)</u>	<u>1,850,517</u>
TRANSFERS					
Interfund transfers in	-	-	-	36,000	36,000
Interfund transfers out	(300,000)	(390,000)	(60,000)	-	(750,000)
TOTAL TRANSFERS	<u>(300,000)</u>	<u>(390,000)</u>	<u>(60,000)</u>	<u>36,000</u>	<u>(714,000)</u>
CHANGE IN NET POSITION	840,485	160,941	122,827	12,264	1,136,517
NET POSITION AT BEGINNING OF YEAR	<u>2,280,416</u>	<u>954,976</u>	<u>1,527,959</u>	<u>(9,796)</u>	<u>4,753,555</u>
NET POSITION AT END OF YEAR	<u>\$ 3,120,901</u>	<u>\$ 1,115,917</u>	<u>\$ 1,650,786</u>	<u>\$ 2,468</u>	<u>\$ 5,890,072</u>

See accompanying notes to the basic financial statements.

BOROUGH OF KENNETT SQUARE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2014

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Parking Fund</u>	<u>Solid Waste Fund</u>	<u>Total Proprietary Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 1,445,256	\$ 1,840,876	\$ 554,037	\$ 343,371	\$ 4,183,540
Payments to employees	(71,781)	(175,712)	(41,038)	(40,970)	(329,501)
Payments to suppliers and vendors	(610,071)	(552,635)	(86,241)	(332,903)	(1,581,850)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>763,404</u>	<u>1,112,529</u>	<u>426,758</u>	<u>(30,502)</u>	<u>2,272,189</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers (to) from other funds	(300,000)	(390,000)	(60,000)	36,000	(714,000)
Loans (to) from other funds	163,332	(395,258)	(29,627)	(5,498)	(267,051)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(136,668)</u>	<u>(785,258)</u>	<u>(89,627)</u>	<u>30,502</u>	<u>(981,051)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition, construction and improvement of capital assets	(1,200,945)	(39,249)	(8,416)	-	(1,248,610)
Intergovernmental grant proceeds	696,605	-	-	-	696,605
Payment of debt	(24,629)	(47,000)	(215,000)	-	(286,629)
Payment of interest	(2,923)	(151,264)	(96,174)	-	(250,361)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(531,892)</u>	<u>(237,513)</u>	<u>(319,590)</u>	<u>-</u>	<u>(1,088,995)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Earnings on investments	248	136	1,821	-	2,205
NET INCREASE IN CASH AND CASH EQUIVALENTS	95,092	89,894	19,362	-	204,348
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR					
	<u>215,507</u>	<u>105,169</u>	<u>594,568</u>	<u>-</u>	<u>915,244</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 310,599</u>	<u>\$ 195,063</u>	<u>\$ 613,930</u>	<u>\$ -</u>	<u>\$ 1,119,592</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 469,484	\$ 748,671	\$ 294,995	\$ (23,736)	\$ 1,489,414
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities					
Depreciation	130,232	212,281	132,427	-	474,940
(Increase) decrease in receivables, net	1,179	136,309	(345)	(4,739)	132,404
Increase (decrease) in					
Accounts payable and accrued expenses	163,565	16,413	(251)	(2,027)	177,700
Accrued salaries and benefits	(1,056)	(1,145)	(68)	-	(2,269)
Unearned revenue	-	-	-	-	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 763,404</u>	<u>\$ 1,112,529</u>	<u>\$ 426,758</u>	<u>\$ (30,502)</u>	<u>\$ 2,272,189</u>

See accompanying notes to the basic financial statements.

BOROUGH OF KENNETT SQUARE
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2014

	Pension Trust Funds Police Pension
ASSETS	
Cash	\$ 489,213
Investments, at fair value	
Money market and mutual funds	2,911,992
Receivables	
Member contributions in transit	7,616
Interest on late deposit of state aid	<u>1,321</u>
TOTAL ASSETS	<u>\$ 3,410,142</u>
NET POSITION	
Assets held in trust for pension benefits	<u>\$ 3,410,142</u>

See accompanying notes to the basic financial statements.

BOROUGH OF KENNETT SQUARE
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED DECEMBER 31, 2014

	Pension Trust Funds Police Pension
ADDITIONS	
Contributions	
Employer contributions	\$ 98
Member contributions	46,245
State aid	<u>97,078</u>
TOTAL CONTRIBUTIONS	143,421
Investment income	<u>250,324</u>
TOTAL ADDITIONS	393,745
DEDUCTIONS	
Benefits paid	81,101
Administrative expenses and other	<u>6,495</u>
TOTAL DEDUCTIONS	<u>87,596</u>
CHANGE IN NET POSITION	306,149
NET POSITION AT BEGINNING OF YEAR	<u>3,103,993</u>
NET POSITION AT END OF YEAR	<u>\$ 3,410,142</u>

See accompanying notes to the basic financial statements.

BOROUGH OF KENNETT SQUARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Borough of Kennett Square's (the "Borough") financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and issued by the Borough are described below.

Reporting Entity

Financial accountability is defined in GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus--An Amendment of GASB Statements No. 14 and No. 39*. The Borough is financially accountable for legally separate organizations if it appoints a voting majority of the organization's board and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Borough. The Borough also may be financially accountable if an organization is fiscally dependent on the Borough regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board.

The Borough has determined that no other outside agency meets the above criteria; therefore, no other agency has been included as a component unit in the Borough's financial statements. In addition, the Borough is not aware of any entity that would result in the Borough being considered a component unit of the entity.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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 statements distinguish between those activities of the Borough that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the Proprietary Funds financial statements but differs from the manner in which Governmental Funds financial statements are prepared. Governmental Funds financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for Governmental Funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Borough's net position is reported in three parts: net investment in capital assets, restricted net position and unrestricted net position. The Borough first utilizes restricted resources to finance qualifying activities.

BOROUGH OF KENNETT SQUARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The government-wide statement of net position presents a comparison between direct expenses and program revenues for each function or program of the Borough's governmental 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 the goods or 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, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Borough. Expenses reported for functional activities include allocated indirect expenses.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the statement of net position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. Interfund services provided and used are not eliminated in the process of consolidation.

Fund Financial Statements - Fund financial statements report detailed information about the Borough. The focus of Governmental and Proprietary Funds financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column (Other Governmental Funds).

Governmental Funds - The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Borough considers revenues to be available if they are collected within 60 days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments are recorded only when payment is due. The financial statements for Governmental Funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Borough.

BOROUGH OF KENNETT SQUARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Borough reports the following major Governmental Funds:

General Fund - The General Fund is the general operating fund of the Borough. It is used to account for all financial resources except those required to be accounted for in another fund. The general tax revenues of the Borough, as well as other resources received and not designated for a specific purpose, are accounted for in the General Fund.

Capital Project Fund - The Capital Project Fund is maintained to account for major capital projects and the accumulation of resources for acquisition of fixed assets.

The Other Governmental Funds of the Borough are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

Proprietary Funds - The focus of Proprietary Funds measurement is upon determination of operating income, changes in net position, financial position and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector.

The Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a Proprietary Fund's principal ongoing operations. The principal operating revenues of the Water Fund, Sewer Fund, Parking Fund and Solid Waste Fund are charges to customers for sales and services. Operating expenses include the costs of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Borough reports the following major Proprietary Funds:

Water Fund - The Water Fund accounts for the Borough's water system.

Sewer Fund - The Sewer Fund accounts for the activities of the Borough's sewer system.

Parking Fund - The Parking Fund accounts for activities of the parking garage.

Solid Waste Fund - The Solid Waste Fund accounts for activities of waste collection.

Additionally, the Borough reports the following Fiduciary Funds to account for assets held by the Borough in a trustee capacity:

Pension Trust Funds - Pension Trust Funds are used to account for financial resources restricted for retirement benefits of the police participating under the Borough's defined benefit pension plan.

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

BOROUGH OF KENNETT SQUARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the General Fund. All annual appropriations lapse at fiscal year-end. Any budget amendments must be approved by the Council.

Cash and Investments

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

State statutes authorize the Borough to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds and repurchase agreements.

Investments are carried at fair value.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Borough defines capital assets as assets with an initial individual cost equal to or greater than \$5,000 or purchased with debt proceeds and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	50
Building and land improvements	20
System infrastructure	20-50
Vehicles	8
Roads, bridges and lights	45
Equipment	5-20

BOROUGH OF KENNETT SQUARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

The Borough does not permit accrual of vacation time beyond the end of the current fiscal year for non-uniform employees. Therefore, all vacation for non-uniform employees is expensed in the year it occurs. The Borough accrues unused sick pay up to a maximum of 40 days per year for non-uniformed employees. The Borough purchases sick leave earned but not used at time of retirement for non-uniform employees up to a maximum of 150 days. Sick pay may not be accumulated for uniformed employees. The Borough permits the accrual of vacation time beyond the end of the current fiscal year for uniform employees up to a maximum of 35 days per year. The Borough purchases vacation time earned but not used at time of retirement for uniform employees up to a maximum of 60 days.

Long-Term Obligations

In the government-wide and Proprietary Funds financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or Proprietary Funds statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, Governmental Fund Types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

Use of 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Real Estate Taxes

Real estate taxes are levied on March 1 and due on June 30 of each year. A 2% discount is provided for taxes paid prior to May 1. A 10% penalty is applied to taxes paid after June 30. Unpaid taxes are lienied by the Borough on January 15 of the subsequent year.

Receivables and Payables

External transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

BOROUGH OF KENNETT SQUARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as due to/from other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectibles.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Under the accrual basis of accounting, the Borough reports a deferred loss on debt refunding in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Borough has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the Governmental Funds balance sheet. The Governmental Funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position Flow Assumption

Sometimes the Borough will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and Proprietary Funds financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Borough's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

In the fund financial statements, Governmental Fund Types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt are reported as other financing uses. Issuance costs, even if withheld from the actual net proceeds received, are reported as expenditures.

Restricted Net Position

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

BOROUGH OF KENNETT SQUARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance and GASB Statement No. 54

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

- ***Nonspendable*** - Amounts that cannot be spent either because they are not in spendable form or because of legal or contractual constraints.
- ***Restricted*** - Amounts that can be spent only for specific purposes stipulated by external resource providers or through enabling legislation.
- ***Committed*** - Amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and do not lapse at year-end. The governing council is the highest level of decision-making authority for the Borough that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.
- ***Assigned*** - Amounts that are intended to be used for specific purposes that are neither considered restricted or committed. The governing council has by resolution authorized the finance director to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment.
- ***Unassigned*** - Amounts not contained in other classifications.

The details of the fund balances are included in the Governmental Funds balance sheet (page 31). Restricted funds are used first as appropriate, followed by committed resources and then assigned resources, to the extent that expenditure authority has been budgeted by the Borough Council. The Borough does reserve the right to first reduce unassigned fund balance to defer the use of these other classified funds. In the event that unassigned fund balance becomes zero, then assigned and committed fund balances are used in that order.

BOROUGH OF KENNETT SQUARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE B - DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, the Borough's deposits may not be returned to it. Deposits are insured under Act 72 of the 1971 Session of the Pennsylvania General Assembly, whereby financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of FDIC limits. The Borough has no formal policy in regards to custodial credit risk. As of December 31, 2014, \$1,504,294 of the Borough's bank balance of \$2,004,294 was exposed to custodial credit risk as follows:

Uninsured and collateralized with securities held by the pledging bank's trust department not in the Borough's name	\$ <u>1,504,294</u>
---	---------------------

Investments

As of December 31, 2014, the Borough had the following investments:

Investment Type	Fair Value	Investment Maturities Less Than One Year
GOVERNMENTAL AND PROPRIETARY FUNDS		
State investment pools	\$ 72,928	\$ 72,928
U.S. Government money market funds	<u>2</u>	<u>2</u>
	72,930	72,930
 PENSION FUNDS		
Money market and mutual funds	<u>2,911,992</u>	<u>2,911,992</u>
	<u>\$ 2,984,922</u>	<u>\$ 2,984,922</u>

Interest Rate Risk - The Borough's investment policy does limit investment maturities to remain sufficiently liquid to meet all operating requirements that are reasonably anticipated as a means of managing its exposure to fair value losses arising from increasing interest rates. For the General Fund and other operating funds, maturities will not exceed one year.

BOROUGH OF KENNETT SQUARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE B - DEPOSITS AND INVESTMENTS (Continued)

Credit Risk - Pennsylvania statutes authorize the Borough to invest in U.S. Treasury bills, short-term obligations of the U.S. Government, obligations of the U.S. Government or Commonwealth of Pennsylvania, or political subdivisions of the Commonwealth that are backed by the full faith and credit of the issuing government and shares of authorized investment companies provided that all of the company investments are authorized investments for a Borough.

In addition, the Borough may invest in time deposits, savings accounts, or share accounts of institutions insured by the FDIC, FSLIC, or NCUSIF to the extent that such investments are insured and, where amounts exceed the insured maximums, that the depository pledge collateral as provided by Pennsylvania law.

The state also imposes limitations with respect to the amount of investment in certificates of deposit to the extent that such deposits may not exceed 20% of a bank's total capital surplus or 20% of a savings and loan's or savings bank's assets, net of its liabilities. The Borough may also invest in shares of registered investment companies provided that investments of the company are authorized investments, as noted above.

The law provides that the Borough's Pension Trust Funds may invest in any form or type of investment, financial instrument, or financial transaction, if determined by the Borough to be prudent.

Investments for the Borough are reported at fair value. The investment pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. As of December 31, 2014, the Borough's investment in the state investment pool was rated AAAM by Standard & Poor's,

The Borough's investment policy does not limit its investment choices based upon credit quality rating.

Concentration Risk - The Borough does not have a policy that would limit the amount it may invest in any one issuer. As of December 31, 2014, the Borough's investments in any single fund did not exceed 5% of the Borough's total investments.

BOROUGH OF KENNETT SQUARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE C - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables at December 31, 2014, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Capital Project Fund	\$ 273,352
General Fund	Water Fund	275,067
General Fund	Solid Waste Fund	8,801
General Fund	Other Governmental Funds	54,369
Water Fund	Parking Fund	8,320
Sewer Fund	General Fund	1,067,298
Sewer Fund	Water Fund	506,618
Sewer Fund	Parking Fund	8,354
Solid Waste Fund	Parking Fund	4,013
Parking Fund	General Fund	41,978
Parking Fund	Capital Project Fund	54,445
Capital Projects Fund	Sewer Fund	54,334
		<u>\$ 2,356,949</u>

Transfer balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made.

Interfund transfers at December 31, 2014, are as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Water Fund	\$ 300,000
General Fund	Sewer Fund	390,000
General Fund	Parking Fund	60,000
General Fund	Capital Project Fund	50,371
Capital Project Fund	General Fund	468,400
Solid Waste Fund	General Fund	36,000
		<u>\$ 1,304,771</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts to pay debt service for general obligations in general activities and (3) use unrestricted revenues collected in the Water and Sewer Funds to finance various programs/reimburse expenses accounted for in the General Fund in accordance with budgetary authorizations.

BOROUGH OF KENNETT SQUARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE D - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014, was as follows:

	Balance January 1, 2014	Additions	Deletions	Balance December 31, 2014
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 1,382,350	\$ -	\$ -	\$ 1,382,350
Construction in progress	297,780	704,964	-	1,002,744
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	1,680,130	704,964	-	2,385,094
Capital assets being depreciated				
Buildings and improvements	1,858,789	8,603	-	1,867,392
Land improvements	1,364,007	-	-	1,364,007
Roads, bridges and lights	6,016,505	-	-	6,016,505
Machinery, equipment and vehicles	1,592,310	122,972	(23,000)	1,692,282
TOTAL CAPITAL ASSETS BEING DEPRECIATED	10,831,611	131,575	(23,000)	10,940,186
Accumulated depreciation				
Buildings and improvements	(358,470)	(35,616)	-	(394,086)
Land improvements	(401,751)	(52,265)	-	(454,016)
Roads, bridges and lights	(3,351,181)	(187,830)	-	(3,539,011)
Machinery, equipment and vehicles	(1,271,037)	(93,731)	23,000	(1,341,768)
TOTAL ACCUMULATED DEPRECIATION	(5,382,439)	(369,442)	23,000	(5,728,881)
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	5,449,172	(237,867)	-	5,211,305
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net	7,129,302	467,097	-	7,596,399
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated				
Land	1,619,281	-	-	1,619,281
Construction in progress	309,212	1,161,697	-	1,470,909
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	1,928,493	1,161,697	-	3,090,190
Capital assets being depreciated				
Buildings and improvements	17,207,896	-	-	17,207,896
Machinery, equipment and vehicles	949,741	86,913	-	1,036,654
TOTAL CAPITAL ASSETS BEING DEPRECIATED	18,157,637	86,913	-	18,244,550
Accumulated depreciation				
Buildings and improvements	(6,625,757)	(442,226)	-	(7,067,983)
Machinery, equipment and vehicles	(846,869)	(32,714)	-	(879,583)
TOTAL ACCUMULATED DEPRECIATION	(7,472,626)	(474,940)	-	(7,947,566)
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	10,685,011	(388,027)	-	10,296,984
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, net	12,613,504	773,670	-	13,387,174
CAPITAL ASSETS, net	\$ 19,742,806	\$ 1,240,767	\$ -	\$ 20,983,573

BOROUGH OF KENNETT SQUARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE D - CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

GOVERNMENTAL ACTIVITIES	
General government	\$ 84,496
Public safety	24,954
Highways and streets	252,852
Culture and recreation	<u>7,140</u>
	\$ <u>369,442</u>
BUSINESS-TYPE ACTIVITIES	
Water	\$ 130,232
Sewer	212,281
Parking	<u>132,427</u>
	\$ <u>474,940</u>

BOROUGH OF KENNETT SQUARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE E - LONG-TERM DEBT

Long-term debt payable at December 31, 2014, is comprised of the following individual issues:

Delaware Valley Regional Finance Authority, Guaranteed Sewer Revenue Note 2001, with interest at variable rates not to exceed 15.00% per annum, payable monthly, maturity date is December 25, 2026	\$ 695,000
General Obligation Bonds, Series A of 2011, with interest rates of 0.55% to 4.75% per annum, payable on the 15th day of June and December, maturity date is June 15, 2031	5,795,000
Pennsylvania Infrastructure Investment Authority, Loan No. 50048, with interest payable monthly at 3.32% per annum, maturity date is February 1, 2017	51,006
General Obligation Bonds, Series of 2012, with interest rates of 0.7% to 3.0% per annum, payable on the 15th day of June and December, maturity date is June 15, 2027	6,520,000
Delaware Valley Regional Finance Authority, General Obligation Note, Series of 2005, with interest at variable rates not to exceed 15.00% per annum, payable monthly, maturity date is March 15, 2015	<u>41,000</u>
	<u>\$ 13,102,006</u>

The annual requirements to amortize all debt outstanding as of December 31, 2014, including interest payments, are as follows:

Year Ending December 31,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2015	\$ 266,000	\$ 106,260	\$ 684,670	\$ 340,019
2016	230,000	95,416	751,336	323,232
2017	235,000	89,741	738,000	304,564
2018	240,000	83,204	761,000	284,239
2019	245,000	76,070	773,000	260,886
2020 to 2024	1,165,000	243,958	4,208,000	867,102
2025 to 2029	435,000	100,149	2,164,089	115,892
2030 to 2031	<u>205,911</u>	<u>9,856</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,021,911</u>	<u>\$ 804,654</u>	<u>\$ 10,080,095</u>	<u>\$ 2,495,934</u>

BOROUGH OF KENNETT SQUARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE F - CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2014, the following changes in long-term liabilities occurred:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
GOVERNMENTAL ACTIVITIES					
General Obligation Note, Series of 2005	\$ 80,000	\$ -	\$ (39,000)	\$ 41,000	\$ 41,000
General Obligation Bonds, Series A of 2011	3,195,911	-	(215,000)	2,980,911	225,000
	<u>3,275,911</u>	<u>-</u>	<u>(254,000)</u>	<u>3,021,911</u>	<u>266,000</u>
Deferred amounts					
Issuance discount	(38,000)	-	2,172	(35,828)	-
TOTAL BONDS AND NOTE PAYABLE	3,237,911	-	(251,828)	2,986,083	266,000
Capital leases	28,284	28,416	(28,617)	28,083	18,625
Compensated absences	375,017	23,981	(3,296)	395,702	6,736
TOTAL GOVERNMENTAL ACTIVITIES	3,641,212	52,397	(283,741)	3,409,868	291,361
BUSINESS-TYPE ACTIVITIES					
Pennsylvania Infrastructure Investment Authority, Loan No. 50048	75,634	-	(24,628)	51,006	25,670
General Obligation Note Delaware Valley Regional Finance Authority Guaranteed Sewer Revenue Note 2001	737,000	-	(42,000)	695,000	44,000
General Obligation Bonds Series A of 2011	3,029,089	-	(215,000)	2,814,089	220,000
Series of 2012	6,525,000	-	(5,000)	6,520,000	395,000
	<u>10,366,723</u>	<u>-</u>	<u>(286,628)</u>	<u>10,080,095</u>	<u>684,670</u>
Deferred amounts					
Issuance discount	(115,491)	-	2,941	(112,550)	-
TOTAL BUSINESS-TYPE ACTIVITIES	10,251,232	-	(283,687)	9,967,545	684,670
TOTAL LONG-TERM LIABILITIES	\$ 13,892,444	\$ 52,397	\$ (567,428)	\$ 13,377,413	\$ 976,031

The General Fund has been used to liquidate compensated absences in prior years.

BOROUGH OF KENNETT SQUARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE G - DERIVATIVE FINANCIAL INSTRUMENTS

The Borough entered into General Obligation Notes with the Delaware Valley Regional Finance Authority (DVRFA). The DVRFA has entered into an interest rate swap agreement related to the DVRFA Bonds to provide variable and fixed rates on loans, reduce the costs of participants in the loan program and enhance the ability of participants to manage their interest rate risks. The fair value of the interest rate swap is the estimated price that the DVRFA could receive (pay) if the DVRFA terminated the portion of the swap agreements related to that loan on December 31, 2014.

The following is a summary of the Borough's General Obligation Notes with the DVRFA and the Borough's related fair value of the interest rate swap at December 31, 2014:

<u>General Obligation Notes</u>	<u>Original Issue Amount</u>	<u>Outstanding at December 31, 2014</u>	<u>Fair Value</u>
2001 Sewer	\$ 6,862,000	\$ 695,000	\$ 56,776
2005	<u>350,000</u>	<u>41,000</u>	<u>3,349</u>
	<u>\$ 7,212,000</u>	<u>\$ 736,000</u>	<u>\$ 60,125</u>

If the termination value was negative and the interest rate swap agreement were terminated, the Borough would be obligated to pay the DVRFA the amount of the termination payment. If the Borough defaults on all or a portion of the above-mentioned General Obligation Notes with the DVRFA, it may owe costs, if any, associated with the liquidation or termination of the respective fixed rate swap used by the DVRFA to provide the fixed rate to the Borough. There is no carrying amount of the related interest rate swap at December 31, 2014, on the Borough's government-wide and fund financial statements. The fair value is \$60,125 at December 31, 2014.

NOTE H - TAXES

For 2014, the following tax was levied on the assessed value of real estate:

5.35 mills for general purposes

The taxable assessed valuation of property as of December 31, 2014, was \$224,330,680.

Other taxes levied in 2014:

Real Estate Transfer Tax..... 1% of sales price
 Earned Income Tax..... 1% of net income
 Local Services Tax..... \$52 per employee within the Borough

BOROUGH OF KENNETT SQUARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE I - POLICE PENSION PLAN

Summary of Significant Accounting Policies

Police Pension Plan investments are carried at fair value as reported by the investment managers. Short-term investments are reported at cost, which approximates fair value. Financial information of the Borough's Police Pension Plan is presented on the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due as required by the Act. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Plan Description

Plan Administration - The Borough of Kennett Square Police Pension Plan is a single-employer defined benefit pension plan. The Plan was established by Ordinance No. 479, effective April 4, 1960. The Plan was amended and restated by Ordinance No. 851, effective January 1, 2005. The Plan is governed by the Borough Council of the Borough of Kennett Square which may amend plan provisions, and which is responsible for the management of Plan assets. The Borough Council has delegated the authority to manage certain Plan assets to Nationwide Insurance Company. The plan is required to file Form PC-201C biennially with the Public Employee Retirement Commission (PERC). The most recent filing was as of January 1, 2013.

Plan Membership - At December 31, 2014, pension plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	4
Inactive plan members entitled to but not yet receiving benefits	1
Active plan members	<u>10</u>
	<u>15</u>

Benefits Provided - The Police Pension Plan provides retirement benefits as well as death and disability benefits under Pennsylvania Act 600. All benefits vest after 12 years of credited service. Officers are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 50% of their final average monthly compensation. Final average monthly compensation is the employee's average compensation over the last 36 months of employment. Married officers will receive joint and 50% survivor annuity. Normal retirement is age 50 with at least 25 years of service.

BOROUGH OF KENNETT SQUARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE I - POLICE PENSION PLAN (Continued)

If a member dies in service, a benefit will be paid per Act 30 equal to 100% of salary. For Total and permanent disablement, a monthly benefit equal to 66% of Final Monthly Average Salary at date of disablement, but no less than 50% of salary at time disability was incurred, offset by any social security disability benefits payable for the same condition. Covered employees are required by statute to contribute 5% of their compensation to the plan. The Borough is required by statute, principally Pennsylvania Act 205, to contribute the remaining amounts necessary to finance the plan.

Benefit and contribution provisions are established by Pennsylvania law and may be amended only as allowed by Pennsylvania law.

The benefit provisions of the Borough's Police Pension Plan are established by Borough ordinances.

Contributions - Pennsylvania Act 205 of 1984 (as amended) requires that annual contributions be based upon the minimum municipal obligation (MMO), which is based on the plan's actuarial valuation. The MMO includes the normal cost, estimated administrative expenses and an amortization contribution of the unfunded actuarial accrued liability, less estimated member contributions, and a credit equal to 10% of the excess (if any) of the actuarial value of assets over the actuarial accrued liability. The state provides an allocation of funds, which must be used for pension funding. A financial requirement established by the MMO, which exceeds state and member contributions, must be funded by the employer.

As a condition of participation, participants are required to make contributions to the Plan. The amount of the contribution is equal to 5% of the participant's pay.

In 2014, the MMO obligation for the Police Pension Plan was \$97,078 for the year 2014. Contributions of \$0 and \$97,078 were made by the Borough and the Commonwealth, respectively.

Administrative costs, which may include, but are not limited to, investment management fees and actuarial services, are charged to the appropriate plan and funded through the MMO and/or plan earnings. On-behalf payments of fringe benefits and salaries for the Borough's employees were recognized as revenues and expenditures during the year.

Investments

Investment Policy - The Plan is authorized to invest in legal investments permitted under the Pennsylvania Fiduciaries Investment Act. The plan has no formally adopted investment policy.

Concentrations - The plan places no limit on the amount that may be invested in any one issuer. At December 31, 2014, the Plan had no investments (other than U.S. Government and U.S. Government guaranteed obligations, mutual funds or other pooled investments) in any one issuer that represent 5% or more of Fiduciary Net Position.

BOROUGH OF KENNETT SQUARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE I - POLICE PENSION PLAN (Continued)

Rate of Return - For the year ended December 31, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 7.82%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability of the Borough

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

Total pension liability	\$ 3,390,315
Plan fiduciary net position	<u>(3,410,142)</u>
NET PENSION LIABILITY	<u>\$ (19,827)</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>100.58%</u>

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of December 31, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3%
Salary increases	5.5% including inflation
Investment rate of return	7.5%

Mortality rates were based on the RP-2000 tables.

There was an experience study performed in 2011 that was used to determine plan assumptions.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation as of December 31, 2014 (see the plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity	6.3%
Fixed income	2.0%
Cash	0.0%

BOROUGH OF KENNETT SQUARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE I - POLICE PENSION PLAN (Continued)

Discount Rate - The discount rate is based on the long-term expected rate of return on plan investments that expected to be used to finance the payments of benefits. The plan's fiduciary net position is projected to be sufficient to make projected benefit payments and the plan assets are expected to be invested using a strategy to achieve that return. The employer has always met the funding requirements of Pennsylvania law Act 205 of 1984. Act 205 requires full funding of the entry age normal cost plus plan expenses, as well as amortization of the unfunded liability to ultimately achieve a 100% funded status.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the Borough, calculated using the discount rate of 7.5%, as well as what the Borough's net pension would be if it were calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate:

	1% Decrease <u>(6.5%)</u>	Current Discount Rate (7.5%)	1% Increase <u>(8.5%)</u>
Net pension liability	\$ <u>452,178</u>	\$ <u>(19,827)</u>	\$ <u>(410,456)</u>

NOTE J - NON-UNIFORMED PENSION PLAN

Plan Description

General - The Borough of Kennett Square sponsors the Public Employee Retirement System (PERS) to provide pension benefits for non-uniformed employees of the Borough. The plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS was created by the Pennsylvania General Assembly in 1974 with the passage of the Pennsylvania Municipal Retirement Law, Act of 1974, P.L. 34 No. 15, as amended. PMRS issues a separate Comprehensive Annual Financial Report (CAFR). A copy of the CAFR can be obtained by contacting the PMRS accounting office.

Plan Membership

Membership of the plan consisted of the following at December 31, 2014:

Active plan members	22
Retirees and beneficiaries currently receiving benefits	7
Terminated plan members entitled to but not yet receiving benefits	<u>4</u>
TOTAL MEMBERSHIP	<u><u>33</u></u>

BOROUGH OF KENNETT SQUARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE J - NON-UNIFORMED PENSION PLAN (Continued)

Benefit Provisions

The plan provides retirement, disability and death benefits to plan members and their beneficiaries. Cost-of-living allowances are provided at the discretion of the plan.

Actuarial Assumptions and Methods

Actuarial valuation date	January 1, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	11 years
Asset valuation method	Fair value
Actuarial assumptions	
Investment rate of return	5.5%
Projected salary increases*	4.1%

*Includes inflation at 3.0%

Method Used to Value Investments

Investments are reported at fair value. The plan's assets with PMRS are pooled for investment purposes and, therefore, do not represent specific identifiable investment securities. Disclosures required by GASB for aggregate PMRS investments are included in PMRS's separately issued CAFR.

Contributions

Act 205 requires that annual contributions be based upon the plan's minimum municipal obligation (MMO). The MMO is based upon the plan's biennial actuarial valuation.

In accordance with the plan's governing ordinance, members are required to contribute 3% of compensation to the plan.

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

Employee contributions in 2014, 2013 and 2012 were \$40,406, \$37,687 and \$33,649, respectively. The state allocation was \$53,957.

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

Annual Pension Cost

Current year annual pension costs are shown in the three-year trend information. Annual required contributions were made to the plan, and there is no net pension obligation.

BOROUGH OF KENNETT SQUARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE J - NON-UNIFORMED PENSION PLAN (Continued)

Trend Information

<u>Year Ended December 31,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation NPO</u>
2012	\$ 99,349	100%	\$ N/A
2013	87,915	100%	N/A
2014	53,957	100%	N/A

Funded Status and Funding Progress

As of January 1, 2013, the most recent actuarial valuation date, the plan was 94.51% funded. The actuarial accrued liability for benefits was \$2,844,059 and the actuarial value of assets was \$2,687,935, resulting in an unfunded actuarial accrued liability (UAAL) of \$156,124. The covered payroll (annual payroll of active employees covered by the plan) was \$1,029,731, and the ratio of the UAAL to the covered payroll was 15.16%.

The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE K - COMMITMENTS AND CONTINGENCIES

Lease Agreement

The Borough entered into a lease agreement in July 2003 that was made effective as of November 19, 2002, to lease the old Borough Hall, which is located at the intersection of Broad and Linden Streets, Kennett Square, to Kencourt LP, as witnessed by its sole general partner, Edis Development Corporation. As of December 31, 2014, the property under this lease had a total cost of \$40,000, accumulated depreciation of \$40,000 and no net book value. The lease expired on October 1, 2013, and was not renewed. The Borough is currently determining the best use of the property.

Parking Lot Lease

The Borough entered into a lease agreement with an unrelated party in July 2007 that was made effective as of August 2006, to lease a parking lot on East Street, Kennett Square. The Borough re-leased the parking lot to an unrelated party. The total base rental expense incurred on the sublease during 2014 was \$24,432.

Water Supply

The Borough has an agreement with a private company to purchase a minimum of 300,000 gallons of water per day. The Borough is applying for a permit to operate an additional well and intends to renegotiate the agreement with the private company to reduce minimum purchase requirements.

BOROUGH OF KENNETT SQUARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE K - COMMITMENTS AND CONTINGENCIES (Continued)

Refuse Collections

The Borough entered into a five-year agreement for the calendar year 2015-2019 with a private company to provide refuse collections. The future minimum payments under the contract are as follows:

<u>Year Ending</u> <u>December 31,</u>	
2015	\$ 180,797
2016	186,221
2017	191,807
2018	197,562
2019	<u>203,488</u>
	<u>\$ 959,875</u>

Rental Income

The Borough also collects approximately \$6,600 per month from several companies for allowing telephone antennas on the Borough's water towers. Total rental income in 2014 was \$70,985.

Construction

As of December 31, 2014, the Borough is committed under a construction contract for a remaining amount of approximately \$32,000 for the Walnut Street Neighborhood Improvement Project.

Litigation

The Borough is also party to litigation involving various Borough matters. Borough officials believe that the outcome of any lawsuits will not have a material effect on the financial condition of the Borough.

NOTE L - RISK MANAGEMENT

The Borough is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the Borough to purchase commercial insurance for the risks of loss to which it is exposed, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

BOROUGH OF KENNETT SQUARE
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE M - REVOLVING LOAN FUND

In 2010, the Borough passed through a DCED grant to a local contractor for construction of a restaurant in Kennett Square. In 2012, the Borough passed through a DCED grant to a local contractor for the construction of an office building. All funds disbursed to the contractors are to be repaid in the future and are considered a loan receivable for the Borough. At December 31, 2014, the Borough's loan receivable relating to the Revolving Loan Fund of \$1,000,000 was reported on the statement of net position.

NOTE N - JOINT VENTURE

The Borough is in a joint venture agreement with Kennett Area Community Development (KACD), which provides the opportunity to further enhance the Borough and the surrounding communities and to facilitate the purchase and sale of certain assets in the Borough. As part of the agreement, the Borough is entitled to appoint one director of KACD. The Borough may withdraw from participation in this joint venture agreement, without liability or other obligation to KACD or to any member of KACD, until such time as KACD funds are applied to the construction of any facility or other improvement benefitting the Borough. During the year ended December 31, 2014, no contributions were made to KACD.

NOTE O - CAPITAL LEASE

The Borough entered into capital leases in 2012, 2013 and 2014 in order to finance the purchase of vehicles. The amount of the capital leases at inception in 2012, 2013 and 2014 was \$28,007, \$29,350 and \$28,416, respectively.

The assets acquired through the capital leases are as follows:

Vehicles	\$ 85,773
Accumulated depreciation	<u>(25,192)</u>
	<u>\$ 60,581</u>

Future minimum lease payments together with the present value of the net minimum lease payments are as follows:

<u>Year Ending December 31,</u>	
2015	\$ 20,496
2016	<u>10,105</u>
	30,601
Amount representing interest	<u>(2,518)</u>
TOTAL PRESENT VALUE OF MINIMUM LEASE PAYMENTS	<u>\$ 28,083</u>

REQUIRED SUPPLEMENTARY INFORMATION

BOROUGH OF KENNETT SQUARE
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2014

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 2,637,600	\$ 2,637,600	\$ 2,507,506	\$ (130,094)
Licenses and permits	86,600	86,600	93,510	6,910
Fines, forfeits and costs	45,000	45,000	38,608	(6,392)
Interest and rents	99,600	99,600	92,546	(7,054)
Intergovernmental	507,300	507,300	375,086	(132,214)
Charges for services/fees	431,500	431,500	433,676	2,176
Miscellaneous	6,500	6,500	13,494	6,994
TOTAL REVENUES	<u>3,814,100</u>	<u>3,814,100</u>	<u>3,554,426</u>	<u>(259,674)</u>
EXPENDITURES				
General government	875,500	875,500	726,580	148,920
Public safety	2,380,200	2,380,200	2,354,969	25,231
Public works, highways and streets	687,100	687,100	697,249	(10,149)
Culture and recreation	84,800	84,800	71,596	13,204
Community development	57,100	57,100	13,516	43,584
TOTAL EXPENDITURES	<u>4,084,700</u>	<u>4,084,700</u>	<u>3,863,910</u>	<u>220,790</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(270,600)</u>	<u>(270,600)</u>	<u>(309,484)</u>	<u>(38,884)</u>
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	25,000	25,000	1,750	(23,250)
Proceeds from capital lease	-	-	28,416	28,416
Interfund transfers in	750,000	750,000	800,371	50,371
Interfund transfers out	(504,400)	(504,400)	(504,400)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>270,600</u>	<u>270,600</u>	<u>326,137</u>	<u>55,537</u>
NET CHANGE IN FUND BALANCE	-	-	16,653	16,653
FUND BALANCE AT BEGINNING OF YEAR	<u>36,005</u>	<u>36,005</u>	<u>36,005</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 36,005</u>	<u>\$ 36,005</u>	<u>\$ 52,658</u>	<u>\$ 16,653</u>

See accompanying notes to the budgetary comparison schedule.

BOROUGH OF KENNETT SQUARE
NOTES TO THE BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2014

NOTE A - BUDGET POLICY

The members of Council annually adopt the budget for the General Fund of the Borough. Management may not amend the budget without approval of the governing body. Revisions to the budget are made throughout the year. Council may increase the amount in the budget through supplemental appropriation contingent on available revenues. Uncommitted appropriations lapse at year-end. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

NOTE B - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended December 31, 2014, expenditures exceeded appropriations in the following General Fund department levels (the legal level of budgetary control):

Public works, highways and streets	\$ <u>10,149</u>
------------------------------------	------------------

These excess expenditures were funded by available fund balance in the General Fund.

BOROUGH OF KENNETT SQUARE
SCHEDULE OF CHANGES IN THE NET POLICE
PENSION PLAN LIABILITY AND RELATED RATIOS
YEAR ENDED DECEMBER 31, 2014

TOTAL PENSION LIABILITY		
Service cost	\$	147,423
Interest		239,414
Changes of benefit terms		-
Differences between expected and actual experience		-
Changes of assumptions		-
Benefit payments		(81,101)
NET CHANGE IN TOTAL PENSION LIABILITY		<u>305,736</u>
Total pension liability, beginning		<u>3,084,579</u>
TOTAL PENSION LIABILITY, ENDING (a)	\$	<u><u>3,390,315</u></u>
PLAN FIDUCIARY NET POSITION		
Contributions		
Employer	\$	97,176
Member		46,245
Net investment income		250,324
Benefit payments, including refunds of member contributions		(81,101)
Administrative expense		(6,495)
Other		-
NET CHANGE IN PLAN FIDUCIARY NET POSITION		<u>306,149</u>
Plan fiduciary net position, beginning		<u>3,103,993</u>
PLAN FIDUCIARY NET POSITION, ENDING (b)	\$	<u><u>3,410,142</u></u>
NET PENSION LIABILITY, ENDING (a)-(b)	\$	<u><u>(19,827)</u></u>
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY		<u><u>100.58%</u></u>
COVERED-EMPLOYEE PAYROLL	\$	<u><u>930,574</u></u>
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED- EMPLOYEE PAYROLL		<u><u>N/A</u></u>

BOROUGH OF KENNETT SQUARE
SCHEDULE OF POLICE PENSION PLAN
CONTRIBUTIONS
YEAR ENDED DECEMBER 31, 2014

ACTUARIALLY DETERMINED CONTRIBUTION	\$ 97,078
CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION	<u>97,078</u>
CONTRIBUTION (EXCESS) DEFICIENCY	<u>\$ -</u>
COVERED-EMPLOYEE PAYROLL	<u>\$ 930,574</u>
CONTRIBUTION AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	<u>10.43%</u>

NOTES TO SCHEDULE

Valuation date: January 1, 2013

Actuarially determined contribution rates are calculated by September 30 of each year for the upcoming calendar year.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	11 years (aggregate)
Asset valuation method	4-year smoothing
Inflation	3%
Salary increases	5.5% including inflation
Investment rate of return	7.5%
Retirement age	Normal retirement age
Mortality	RP-2000 Table

BOROUGH OF KENNETT SQUARE
SCHEDULE OF POLICE PENSION PLAN
INVESTMENT RETURNS
YEAR ENDED DECEMBER 31, 2014

ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF
INVESTMENT EXPENSE

7.82%

BOROUGH OF KENNETT SQUARE
NON-UNIFORM PENSION PLAN FUNDING PROGRESS
YEAR ENDED DECEMBER 31, 2014

SCHEDULE OF FUNDING PROGRESS

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

The actuarial information is required by Act 205 biennially, except for distressed pension plans, which require annual reporting. The historical information required to be disclosed follows.

Non-Uniformed Pension Plan

Actuarial Valuation Date January 1,	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(c) Unfunded AAL (UAAL) (b)-(a)	(d) Percentage Funded (a)/(b)	(e) Covered Payroll	(f) UAAL as a Percentage of Covered Payroll (c)/(e)
2009	\$ 2,015,229	\$ 2,113,030	\$ 97,801	95.37%	\$ 1,029,220	9.50%
2011	2,276,985	2,322,479	45,494	98.04%	986,087	4.61%
2013	2,687,935	2,844,059	156,124	94.51%	1,029,731	15.16%

SUPPLEMENTARY INFORMATION SECTION

BOROUGH OF KENNETT SQUARE
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
DECEMBER 31, 2014

	Special Revenue Funds				Total Other Governmental Funds
	Liquid Fuels Fund	Emergency Management Fund	Equipment Replacement Fund	Revolving Loan Fund	
ASSETS					
Cash and cash equivalents	\$ 136,838	\$ 19,125	\$ -	\$ 13,310	\$ 169,273
Due from other governments	-	-	-	-	-
TOTAL ASSETS	<u>\$ 136,838</u>	<u>\$ 19,125</u>	<u>\$ -</u>	<u>\$ 13,310</u>	<u>\$ 169,273</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Due to other funds	\$ -	\$ 54,369	\$ -	\$ -	\$ 54,369
FUND BALANCES					
Restricted for					
Road improvements	136,838	-	-	-	136,838
Emergency management	-	-	-	-	-
Assigned for community development	-	-	-	13,310	13,310
Unassigned	-	(35,244)	-	-	(35,244)
TOTAL FUND BALANCES	<u>136,838</u>	<u>(35,244)</u>	<u>-</u>	<u>13,310</u>	<u>114,904</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 136,838</u>	<u>\$ 19,125</u>	<u>\$ -</u>	<u>\$ 13,310</u>	<u>\$ 169,273</u>

BOROUGH OF KENNETT SQUARE
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2014

	Special Revenue Funds				Total Other Governmental Funds
	Liquid Fuels Fund	Emergency Management Fund	Equipment Replacement Fund	Revolving Loan Fund	
REVENUES					
Taxes	\$ -	\$ 42,157	\$ -	\$ -	\$ 42,157
Interest and rents	338	19	-	2	359
Intergovernmental	129,955	-	-	12,764	142,719
TOTAL REVENUES	<u>130,293</u>	<u>42,176</u>	<u>-</u>	<u>12,766</u>	<u>185,235</u>
EXPENDITURES					
Public safety	-	81,251	-	-	81,251
Public works, highways and streets	250,254	-	-	-	250,254
Community development	-	-	-	-	-
TOTAL EXPENDITURES	<u>250,254</u>	<u>81,251</u>	<u>-</u>	<u>-</u>	<u>331,505</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(119,961)	(39,075)	-	12,766	(146,270)
OTHER FINANCING USES					
Interfund transfers out	-	-	-	-	-
NET CHANGE IN FUND BALANCES	(119,961)	(39,075)	-	12,766	(146,270)
FUND BALANCES AT BEGINNING OF YEAR	<u>256,799</u>	<u>3,831</u>	<u>-</u>	<u>544</u>	<u>261,174</u>
FUND BALANCES (DEFICIT) AT END OF YEAR	<u>\$ 136,838</u>	<u>\$ (35,244)</u>	<u>\$ -</u>	<u>\$ 13,310</u>	<u>\$ 114,904</u>

STATISTICAL SECTION

STATISTICAL SECTION

This part of the Borough of Kennett Square's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Borough's overall financial health.

<u>Contents</u>	<u>Schedules</u>
Financial Trends These schedules contain trend information to help readers understand how the Borough's financial performance and well-being have changed over time.	1 through 5
Revenue Capacity These schedules contain information to help the reader assess the Borough's most significant local revenue sources – its property and earned income tax.	6 through 12
Debt Capacity These schedules present information to help readers assess the affordability of the Borough's current levels of outstanding debt and the Borough's ability to issue additional debt in the future.	13 through 19
Demographic and Economic Information These schedules offer demographic and economic indicators to help readers understand the environment within which the Borough's financial activities take place.	20 through 21
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the Borough's financial report relates to the services the Borough provides and the activities it performs.	22 through 25

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The Borough implemented GASB Statement No. 34 in 2004; schedules presenting government-wide information include information beginning in that year. The Borough implemented GASB Statements No. 63 and 65 in 2012; schedules affected by GASB Statements No. 63 and 65 begin in 2011.

BOROUGH OF KENNETT SQUARE, PENNSYLVANIA
NET POSITION BY COMPONENTS
LAST TEN FISCAL YEARS (Unaudited)

SCHEDULE 1

	Fiscal Year										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	
(Accrual basis of accounting)											
GOVERNMENTAL ACTIVITIES											
Net investment in capital assets	\$ 2,201,931	\$ 2,123,466	\$ 3,169,488	\$ 3,189,700	\$ 3,048,655	\$ 2,984,264	\$ 1,511,333	\$ 1,790,798	\$ 3,681,605	\$ 4,616,182	
Restricted	375,877	1,057,373	52,681	40,992	46,054	106,136	1,308,499	478,336	570,960	170,787	
Unrestricted	831,057	(81,092)	590,278	598,165	126,650	369,921	408,980	1,602,203	561,157	210,249	
TOTAL GOVERNMENTAL ACTIVITIES NET POSITION	\$ 3,408,866	\$ 3,099,747	\$ 3,812,447	\$ 3,828,857	\$ 3,221,359	\$ 3,460,321	\$ 3,228,812	\$ 3,871,337	\$ 4,713,722	\$ 4,997,218	
BUSINESS-TYPE ACTIVITIES											
Net investment in capital assets	\$ 1,227,698	\$ 1,896,334	\$ 3,725,314	\$ 3,459,803	\$ 3,764,532	\$ 3,747,353	\$ 3,354,333	\$ 2,887,044	\$ 3,005,037	\$ 4,000,712	
Restricted	1,073,652	1,041,754	1,131,396	1,079,017	1,171,679	1,098,318	681,946	5,753	6	2	
Unrestricted	3,358,063	2,693,116	858,264	(189,465)	(495,076)	(432,336)	159,769	1,372,370	1,748,512	1,889,358	
TOTAL BUSINESS-TYPE ACTIVITIES NET POSITION	\$ 5,659,413	\$ 5,631,204	\$ 5,714,974	\$ 4,349,355	\$ 4,441,135	\$ 4,413,335	\$ 4,196,048	\$ 4,265,167	\$ 4,753,555	\$ 5,890,072	
PRIMARY GOVERNMENT ACTIVITIES NET POSITION											
Net investment in capital assets	\$ 3,429,629	\$ 4,019,800	\$ 6,894,802	\$ 6,649,503	\$ 6,813,187	\$ 6,731,917	\$ 4,865,666	\$ 4,677,842	\$ 6,586,642	\$ 8,616,894	
Restricted	1,449,529	2,099,127	1,184,077	1,120,009	1,217,733	1,204,454	1,990,445	484,089	570,966	170,789	
Unrestricted	4,189,120	2,612,024	1,448,542	408,700	(368,426)	(62,415)	568,749	2,974,573	2,309,669	2,099,607	
TOTAL PRIMARY GOVERNMENT ACTIVITIES NET POSITION	\$ 9,068,276	\$ 8,730,951	\$ 9,527,421	\$ 8,178,212	\$ 7,662,494	\$ 7,873,656	\$ 7,424,860	\$ 8,136,504	\$ 9,467,277	\$ 10,887,290	

BOROUGH OF KENNETT SQUARE, PENNSYLVANIA
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS (Unaudited)

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
(Accrual basis of accounting)										
EXPENSES										
Governmental activities:										
General government	\$ 400,390	\$ 414,116	\$ 433,556	\$ 610,859	\$ 515,741	\$ 751,465	\$ 735,750	\$ 781,722	\$ 747,318	\$ 811,076
Public safety	1,844,843	1,853,796	1,873,347	2,030,336	1,978,975	1,961,627	2,297,746	2,292,283	2,444,901	2,416,397
Public works:										
Sanitation	304,343	331,033	320,729	324,611	326,847	-	-	-	-	-
Highways and streets	874,915	929,873	1,020,908	1,127,657	1,446,362	892,420	948,714	793,108	889,774	1,307,972
Culture and recreation	130,790	95,185	70,075	74,680	81,703	97,021	84,662	82,922	76,126	78,736
Community development	189,020	97,385	289,508	281,548	28,270	299	10,887	15,575	19,371	23,587
Interest on long-term debt	110,520	124,208	111,052	102,694	94,971	91,463	198,755	115,027	111,219	106,967
Miscellaneous	112,631	113,528	125,852	-	-	-	-	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES EXPENSES	3,967,452	3,959,124	4,245,027	4,552,385	4,472,869	3,794,295	4,276,514	4,080,637	4,288,709	4,744,735
Business-type activities:										
Water	857,886	927,836	947,896	1,003,304	968,863	839,307	893,007	882,741	879,114	974,593
Sewer	967,791	1,009,684	1,003,125	1,059,832	1,096,581	939,023	975,818	980,826	871,884	955,896
Parking	218,161	226,741	212,419	222,424	242,445	220,158	379,063	244,200	238,076	259,387
Solid Waste	-	-	-	-	-	338,519	310,756	386,459	351,569	371,846
TOTAL BUSINESS-TYPE ACTIVITIES EXPENSES	2,043,838	2,164,261	2,163,440	2,285,560	2,307,889	2,337,007	2,558,644	2,494,226	2,340,643	2,561,722
TOTAL PRIMARY GOVERNMENT EXPENSES	\$ 6,011,290	\$ 6,123,385	\$ 6,408,467	\$ 6,837,945	\$ 6,780,758	\$ 6,131,302	\$ 6,835,158	\$ 6,574,863	\$ 6,629,352	\$ 7,306,457
PROGRAM REVENUES										
Governmental activities:										
Charges for services:										
General government	\$ 215,430	\$ 120,125	\$ 117,919	\$ 108,160	\$ 44,748	\$ 76,036	\$ 134,067	\$ 92,034	\$ 83,186	\$ 77,307
Public safety	296,574	335,542	266,631	262,423	257,751	244,504	391,429	294,148	277,325	386,828
Public works:										
Sanitation	-	-	-	-	-	-	-	-	-	-
Highways and streets	21,335	43,255	57,427	172,008	50,507	34,482	36,226	44,236	35,244	25,643
Culture and recreation	-	-	-	-	-	-	-	-	-	-
Community development	-	-	-	-	-	-	111	233	87	11
Interest on long-term debt	-	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-
Operating grants and contributions	410,198	346,454	341,373	311,349	341,597	317,030	405,501	333,069	459,521	1,052,960
Capital grants and contributions	-	-	1,009,908	256,386	255,135	500,000	-	497,664	564,371	12,188
TOTAL GOVERNMENTAL ACTIVITIES PROGRAM REVENUES	\$ 943,537	\$ 845,376	\$ 1,793,258	\$ 1,110,326	\$ 949,738	\$ 1,172,052	\$ 967,334	\$ 1,261,384	\$ 1,419,734	\$ 1,554,937

(continued)

BOROUGH OF KENNETT SQUARE, PENNSYLVANIA
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS (Unaudited)

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
(Accrual basis of accounting)										
PROGRAM REVENUES										
Business-type activities:										
Charges for services:										
Water	\$ 1,011,963	\$ 994,458	\$ 984,384	\$ 976,433	\$ 1,035,189	\$ 1,164,058	\$ 1,199,073	\$ 1,235,741	\$ 1,259,644	\$ 1,444,077
Sewer	1,552,069	1,467,876	1,214,422	1,307,616	1,727,799	1,590,328	1,531,793	1,567,049	1,750,098	1,704,567
Parking	372,854	347,511	433,315	470,718	513,818	499,909	584,603	565,707	557,029	554,382
Solid Waste	-	-	-	-	-	304,527	313,412	323,170	324,965	348,110
Operating grants and contributions	-	291,884	562,498	25,565	210,000	-	-	-	226,409	673,591
Capital grants and contributions	-	-	-	-	-	-	-	-	-	-
TOTAL BUSINESS-TYPE ACTIVITIES PROGRAM REVENUES	2,836,886	3,101,729	3,194,619	2,780,332	3,486,806	3,548,822	3,628,881	3,691,667	4,118,145	4,724,727
TOTAL PRIMARY GOVERNMENT PROGRAM REVENUES	\$ 3,880,423	\$ 3,947,105	\$ 4,987,877	\$ 3,890,658	\$ 4,436,544	\$ 4,720,874	\$ 4,890,265	\$ 4,953,051	\$ 5,537,879	\$ 6,279,664
NET (EXPENSE) REVENUE	\$ (3,023,915)	\$ (3,113,748)	\$ (2,451,769)	\$ (3,442,059)	\$ (3,523,131)	\$ (2,622,243)	\$ (2,819,253)	\$ (2,819,253)	\$ (2,866,975)	\$ (3,189,798)
Governmental activities	893,048	937,468	1,031,179	494,772	1,178,917	1,211,815	1,134,655	1,351,024	1,777,502	2,163,005
Business-type activities										
TOTAL PRIMARY GOVERNMENT NET EXPENSE	\$ (2,130,867)	\$ (2,176,280)	\$ (1,420,590)	\$ (2,947,287)	\$ (2,344,214)	\$ (1,410,428)	\$ (1,684,598)	\$ (1,468,229)	\$ (1,091,473)	\$ (1,026,793)
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS										
Governmental activities:										
Taxes, levied for general purposes	\$ 499,025	\$ 524,732	\$ 496,881	\$ 618,631	\$ 897,201	\$ 876,708	\$ 1,080,446	\$ 1,087,576	\$ 1,187,653	\$ 1,211,273
Property taxes, levied for general purposes	148,188	141,962	100,350	84,021	80,662	63,790	63,790	92,075	92,767	135,106
Transfer taxes	1,056,492	1,138,095	1,620,966	1,049,893	994,635	866,072	906,200	1,245,755	1,071,853	1,069,701
Earned income taxes	46,552	180,152	176,802	134,871	148,219	113,896	108,542	118,028	166,328	157,414
Local services taxes	3,033	2,862	2,907	3,241	2,619	3,003	2,759	3,158	3,218	2,928
Public utility taxes	44,251	44,987	46,275	57,288	100,591	61,980	99,757	75,799	83,323	86,210
Franchise taxes										
Investment income and rents, net of interest expense	157,821	177,137	161,767	133,615	116,876	134,839	134,066	132,902	113,618	92,912
Other	79,025	15,195	52,804	(7,440)	37,000	1,025	-	16,502	17,800	1,750
Gain (loss) on disposal of capital assets	363	79,507	5,717	(1,384,349)	537,830	710,949	682,111	689,983	972,800	714,000
Transfer	500,000	500,000	500,000	1,384,349	-	-	-	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	2,534,750	2,804,629	3,164,469	3,458,469	2,915,633	2,861,205	3,077,671	3,461,776	3,711,360	3,473,294
Business-type activities:										
Investment income and rents, net of interest expense	(426,641)	(465,677)	(447,409)	(532,319)	(549,307)	(528,666)	(535,460)	(438,339)	(316,314)	(312,488)
Gain on disposal of capital assets	(500,000)	(500,000)	(500,000)	56,277	(537,830)	(710,949)	(682,111)	(689,983)	(972,800)	(714,000)
Transfer	(926,641)	(965,677)	(947,409)	(1,860,391)	(1,087,137)	(1,239,615)	(1,217,571)	(1,128,322)	(1,289,114)	(1,026,489)
TOTAL BUSINESS-TYPE ACTIVITIES	\$ 1,608,109	\$ 1,838,952	\$ 2,217,060	\$ 1,598,078	\$ 1,828,496	\$ 1,621,590	\$ 1,860,100	\$ 2,333,456	\$ 2,422,246	\$ 2,446,806
TOTAL PRIMARY GOVERNMENT CHANGE IN NET ASSETS	\$ (489,165)	\$ (309,118)	\$ 712,700	\$ 16,410	\$ (607,498)	\$ 238,962	\$ (231,509)	\$ 642,525	\$ 842,385	\$ 283,496
Governmental activities	(33,593)	(28,209)	83,770	(1,365,619)	91,780	(27,800)	(147,334)	69,119	488,388	1,136,517
Business-type activities										
TOTAL PRIMARY GOVERNMENT CHANGE IN NET POSITION	\$ (522,758)	\$ (337,327)	\$ 796,470	\$ (1,349,209)	\$ (515,718)	\$ 211,162	\$ (378,843)	\$ 711,644	\$ 1,330,773	\$ 1,420,013

BOROUGH OF KENNETT SQUARE, PENNSYLVANIA
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS (Unaudited)

SCHEDULE 3

(Accrual basis of accounting)

Fiscal Year	Property Taxes	Earned Income	Local Services Tax (1)	Property Transfer	Total
2005	\$ 499,025	\$ 1,056,492	\$ 46,552	\$ 148,188	\$ 1,750,257
2006	524,732	1,138,096	180,152	141,962	1,984,942
2007	496,881	1,620,966	176,002	100,350	2,394,199
2008	618,631	1,049,893	134,871	84,021	1,887,416
2009	897,201	994,635	148,219	80,662	2,120,717
2010	876,708	866,072	113,896	92,733	1,949,409
2011	1,080,446	906,200	108,542	63,790	2,158,978
2012	1,087,576	1,245,755	118,028	92,075	2,543,434
2013	1,187,653	1,071,853	168,328	92,767	2,520,601
2014	1,211,273	1,069,701	157,414	135,106	2,573,494
Change 2005-2014	142.73%	1.25%	238.15%	-9.08%	47.04%

(1) Beginning in 2005, occupational privilege tax (OPT) was eliminated and replaced with the emergency municipal service (EMS). Beginning in 2008, the EMS was renamed local services tax. The Borough did not adopt the increase from \$10 to \$52 until 2006.

BOROUGH OF KENNETT SQUARE, PENNSYLVANIA
FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS (Unaudited)

SCHEDULE 4

(Modified accrual basis of accounting)

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
GENERAL FUND										
Non-spendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	-	-	-	-	-	-	14,930	14,943	-	-
Assigned	538,000	538,000	538,000	300,000	175,000	300,000	-	-	-	-
Unassigned	304,597	251,843	478,238	24,583	17,783	(563,618)	279,139	276,650	36,005	52,658
TOTAL GENERAL FUND	<u>842,697</u>	<u>799,843</u>	<u>1,016,238</u>	<u>324,583</u>	<u>192,783</u>	<u>(263,618)</u>	<u>294,069</u>	<u>291,593</u>	<u>36,005</u>	<u>52,658</u>
ALL OTHER GOVERNMENTAL FUNDS										
Restricted	375,877	257,530	52,681	40,992	46,054	106,136	1,293,563	463,393	570,960	170,787
Assigned, reported in:	-	-	-	-	-	372,619	7	7	-	13,310
Special Revenue Fund	-	-	-	-	-	-	-	-	-	-
Unassigned, reported in:	-	-	-	583,247	213,635	188,699	-	1,016	-	(35,244)
Special Revenue Fund	-	-	(356,565)	(271,905)	(262,559)	(128,773)	-	-	(466,989)	(488,577)
Capital Projects Fund	-	-	-	-	-	-	-	-	-	-
TOTAL ALL OTHER GOVERNMENTAL FUNDS	<u>375,877</u>	<u>257,530</u>	<u>(303,884)</u>	<u>352,334</u>	<u>(2,870)</u>	<u>538,681</u>	<u>1,293,570</u>	<u>464,416</u>	<u>103,971</u>	<u>(339,724)</u>
TOTAL GOVERNMENTAL FUNDS	<u>\$ 1,218,574</u>	<u>\$ 1,057,373</u>	<u>\$ 712,354</u>	<u>\$ 676,917</u>	<u>\$ 189,913</u>	<u>\$ 275,063</u>	<u>\$ 1,587,639</u>	<u>\$ 756,009</u>	<u>\$ 139,976</u>	<u>\$ (287,066)</u>

BOROUGH OF KENNETT SQUARE, PENNSYLVANIA
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS (Unaudited)

SCHEDULE 5

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
(Modified accrual basis of accounting)										
Revenues										
Taxes	\$ 1,751,276	\$ 1,971,447	\$ 2,403,344	\$ 1,862,655	\$ 2,087,570	\$ 1,842,250	\$ 2,308,493	\$ 2,531,594	\$ 2,520,601	\$ 2,549,663
Licenses and permits	60,901	65,687	66,775	79,588	116,968	66,580	106,542	81,599	87,423	93,510
Fines, forfeits and cost	74,574	71,701	60,421	69,988	58,518	52,805	48,227	43,770	39,665	38,608
Interest, dividends and rents	157,821	177,137	161,767	133,615	116,876	134,839	134,177	133,135	113,705	92,923
Intergovernmental revenues	412,680	346,271	1,351,638	550,161	578,388	812,608	408,260	833,091	1,027,110	1,066,776
Charges for services and fees	442,115	406,521	361,056	410,766	271,656	283,240	490,183	375,807	346,896	433,676
Miscellaneous	551	3,388	14,804	60,352	27,418	21,802	16,527	5,841	5,094	13,494
TOTAL REVENUES	<u>2,899,918</u>	<u>3,042,152</u>	<u>4,419,805</u>	<u>3,167,125</u>	<u>3,257,394</u>	<u>3,214,124</u>	<u>3,512,409</u>	<u>4,004,837</u>	<u>4,140,494</u>	<u>4,288,650</u>
Expenditures										
General government	369,637	383,125	403,729	612,554	481,781	719,423	643,306	808,910	721,894	726,580
Public safety	1,814,631	1,848,170	1,884,618	2,048,431	1,971,016	1,945,431	2,143,469	2,268,012	2,371,922	2,407,804
Public works:										
Sanitation	304,343	331,033	320,729	324,611	326,847	-	-	-	-	-
Highways and streets	902,476	764,516	1,955,847	994,331	1,179,648	672,701	839,865	1,487,183	2,194,704	1,855,661
Culture and recreation	126,244	91,835	65,124	71,672	78,695	96,918	84,567	82,922	76,126	71,596
Community development	189,020	97,385	289,508	281,548	28,270	152,157	352,994	545,845	21,371	12,940
Debt service:										
Principal	115,000	145,000	151,000	152,000	158,000	164,000	135,000	247,000	252,089	251,850
Interest	114,162	117,613	111,254	103,074	94,971	90,318	99,701	113,086	109,021	105,011
Issuance Cost	112,631	113,528	131,865	-	-	-	99,606	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-
Capital outlay	4,048,144	3,692,205	5,313,674	4,588,221	4,319,228	3,840,948	4,398,508	5,542,958	5,747,127	5,431,442
TOTAL EXPENDITURES	<u>(1,148,226)</u>	<u>(850,053)</u>	<u>(893,869)</u>	<u>(1,421,096)</u>	<u>(1,061,834)</u>	<u>(626,824)</u>	<u>(686,099)</u>	<u>(1,538,121)</u>	<u>(1,606,633)</u>	<u>(1,142,792)</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES										
OTHER FINANCING SOURCES (USES)										
Sales of capital assets	6,196	99,000	5,717	1,310	-	1,025	-	16,502	17,800	1,750
Settlement recovery	-	75,000	43,133	-	37,000	-	-	-	-	-
Refund of prior year expenditures	4,760	15,411	-	-	-	-	-	-	-	-
Refund of prior year revenues	(735)	(589)	-	-	-	-	-	-	-	-
Transfer in	716,172	778,460	735,120	1,992,969	1,126,820	1,172,400	1,195,070	1,102,915	1,790,007	1,268,771
Transfer out	(216,172)	(278,460)	(235,120)	(608,620)	(588,990)	(461,451)	(512,959)	(412,932)	(817,207)	(554,771)
Bond issuance	350,000	-	-	-	-	-	3,720,000	-	-	-
Debt service principal	-	-	-	-	-	-	(2,160,000)	-	-	-
Bond discount	-	-	-	-	-	-	(43,431)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>860,221</u>	<u>688,822</u>	<u>548,850</u>	<u>1,385,659</u>	<u>574,830</u>	<u>711,974</u>	<u>2,198,680</u>	<u>706,485</u>	<u>990,600</u>	<u>715,750</u>
NET CHANGE IN FUND BALANCES	<u>\$ (288,005)</u>	<u>\$ (161,231)</u>	<u>\$ (345,019)</u>	<u>\$ (35,437)</u>	<u>\$ (487,004)</u>	<u>\$ 85,150</u>	<u>\$ 1,312,581</u>	<u>\$ (831,636)</u>	<u>\$ (616,033)</u>	<u>\$ (427,042)</u>
DEBT SERVICE AS A PERCENTAGE OF NON-CAPITAL EXPENDITURES	8.0%	9.8%	6.4%	7.5%	8.1%	9.7%	7.3%	8.5%	8.1%	7.0%

BOROUGH OF KENNETT SQUARE, PENNSYLVANIA
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS (Unaudited)

SCHEDULE 6

(Accrual basis of accounting)

Fiscal Year	Property Taxes	Earned Income	Local Services Tax	Property Transfer	Mechanical Device	Total
2005	\$ 499,025	\$ 1,056,492	\$ 46,552	\$ 148,188	\$ 1,100	\$ 1,751,357
2006	524,732	1,138,096	180,152	141,962	1,250	1,986,192
2007	496,881	1,620,966	176,802	100,350	800	2,395,799
2008	618,631	1,049,893	134,871	84,021	1,660	1,889,076
2009	897,201	994,635	148,219	80,662	2,545	2,123,262
2010	876,708	866,072	113,896	92,733	1,375	1,950,784
2011	1,080,446	906,200	108,542	63,790	2,600	2,161,578
2012	1,087,576	1,245,755	118,028	92,075	2,445	2,545,879
2013	1,187,653	1,071,853	168,328	92,767	2,600	2,523,201
2014	1,211,273	1,069,701	157,414	135,106	2,928	2,576,422

BOROUGH OF KENNETT SQUARE, PENNSYLVANIA
ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS (Unaudited)

Fiscal Year Ended December 31,	Real Property		Less: Tax Exempt Real Property	Total Taxable Assessed Value	Total Direct Tax Rate (Mills)	Estimated Actual Taxable Value	Assessed Value (1) as a Percentage of Actual Value
	Residential Property	Commercial Property					
2005	\$ 192,499,600	\$ 65,634,640	\$ 40,885,710	\$ 217,248,530	2.350	\$ 357,316,661	60.8%
2006	194,130,330	65,563,480	41,155,020	218,538,790	2.350	398,067,013	54.9%
2007	194,809,260	62,513,860	40,754,420	216,568,700	2.350	418,086,293	51.8%
2008	196,132,070	62,310,730	40,648,760	217,794,040	2.850	421,265,068	51.7%
2009	197,345,120	69,486,580	40,605,700	226,226,000	3.850	426,841,509	53.0%
2010	198,032,490	69,808,180	40,749,030	227,091,640	3.850	409,912,708	55.4%
2011	198,208,140	66,890,890	40,840,920	224,258,110	4.850	400,460,911	56.0%
2012	197,727,700	67,085,380	40,840,920	223,972,160	4.850	379,613,830	59.0%
2013	198,065,730	67,415,320	40,872,630	224,608,420	5.350	373,103,687	60.2%
2014	199,478,610	67,252,990	42,400,920	224,330,680	5.350	392,873,345	57.1%

Source: Pennsylvania State Tax Equalization Board

BOROUGH OF KENNETT SQUARE, PENNSYLVANIA
 ALL DIRECT AND OVERLAPPING PROPERTY TAX RATES
 LAST TEN FISCAL YEARS (Unaudited)

(Per \$1,000 of Assessed Value)

Year	Borough			School District			County			Total
	Fire	General Purposes	Total Millage	Other	General Purposes	Total Millage	Debt, Parks & Libraries Purposes	General Purposes	Total Millage	
2005	0.60	1.75	2.35	-	20.8730	20.8730	0.856	2.702	3.558	26.7810
2006	0.60	1.75	2.35	-	21.5700	21.5700	0.940	2.759	3.699	27.6190
2007	0.60	1.75	2.35	-	21.9500	21.9500	1.104	2.700	3.804	28.1040
2008	0.60	2.25	2.85	-	23.1400	23.1400	1.026	2.778	3.804	29.7940
2009	0.60	3.25	3.85	-	23.9537	23.9537	1.026	2.939	3.965	31.7687
2010	0.60	3.25	3.85	-	24.7781	24.7781	1.235	2.730	3.965	32.5931
2011	0.60	4.25	4.85	-	25.7293	25.7293	1.235	2.730	3.965	34.5443
2012	0.60	4.25	4.85	-	26.7303	26.7303	1.259	2.706	3.965	35.5453
2013	0.60	4.75	5.35	-	27.4520	27.4520	1.838	2.780	4.163	36.9650
2014	0.60	4.75	5.35	-	27.9406	27.9406	1.383	2.780	4.163	37.4536

Source: County Board of Assessment, Kennett Consolidated School District annual budgets and Borough of Kennett Square ordinances.

BOROUGH OF KENNETT SQUARE, PENNSYLVANIA
PRINCIPAL PROPERTY TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO (Unaudited)

Taxpayer	2014			2005		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
State Street Associates LP	\$ 11,329,460	1	5.05%	\$ 15,181,070	1	6.99%
Kennett Center LP	7,597,700	2	3.39%	-		
Tritea LLC	2,184,000	3	0.98%			
Ruane Patrick J & Strine Walter M	1,916,250	4	0.86%	1,916,250	4	0.89%
Everts Richard & Donna	1,798,080	5	0.81%	1,798,080	5	0.83%
Race Park LLC	1,349,790	6	61.00%	-		
LGB - 148 West State Street	1,251,870	7	0.56%	-		
Rockhopper	1,163,400	8	0.52%	-		
Mar Ann Holding Assoc	1,127,620	9	0.51%	1,127,620	7	0.52%
P2K Co. LLC	875,000	10	0.39%	1,532,100	6	0.71%
NVF Company	-			3,711,280	2	1.71%
Argyris Louis	-			2,184,000	3	1.01%
Cohen J Jerome Tru Cohen Sander H Tru ETAL	-			875,000	9	0.41%
430 Assoc	-			748,720	10	0.35%
Alliance for Better Housing	-			974,260	8	0.45%
TOTALS	\$ 30,593,170		13.64%	\$ 30,048,380		13.84%

Source: Chester County Board of Assessments

BOROUGH OF KENNETT SQUARE, PENNSYLVANIA
 PROPERTY TAX LEVIES AND COLLECTIONS
 LAST TEN FISCAL YEARS (Unaudited)

Fiscal Year Ended December 31,	Total Tax Levy for Fiscal Year	Collected with the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2005	\$ 512,707	\$ 477,155	93.1%	\$ 35,158	\$ 512,313	99.9%
2006	513,566	485,004	94.4%	28,491	513,495	99.9%
2007	508,938	472,997	93.0%	35,941	508,938	100.0%
2008	620,504	593,603	95.7%	26,901	620,504	100.0%
2009	870,403	815,557	93.7%	54,846	870,403	100.0%
2010	873,242	840,527	92.8%	32,715	873,242	100.0%
2011	1,087,641	1,032,527	94.9%	40,876	1,073,403	98.7%
2012	1,086,267	1,036,652	95.4%	49,615	1,086,267	100.0%
2013	1,200,925	1,187,653	98.9%	13,272	1,200,925	100.0%
2014	1,200,171	1,150,309	95.9%	-	1,150,309	95.9%

Source: Borough of Kennett Square, Pennsylvania annual financial statements and Tax Collector reports.

BOROUGH OF KENNETT SQUARE, PENNSYLVANIA
EARNED INCOME TAX COLLECTIONS
LAST TEN FISCAL YEARS (Unaudited)

SCHEDULE 11

<u>Fiscal Year</u>	<u>Tax</u>	<u>Current Year Collections (2)</u>	<u>Prior Year Collections</u>	<u>Total</u>
2005	1%	\$ 726,638	\$ 329,854	\$ 1,056,492
2006	1%	796,684	341,412	1,138,096
2007	1%	1,360,592	260,374	1,620,966
2008	1%	741,976	307,917	1,049,893
2009	1%	692,016	302,619	994,635
2010	1%	574,225	291,847	866,072
2011	1%	848,714	57,486	906,200
2012	1%	1,245,755	-	1,245,755
2013	1%	1,071,853	-	1,071,853
2014	1%	1,069,701	-	1,069,701

- (1) Borough of Kennett Square and the Kennett Consolidated School District each get 1/2%.
(2) Collections were not recorded by current year and prior year for 2012.

BOROUGH OF KENNETT SQUARE, PENNSYLVANIA
EARNED INCOME OF RESIDENTS
DECEMBER 31, 2014 (Unaudited)

SCHEDULE 12

Income	Individuals	Total Income	Average Income
0 - 12,000	656	\$ 2,161,815	\$ 3,295
12,001 - 22,000	340	5,856,091	17,224
22,001 - 40,000	595	17,861,983	30,020
40,001 - 100,000	622	36,979,350	59,452
100,001 - 500,000	105	17,706,584	168,634
500,001 - 1,000,000	7	5,302,227	757,461
1,000,001 - +	3	5,333,303	1,777,768
Totals	2,328	91,201,353	39,176

Source: Borough of Kennett Square's tax collector.

Note: Tax rate to the Borough is .5% on all residents except those working in Philadelphia and out of state.

BOROUGH OF KENNETT SQUARE, PENNSYLVANIA
 RATIO OF OUTSTANDING DEBT BY TYPE
 LAST TEN FISCAL YEARS (Unaudited)

SCHEDULE 13

Fiscal Year	Governmental Activities	Business-Type Activities				Total Primary Government	Percentage of Personal Income (1)	Per Capita (1)
	General Obligation Bonds	Water Revenue Bonds	Sewer Revenue Bonds	Parking Revenue Bonds	General Obligation Bonds			
2005	\$ 3,120,000	\$ 1,006,384	\$ 9,574,000	\$ 4,195,000	\$ -	\$ 17,895,384	11.9%	\$ 3,388
2006	2,975,000	890,199	9,280,000	4,040,000	-	17,185,199	12.2%	3,247
2007	2,824,000	771,772	8,980,000	3,885,000	-	16,460,772	10.3%	3,102
2008	2,672,000	648,566	8,669,000	3,725,000	-	15,714,566	9.4%	2,980
2009	2,514,000	519,546	8,346,000	3,565,000	-	14,944,546	12.7%	2,835
2010	2,350,000	384,680	8,011,000	3,395,000	-	14,140,680	10.5%	2,330
2011	3,775,000	244,931	7,665,000	-	3,165,000	14,849,931	10.2%	2,446
2012	3,546,078	99,262	777,000	-	9,695,000	14,117,340	9.7%	2,304
2013	3,304,195	75,634	737,000	-	9,554,089	13,670,918	11.9%	2,231
2014	3,021,911	51,006	695,000	-	9,334,089	13,102,006	7.9%	2,138

(1) See Schedule 20 for personal income and population data.

BOROUGH OF KENNETT SQUARE, PENNSYLVANIA
RATIO OF GENERAL OBLIGATION BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS (Unaudited)

SCHEDULE 14

<u>Fiscal Year</u>	<u>General Obligation Bonds</u>	<u>Percentage of Estimated Actual Taxable Value (1) of Property</u>	<u>Per Capita (2)</u>
2005	\$ 3,120,000	0.9%	\$ 591
2006	2,975,000	0.8%	562
2007	2,824,000	0.7%	532
2008	2,672,000	0.7%	507
2009	2,514,000	0.6%	475
2010	2,350,000	0.6%	387
2011	3,775,000	0.9%	622
2012	3,528,000	0.9%	576
2013	3,275,911	0.9%	534
2014	3,021,911	0.8%	493

Note: Details regarding the Borough's outstanding debt can be found in the notes to the financial statements.

(1) See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property on page 77 for property value data.

(2) Population data can be found in the Schedule of Demographic and Economic Statistics on page 90.

BOROUGH OF KENNETT SQUARE, PENNSYLVANIA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
DECEMBER 31, 2014 (Unaudited)

SCHEDULE 15

	<u>Net Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Debt Applicable to Kennett Square</u>
DIRECT DEBT OF THE BOROUGH AND RELATED ENTITIES			
Borough of Kennett Square (1)	\$ 3,021,911	100.0%	\$ 3,021,911
OVERLAPPING DEBT			
County of Chester (2)	567,537,733	0.6%	3,405,226
Kennett Consolidated School District (3)	78,919,960	11.2%	<u>8,839,035</u>
TOTAL OVERLAPPING DEBT			<u>12,244,261</u>
TOTAL DIRECT AND OVERLAPPING DEBT			<u>\$ 15,266,172</u>

- (1) Includes all long-term debt instruments of the governmental activities.
- (2) County debt as of December 31, 2014, based on the ratio of Kennett Square's assessed valuation to Chester County's 2014 assessed valuation.
- (3) The school district debt as of June 30, 2014, based on the ratio of Kennett Square's assessed valuation to the school district assessed valuation.

Sources: Borough of Kennett Square annual financial statements, the County of Chester 2014 annual budget, and the Kennett Consolidated School District 2013-14 annual budget.

BOROUGH OF KENNETT SQUARE, PENNSYLVANIA
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS (Unaudited)

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total three years net adjusted revenues:	\$ 15,770,100	\$ 17,669,580	\$ 18,778,590	\$ 18,743,560	\$ 19,508,018	\$ 18,626,199	\$ 19,594,024	\$ 21,247,504	\$ 22,949,952	\$ 23,717,606
Debt limit for general obligation bonds:										
Average borrowing base revenues	5,256,700	5,889,860	6,259,530	6,247,853	6,502,673	6,208,706	6,531,341	7,082,501	7,649,984	7,905,869
Debt limit percent	250%	250%	250%	250%	250%	250%	250%	250%	250%	250%
Debt limit	13,141,750	14,724,650	15,648,825	15,619,632	16,256,683	15,521,765	16,328,353	17,706,253	19,124,960	19,764,673
Total amount of debt applicable to debt limit	3,120,000	2,975,000	2,824,000	2,672,000	2,514,000	2,350,000	3,775,000	3,528,000	3,275,911	3,021,911
LEGAL DEBT MARGIN	\$ 10,021,750	\$ 11,749,650	\$ 12,824,825	\$ 12,947,632	\$ 13,742,683	\$ 13,171,765	\$ 12,553,353	\$ 14,178,253	\$ 15,849,049	\$ 16,742,762
Debt limit for general obligation bonds and lease rental debt:										
Average borrowing base revenues	5,256,700	5,889,860	6,259,530	6,247,853	6,502,673	6,208,706	6,531,341	7,082,501	7,649,984	7,905,869
Debt limit percent	350%	350%	350%	350%	350%	350%	350%	350%	350%	350%
Debt limit	18,398,450	20,614,510	21,908,355	21,867,486	22,759,356	21,730,471	22,859,695	24,788,754	26,774,944	27,670,541
Total amount of debt applicable to debt limit	3,120,000	2,975,000	2,824,000	2,672,000	2,514,000	2,350,000	3,775,000	3,546,078	3,304,195	3,049,994
LEGAL DEBT MARGIN	\$ 15,278,450	\$ 17,639,510	\$ 19,084,355	\$ 19,195,486	\$ 20,245,356	\$ 19,380,471	\$ 19,084,695	\$ 21,242,676	\$ 23,470,749	\$ 24,620,547

Source: Borough of Kennett Square annual financial statements.

BOROUGH OF KENNETT SQUARE, PENNSYLVANIA
PLEGGED-REVENUE COVERAGE OF WATER FUND
LAST TEN FISCAL YEARS (Unaudited)

SCHEDULE 17

Fiscal Year	Gross Revenues (1)	Less: Operating Expenses (2)	Net Available Revenue	Debt Service Requirements (3)		Coverage
				Principal	Interest	
2005	\$ 1,011,963	\$ 739,504	\$ 272,459	\$ 165,222	\$ 69,465	1.16
2006	1,244,833	801,853	442,980	170,246	59,971	1.92
2007	993,558	803,142	190,416	173,427	68,950	(0.79)
2008	959,872	860,533	99,339	123,206	31,874	(0.64)
2009	1,035,189	833,730	201,459	129,020	26,606	1.29
2010	1,160,477	713,967	446,510	134,866	20,274	2.88
2011	1,199,212	769,271	429,941	139,749	14,101	2.80
2012	1,196,463	759,287	437,176	145,669	7,514	2.85
2013	1,161,616	879,114	282,502	23,628	3,923	0.25
2014	1,180,821	844,361	336,460	24,628	2,923	2.21

(1) Total Revenues (including investment earnings) exclusive of tap fees.

(2) Total operating expenses exclusive of depreciation.

(3) Includes principal and interest of guaranteed water revenue bonds and notes only.

BOROUGH OF KENNETT SQUARE, PENNSYLVANIA
PLEDGED-REVENUE COVERAGE OF SEWER FUND
LAST TEN FISCAL YEARS (Unaudited)

Fiscal Year	Gross Revenues (1)	Less: Operating Expenses (2)	Net Available Revenue	Debt Service Requirements (3)		Coverage
				Principal	Interest	
2005	\$ 1,552,069	\$ 771,882	\$ 780,187	\$ 27,000	\$ 134,000	4.85
2006	1,467,876	807,317	660,559	239,000	464,936	(0.94)
2007	1,342,631	798,879	543,752	300,000	380,723	(0.80)
2008	1,300,905	850,556	450,349	311,000	379,102	(0.65)
2009	1,727,799	857,638	870,161	323,000	356,503	1.28
2010	1,578,091	727,354	850,737	335,000	344,504	1.10
2011	1,531,992	681,644	850,348	346,000	297,056	1.32
2012	1,529,489	595,033	934,456	38,000	262,983	3.10
2013	1,575,327	871,884	703,443	40,000	172,516	3.31
2014	1,549,047	743,615	805,432	47,000	151,264	4.06

(1) Total Revenues (including investment earnings) exclusive of tap fees.

(2) Total operating expenses exclusive of depreciation.

(3) Includes principal and interest of guaranteed sewer revenue bonds and notes only. The Guaranteed Sewer Revenue Bonds, Series of 2005 were refunded by the General Obligation Bonds, Series of 2012.

BOROUGH OF KENNETT SQUARE, PENNSYLVANIA
PLEGGED-REVENUE COVERAGE OF PARKING FUND
LAST TEN FISCAL YEARS (Unaudited)

Fiscal Year	Gross Revenues (1)	Less: Operating Expenses (2)	Net Available Revenue	Debt Service Requirements (3)			Coverage
				Principal	Interest	Total	
2005	\$ 372,854	\$ 95,357	\$ 277,497	\$ 105,000	\$ 61,146	\$ 166,146	1.67
2006	347,511	103,937	243,574	155,000	157,902	312,902	(0.78)
2007	465,402	89,103	376,299	155,000	177,206	332,206	1.13
2008	470,718	98,596	372,122	160,000	174,572	334,572	1.11
2009	513,818	118,617	395,201	160,000	170,252	330,252	1.20
2010	499,909	96,330	403,579	170,000	165,932	335,932	1.20
2011	585,730	256,837	328,893	-	83,010	83,010	3.96
2012	567,370	125,149	442,221	-	117,962	117,962	3.75
2013	557,029	238,076	318,953	135,000	99,056	234,056	1.36
2014	556,203	126,960	429,243	215,000	95,995	310,995	1.37

(1) Total Revenues (including investment earnings) exclusive of tap fees.

(2) Total operating expenses exclusive of depreciation.

(3) Includes principal and interest of parking revenue bonds only. The Guaranteed Parking Revenue Bonds, Series of 2004 were refunded by the General Obligation Bonds, Series A of 2011.

BOROUGH OF KENNETT SQUARE, PENNSYLVANIA
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS (Unaudited)

SCHEDULE 20

Fiscal Year	Population (1)	Personal Income (2)	Per Capita Income (3)	Median Age (4)	Education Level in Years of Formal Schooling (5)	School Enrollment (6)	Unemployment Rate (7)
2005	5,282	150,324,402	28,460	35.1	15.5	3,986	2.9%
2006	5,292	140,585,888	26,566	35.2	15.5	4,064	3.0%
2007	5,308	159,698,500	30,086	35.2	15.5	4,102	3.3%
2008	5,273	166,769,171	31,627	34.7	15.5	4,088	3.5%
2009	5,270	117,478,840	22,292	34.7	15.5	4,291	3.9%
2010	6,072	135,308,448	22,284	34.0	12	4,070	5.2%
2011	6,072	146,074,104	24,057	40.1	12	4,287	4.6%
2012	6,127	146,024,791	23,833	33.5	12	4,297	4.2%
2013	6,129	114,597,270	18,698	29.0	12	4,237	5.6%
2014	6,129	167,321,700	27,300	35.0	12	4,236	3.8%

- (1) Estimated growth for Kennett Square per U.S. Census Bureau.
- (2) Estimated personal income for Kennett Square from Tax Collector.
- (3) Estimated per capita income for Kennett Square.
- (4) Estimated Median age for Kennett Square.
- (5) Per 2000 U.S. Census with no estimates per year.
- (6) Total for all of Consolidated Kennett School District.
- (7) Kennett Square unemployment rates.

BOROUGH OF KENNETT SQUARE, PENNSYLVANIA
PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO (Unaudited)

SCHEDULE 21

Employers	2014			2005		
	Employees	Rank	Percentage of Total Borough Employment	Employees	Rank	Percentage of Total Borough Employment
Genesis Health Care	722	1	37.2%	559	1	26.9%
YMCA of the Brandywine Valley	381	2	19.6%	385	3	18.6%
Kennett Consolidated School District	277	3	14.3%	492	2	23.7%
Compass Group USA	176	4	9.1%	-	-	-
George Kraph Jr	96	5	5.0%	-	-	-
Friends Boarding Home	84	6	4.3%	93	6	4.5%
C&G Mushrooms	59	7	3.0%	-	-	-
Half Moon Restaurant & Saloon	56	8	2.9%	74	8	3.6%
Comer Enterprises Inc.	45	9	2.3%	-	-	-
Truskey Inc	45	10	2.3%	-	-	-
NVF Company	-	-	-	134	4	6.5%
Sunny Dell Foods Inc	-	-	-	113	5	5.5%
LA Comunidad Hispana Inc.	-	-	-	73	9	3.5%
WaWa Inc. #35	-	-	-	92	7	4.4%
County of Chester	-	-	-	61	10	2.9%
Totals	<u>1,941</u>			<u>2,076</u>		

BOROUGH OF KENNETT SQUARE, PENNSYLVANIA
FULL-TIME EQUIVALENT BOROUGH EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS (Unaudited)

SCHEDULE 22

Fiscal Year	General Government	Public Safety		Public Works	Water and Sewer	Total
		Police	Codes			
2005	4	12	3	7	2	28
2006	3	14	3	8	2	30
2007	3	15	3	8	2	31
2008	5	16	3	8	3	35
2009	5	17	3	8	3	36
2010	4	16	3	7	3	33
2011	4	16	3	6	3	32
2012	4	16	3	6	3	32
2013	4	15	3	6	3	31
2014	4	16	3	6	3	32

Source: Borough of Kennett Square Finance Office.

BOROUGH OF KENNETT SQUARE, PENNSYLVANIA
OPERATING INDICATORS BY FUNCTION
LAST TEN FISCAL YEARS

FUNCTION	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Police										
Physical arrests	427	355	340	329	281	327	304	303	281	323
Parking violations	3,637	3,245	5,737	6,993	6,092	4,336	5,763	4,675	3,807	3,699
Traffic violations	1,805	1,891	1,281	1,384	1,169	1,048	919	779	622	767
Codes										
Rental inspections	1,068	1,072	1,076	1,167	1,099	1,190	1,200	1,200	1,212	1,212
Commercial inspections	330	330	330	330	330	330	330	330	330	330
Highway and streets										
Street resurfacing (miles)	1	1	2	1	1	<0.1	<0.1	<0.1	<0.1	<0.1
Water										
Average daily consumption (thousands of gallons)	581	524	517	480	482	502	499	492	479	477
Wastewater										
Average daily sewage treatment (thousands of gallons)	661	590	636	575	596	577	577	487	520	571
Parking										
Street metered spaces	175	225	225	225	225	225	225	225	225	225
Garage metered spaces	39	39	39	39	39	39	39	39	39	39
Lots metered spaces	82	59	49	49	49	49	49	49	49	49
Street permit spaces	23	25	27	27	27	27	27	27	27	27
Garage permit spaces	311	311	311	311	311	311	311	311	311	311
Lots permit spaces	5	10	155	155	155	155	155	155	155	155

Source: Borough of Kennett Square Department Heads.

BOROUGH OF KENNETT SQUARE, PENNSYLVANIA
CAPITAL ASSET STATISTICS BY FUNCTION
LAST TEN FISCAL YEARS

FUNCTION	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General governmental	1	1	1	1	1	1	1	1	1	1
Municipal building										
Public safety										
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	8	8	8	8	8	8	8	8	8	8
Vehicles	8	8	8	8	9	9	9	10	10	10
Codes										
Vehicles	2	2	2	2	2	2	2	2	2	2
Public works										
Municipal building	-	-	-	-	-	-	-	1	-	-
Maintenance garage	1	1	1	1	1	1	1	1	3	3
Vehicles	14	14	14	14	14	14	14	14	14	14
Streets (miles)	25	25	25	25	25	25	25	25	25	25
Streetlights	410	410	410	410	410	410	410	410	410	410
Traffic signals	20	20	20	21	21	21	21	21	21	21
Culture and recreation										
Park acreage	82	82	82	82	82	82	82	82	82	82
Parks	2	2	2	2	2	2	2	2	2	2
Swimming pools	1	1	1	1	1	1	1	1	1	1
Tennis courts	1	1	1	1	1	1	1	1	1	1
Water										
Wells	1	1	1	1	1	1	1	1	1	1
Water mains	22	22	22	22	22	22	22	22	22	22
Fire hydrants	143	143	143	143	143	143	143	143	143	143
Sewer										
Pump stations	2	2	3	4	4	4	4	4	4	4
Sanitary sewers (miles)	20	20	20	20	20	20	20	20	20	20
Storm sewers (miles)	18	18	18	18	18	19	19	19	19	19
Parking										
Garage	1	1	1	1	1	1	1	1	1	1
Lots	4	4	6	6	6	6	6	6	6	6

Source: Borough of Kennett Square Finance Office.

BOROUGH OF KENNETT SQUARE, PENNSYLVANIA
CONSTRUCTION AND BANK DEPOSITS
LAST TEN FISCAL YEARS

SCHEDULE 25

Fiscal Year Ended December 31,	New Construction Residential			New Construction Commercial			Repairs, Alterations and Additions Residential			Repairs, Alterations and Additions Commercial			
	Permit Fees	Number of Permits	Total Cost	Number of Permits	Total Cost	Number of Permits	Total Cost	Number of Permits	Total Cost	Number of Permits	Total Cost	Demolition Permits	Bank Deposits
2005	\$ 83,508	16	\$ 1,360,000	0	\$ -	86	\$ 866,671	17	\$ 575,880	3	\$ 200,390,000		
2006	67,404	10	974,000	3	8,483,800	79	724,434	21	1,338,456	2	222,372,000		
2007	84,157	8	2,211,000	3	226,000	73	1,227,550	6	2,135,860	7	247,326,000		
2008	57,799	8	1,040,655	5	1,557,566	76	818,697	34	621,536	4	245,282,000		
2009	36,394	2	152,000	0	-	78	577,654	21	1,226,825	2	151,986,000		
2010	52,796	0	-	0	-	61	513,560	25	1,483,101	4	228,023,000		
2011	89,664	10	603,800	0	-	84	1,047,838	21	2,034,151	2	157,224,000		
2012	70,262	3	196,000	5	2,835,000	82	560,190	21	337,049	2	221,301,000		
2013	59,264	8	720,000	0	-	93	859,640	22	410,000	4	224,767,499		
2014	117,290	37	3,534,698	3	1,099,390	70	738,502	15	188,414	1	169,386,000		

Sources: Borough's Codes Department, bank deposits per Federal Deposit Insurance Corporation.