

BOROUGH OF PHOENIXVILLE

ANNUAL FINANCIAL REPORT

Year Ended December 31, 2008

INTRODUCTORY SECTION

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FINANCIAL SECTION



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Independent Auditors' Report

To the Members of Council
Borough of Phoenixville
Phoenixville, 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 Phoenixville, Phoenixville, Pennsylvania, as of and for the year ended December 31, 2008, which collectively comprise the Borough's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Borough of Phoenixville, Phoenixville, Pennsylvania's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Phoenixville, Phoenixville, Pennsylvania, as of December 31, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 5 through 16, budgetary comparison information on page 54 and pension plan funding progress on page 55 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the Members of Council
Borough of Phoenixville
Phoenixville, Pennsylvania

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough of Phoenixville, Phoenixville, Pennsylvania's basic financial statements. The combining nonmajor fund financial statements and combining Fiduciary Funds financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements and combining Fiduciary Funds financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Maillie Falconero + Company, LLP

Oaks, Pennsylvania
May 20, 2009

BOROUGH OF PHOENIXVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

December 31, 2008

This discussion and analysis of the Borough of Phoenixville's financial performance provides an overview of the Borough's financial activities for the fiscal year ended December 31, 2008. The intent of this discussion and analysis is to look at the Borough's financial performance as a whole. Please read it in conjunction with the Borough's basic financial statements, which begin on page 17.

FINANCIAL HIGHLIGHTS

- The assets of the Borough of Phoenixville exceeded its liabilities at the close of the most recent fiscal year by \$23,864,334 (representing its net assets). Of this amount, \$8,753,275 (or its unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Borough's total net assets increased by \$2,950,618.
- As of December 31, 2008, the Borough's Governmental Funds reported combined ending fund balances of \$5,366,559, an increase of \$872,866 as compared to the prior year. Approximately 79% of this total, or \$4,249,468, is available for spending at the Borough's discretion (unreserved fund balance).
- The Borough's total debt decreased by \$772,917.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 17 and 18) provide information about the activities of the Borough as a whole and present a longer-term view of the Borough's finances. Fund financial statements start on page 19. For governmental activities, these statements explain how services were financed in the short term as well as what remains for future spending. The Governmental and Proprietary Funds financial statements also report the Borough's operations in more detail than the entity-wide statements by providing information about the Borough's most significant funds. The remaining statements provide financial information about activities for which the Borough acts solely as a trustee or agent for the benefit of those outside of the government.

BOROUGH OF PHOENIXVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

December 31, 2008

OVERVIEW OF THE FINANCIAL STATEMENTS

The accompanying financial statements have been prepared in accordance with GASB Statement No. 34 and represent both entity-wide and fund level financial statements using both the accrual and modified accrual basis of accounting, respectively.

Entity-Wide Financial Statements

The first two statements are entity-wide financial statements--the Statement of Net Assets and the Statement of Activities. These provide both long-term and short-term information about the Borough's overall financial status.

The entity-wide statements report information about the Borough as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two entity-wide statements report the Borough's net assets and how they have changed. Net assets, the difference between the Borough's assets and liabilities, are one way to measure the Borough's financial health or position. In the long run, increases or decreases in the Borough's net assets are an indication of whether its financial health is improving or deteriorating. To assess the overall health of the Borough, consideration must be made to additional nonfinancial factors, such as changes in the Borough's property tax base and the adequacy of Borough services.

Regarding the Borough's tax base, the Borough continues to experience new development and redevelopment of properties. Such development of a well-established Pennsylvania borough is quite unusual and bodes well for the economic and fiscal base of the Borough. Although the rate of this new development and redevelopment has slowed over the last two years, the current rate has slowed even more due to the economy. Though this downturn will have an effect on the Borough, there are several redevelopment and new development plans being prepared that should be ready to go as soon as the economy recovers.

The entity-wide financial statements of the Borough are divided into two categories:

- ***Governmental Activities*** - All of the Borough's basic services are included here, such as public safety, public works and administration. Property taxes and state grants and charges for services finance most of these activities.
- ***Business-Type Activities*** - The Borough runs a Sewer Operation Fund and a Water Operation Fund and charges fees to the customers of these utilities for operational expenses and tapping fees from new construction for capital-related costs.

BOROUGH OF PHOENIXVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

December 31, 2008

Fund Level Financial Statements

The remaining statements are fund financial statements that focus on individual parts of the Borough's operations in more detail than the entity-wide statements. The Governmental Funds statements tell how the Borough's general services were financed in the short term as well as what remains for future spending. Proprietary Funds statements offer short-term and long-term information about the activities that the Borough operates like a business. Fiduciary Funds financial statements provide information about financial relationships where the Borough acts solely as a trustee or agent for the benefit of others.

- **Governmental Funds** - Most of the Borough's activities are reported in Governmental Funds, which focus on the determination of financial position and change in financial position, not on income determination. Governmental Funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Funds statements provide a detailed short-term view of the Borough's operations and the services it provides. Governmental Funds information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Borough's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and Governmental Funds is reconciled in the financial statements. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The Borough's Governmental Funds include the General Fund, the Debt Fund, the Pension Fund, the Recreation Fund, the Solid Waste Fund, the Fire Fund and the Liquid Fuels Fund.
- **Proprietary Funds** - These funds are used to account for Borough activities that are similar to business operations in the private sector or where the reporting is on determining net income, financial position, changes in financial position and a significant portion of funding through user charges. When the Borough charges customers for services it provides--whether to outside customers or to other units in the Borough--these services generally are reported in the Proprietary Funds. The Borough's Proprietary Funds include the Water Fund and the Sewer Fund.
- **Fiduciary Funds** - The Borough is the trustee, or fiduciary, for the Uniformed (a.k.a. Police) and Non-Uniformed Pension Plans and escrow funds. All of the Borough's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. These activities are excluded from the Borough's other financial statements because the Borough cannot use these assets to finance its operations.

BOROUGH OF PHOENIXVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

December 31, 2008

CHANGE IN BUDGETING METHOD

It is important to note that the Borough changed its budgeting method for 2007 and 2008. In prior years, the Borough budgeted by line items with a percentage increase unless there was a known change in the account that would cause a significant increase or decrease. For 2008 and 2007, the Borough implemented a zero based budget with the intent to control costs. In addition, instead of using arbitrary percentages for allocating some expenses, mostly salaries and facility costs, the Borough did a time study of individuals who split their time between business-type activities and governmental activities. In doing so, the Borough allocated all administrative costs (legislative, executive, finance, information technology and main facility) to each department or business activity.

In addition to the budget change, the Borough implemented a more stringent purchasing policy and procedure. Part of that procedure was an employee who compared all purchases requested to the budgeted items.

ENTITY-WIDE FINANCIAL ANALYSIS OF THE BOROUGH

The Borough's total net assets were \$23,864,334 and \$20,913,716 at December 31, 2008 and 2007, respectively. This is an increase of \$2,950,618 from the previous year. Our analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Borough's governmental and business-type activities.

GOVERNMENTAL ACTIVITIES

The net increase from the Borough's governmental activities was \$2,709,600, which accounts for 92% of the total growth in net assets of the Borough. The increase of \$2,950,618 in net assets is \$448,357 less than the previous year increase of \$3,398,975 and is explained on page 17. Table 2 shows the changes in net assets for the years ended December 31, 2008 and 2007.

The cost of all governmental activities this year was \$8,901,252. As shown in the Statement of Activities on page 18, the amount that the Borough's taxpayers ultimately financed for these activities through Borough taxes was \$5,959,401. Other costs were paid by those who directly benefited from the programs (\$3,429,274) or by other governments and organizations that subsidized certain programs with intergovernmental aid and contributions (\$1,981,602).

BOROUGH OF PHOENIXVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
December 31, 2008

Table 1 - Statements of Net Assets
December 31, 2008 and 2007

	2008			2007		
	Governmental Activities	Business-Type Activities	Totals	Governmental Activities	Business-Type Activities	Totals
ASSETS						
Current and other assets	\$ 6,288,838	\$ 3,774,503	\$ 10,063,341	\$ 5,067,538	\$ 3,638,811	\$ 8,706,349
Capital assets	9,408,412	20,175,228	29,583,640	7,391,323	20,680,974	28,072,297
TOTAL ASSETS	\$ 15,697,250	\$ 23,949,731	\$ 39,646,981	\$ 12,458,861	\$ 24,319,785	\$ 36,778,646
LIABILITIES AND NET ASSETS						
LIABILITIES						
Long-term liabilities	\$ 3,090,182	\$ 10,858,262	\$ 13,948,444	\$ 2,858,785	\$ 11,627,203	\$ 14,485,988
Other liabilities	850,100	984,103	1,834,203	552,708	826,234	1,378,942
TOTAL LIABILITIES	3,940,282	11,842,365	15,782,647	3,411,493	12,453,437	15,864,930
NET ASSETS						
Invested in capital assets, net	6,164,677	8,618,963	14,783,640	4,436,581	8,560,799	12,997,380
Restricted for grant projects	327,419	-	327,419	-	-	-
Unrestricted	5,264,872	3,488,403	8,753,275	4,610,787	3,305,549	7,916,336
TOTAL NET ASSETS	11,756,968	12,107,366	23,864,334	9,047,368	11,866,348	20,913,716
TOTAL LIABILITIES AND NET ASSETS	\$ 15,697,250	\$ 23,949,731	\$ 39,646,981	\$ 12,458,861	\$ 24,319,785	\$ 36,778,646

BOROUGH OF PHOENIXVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
December 31, 2008

Table 2 - Changes of Net Assets
December 31, 2008 and 2007

	2008			2007		
	Governmental Activities	Business-Type Activities	Totals	Governmental Activities	Business-Type Activities	Totals
REVENUES						
Program revenues						
Charges for services	\$ 3,429,274	\$ 5,022,154	\$ 8,451,428	\$ 3,297,082	\$ 4,782,605	\$ 8,079,687
Operating grants and contributions	1,689,264	-	1,689,264	1,903,408	-	1,903,408
Capital grants and contributions	292,338	-	292,338	357,278	614,210	971,488
General revenues						
Real estate taxes	2,723,830	-	2,723,830	2,301,409	-	2,301,409
Real estate transfer taxes	473,866	-	473,866	546,873	-	546,873
Earned income tax	2,136,928	-	2,136,928	1,729,495	-	1,729,495
EMS tax	215,957	-	215,957	346,201	-	346,201
Franchise fees	247,660	-	247,660	254,809	-	254,809
Fines and forfeits	161,160	-	161,160	163,073	-	163,073
Investment earnings	153,812	126,663	280,475	177,155	169,896	347,051
Other	86,763	-	86,763	-	-	-
TOTAL REVENUES	11,610,852	5,148,817	16,759,669	11,076,783	5,566,711	16,643,494
EXPENSES						
General government	1,331,720	-	1,331,720	1,312,512	-	1,312,512
Public safety	4,035,638	-	4,035,638	3,575,186	-	3,575,186
Highways/streets	1,274,067	-	1,274,067	1,479,312	-	1,479,312
Sanitation	1,434,339	-	1,434,339	1,297,208	-	1,297,208
Culture and recreation	686,893	-	686,893	625,786	-	625,786
Interest on bonds	138,595	-	138,595	150,741	-	150,741
Water operations	-	2,616,925	2,616,925	-	2,494,374	2,494,374
Waste water operations	-	2,290,874	2,290,874	-	2,309,400	2,309,400
TOTAL EXPENSES	8,901,252	4,907,799	13,809,051	8,440,745	4,803,774	13,244,519
CHANGE IN NET ASSETS	2,709,600	241,018	2,950,618	2,636,038	762,937	3,398,975
NET ASSETS, BEGINNING	9,047,368	11,866,348	20,913,716	6,411,330	11,103,411	17,514,741
NET ASSETS, ENDING	\$ 11,756,968	\$ 12,107,366	\$ 23,864,334	\$ 9,047,368	\$ 11,866,348	\$ 20,913,716

BOROUGH OF PHOENIXVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

December 31, 2008

For the most part, the increase in expenses closely paralleled inflation and growth in the demand for services. Noteworthy exceptions, however, included the following:

- One major area of increase for the Borough was the purchase of a piece of property that the Borough will use for green space and recreation. Since the seller is one of the local volunteer fire companies and since that fire company will maintain ownership of the adjacent parcel of land, there was an agreement with the seller to share in the cost of parking and infrastructure upgrades that will benefit both parties. The cost of the upgrades and the land was in excess of \$1,300,000.

Charges for services, earned income taxes, real estate taxes and grants and contributions provide the major revenue sources for governmental activities. As identified on the previous page, charges for services and earned income taxes account for 30% and 20% of total revenues, respectively. Property taxes and grants and contributions provide approximately 28% and 17%, respectively, of total revenues.

Major revenue factors included:

- \$1.07 million of grant revenue that the Borough had not anticipated during 2008. Most of this revenue was State and County assistance to purchase additional green space, known as Friendship Field.
- The Borough also received \$462,000 more in Earned Income Tax than budgeted. Much of this was due to the Borough's third party tax collector being more proactive on collecting past due accounts.
- The Borough also had \$580,000 in one-time developer revenue. Several developers in town continued large projects that the Borough is not counting on being reoccurring revenue once this build out of remaining space is complete.
- The Borough anticipated a slowdown in both transfer taxes and permits; however, the slowdown was not as much as anticipated and, as such, the Borough received \$278,000 more than budgeted.
- One area that the Borough received significantly less revenue than it budgeted for was in the Local Services Tax area. Due to changes in the State law regarding how the Local Services Tax is withheld and the amount of earnings that were exempted, the Borough received \$99,000 less than budgeted.

BOROUGH OF PHOENIXVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

December 31, 2008

BUSINESS-TYPE ACTIVITIES

The net increase from the Borough's business-type activities was \$241,018 compared to \$762,937 the previous year. Most of the increase was because of reductions in expenses. As with other funds in the Borough, the Borough continued to use zero based budgeting to control spending; however, there was a cost increase in 2008, which increased expenses \$104,025 from 2007 to 2008.

The cost of all business-type activities was \$4,907,799 (compared to \$4,803,774 in 2007). As shown in the statement of activities on page 18, the amount the Borough customer's financed through fees was \$5,022,154. Other costs were paid by investment earnings (\$126,663).

FINANCIAL ANALYSIS OF THE BOROUGH'S FUNDS

Most of the Borough's activities are reported in Governmental Funds. Governmental Funds are reported using the modified accrual accounting method which measures cash and all other financial assets that can readily be converted to cash. Governmental Funds include the General Fund, Debt Service Fund, Pension/Retirement Fund, Recreation Fund, Solid Waste Fund, Fire Fund, Highway Turn Back Fund and Liquid Fuels Fund. By far, the most prominent fund is the General Fund.

As of December 31, 2008, the Borough's Governmental Funds reported combined ending balances of \$5,366,559, an increase of \$872,866 as compared to the prior year. Approximately 79% or \$4,249,468, constitutes unreserved fund balance, which is available for spending at the Borough's discretion. The remainder of the fund balance is reserved, which means that it is not available for new spending because it has already been committed to pay for: 1. fire protection; 2. debt; 3. pensions; 4. recreation; 5. streets and highway maintenance; or 6. grant projects.

GENERAL FUND

The General Fund is the chief operating fund of the Borough of Phoenixville. As of December 31, 2008, the total fund balance of the General Fund was \$3,819,044 (as compared to \$3,348,445 for the prior year), of which \$327,419 is reserved for grant projects. The fund balance of the General Fund increased by \$470,599 in fiscal year 2008. The key factors are as follows:

- The major area that assisted in the increase to the fund balance was the 511 taxes. We received almost \$410,000 more in earnings tax than anticipated.

Capital Projects Fund

The *Capital Projects Fund* was eliminated in 2007. It was eliminated so the Borough would focus on bringing spending under control. In 2008, the Borough still did not have a Capital Projects Fund.

BOROUGH OF PHOENIXVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

December 31, 2008

Solid Waste Fund

The *Solid Waste Fund* accounts for the resources necessary for the funding of trash pickup services in the Borough. The major revenue sources for the Solid Waste Fund are charges for services, which remained consistent with the prior year.

The total fund balance as of December 31, 2008, was \$430,424.

Special Revenue Funds

Special Revenue Funds are maintained to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. Special Revenue Funds include the Fire Fund, Liquid Fuels Fund, Debt Service Fund, Retirement/Pension Fund, Recreation Fund and Highway Turn-Back Fund. Major revenue sources for these funds include grants from the Commonwealth of Pennsylvania and real estate taxes restricted to fire protection, debt service, retirement funding and parks and recreation. In the case of the Parks and Recreation Fund, there is also revenue generated by fees charged to participants in specific programs.

Fire Fund - The Borough received \$107,508 (compared to \$102,717 in the prior year) from the Commonwealth of Pennsylvania for volunteer firefighting. The operating expenditures from this fund for fire protection were \$693,072. In addition to the operating expenditures, there were three capital expenditures. The Borough purchased two fire cars and a new ladder truck. Two thirds of the ladder truck is leased over the next seven years.

Liquid Fuels Fund - The Borough received \$292,338 (compared to \$265,278 in the prior year) from the Commonwealth of Pennsylvania to pay for various expenses including roadway resurfacing, snow removal and capital purchases for the Public Works Department.

Debt Service Fund - The Borough has established a specific portion of the property taxes to be set aside for the elimination of debt. This fund was also designed to set aside dollars to pay for the spike in debt payments that is expected in 2009 and 2010.

Retirement/Pension Fund - The Borough received \$337,751 (compared to \$339,877 in the prior year) from the Commonwealth of Pennsylvania for Uniform and Non-Uniform Pension Plans. In addition, in order to meet the minimum municipal obligation of the Borough to the Uniform Pension Plan, the Borough needed to contribute \$129,923 to the plan.

Recreation Fund - The Borough has also set aside a portion of the property taxes to provide programs and keep the Borough's parks maintained. From time to time, additional dollars will be received from the County and the State to maintain and improve our parks. During 2008, the majority of the \$585,149 in revenue came from property taxes and charges for services. None was from other governmental grants.

BOROUGH OF PHOENIXVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

December 31, 2008

Highway Turnback Fund - The Borough received \$92,000 in 2006 from the Commonwealth of Pennsylvania to have the Borough take over maintenance of the 100 and 200 blocks of Bridge Street. The funds will be used by the Borough to pave that section of roadway when the Streetscapes project is finished.

Special Revenue Funds - The total Special Revenue Funds balance as of December 31, 2008, was \$1,117,091 (compared to \$799,067 in the prior year), all of which is reserved as previously explained.

The financial statements for the Governmental Funds can be found on pages 19 to 22 of this report.

Proprietary Funds

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

Unrestricted net assets of the Sewer and Water Funds at the end of the year were \$12,107,366 as compared to \$11,866,348 in the prior year, representing an increase in unrestricted net assets of \$241,018. Factors contributing to the finances of these funds have already been addressed in the discussion of the Borough's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

The statement comparing the Borough's budget and actual results can be found on page 54.

The original expense budget increased by \$1,507,028. Most of these increases were funded because of a significant increase in unexpected revenue.

The general government budget increase was \$1,188,167. Most of that budget increase (\$1,058,871) was due to the purchase of property that will be used by the Borough for open space and recreation. There was also about \$50,000 used in the completion of several information technology projects that were not completed in 2007.

The public works budget increase of \$84,357 covered replacing a position in the Streets Department and replacing one of the Borough gas tanks.

The public safety budget increased \$366,912. This increase was mostly for two areas, the police department increased \$215,000 to purchase two new cars, remodel a portion of the police station and hire a new officer. There was also an increase in Code Enforcement of \$130,000. This increase was to cover project reviews, two new vehicles and some remodeling to the codes area.

The cultural and recreation area was increased \$15,000 to cover the contract services for our public trees.

BOROUGH OF PHOENIXVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

December 31, 2008

Revenue

The Borough balanced its original General Fund budget with funds from five kinds of sources.

- Real estate taxes, earned income taxes and real estate transfer taxes provided approximately 70% of General Fund revenues.
- Approximately 20% of the funds were generated by charges for services including building permits, fees and other charges.
- 2% of the funds came from the Commonwealth of Pennsylvania.
- 7% of the funds came from miscellaneous sources including interest earnings, interfund transfers and fines.
- 1% of the funds came from the unreserved fund balance.

Due to excess charges for services and three significant reimbursements from intergovernmental sources that were not budgeted in 2008, the Borough was not required to use the unreserved fund balance to balance the budget.

The tax millage rate went from 3.296 mills to 3.80 mills for the taxpayers in 2008.

Revenues ended the year above budget and expectations, as the Borough had revenues \$2,330,586 above budget.

Expenditures were under budget by \$140,287.

DEBT ADMINISTRATION

As of December 31, 2008, the Borough had total outstanding long-term debt of \$14,234,526, which represents a reduction of debt of \$705,726.

Other obligations included accrued vacation pay and severance for specific employees of the Borough. More detailed information about our long-term liabilities is included in the Notes to the Basic Financial Statements.

BOROUGH OF PHOENIXVILLE

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

December 31, 2008

THE BOROUGH'S FUTURE

2008 produced an outcome that has grown to be a more standard financial year for the Borough. Revenues were slightly higher from various sources, such as taxes, grants, fees, etc.

Future budgets should consider a number of important issues including:

- Consistent revenue streams for all funds;
- Multi-year budgeting and/or projections;
- Capital projects funding;
- Further development of funding sources other than local real estate taxes; and
- Expectations that the future economic and fiscal base will continue to slowly grow from new development and from redevelopment.

FINANCIAL MANAGEMENT

The Borough of Phoenixville's financial report is designed to provide its citizens and taxpayers with a general overview of the Borough's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact the Borough Manager.

BOROUGH OF PHOENIXVILLE**STATEMENT OF NET ASSETS***December 31, 2008*

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
ASSETS			
Cash and equivalents	\$ 3,126,552	\$ 1,142,166	\$ 4,268,718
Investments	1,670,520	1,414,943	3,085,463
Accounts receivable, net	877,487	1,161,933	2,039,420
Due from other governmental agencies	480,000	-	480,000
Inventories	1,370	15,414	16,784
Prepaid expenses	86,729	40,047	126,776
Bond issue costs	46,180	-	46,180
Capital assets			
Land	2,715,035	125,730	2,840,765
Capital assets, net	<u>6,693,377</u>	<u>20,049,498</u>	<u>26,742,875</u>
TOTAL ASSETS	<u>\$ 15,697,250</u>	<u>\$ 23,949,731</u>	<u>\$ 39,646,981</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable and accrued expenses	\$ 405,819	\$ 138,786	\$ 544,605
Deferred revenues	53,943	-	53,943
Accrued interest payable	14,638	54,571	69,209
Long-term liabilities			
Portion due or payable within one year			
Bonds and notes payable	218,791	781,472	1,000,263
Compensated absences	22,215	9,274	31,489
Capital lease	134,694	-	134,694
Portion due or payable after one year			
Bonds and notes payable	2,459,470	10,774,793	13,234,263
Compensated absences	199,932	83,469	283,401
Capital lease	430,780	-	430,780
TOTAL LIABILITIES	<u>3,940,282</u>	<u>11,842,365</u>	<u>15,782,647</u>
NET ASSETS			
Invested in capital assets, net of related debt	6,164,677	8,618,963	14,783,640
Restricted for grant projects	327,419	-	327,419
Unrestricted	5,264,872	3,488,403	8,753,275
TOTAL NET ASSETS	<u>11,756,968</u>	<u>12,107,366</u>	<u>23,864,334</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 15,697,250</u>	<u>\$ 23,949,731</u>	<u>\$ 39,646,981</u>

See accompanying notes to the basic financial statements.

BOROUGH OF PHOENIXVILLE

STATEMENT OF ACTIVITIES

Year Ended December 31, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
GOVERNMENTAL ACTIVITIES							
General government	\$ 1,331,720	\$ 856,266	\$ 1,579,530	\$ -	\$ 1,104,076	\$ -	\$ 1,104,076
Public safety	4,035,638	978,934	107,508	-	(2,949,196)	-	(2,949,196)
Public works	1,274,067	-	-	292,338	(981,729)	-	(981,729)
Public works, sanitation	1,434,339	1,470,246	2,226	-	38,133	-	38,133
Culture and recreation	686,893	123,828	-	-	(563,065)	-	(563,065)
Interest on long-term debt	138,595	-	-	-	(138,595)	-	(138,595)
TOTAL GOVERNMENTAL ACTIVITIES	<u>8,901,252</u>	<u>3,429,274</u>	<u>1,689,264</u>	<u>292,338</u>	<u>(3,490,376)</u>	<u>-</u>	<u>(3,490,376)</u>
BUSINESS-TYPE ACTIVITIES							
Water Fund	2,616,925	2,692,707	-	-	-	75,782	75,782
Sewer Fund	2,290,874	2,329,447	-	-	-	38,573	38,573
TOTAL BUSINESS-TYPE ACTIVITIES	<u>4,907,799</u>	<u>5,022,154</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>114,355</u>	<u>114,355</u>
TOTAL BOROUGH ACTIVITIES	<u>\$ 13,809,051</u>	<u>\$ 8,451,428</u>	<u>\$ 1,689,264</u>	<u>\$ 292,338</u>	<u>(3,490,376)</u>	<u>114,355</u>	<u>(3,376,021)</u>
GENERAL REVENUES							
Taxes							
Property taxes, levied for general purposes					2,723,830	-	2,723,830
Franchise taxes					408,820	-	408,820
Public service taxes					2,826,751	-	2,826,751
Unrestricted investment earnings					153,812	126,663	280,475
Gain on sale of asset					86,763	-	86,763
TOTAL GENERAL REVENUES					<u>6,199,976</u>	<u>126,663</u>	<u>6,326,639</u>
CHANGE IN NET ASSETS							
					2,709,600	241,018	2,950,618
NET ASSETS AT BEGINNING OF YEAR							
					<u>9,047,368</u>	<u>11,866,348</u>	<u>20,913,716</u>
NET ASSETS AT END OF YEAR							
					<u>\$ 11,756,968</u>	<u>\$ 12,107,366</u>	<u>\$ 23,864,334</u>

See accompanying notes to the basic financial statements.

BOROUGH OF PHOENIXVILLE

BALANCE SHEET

GOVERNMENTAL FUNDS

December 31, 2008

	<u>General Fund</u>	<u>Solid Waste Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 1,658,583	\$ 437,523	\$ 1,030,446	\$ 3,126,552
Investments	1,575,520	-	95,000	1,670,520
Taxes receivable, net	197,219	-	-	197,219
Due from other funds	200,000	-	-	200,000
Due from other governmental agencies	480,000	-	-	480,000
Other receivables	280,969	33,965	12,269	327,203
Inventories	1,370	-	-	1,370
Prepaid expenses	86,729	-	-	86,729
TOTAL ASSETS	<u>\$ 4,480,390</u>	<u>\$ 471,488</u>	<u>\$ 1,137,715</u>	<u>\$ 6,089,593</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and other current liabilities	\$ 344,131	\$ 41,064	\$ 20,624	\$ 405,819
Due to other funds	66,053	-	-	66,053
Deferred revenue	251,162	-	-	251,162
TOTAL LIABILITIES	<u>661,346</u>	<u>41,064</u>	<u>20,624</u>	<u>723,034</u>
FUND BALANCES				
Reserved				
Fire protection	-	-	309,713	309,713
Streets	-	-	458,012	458,012
Debt service	-	-	121,084	121,084
Recreation	-	-	98,327	98,327
Highway turnback	-	-	99,269	99,269
Pension	-	-	30,686	30,686
Grant projects	327,419	-	-	327,419
Unreserved	3,491,625	430,424	-	3,922,049
TOTAL FUND BALANCES	<u>3,819,044</u>	<u>430,424</u>	<u>1,117,091</u>	<u>5,366,559</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,480,390</u>	<u>\$ 471,488</u>	<u>\$ 1,137,715</u>	<u>\$ 6,089,593</u>

See accompanying notes to the basic financial statements.

BOROUGH OF PHOENIXVILLE

RECONCILIATION OF TOTAL GOVERNMENTAL FUNDS BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

December 31, 2008

TOTAL GOVERNMENTAL FUNDS BALANCES \$ 5,366,559

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. These assets consist of:

Land	2,715,035
Depreciable capital assets, net	6,693,377

Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in the fund financial statements but are reported in the governmental activities of the statement of net assets.

46,180

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 deferred in the funds.

416,337

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Accrued interest	(14,638)
Bonds payable in future years	(2,678,261)
Compensated absences	(222,147)
Capital lease payable	<u>(565,474)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 11,756,968

See accompanying notes to the basic financial statements.

BOROUGH OF PHOENIXVILLE
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2008

	<u>General Fund</u>	<u>Solid Waste Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 4,150,840	\$ -	\$ 1,202,522	\$ 5,353,362
Fees and fines	161,160	-	-	161,160
Licenses and permits	247,660	-	-	247,660
Intergovernmental	1,241,779	2,226	737,597	1,981,602
Charges for services	1,722,573	1,472,589	97,828	3,292,990
Investment earnings	87,378	37,073	29,541	153,992
Miscellaneous	94,137	-	44,310	138,447
	<u>7,705,527</u>	<u>1,511,888</u>	<u>2,111,798</u>	<u>11,329,213</u>
TOTAL REVENUES				
EXPENDITURES				
Current				
General government	1,355,342	-	467,674	1,823,016
Public safety	4,365,530	-	693,072	5,058,602
Public works	1,104,459	1,427,645	111,301	2,643,405
Culture and recreation	61,397	-	689,963	751,360
Debt service				
Principal	-	-	141,816	141,816
Interest and other charges	-	-	137,948	137,948
	<u>6,886,728</u>	<u>1,427,645</u>	<u>2,241,774</u>	<u>10,556,147</u>
TOTAL EXPENDITURES				
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	<u>818,799</u>	<u>84,243</u>	<u>(129,976)</u>	<u>773,066</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of fixed assets	1,800	-	98,000	99,800
Interfund transfers in	-	-	350,000	350,000
Interfund transfers out	(350,000)	-	-	(350,000)
	<u>(348,200)</u>	<u>-</u>	<u>448,000</u>	<u>99,800</u>
TOTAL OTHER FINANCING SOURCES (USES)				
NET CHANGE IN FUND BALANCES				
	470,599	84,243	318,024	872,866
FUND BALANCES AT BEGINNING OF YEAR				
	<u>3,348,445</u>	<u>346,181</u>	<u>799,067</u>	<u>4,493,693</u>
FUND BALANCES AT END OF YEAR				
	<u>\$ 3,819,044</u>	<u>\$ 430,424</u>	<u>\$ 1,117,091</u>	<u>\$ 5,366,559</u>

See accompanying notes to the basic financial statements.

BOROUGH OF PHOENIXVILLE

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2008

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 872,866
<p>Capital outlays are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$1,865,421) exceed depreciation (\$534,023) in the current period.</p>	1,331,398
<p>Deferred charges are reported in Governmental Funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the term lives of debt instruments as amortization expense. This is the amount by which amortization exceeds capital outlays in the current period.</p>	(2,431)
<p>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.</p>	197,219
<p>A capital lease is another financing source in the Governmental Funds. However, in the statement of activities, the amount of the lease is recorded as a liability with the principal portion of the lease payments applied against the liability.</p>	267,919
<p>Repayment of bond principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>	141,816
<p>Losses on fixed asset disposals are not recorded in the Governmental Funds.</p>	(13,037)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in Governmental Funds:</p>	
Accrued interest	1,784
Compensated absences	(87,934)
	<hr/>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>2,709,600</u>

See accompanying notes to the basic financial statements.

BOROUGH OF PHOENIXVILLE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2008

	Enterprise Funds		Total Proprietary Funds
	Water Fund	Sewer Fund	
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 651,225	\$ 490,941	\$ 1,142,166
Investments	862,818	552,125	1,414,943
Accounts receivable, net	617,890	530,932	1,148,822
Accrued interest	8,557	4,554	13,111
Inventories	15,414	-	15,414
Prepaid expenses	25,941	14,106	40,047
TOTAL CURRENT ASSETS	2,181,845	1,592,658	3,774,503
CAPITAL ASSETS			
Land	9,502	116,228	125,730
Infrastructure	9,412,739	2,062,195	11,474,934
Buildings	6,619,321	14,029,817	20,649,138
Equipment and furniture	694,365	1,048,772	1,743,137
Accumulated depreciation	(8,216,508)	(5,601,203)	(13,817,711)
TOTAL CAPITAL ASSETS	8,519,419	11,655,809	20,175,228
TOTAL ASSETS	\$ 10,701,264	\$ 13,248,467	\$ 23,949,731

	Enterprise Funds		Total Proprietary Funds
	Water Fund	Sewer Fund	
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and other liabilities	\$ 96,540	\$ 42,246	\$ 138,786
Accrued interest payable	19,406	35,165	54,571
TOTAL CURRENT LIABILITIES	115,946	77,411	193,357
NONCURRENT LIABILITIES			
Compensated absences	66,319	26,424	92,743
Bonds and notes payable	3,150,656	8,405,609	11,556,265
TOTAL NONCURRENT LIABILITIES	3,216,975	8,432,033	11,649,008
TOTAL LIABILITIES	3,332,921	8,509,444	11,842,365
NET ASSETS			
Invested in capital assets, net of related debt	5,368,763	3,250,200	8,618,963
Unrestricted	1,999,580	1,488,823	3,488,403
TOTAL NET ASSETS	7,368,343	4,739,023	12,107,366
TOTAL LIABILITIES AND NET ASSETS	\$ 10,701,264	\$ 13,248,467	\$ 23,949,731

See accompanying notes to the basic financial statements.

BOROUGH OF PHOENIXVILLESTATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended December 31, 2008

	Enterprise Funds		Total
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Proprietary Funds</u>
OPERATING REVENUES			
Charges for services	\$ <u>2,692,707</u>	\$ <u>2,329,447</u>	\$ <u>5,022,154</u>
OPERATING EXPENSES			
Administration	-	568,190	568,190
Salaries and wages	1,391,665	133,359	1,525,024
Fuel and light	262,455	241,907	504,362
Contracted services	104,328	44,989	149,317
Insurance claims and expenses	125,498	101,094	226,592
Materials and supplies	174,100	206,952	381,052
Miscellaneous	-	241,826	241,826
Depreciation	<u>387,110</u>	<u>364,067</u>	<u>751,177</u>
TOTAL OPERATING EXPENSES	<u>2,445,156</u>	<u>1,902,384</u>	<u>4,347,540</u>
OPERATING INCOME	<u>247,551</u>	<u>427,063</u>	<u>674,614</u>
NONOPERATING REVENUES (EXPENSES)			
Interest and investment revenue	74,871	51,792	126,663
Interest expense	<u>(171,769)</u>	<u>(388,490)</u>	<u>(560,259)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(96,898)</u>	<u>(336,698)</u>	<u>(433,596)</u>
CHANGE IN NET ASSETS	150,653	90,365	241,018
NET ASSETS AT BEGINNING OF YEAR	<u>7,217,690</u>	<u>4,648,658</u>	<u>11,866,348</u>
NET ASSETS AT END OF YEAR	\$ <u><u>7,368,343</u></u>	\$ <u><u>4,739,023</u></u>	\$ <u><u>12,107,366</u></u>

See accompanying notes to the basic financial statements.

BOROUGH OF PHOENIXVILLE

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended December 31, 2008

	Enterprise Funds		Total Proprietary Funds
	Water Fund	Sewer Fund	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 2,692,707	\$ 2,329,447	\$ 5,022,154
Payments to employees	(1,391,665)	(701,549)	(2,093,214)
Payments to suppliers	(683,082)	(824,471)	(1,507,553)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>617,960</u>	<u>803,427</u>	<u>1,421,387</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition, construction and improvements of capital assets	(181,587)	(63,844)	(245,431)
Principal paid on capital debt	(375,123)	(188,787)	(563,910)
Interest paid on capital debt	(174,744)	(389,788)	(564,532)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(731,454)</u>	<u>(642,419)</u>	<u>(1,373,873)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	(2,583)	-	(2,583)
Proceeds from sales of investments	-	136,967	136,967
Earnings on investments	81,998	55,278	137,276
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>79,415</u>	<u>192,245</u>	<u>271,660</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(34,079)</u>	<u>353,253</u>	<u>319,174</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>685,304</u>	<u>137,688</u>	<u>822,992</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 651,225</u>	<u>\$ 490,941</u>	<u>\$ 1,142,166</u>

BOROUGH OF PHOENIXVILLE

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended December 31, 2008

	Enterprise Funds		Total Proprietary Funds
	<u>Water Fund</u>	<u>Sewer Fund</u>	
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income	\$ 247,551	\$ 427,063	\$ 674,614
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	387,110	364,067	751,177
(Increase) decrease in			
Accounts receivable	(3,141)	38,836	35,695
Inventories	2,790	-	2,790
Increase (decrease) in			
Accounts payable and other liabilities	(2,101)	(27,415)	(29,516)
Compensated absences	<u>(14,249)</u>	<u>876</u>	<u>(13,373)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>617,960</u>	\$ <u>803,427</u>	\$ <u>1,421,387</u>

See accompanying notes to the basic financial statements.

BOROUGH OF PHOENIXVILLE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
December 31, 2008

	<u>Pension Funds</u>	<u>Agency Fund</u>
ASSETS		
Cash and cash equivalents	\$ 586,406	\$ 312,021
Investments		
Mutual funds, at fair value	6,789,579	-
Unallocated insurance contract, at contract value	<u>3,210,261</u>	<u>-</u>
TOTAL INVESTMENTS	<u>9,999,840</u>	<u>-</u>
 TOTAL ASSETS	 <u>10,586,246</u>	 <u>\$ 312,021</u>
LIABILITIES		
Accounts payable	-	\$ 178,074
Due to General Fund	<u>-</u>	<u>133,947</u>
 TOTAL LIABILITIES	 <u>-</u>	 <u>\$ 312,021</u>
NET ASSETS		
Held in trust for benefits and other purposes	\$ <u>10,586,246</u>	

See accompanying notes to the basic financial statements.

BOROUGH OF PHOENIXVILLE

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

Year Ended December 31, 2008

	<u>Pension Funds</u>
ADDITIONS	
Contributions	
Employer contributions	\$ 468,411
Employee contributions	58,908
TOTAL CONTRIBUTIONS	<u>527,319</u>
Investment earnings (losses)	
Net decrease in fair value of investments	(1,347,953)
Realized losses on sale of assets	(792,231)
Interest	188,002
Dividends	232,460
TOTAL INVESTMENT EARNINGS (LOSSES)	<u>(1,719,722)</u>
 TOTAL NEGATIVE ADDITIONS	 <u>(1,192,403)</u>
 DEDUCTIONS	
Benefits	688,527
Administrative	63,321
TOTAL DEDUCTIONS	<u>751,848</u>
 CHANGE IN NET ASSETS	 (1,944,251)
 NET ASSETS AT BEGINNING OF YEAR, as previously reported	13,661,222
Prior period valuation adjustment	<u>(1,130,725)</u>
 NET ASSETS AT END OF YEAR	 <u>\$ 10,586,246</u>

See accompanying notes to the basic financial statements.

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2008

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Borough of Phoenixville (the "Borough") complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

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*. 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 which would exercise such oversight which would result in the Borough being considered a component unit of the entity.

Basis of Presentation

Government-Wide Financial Statements - The statement of net assets and the statement of activities display information about the Borough as a whole. These statements distinguish between activities that are governmental and those that are considered business-type. These statements exclude fiduciary activities such as Pension and Agency Funds.

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2008

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting as further defined under Proprietary Funds below. 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. Therefore, Governmental Funds financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the statements of Governmental Funds.

The government-wide statement of activities presents a comparison between expenses and program revenues for each different identifiable activity of the business-type activities of the Borough and for each governmental program. Expenses are those that are specifically associated with a service or program and therefore are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the Borough.

Internal activity is limited to interfund transfers which are eliminated to avoid "doubling up" revenues and expenses. Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from Special Revenue Funds and the restrictions on their net asset use.

Fund Financial Statements - Fund financial statements report detailed information about the Borough. The focus of Governmental and Enterprise Funds financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The three major Governmental Funds are each presented in a single column on the Governmental Fund financial statements. Fiduciary Funds financial statements are presented by fund type.

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2008

The Borough reports the following major Governmental Funds:

- The *General Fund* is the Borough's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Solid Waste Fund* accumulates resources necessary to fund trash pickup services in the Borough.

The Borough reports the following Proprietary Funds:

- The *Water Fund* accumulates resources necessary for water supply to the Borough.
- The *Sewer Fund* accumulates resources necessary for the operation of the sewage collection system.

Governmental Funds - All Governmental Funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. Major Governmental Funds of the Borough include the General Fund and the Solid Waste Fund. All other Governmental Funds are grouped together and presented in a separate column as Other Governmental Funds. They include the Fire Fund, the Liquid Fuels Fund, the Debt Service Fund, the Recreation Fund, the Highway Turnback Fund and the Pension Fund.

Revenue Recognition - In applying the "susceptible to accrual concept" under the modified accrual basis, 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 property and earned income tax revenue to be available if collected within 60 days of the end of the fiscal period. Revenues for state and federally funded projects are recognized at the time all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the Borough must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Borough on a reimbursement basis.

BOROUGH OF PHOENIXVILLE
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December 31, 2008

Property tax and earned income tax receivables collected after 60 days from year-end, though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, property and earned income tax receivables are recorded and deferred until they become available.

Other revenues, including certain other charges for services and miscellaneous revenues, are recorded as revenue when received in cash because they generally are not measurable until actually received.

Expenditure Recognition - The measurement focus of Governmental Funds accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt which has not matured are recognized when paid. Further, as provided in GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, certain Governmental Funds liabilities and expenditures, such as for compensated absences, are recognized to the extent the liabilities mature (come due for payment) each period. Allocations of costs, such as depreciation and amortization, are not recognized in the Governmental Funds.

Proprietary Funds - Proprietary Funds are accounted for using the accrual basis of accounting. These funds account for operations that are financed primarily by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Allocations of certain costs, such as depreciation, are recorded in the Proprietary Funds. The Borough's only Proprietary Funds are Enterprise Funds.

These funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Proprietary Funds' principal ongoing operations. The principal operating revenues of the Borough's Enterprise Funds are user fees. Operating expenses for the Borough's Enterprise Funds include sewer disposal, salaries, recycling, supplies and administrative costs and depreciation. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2008

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed in both the entity-wide and Proprietary Funds financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and Enterprise Funds, subject to this same limitation. The Borough has elected not to follow subsequent private-sector guidance.

Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the Borough in a trustee capacity or as an agent for individuals, private organizations, other governments and other funds. These include Pension and Agency Funds. The Pension Funds account for the activities of the Police Pension Fund and the Non-Uniformed Pension Fund. Pension Funds are accounted for in essentially the same manner as Proprietary Funds since the measurement of the economic resources is critical. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The Agency Fund accounts for the escrow accounts held by the Borough.

Budgets and Budgetary Accounting

The Borough is required by state law to adopt annual budgets for the General Fund. The budget is presented on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles. The following procedures are followed in establishing the budgetary data reflected in the financial statements:

- Prior to November 15 of the preceding fiscal year, the Borough prepares a budget for the next succeeding calendar year beginning January 1. The operating budget includes proposed expenditures and the means of financing them.
- A meeting of the Borough Council members is then called for the purpose of adopting the proposed budget.
- Prior to December 31, the budget is legally enacted through passage of a resolution by the Borough Council.
- The budget must be filed with the Pennsylvania Department of Community and Economic Development by January 31.

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Once a budget is approved, it can be amended at the function and fund level only by approval of a majority of the members of Borough Council. Amendments are presented to Borough Council at its regular meetings. Each amendment must have Borough Council approval. Such amendments are made before the fact, are reflected in the official minutes of the Borough Council and are not made after fiscal year-end as dictated by law.

The budget is controlled by the finance officer at the revenue and expenditure function/object level. Budgeted amounts are as amended by Borough Council. Individual amendments were not material in relation to the original appropriations. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

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.

Investments

The Borough has adopted GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The statement establishes fair value standards for investments held by governmental entities, except for certain money market investments, as defined, which are recorded at amortized cost. The statement also establishes reporting standards for investment income.

Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the entity-wide financial statements as "internal balances."

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2008

Allowance for Doubtful Accounts

The Borough's policy is to establish an allowance for any unpaid balance greater than 90 days past due with no payments received in the last 12 months. As of December 31, 2008, the allowance for doubtful accounts was \$73,925 in the General Fund, \$51,710 in the Solid Waste Fund, \$145,665 in the Water Fund and \$97,208 in the Sewer Fund.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the entity-wide financial statements as well as in the Proprietary Funds financial statements. Capital assets are defined by the Borough as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. The Borough reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the entity-wide financial statements regardless of their amount. Such assets are recorded at 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 the lives of the assets are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed, inclusive of ancillary costs.

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

	<u>Years</u>
Buildings and improvements	15-40
Infrastructure	20-50
Vehicles	5-7
Machinery and equipment	5-30

Compensated Absences

Full-time employees are granted vacation benefits in varying amounts to specified maximums. Upon leaving employment at the Borough, employees are paid for their unused vacation days at their current pay rate. Sick leave accrues to full-time, permanent employees and can be carried over from year to year. However, at retirement or upon leaving the Borough, employees with over ten years of service will be paid for all remaining sick leave at a rate of one day for every three days of unused sick time.

The liability for these compensated absences is recorded as long-term debt in the entity-wide and Proprietary Funds financial statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, Governmental Funds report a liability for compensated absences only if they have matured. Historically, the General Fund has been responsible for liquidation of compensated absences associated with governmental activities. Compensated absences associated with business-type activities are liquidated from the fund in which the liability was generated.

Long-Term Obligations

In the entity-wide financial statements and Proprietary Funds financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Deferred amounts are recorded as a decrease to debt payable and amortized over the life of the debt.

In the fund financial statements, Governmental Fund Types report discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received and discounts paid on debt issuances are reported as other financing sources and uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures, except for refundings paid from proceeds, which are reported as other financing uses.

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2008

Fund Equity

In the fund financial statements, Governmental Funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets

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.

NOTE B TAXES

For 2008, the following tax was levied on the assessed value of real estate:

- 2.07 mills for general purposes, .29 mills for fire protection, .52 mills for debt service, .23 mills for pension and .69 mills for a total of 3.80 mills.

The taxable assessed valuation of property as of December 31, 2008, was \$688,024,828.

The real estate tax collection calendar is as follows:

Initial billing.....	March 1
Discount period	March 1 to April 30
Face period	May 1 to June 30
Penalty period	July 1 and thereafter
Lien date.....	January 31

Other taxes levied in 2008 are as follows:

Real estate transfer	1% of sale price
Earned income tax	1% of gross income
EMS tax.....	\$52 per person

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2008

NOTE C **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. The Borough does not have a policy for custodial credit risk on deposits. The Borough is required by statute to deposit funds in depositories that are either banks, banking institutions or trust companies located in the Commonwealth of Pennsylvania. To the extent that such deposits exceed federal insurance, the depositories must pledge as collateral obligations of the United States, the Commonwealth of Pennsylvania, or any political subdivision of the Commonwealth. Under Act 72 of 1971, as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit.

At December 31, 2008, the carrying amount of the Borough's deposits was \$1,435,348, and the bank balance was \$1,593,094. Of the bank balance, \$250,000 was covered by federal depository insurance; \$1,157,539 was exposed to custodial credit risk because it was uninsured and the collateral held by the depository's agent was not in the Borough's name; and \$185,555 was with the Pennsylvania Local Government Investment Trust (PLGIT). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, the deposits with PLGIT and INVEST act like a money market mutual fund in that the objective is to maintain a stable net asset value of \$1 per share, it is rated by a nationally recognized statistical rating organization and it is subject to an independent annual audit.

See Notes I and J for pension deposit disclosures.

Investments

Statutes authorize the Borough to invest in obligations of the U.S. Treasury, agencies and instrumentalities and deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation (FDIC), the Federal Savings and Loan Insurance Corporation (FSLIC), or the National Credit Union Share Insurance Fund (NCUSIF). The Borough also is authorized to invest in obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America or the Commonwealth of Pennsylvania or any of its agencies or instrumentalities.

As of December 31, 2008, the Borough had \$3,085,463 invested in certificates of deposit, all due within one year.

See Notes I and J for pension investment disclosures.

BOROUGH OF PHOENIXVILLE
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 December 31, 2008

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Borough will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Borough does not have a policy for custodial credit risk on deposits. As of December 31, 2008, \$2,140,464 of the Borough's investment in certificates of deposit was subject to custodial credit risk because it was uninsured and the collateral held by the depository's agent was not in the Borough's name.

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, 2008, the Borough's investments in certificates of deposit were with six banks.

NOTE D INTERFUND RECEIVABLES/PAYABLES

The balance of short-term interfund receivables/payables at December 31, 2008, was as follows:

	<u>Receivable Fund</u>	<u>Payable Fund</u>
General Fund	\$ 200,000	\$ 66,053
Agency Fund	-	133,947
	<u>\$ 200,000</u>	<u>\$ 200,000</u>

NOTE E INTERFUND TRANSFERS

Interfund transfers were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 350,000
Fire Fund	200,000	-
Recreation Fund	150,000	-
	<u>\$ 350,000</u>	<u>\$ 350,000</u>

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2008

NOTE F CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2008, was as follows:

	Balance January 1, 2008	Increases	Decreases	Balance December 31, 2008
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 1,777,289	\$ 937,746	\$ -	\$ 2,715,035
Capital assets being depreciated				
Buildings and improvements	1,111,482	10,786	-	1,122,268
Infrastructure	5,830,464	667,049	-	6,497,513
Vehicles	2,157,918	863,851	(295,873)	2,725,896
Equipment and furniture	975,960	84,717	-	1,060,677
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>10,075,824</u>	<u>1,626,403</u>	<u>(295,873)</u>	<u>11,406,354</u>
Accumulated depreciation				
Buildings and improvements	951,610	27,317	-	978,927
Infrastructure	1,404,379	167,516	-	1,571,895
Vehicles	1,504,872	246,548	(282,836)	1,468,584
Equipment and furniture	600,929	92,642	-	693,571
TOTAL ACCUMULATED DEPRECIATION	<u>4,461,790</u>	<u>534,023</u>	<u>(282,836)</u>	<u>4,712,977</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	<u>5,614,034</u>	<u>1,092,380</u>	<u>(13,037)</u>	<u>6,693,377</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net	<u>\$ 7,391,323</u>	<u>\$ 2,030,126</u>	<u>\$ (13,037)</u>	<u>\$ 9,408,412</u>
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 125,730	\$ -	\$ -	\$ 125,730
Capital assets being depreciated				
Sewer collection system infrastructure	16,046,879	45,133	-	16,092,012
Water treatment plant infrastructure	15,876,552	155,508	-	16,032,060
Vehicles	420,605	-	-	420,605
Equipment and furniture	1,277,742	44,790	-	1,322,532
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>33,621,778</u>	<u>245,431</u>	<u>-</u>	<u>33,867,209</u>
Accumulated depreciation				
Sewer collection system infrastructure	4,436,488	296,050	-	4,732,538
Water treatment plant infrastructure	7,358,242	355,526	-	7,713,768
Vehicles	364,452	12,359	-	376,811
Equipment and furniture	907,352	87,242	-	994,594
TOTAL ACCUMULATED DEPRECIATION	<u>13,066,534</u>	<u>751,177</u>	<u>-</u>	<u>13,817,711</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	<u>20,555,244</u>	<u>(505,746)</u>	<u>-</u>	<u>20,049,498</u>
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, net	<u>\$ 20,680,974</u>	<u>\$ (505,746)</u>	<u>\$ -</u>	<u>\$ 20,175,228</u>

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Depreciation expense was charged to the following functions:

GOVERNMENTAL ACTIVITIES	
General government	\$ 76,862
Public safety	231,034
Public works	
Highways and streets	83,206
Sanitation	98,061
Culture and recreation	<u>44,860</u>
TOTAL GOVERNMENTAL ACTIVITIES	\$ <u>534,023</u>
BUSINESS-TYPE ACTIVITIES	
Sewer	\$ 364,067
Water	<u>387,110</u>
TOTAL BUSINESS-TYPE ACTIVITIES	\$ <u>751,177</u>

BOROUGH OF PHOENIXVILLE
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 December 31, 2008

NOTE G CAPITAL LEASES - LESSEE

The Borough entered into a lease agreement as lessee for financing the acquisition of three trash trucks. During 2008, the Borough entered into a lease agreement as lessee for financing the acquisition of a fire engine. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date.

Vehicles acquired through capital leases	\$ 912,192
Accumulated depreciation	<u>(214,443)</u>
	<u>\$ 697,749</u>

Future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2008, are as follows:

<u>Year Ending December 31,</u>	
2009	\$ 134,694
2010	63,837
2011	63,837
2012	63,837
2013	63,837
2014 to 2018	<u>319,187</u>
	709,229
Amount representing interest	<u>(143,755)</u>
PRESENT VALUE OF MINIMUM LEASE PAYMENTS	<u>\$ 565,474</u>

Amortization of leased vehicles under capital assets is included with depreciation expense.

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2008

NOTE H LONG-TERM DEBT

The general obligation bonds and notes are allocated to both the business-type and governmental activities as follows:

General Obligation Bonds, Series of 2003, issued at \$12,000,000 in May 2003, interest rates ranging from 1.30% to 4.75%, interest and principal payable semi-annually from June 2003 through December 2027 \$ 11,975,000

Capital Appreciation Bonds, Series of 1990, originally issued at \$3,498,958 with a maturity value of \$6,860,000 in October 1990, interest rates ranging from 6.00% to 7.30%, interest and principal payable annually from October 1991 through October 2010 1,531,526

General Obligation Note, Delaware Valley Regional Finance Authority, issued at \$745,000 in November 1994, interest at variable rates not to exceed 25% per annum, payable annually; interest rates change on a weekly basis and are determined by the Bond Market Association Index (2.65% at December 31, 2008), maturing November 25, 2025 480,000

General Obligation Note, Delaware Valley Regional Finance Authority, issued at \$1,562,000 in March 2002, interest rate fixed at 3.70%, payable annually, maturing February 25, 2009 248,000

\$ 14,234,526

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2008

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

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 1,000,263	\$ 653,399
2010	848,263	641,771
2011	512,000	548,514
2012	534,000	530,034
2013	551,000	508,504
2014 to 2018	3,084,000	2,196,091
2019 to 2023	3,870,000	1,471,373
2024 to 2027	<u>3,835,000</u>	<u>465,739</u>
	<u>\$ 14,234,526</u>	<u>\$ 7,015,425</u>

A schedule of changes in debt is as follows:

	<u>Balance January 1, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance December 31, 2008</u>	<u>Due Within One Year</u>
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds	\$ 2,576,717	\$ -	\$ (128,991)	\$ 2,447,726	\$ 131,074
General Obligation Notes	243,360	-	(12,825)	230,535	87,717
Capital lease	134,665	498,000	(67,191)	565,474	134,694
Compensated absences	<u>134,213</u>	<u>87,934</u>	<u>-</u>	<u>222,147</u>	<u>22,215</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 3,088,955</u>	<u>\$ 585,934</u>	<u>\$ (209,007)</u>	<u>\$ 3,465,882</u>	<u>\$ 375,700</u>
BUSINESS-TYPE ACTIVITIES					
General Obligation Bonds	\$ 11,369,535	\$ -	\$ (310,735)	\$ 11,058,800	\$ 592,189
General Obligation Notes	750,640	-	(253,175)	497,465	189,283
Compensated absences	<u>106,116</u>	<u>-</u>	<u>(13,373)</u>	<u>92,743</u>	<u>9,274</u>
TOTAL BUSINESS-TYPE ACTIVITIES	<u>\$ 12,226,291</u>	<u>\$ -</u>	<u>\$ (577,283)</u>	<u>\$ 11,649,008</u>	<u>\$ 790,746</u>

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2008

For the year ended December 31, 2008, interest expense on long-term debt was \$698,890. Of this total, \$560,259 was charged to the following functions as direct expenses on the statement of activities:

<u>Function</u>	<u>Interest</u>
Water	\$ 171,769
Sewer	<u>388,490</u>
	<u>\$ 560,259</u>

NOTE I POLICE PENSION PLAN

Plan Description and Provisions

The Police Pension Fund is a single-employer defined benefit pension plan controlled by the provisions of Ordinance No. 982, as amended, adopted pursuant to Act 600. The plan is governed by the Borough Council, which is responsible for the management of plan assets. The Borough Council has delegated the authority to manage certain plan assets to Principal Financial Group and SEI Private Trust Company.

Plan Membership

Actuarial valuation report Form 205, filed with the Public Employee Retirement Study Commission and dated as of January 1, 2007, disclosed that pension plan membership consisted of the following:

Active employees	25
Retirees and beneficiaries currently receiving benefits	17
Vested terminated members	<u>1</u>
	<u>43</u>

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2008

Benefit Provisions

Actuarial valuation report Form 205, filed with the Public Employee Retirement Study Commission and dated as of January 1, 2007, the most recent actuarial valuation, disclosed that the pension plan benefit provisions are as follows:

- All full-time members of the Police Force join the plan upon employment. Employees who retire at or after age 50 with 25 years of continuous service are eligible for normal retirement. Participants are entitled to monthly pension payments equal to 50% of average monthly pay plus \$100 for service in excess of 25 years during their lifetime, with payments continuing after the member's death to the surviving spouse, or eligible child, equal to 50% of the initial amount payable to the member. A member becomes 100% vested in the benefit accrued after 12 or more years of continued service.
- Average monthly pay is based upon the last 36 months of employment. For participants hired on or before August 30, 1983, pay is defined as total W-2 compensation, excluding any lump sum payment for unused sick or vacation time. For participants hired after August 30, 1983, pay is defined as the salary rate.
- If a member continues working after normal retirement date, the pension does not start until the member actually retires. The late retirement benefit is the benefit accrued to the late retirement date.
- A participant is eligible for early retirement after completion of 20 years of service. The early retirement benefit is equal to the actuarial equivalent of the benefit accrued at the early retirement date.
- An annual cost-of-living adjustment is made to retirees with a maximum total cost-of-living increase of 30% if employment terminates after January 1, 2002. Employees who retired prior to January 1, 2002, receive a maximum total cost-of-living increase of 15%.
- An active member is eligible for a disability benefit if the member is disabled in the line of duty. The disability pension is equal to 50% of the member's salary at the time disability occurs.

BOROUGH OF PHOENIXVILLE

NOTES TO THE BASIC FINANCIAL STATEMENTS

December 31, 2008

- If an active member is killed in the line of duty, a monthly death benefit is payable to the surviving spouse, or eligible child, equal to 100% of the member's monthly salary at the time of death.
- If a member is eligible for retirement at the time of death, a monthly death benefit is payable to the surviving spouse, or eligible child, equal to 50% of the monthly benefit the member would have been receiving had that member been retired at the time of death.
- If an actuarial study shows the plan to have sufficient assets to fund plan benefits, member contributions may be suspended. Contributions are currently suspended.

Method Used to Value Investments

In accordance with GASB Statement No. 25, investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

The pension plan's unallocated insurance contracts are valued at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to purchase annuities and pay administrative expenses charged by the insurance company. Funds under the contract that have been allocated and applied to purchase annuities are excluded from the pension plan's assets.

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. At December 31, 2008, the carrying amount of the Police Pension Plan's deposits was \$304,247, which is equal to the deposits in a prime obligation and treasury money market account held by the trustee of the pension in the Borough's name. Of this balance, \$54,247 was subject to custodial credit risk.

Investments - The investment objective of the Police Pension Plan is to maintain a balanced portfolio comprised of equity, fixed income and cash equivalent securities and, as such, is intended to be structured less aggressively than equity-oriented portfolios.

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2008

As of December 31, 2008, the Police Pension Plan has \$3,828,692 invested in domestic equity mutual funds and \$1,348,687 invested in an unallocated insurance contract. Investments in external investment pools, such as those in mutual funds, are disclosed but not subject to interest rate, custodial, credit, or concentration risks because they are not evidenced by securities that exist in a physical or book entry form.

Administrative Costs - Administrative costs, including the investment manager, custodial trustee and actuarial services, are charged to the plan and paid from the General Fund, which is reimbursed as pension investments are liquidated.

Contributions - Act 205 requires that annual contributions be based upon the minimum municipal obligation (MMO). The MMO is based upon the plan's biennial actuarial valuation. Employees were not required to contribute to the plan during 2008. The state provides an allocation of funds which must be used for pension funding. Any financial requirement established by the MMO which exceeds the state contribution must be funded by the employer in accordance with Act 205.

Three-Year Trend Information

Three-year trend information is as follows:

<u>Fiscal Year Ending December 31,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contribution</u>
2006	\$ 231,598	100%
2007	252,834	100
2008	289,239	100

Actuarial Methods and Assumptions

Actuarial valuation date.....	January 1, 2007
Actuarial cost method.....	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period.....	9 years
Asset valuation method.....	Fair value
Actuarial assumptions	
Investment rate of return.....	7.5% per annum, compounded annually
Projected salary increases.....	5.0% per annum, compounded annually
Cost-of-living adjustments.....	4.0% per year post-retirement

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2008

NOTE J NON-UNIFORMED PENSION PLAN

Plan Description and Provisions

The Non-Uniformed Pension Fund is a single-employer defined benefit pension plan controlled by the provisions of Ordinance No. 983, as amended. The plan is governed by the Borough Council, which is responsible for the management of plan assets. The Borough Council has delegated the authority to manage certain plan assets to Principal Financial Group and SEI Private Trust Company.

Plan Membership

Actuarial valuation report Form 205, filed with the Public Employee Retirement Study Commission and dated as of January 1, 2007, disclosed that pension plan membership consisted of the following:

Active employees	66
Retirees and beneficiaries currently receiving benefits	23
Vested terminated members	<u>4</u>
	<u>93</u>

Benefit Provisions

Actuarial valuation report Form 205, filed with the Public Employee Retirement Study Commission and dated as of January 1, 2007, disclosed that the pension plan benefit provisions are as follows:

- All full-time employees (other than police officers) join the plan upon employment. A member is eligible for normal retirement on the first day of the month coincident or following attainment of age 65. The normal retirement pension is payable monthly during the member's lifetime, with payments ceasing upon death. The amount of monthly pension is equal to 45% of average monthly salary, reduced by 1/20th for each year of service less than 20 years. Average monthly salary is based upon the last 60 months of employment. A member becomes 100% vested in the benefit accrued upon completion of five years of service.

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2008

- A member is eligible for early retirement after attainment of age 55 and completion of five years of service. The early retirement benefit is the benefit accrued to the date of early retirement, reduced by 5/9% per month for the first 60 months before age 65 and by 5/18% for each of the next 60 months of early commencement.
- If a member continues working after normal retirement date, that member's pension does not start until actual retirement. The late retirement benefit is the greater of the benefit accrued to the late retirement date, or the actuarial equivalent of the normal retirement benefit.
- If a vested member dies before beginning to receive a retirement pension benefit, the surviving spouse will receive a 50% survivor benefit. Payment will begin on the date on which the participant first would have been eligible for retirement. The death benefit for a vested or nonvested participant cannot be less than a return of contributions, with interest.
- If a member is disabled and qualified for Social Security disability, that member is eligible for a disability pension. The disability pension is equal to the accrued pension, paid immediately without reduction, but not less than \$200 per month.

Method Used to Value Investments

In accordance with GASB Statement No. 25, investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

The pension plan's unallocated insurance contracts are valued at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to purchase annuities and pay administrative expenses charged by the insurance company. Funds under the contract that have been allocated and applied to purchase annuities are excluded from the pension plan's assets.

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2008

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. At December 31, 2008, the carrying amount of the Non-Uniformed Pension Plan's deposits was \$282,159, which is equal to the deposits in a prime obligation and treasury money market account held by the trustee of the pension in the Borough's name. Of this balance, \$32,159 was subject to custodial credit risk.

Investments - The investment objective of the Non-Uniformed Pension Plan is to maintain a balanced portfolio comprised of equity, fixed income and cash equivalent securities and, as such, is intended to be structured less aggressively than equity-oriented portfolios.

As of December 31, 2008, the Non-Uniformed Pension Plan had \$2,960,887 invested in domestic equity mutual funds and \$1,861,574 invested in an unallocated insurance contract. Investments in external investment pools, such as those in mutual funds, are disclosed but not subject to interest rate, custodial, credit, or concentration risks because they are not evidenced by securities that exist in a physical or book entry form.

Administrative Costs - Administrative costs, including the investment manager, custodial trustee and actuarial services, are charged to the plan and paid from the General Fund, which is reimbursed as pension investments are liquidated.

Contributions - Act 205 requires that annual contributions be based upon the minimum municipal obligation (MMO). The MMO is based upon the plan's biennial actuarial valuation. Employees were required to contribute 2% to the plan during 2008. The state provides an allocation of funds which must be used for pension funding. Any financial requirement established by the MMO which exceeds the state and employee contributions must be funded by the employer in accordance with Act 205.

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2008

Three-Year Trend Information

Three-year trend information is as follows:

<u>Fiscal Year Ending December 31,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contribution</u>
2006	\$ 101,963	106%
2007	126,012	153
2008	57,841	310

Actuarial Methods and Assumptions

Actuarial valuation date.....	January 1, 2007
Actuarial cost method.....	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period.....	N/A
Asset valuation method.....	Fair value
Actuarial assumptions	
Investment rate of return.....	7.5% per annum, compounded annually
Projected salary increases.....	5.0% per annum, compounded annually
Cost-of-living adjustments.....	None

NOTE K EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The following fund incurred expenditures in excess of appropriations in the following amount for the year ended December 31, 2008:

GENERAL FUND	
General government	\$ <u>167,177</u>

The excess expenditures were covered by the available fund balance in the funds.

BOROUGH OF PHOENIXVILLE
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2008

NOTE L CONTINGENT LIABILITIES

The Borough is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Borough's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the Borough.

The Borough participates in state and county assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The Borough is potentially liable for any expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

NOTE M COMMITMENTS

The Borough had the following construction contract commitments as of December 31, 2008:

	<u>Contract Amount</u>	<u>Completed Through December 31, 2008</u>	<u>Commitment</u>
Walabax Construction	\$ 3,581,128	\$ 3,581,128	\$ -
Phillips Brothers	871,661	871,661	-
AC Schultes	144,500	144,500	-
Wolverine Contractors	<u>513,928</u>	<u>419,926</u>	<u>94,002</u>
	<u>\$ 5,111,217</u>	<u>\$ 5,017,215</u>	<u>\$ 94,002</u>

NOTE N PRIOR PERIOD ADJUSTMENT

The Borough is recording a prior period adjustment in the Police and Non-Uniformed Pension Funds for the year ended December 31, 2008. The adjustment was the result in reporting fair market values of the investments in the funds. The valuation adjustment was \$525,889 for the Non-Uniformed Pension Fund and \$604,836 for the Police Pension Fund. The cumulative adjustment was \$1,130,725.

REQUIRED SUPPLEMENTARY INFORMATION

BOROUGH OF PHOENIXVILLE
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended December 31, 2008

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
REVENUES			
Taxes	\$ 3,800,692	\$ 4,150,840	\$ 350,148
Fees and fines	142,500	161,160	18,660
Licenses and permits	204,000	247,660	43,660
Intergovernmental	128,300	1,241,779	1,113,479
Charges for services	880,449	1,722,573	842,124
Investment earnings	99,000	87,378	(11,622)
Miscellaneous	120,000	94,137	(25,863)
	<u>5,374,941</u>	<u>7,705,527</u>	<u>2,330,586</u>
TOTAL REVENUES			
EXPENDITURES			
General government	1,188,165	1,355,342	(167,177)
Public safety	4,637,910	4,365,530	272,380
Public works	1,135,505	1,104,459	31,046
Culture and recreation	65,435	61,397	4,038
	<u>7,027,015</u>	<u>6,886,728</u>	<u>140,287</u>
TOTAL EXPENDITURES			
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES			
	<u>(1,652,074)</u>	<u>818,799</u>	<u>2,470,873</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of fixed assets	-	1,800	1,800
Interfund transfers out	-	(350,000)	(350,000)
	<u>-</u>	<u>(348,200)</u>	<u>(348,200)</u>
TOTAL OTHER FINANCING SOURCES (USES)			
	<u>-</u>	<u>(348,200)</u>	<u>(348,200)</u>
NET CHANGE IN FUND BALANCE			
	(1,652,074)	470,599	2,122,673
FUND BALANCE AT BEGINNING OF YEAR			
	<u>3,348,445</u>	<u>3,348,445</u>	<u>-</u>
FUND BALANCE AT END OF YEAR			
	<u>\$ 1,696,371</u>	<u>\$ 3,819,044</u>	<u>\$ 2,122,673</u>

BOROUGH OF PHOENIXVILLE
PENSION PLAN FUNDING PROGRESS
Year Ended December 31, 2008

POLICE PENSION PLAN

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

The actuarial information is required by Act 205 biennially, except for distressed pension plans, which require annual reporting. The historical information required to be disclosed, beginning as of January 1, 2003, is as follows:

Actuarial Valuation Date January 1,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Percentage Funded (a)/(b)	Unfunded (Assets in Excess of) Accrued Liability (b)-(a)	Annual Covered Payroll (c)	Unfunded (Assets in Excess of) Accrued Liability as a Percentage of Payroll [(b)-(a)]/(c)
2003	\$ 4,984,274	\$ 5,628,274	88.6%	\$ 644,000	\$ 1,188,986	54.2%
2005	6,359,640	6,472,951	98.2	113,311	1,305,356	8.7
2007	7,498,108	7,306,673	102.6	(191,435)	1,536,997	(12.5)

NON-UNIFORMED PENSION PLAN

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

The actuarial information is required by Act 205 biennially, except for distressed pension plans, which require annual reporting. The historical information required to be disclosed, beginning as of January 1, 2003, is as follows:

Actuarial Valuation Date January 1,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Percentage Funded (a)/(b)	Unfunded (Assets in Excess of) Accrued Liability (b)-(a)	Annual Covered Payroll (c)	Unfunded (Assets in Excess of) Accrued Liability as a Percentage of Payroll [(b)-(a)]/(c)
2003	\$ 4,553,563	\$ 4,102,619	111.0%	\$ (450,944)	\$ 1,853,665	(24.3)%
2005	5,785,060	4,691,384	123.3	(1,093,676)	2,270,693	(48.2)
2007	6,815,625	5,212,892	130.7	(1,602,733)	2,907,872	(55.1)

SUPPLEMENTARY INFORMATION SECTION

BOROUGH OF PHOENIXVILLE
 COMBINING BALANCE SHEET
 OTHER GOVERNMENTAL FUNDS
 December 31, 2008

	Special Revenue Funds						Total Other Governmental Funds
	Fire Fund	Liquid Fuels Fund	Debt Service Fund	Recreation Fund	Highway Turnback Fund	Pension Fund	
ASSETS							
Cash and cash equivalents	\$ 315,468	\$ 455,259	\$ 121,084	\$ 105,341	\$ 2,608	\$ 30,686	\$ 1,030,446
Investments	-	-	-	-	95,000	-	95,000
Other receivables	1,355	2,753	-	6,500	1,661	-	12,269
TOTAL ASSETS	\$ 316,823	\$ 458,012	\$ 121,084	\$ 111,841	\$ 99,269	\$ 30,686	\$ 1,137,715
LIABILITIES AND FUND BALANCES							
LIABILITIES							
Accounts payable and other current liabilities	\$ 7,110	\$ -	\$ -	\$ 13,514	\$ -	\$ -	\$ 20,624
FUND BALANCES							
Reserved for							
Fire protection	309,713	-	-	-	-	-	309,713
Streets	-	458,012	-	-	-	-	458,012
Debt service	-	-	121,084	-	-	-	121,084
Recreation	-	-	-	98,327	-	-	98,327
Highway turnback	-	-	-	-	99,269	-	99,269
Pension	-	-	-	-	-	30,686	30,686
TOTAL FUND BALANCES	309,713	458,012	121,084	98,327	99,269	30,686	1,117,091
TOTAL LIABILITIES AND FUND BALANCES	\$ 316,823	\$ 458,012	\$ 121,084	\$ 111,841	\$ 99,269	\$ 30,686	\$ 1,137,715

BOROUGH OF PHOENIXVILLE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 OTHER GOVERNMENTAL FUNDS
 Year Ended December 31, 2008

	Special Revenue Funds						Total Other Governmental Funds
	Fire Fund	Liquid Fuels Fund	Debt Service Fund	Recreation Fund	Highway Turnback Fund	Pension Fund	
REVENUES							
Property taxes	\$ 256,110	\$ -	\$ 343,043	\$ 455,367	\$ -	\$ 148,002	\$ 1,202,522
Intergovernmental	107,508	292,338	-	-	-	337,751	737,597
Charges for services	-	-	-	97,828	-	-	97,828
Investment earnings	6,066	6,624	4,588	5,954	3,319	2,990	29,541
Miscellaneous	18,310	-	-	26,000	-	-	44,310
TOTAL REVENUES	387,994	298,962	347,631	585,149	3,319	488,743	2,111,798
EXPENDITURES							
Current							
General government	-	-	-	-	-	467,674	467,674
Public safety	693,072	-	-	-	-	-	693,072
Public works	-	111,063	-	-	238	-	111,301
Culture and recreation	-	-	-	689,963	-	-	689,963
Debt service							
Principal	-	-	141,816	-	-	-	141,816
Interest and other charges	-	-	137,948	-	-	-	137,948
TOTAL EXPENDITURES	693,072	111,063	279,764	689,963	238	467,674	2,241,774
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(305,078)	187,899	67,867	(104,814)	3,081	21,069	(129,976)
OTHER FINANCING SOURCES							
Proceeds from sale of fixed assets	98,000	-	-	-	-	-	98,000
Interfund transfers in	200,000	-	-	150,000	-	-	350,000
TOTAL OTHER FINANCING SOURCES	298,000	-	-	150,000	-	-	448,000
NET CHANGE IN FUND BALANCES	(7,078)	187,899	67,867	45,186	3,081	21,069	318,024
FUND BALANCES AT BEGINNING OF YEAR	316,791	270,113	53,217	53,141	96,188	9,617	799,067
FUND BALANCES AT END OF YEAR	\$ 309,713	\$ 458,012	\$ 121,084	\$ 98,327	\$ 99,269	\$ 30,686	\$ 1,117,091

BOROUGH OF PHOENIXVILLE
COMBINING SCHEDULE OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
December 31, 2008

	Pension Funds		Totals
	Non-Uniformed Pension Fund	Police Pension Fund	
ASSETS			
Cash and cash equivalents	\$ 282,159	\$ 304,247	\$ 586,406
Investments			
Mutual funds, at fair value	2,960,887	3,828,692	6,789,579
Unallocated insurance contract, at contract value	1,861,574	1,348,687	3,210,261
TOTAL INVESTMENTS	<u>4,822,461</u>	<u>5,177,379</u>	<u>9,999,840</u>
 TOTAL ASSETS	 <u>\$ 5,104,620</u>	 <u>\$ 5,481,626</u>	 <u>\$ 10,586,246</u>
NET ASSETS			
Held in trust for pension benefits and pool participants	\$ <u>5,104,620</u>	\$ <u>5,481,626</u>	\$ <u>10,586,246</u>

BOROUGH OF PHOENIXVILLE**COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET ASSETS****FIDUCIARY FUNDS***Year Ended December 31, 2008*

	Pension Funds		
	<u>Non-Uniformed Pension Fund</u>	<u>Police Pension Fund</u>	<u>Totals</u>
ADDITIONS			
Contributions			
Employer contributions	\$ 179,172	\$ 289,239	\$ 468,411
Employee contributions	58,908	-	58,908
TOTAL CONTRIBUTIONS	<u>238,080</u>	<u>289,239</u>	<u>527,319</u>
Investment earnings (losses)			
Net decrease in fair value of investments	(665,449)	(682,504)	(1,347,953)
Realized losses on sale of assets	(310,156)	(482,075)	(792,231)
Interest	107,896	80,106	188,002
Dividends	94,435	138,025	232,460
TOTAL INVESTMENT EARNINGS (LOSSES)	<u>(773,274)</u>	<u>(946,448)</u>	<u>(1,719,722)</u>
TOTAL NEGATIVE ADDITIONS	<u>(535,194)</u>	<u>(657,209)</u>	<u>(1,192,403)</u>
DEDUCTIONS			
Benefits	340,000	348,527	688,527
Administrative	31,095	32,226	63,321
TOTAL DEDUCTIONS	<u>371,095</u>	<u>380,753</u>	<u>751,848</u>
CHANGE IN NET ASSETS	<u>(906,289)</u>	<u>(1,037,962)</u>	<u>(1,944,251)</u>
NET ASSETS AT BEGINNING OF YEAR, as previously reported	6,536,798	7,124,424	13,661,222
Prior period valuation adjustment	<u>(525,889)</u>	<u>(604,836)</u>	<u>(1,130,725)</u>
NET ASSETS AT END OF YEAR	<u>\$ 5,104,620</u>	<u>\$ 5,481,626</u>	<u>\$ 10,586,246</u>