

Borough of Elizabethtown

Year Ended December 31, 2015

 **TROUT, EBERSOLE & GROFF_{LLP}**
CPAs | BUSINESS ADVISORS

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Borough of Elizabethtown

Financial Statements with Supplementary Information

Year Ended December 31, 2015

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INDEPENDENT AUDITORS' REPORT

To the Borough Council
Borough of Elizabethtown
Elizabethtown, Pennsylvania

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Basis for Adverse Opinion on Discretely Presented Component Unit

The financial statements referred to above do not include financial data for the Borough's legally separate component unit. The cash basis of accounting requires financial data for this component unit to be reported with the financial data of the Borough's primary government unless the Borough also issues financial statements for the financial reporting entity that include the financial data for its component unit. The Borough has not issued such reporting entity financial statements. Because of this departure from the cash basis of accounting, the assets, liabilities, net position, revenues, and expenses of the discretely presented component unit have not been recorded.

Adverse Opinion on Discretely Presented Component Unit

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Discretely Presented Component Unit" paragraph, the financial statements referred to above do not present fairly the cash basis financial position of the discretely presented component unit of the **Borough of Elizabethtown**, Pennsylvania, as of December 31, 2015, or the changes in the cash basis financial position thereof for the year then ended in accordance with the cash basis of accounting described in Note 1.

Unmodified Opinions

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

Basis of Accounting

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

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Borough of Elizabethtown's** basic primary government financial statements. The schedules of budgetary comparison information on pages 42 and 43, schedule of indebtedness on page 44, and the concise statement for publication on pages 45 and 46, are presented for purposes of additional analysis and are not a required part of the primary government basic financial statements.

The supplementary information referred to above is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic primary government financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison information, schedule of indebtedness, and concise statement for publication are fairly stated in all material respects in relation to the basic financial statements as a whole, on the basis of accounting described in Note 1.

February 10, 2016
Lancaster, Pennsylvania

Trout, Ebersole & Groff, LLP
TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Borough of Elizabethtown

STATEMENT of NET POSITION -

Cash Basis

December 31, 2015

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Unrestricted Cash and Cash Equivalents	\$ 3,670,063	\$ 3,383,334	\$ 7,053,397
Restricted Cash for Park Expenditures	175,112		175,112
Restricted Cash for Street Improvements	132,189		132,189
Restricted Cash for Capital Projects per Grant Agreement	125,311		125,311
Restricted Cash for Law Enforcement per Federal Equitable Sharing Program	39,160		39,160
	<u>4,141,835</u>	<u>3,383,334</u>	<u>7,525,169</u>
LIABILITIES	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
NET POSITION			
Restricted for:			
Park Expenditures	175,112		175,112
Construction and Maintenance for Roads and Bridges	132,189		132,189
Capital Projects per Grant Agreement	125,311		125,311
Law Enforcement per Federal Equitable Sharing Program	39,160		39,160
Unrestricted	<u>3,670,063</u>	<u>3,383,334</u>	<u>7,053,397</u>
TOTAL NET POSITION	<u>\$ 4,141,835</u>	<u>\$ 3,383,334</u>	<u>\$ 7,525,169</u>

See notes to financial statements.

Borough of Elizabethtown

STATEMENT of ACTIVITIES -

Cash Basis

Year Ended December 31, 2015

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities:							
General Government	\$ 522,435		\$ 15,370		\$ (507,065)		\$ (507,065)
Public Safety	2,980,384	381,419	231,451		(2,367,514)		(2,367,514)
Public Works	1,663,012	641,416	36,219	250,693	(734,684)		(734,684)
Culture and Recreation	472,980	14,537	96,767		(361,676)		(361,676)
Community Development	504,320	32,616		872,028	400,324		400,324
Debt Service - Principal	1,225,290				(1,225,290)		(1,225,290)
Debt Service - Interest	157,062				(157,062)		(157,062)
Total Governmental Activities	7,525,483	1,069,988	379,807	1,122,721	(4,952,967)	-0-	(4,952,967)
Business-Type Activities:							
Sewer Operations	<u>1,819,915</u>	<u>2,963,216</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>1,143,301</u>	<u>1,143,301</u>
Total Primary Government	<u>\$ 9,345,398</u>	<u>\$ 4,033,204</u>	<u>\$ 379,807</u>	<u>\$ 1,122,721</u>	\$ (4,952,967)	\$ 1,143,301	\$ (3,809,666)

See notes to financial statements.

Borough of Elizabethtown

STATEMENT of ACTIVITIES -

Cash Basis

(Continued)

Year Ended December 31, 2015

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purposes, net					\$ 2,387,107		\$ 2,387,107
Public Utility Realty, Earned Income, Local Services, and Realty Transfer Taxes, net					1,560,662		1,560,662
Cable Television Franchise Fee					140,506		140,506
Investment Earnings					3,389	3,056	6,445
Sale of Fixed Assets					40,350		40,350
Refunds of Prior Year Expenditures					184,115	26,172	210,287
Other Income					20,704		20,704
Special Items and Transfers:							
Proceeds from Long-Term Debt					467,658		467,658
Transfers					<u>296,677</u>	<u>(296,677)</u>	<u>-0-</u>
Total General Revenues, Special Items, and Transfers					<u>5,101,168</u>	<u>(267,449)</u>	<u>4,833,719</u>
CHANGES in NET POSITION					148,201	875,852	1,024,053
NET POSITION							
Beginning					<u>3,993,634</u>	<u>2,507,482</u>	<u>6,501,116</u>
Ending					<u>\$ 4,141,835</u>	<u>\$ 3,383,334</u>	<u>\$ 7,525,169</u>

See notes to financial statements.

Borough of Elizabethtown
BALANCE SHEET -
GOVERNMENTAL FUNDS - Cash Basis
December 31, 2015

	Major Funds					Total Governmental Funds
	General Fund	Capital Project Fund	Parks and Recreation Fund	General Vehicle Sinking Fund	Other Funds	
ASSETS						
Unrestricted Cash and Cash Equivalents	\$ 1,482,339	\$ 667,461	\$ 126,740	\$ 249,387	\$ 36,443	\$ 2,562,370
Restricted Cash and Cash Equivalents			300,423		171,349	471,772
TOTAL ASSETS	<u>1,482,339</u>	<u>667,461</u>	<u>427,163</u>	<u>249,387</u>	<u>207,792</u>	<u>3,034,142</u>
LIABILITIES and FUND BALANCES						
LIABILITIES	-0-	-0-	-0-	-0-	-0-	-0-
FUND BALANCES						
Restricted			300,423		171,349	471,772
Committed	953,002					953,002
Assigned		667,461	126,740	249,387	36,443	1,080,031
Unassigned	529,337					529,337
TOTAL FUND BALANCES	<u>1,482,339</u>	<u>667,461</u>	<u>427,163</u>	<u>249,387</u>	<u>207,792</u>	<u>3,034,142</u>
TOTAL LIABILITIES and FUND BALANCES	<u>\$ 1,482,339</u>	<u>\$ 667,461</u>	<u>\$ 427,163</u>	<u>\$ 249,387</u>	<u>\$ 207,792</u>	<u>\$ 3,034,142</u>

See notes to financial statements.

Borough of Elizabethtown
RECONCILIATION of the GOVERNMENTAL FUNDS BALANCE SHEET
to the STATEMENT of NET POSITION -
Cash Basis
December 31, 2015

Total Fund Balance - Governmental Funds - Cash Basis	\$ 3,034,142
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Amounts reported for governmental activities in the statement of net position - cash basis are different because:

Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position - cash basis.

<u>1,107,693</u>

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES - Cash Basis

<u><u>\$ 4,141,835</u></u>

See notes to financial statements.

Borough of Elizabethtown
STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -
GOVERNMENTAL FUNDS -
Cash Basis
Year Ended December 31, 2015

	Major Funds					
	General Fund	Capital Project Fund	Parks and Recreation Fund	General Vehicle Sinking Fund	Other Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 3,943,369					\$ 3,943,369
Licenses and Permits	193,001					193,001
Fines and Forfeits	48,334					48,334
Interest, Rents, and Royalties	24,342	306	422	224	9,011	34,305
Intergovernmental	298,418	955,051			250,693	1,504,162
Charges for Service	919,341	4,269				923,610
Service Agreement Revenue					24,000	24,000
Donations			82,164			82,164
Miscellaneous			12,307		2,655	14,962
Total Revenues	5,426,805	959,626	94,893	224	286,359	6,767,907
EXPENDITURES						
General Government	342,028	28,185				370,213
Public Safety	2,049,226	1,200		52,041	19,540	2,122,007
Public Works	1,134,821	62,509		40,732	316,659	1,554,721
Culture and Recreation	326,196		93,835			420,031
Community Development	66,595	414,700				481,295
Debt Service - Principal		755,680			469,610	1,225,290
Debt Service - Interest		12,049			145,013	157,062
Issuance Costs					32,172	32,172
Insurance, Pension, and Other Benefits	1,221,620					1,221,620
Total Expenditures	5,140,486	1,274,323	93,835	92,773	982,994	7,584,411
EXCESS (DEFICIENCY) of REVENUES over EXPENDITURES	\$ 286,319	\$ (314,697)	\$ 1,058	\$ (92,549)	\$ (696,635)	\$ (816,504)

See notes to financial statements.

Borough of Elizabethtown
STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -
GOVERNMENTAL FUNDS -
Cash Basis
(Continued)
Year Ended December 31, 2015

	Major Funds					Total
	General Fund	Capital Project Fund	Parks and Recreation Fund	General Vehicle Sinking Fund	Other Funds	Governmental Funds
CARRYFORWARD EXCESS (DEFICIENCY) of REVENUES over EXPENDITURES	\$ 286,319	\$ (314,697)	\$ 1,058	\$ (92,549)	\$ (696,635)	\$ (816,504)
OTHER FINANCING SOURCES (USES)						
Refunds of Prior Year Expenses	101,092					101,092
Sale of Assets	31,825			8,525		40,350
Proceeds from Long-Term Debt		358,658			4,939,000	5,297,658
Refunding of Long-Term Debt					(4,830,000)	(4,830,000)
Interfund Transfers	(417,055)	304,459	20,000	127,000	539,773	574,177
Net Other Financing Sources (Uses)	(284,138)	663,117	20,000	135,525	648,773	1,183,277
NET CHANGES in FUND BALANCES	2,181	348,420	21,058	42,976	(47,862)	366,773
FUND BALANCES						
Beginning	1,480,158	319,041	406,105	206,411	255,654	2,667,369
Ending	\$ 1,482,339	\$ 667,461	\$ 427,163	\$ 249,387	\$ 207,792	\$ 3,034,142

See notes to financial statements.

Borough of Elizabethtown
RECONCILIATION of the GOVERNMENTAL FUNDS
STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES
to the STATEMENT of ACTIVITIES -
Cash Basis
Year Ended December 31, 2015

Net Changes in Fund Balances - Total Governmental Funds - Cash Basis	\$ 366,773
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Amounts reported for governmental activities in the statement of activities - cash basis are different because:

The internal service funds, which are used by management to charge the costs of services to individual funds, are not reported in the statement of activities - cash basis. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue of the internal service funds is allocated among the governmental activities.

(218,572)

CHANGES in NET POSITION of GOVERNMENTAL ACTIVITIES - Cash Basis	<u>\$ 148,201</u>
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See notes to financial statements.

Borough of Elizabethtown

STATEMENT of NET POSITION -

PROPRIETARY FUNDS -

Cash Basis

December 31, 2015

	Enterprise Fund		
	Major Fund		
	Sewer Fund	Internal Service Fund	Total
ASSETS			
Cash and Cash Equivalents	<u><u>\$ 3,383,334</u></u>	<u><u>\$ 1,107,693</u></u>	<u><u>\$ 4,491,027</u></u>
LIABILITIES	<u><u>-0-</u></u>	<u><u>-0-</u></u>	<u><u>-0-</u></u>
NET POSITION - Unrestricted	<u><u>\$ 3,383,334</u></u>	<u><u>\$ 1,107,693</u></u>	<u><u>\$ 4,491,027</u></u>

See notes to financial statements.

Borough of Elizabethtown
STATEMENT of REVENUES, EXPENSES, and CHANGES in NET POSITION -
PROPRIETARY FUNDS -
Cash Basis
Year Ended December 31, 2015

	<u>Enterprise Fund</u>		
	<u>Major Fund</u>	Internal	
	Sewer	Service	Total
	Fund	Fund	
OPERATING REVENUES			
Charges for Service	\$ 2,963,216	\$ 28,593	\$ 2,991,809
OPERATING EXPENSES			
Collection and Transmission	189,892		189,892
Wastewater Treatment	781,826		781,826
Wastewater Disposal and Sludge Management	172,456		172,456
General, Administrative, Customer Service, and Other	331,055		331,055
Insurance and Employee Benefits	344,686	769	345,455
Total Operating Expenses	<u>1,819,915</u>	<u>769</u>	<u>1,820,684</u>
OPERATING INCOME	1,143,301	27,824	1,171,125
NONOPERATING REVENUES			
Investment Earnings	3,056	1,104	4,160
Refund of Prior Year Expenditures	26,172	30,000	56,172
Total Nonoperating Revenues	<u>29,228</u>	<u>31,104</u>	<u>60,332</u>
INCOME BEFORE TRANSFERS	1,172,529	58,928	1,231,457
TRANSFERS	<u>(296,677)</u>	<u>(277,500)</u>	<u>(574,177)</u>
CHANGES in NET POSITION	875,852	(218,572)	657,280
NET POSITION			
Beginning	2,507,482	1,326,265	3,833,747
Ending	<u><u>\$ 3,383,334</u></u>	<u><u>\$ 1,107,693</u></u>	<u><u>\$ 4,491,027</u></u>

See notes to financial statements.

Borough of Elizabethtown

STATEMENT of NET POSITION -

FIDUCIARY FUNDS -

Cash Basis

December 31, 2015

	Pension Trust Funds	Expendable Trust Fund	Agency Funds
ASSETS			
Cash and Cash Equivalents			\$ 17,492
Investments (at Fair Value):			
Money Market Fund	\$ 81,810		
Fixed Income Securities	4,864,704		
Governmental Obligations	1,555,259		
Mutual Funds	3,001,172		
Pooled Separate Funds		1,235,300	
TOTAL ASSETS	<u>9,502,945</u>	<u>1,235,300</u>	<u>17,492</u>
LIABILITIES			
Due to Developers			4,214
Other Current Liabilities			13,278
TOTAL LIABILITIES	<u>-0-</u>	<u>-0-</u>	<u>17,492</u>
NET POSITION - Restricted	<u>\$ 9,502,945</u>	<u>\$ 1,235,300</u>	<u>\$ -0-</u>

See notes to financial statements.

Borough of Elizabethtown
STATEMENT of CHANGES in NET POSITION -
FIDUCIARY FUNDS -
Cash Basis
Year Ended December 31, 2015

	Pension Trust Funds	Expendable Trust Fund
ADDITIONS		
Contributions:		
Commonwealth	\$ 219,567	
Employer	288,679	
Employee	<u>72,186</u>	<u>94,386</u>
	580,432	94,386
Investment Income:		
Net depreciation in fair value of investments	(117,215)	24,759
Interest and Dividends	236,279	
Investment Expenses	<u>(50,307)</u>	<u>(9,727)</u>
Net Investment Income	68,757	15,032
Total Additions	649,189	109,418
DEDUCTIONS		
Administrative Expenses	8,020	
Retirement Benefits	<u>382,233</u>	<u>295,955</u>
Total Deductions	390,253	295,955
CHANGES in NET POSITION	258,936	(186,537)
NET POSITION		
Beginning	<u>9,244,009</u>	<u>1,421,837</u>
Ending	<u>\$ 9,502,945</u>	<u>\$ 1,235,300</u>

See notes to financial statements.

Borough of Elizabethtown

NOTES to FINANCIAL STATEMENTS

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES

The **Borough of Elizabethtown** (the Borough) was incorporated in 1827 and is a council/manager form of government. Borough Council is composed of six members, two from each of three wards, who serve four-year terms. The Borough also has a mayor who is elected at large and serves a four-year term.

The Borough is a full service municipality with a 4.5 million gallon daily wastewater treatment facility. The Borough encompasses greater than 40 miles of roads and employs 16 full-time police officers. The Borough has three municipal parks totaling 39 acres and a volunteer fire company.

The Borough provides sewer, zoning, code enforcement, police, trash/recycling, street, and parks services to approximately 11,545 residents in approximately 4,280 households.

The following is a summary of the Borough's significant accounting principles:

Reporting Entity

Consistent with guidance contained in Statement No. 14 of the Governmental Accounting Standards Board (GASB), *The Financial Reporting Entity*, and as amended in Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, the criteria used by the Borough to evaluate the possible inclusion of related entities (authorities, boards, councils, and so forth) within its reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given case, the Borough reviews the applicability of the following criteria:

The Borough is financially accountable for:

1. Organizations that make up its legal entity.
2. Legally separate organizations if Borough officials appoint a voting majority of the organization's governing body and the Borough is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the Borough as defined below.

Impose its Will - If the Borough can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.

Financial Benefit or Burden - If the Borough 1) is entitled to the organization's resources or 2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization or 3) is obligated in some manner for the debt of the organization.

3. Organizations that are fiscally dependent on the Borough and have a financial benefit or burden as defined above. Fiscal dependency is established if the organization is unable to adopt its own budget, levy taxes or set rates or charges, or issue bonded debt without the approval of the Borough.

These financial statements include only the activity of the primary government, **Borough of Elizabethtown**, and do not include the activity of its component unit, the Elizabethtown Industrial Development Authority (EIDA).

Based on the foregoing criteria, and with the exception of EIDA, no additional entities need to be included in the accompanying primary government financial statements.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Elizabethtown Industrial Development Authority

The Elizabethtown Industrial Development Authority (the Authority), an entity legally separate from the Borough, is governed by a five-member board, appointed by the Borough Council. The Authority was organized to: 1) serve as an economic development authority fulfilling the purposes of the Economic Development Financing Law (the Law); 2) acquire, hold, construct, improve, maintain, own, finance, and lease projects as defined in the Law; 3) be a leading organization for promoting economic development of the Borough; 4) enhance the economic development of the Borough and promote and assist in the growth and development of business and industry within the Borough, including small business concerns; 5) assist in the development of projects, as such term is defined in the Law, or in cooperation and coordination with federal, state, and local government entities and civic bodies and, to the extent authorized by the Law, private parties, to aid, assist and foster the planning, replanning, development, renewal, redevelopment and improvement of the central business district and the industrial and economic health of the Borough; and 6) work with the Borough and Borough Council for the betterment of the Borough, its residents, and its businesses.

Complete financial statements for the Authority can be obtained from the **Borough of Elizabethtown** office at 600 South Hanover Street, Elizabethtown, PA 17022.

Joint Ventures

Elizabethtown Area Community Services Authority (EACSA)

The Elizabethtown Area Community Services Authority (EACSA) was formed to acquire the Elizabethtown Area Community Center which is located at 70 South Poplar Street in the Borough. The EACSA is composed of an eight-member board with two representatives from each of the four surrounding municipalities: **Borough of Elizabethtown**, Conoy Township, Mount Joy Township, and West Donegal Township. The EACSA operates a gym, social service agencies, senior center, and school-aged day care. The EACSA is not reported as part of the Borough's reporting entity. For the year ended December 31, 2015, the Borough did not make any contributions to EACSA. A copy of EACSA's state filing can be obtained from the **Borough of Elizabethtown** office at 600 South Hanover Street, Elizabethtown, PA 17022.

Elizabethtown Area Water Authority (EAWA)

The Elizabethtown Area Water Authority (EAWA) was formed to own, operate, and maintain the water systems of **Borough of Elizabethtown** and West Donegal Township. EAWA was created through the adoption of various ordinances and resolutions between the Borough, West Donegal Township, and the West Donegal Township Authority for the transfer of property, assets, personnel, and inventory to the new entity. EAWA merged with Mount Joy Township Authority (MJTSA)'s water operations as of January 1, 2012. The board of EAWA is composed of two members from the **Borough of Elizabethtown**, West Donegal Township, and Mount Joy Township. EAWA is not reported as part of the Borough's reporting entity.

For the year ended December 31, 2015, the Borough made contributions and paid for water services of \$12,791 to EAWA of which \$10,725 was reported as an expenditure of the general fund, \$1,797 was reported in the sewer fund and \$269 was reported in the train station fund. Complete financial statements for EAWA can be obtained from the Elizabethtown Area Water Authority Manager, 211 West Hummelstown Street, Elizabethtown, PA 17022.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint Ventures (Continued)

Greater Elizabethtown Area Recreation and Community Services (GEARS)

The Greater Elizabethtown Area Recreation and Community Services (GEARS) were formed to provide recreational, continuing education, and social-service activities/programs for the children, youth, and adults of the participating municipalities in a fiscally responsible manner. The GEARS is composed of a twelve-member board with three members from each of the following four entities: **Borough of Elizabethtown**, Elizabethtown Area School District, Mount Joy Township, and West Donegal Township. GEARS is not reported as part of the Borough's reporting entity. As a member of GEARS, the **Borough of Elizabethtown** is required to make a capital reserve contribution and quarterly contributions to GEARS. For the year ended December 31, 2015, the Borough contributed \$99,916 to GEARS which was reported as an expenditure of the general fund. Complete financial statements for GEARS can be obtained from the GEARS office at the Elizabethtown Area Middle School at 600 East High Street, Elizabethtown, PA 17022.

Lancaster County Tax Collection Bureau (Bureau)

The Borough participates with 16 school districts and the municipalities represented by those school districts for the collection of earned income taxes and local service taxes. Each public school district appoints one member to serve on the joint operating committee and 16 members are appointed by the participating municipalities. The Bureau's operating expenditures are deducted from the distributions which are made monthly. The Borough's portion of the operating expenditures for the year ended December 31, 2015 was \$24,557. Financial information for the Bureau can be obtained from the Administrative Office at 1845 William Penn Way, Lancaster, PA 17601.

Basis of Presentation - Fund Accounting

The accounts of the Borough are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts comprising each fund's assets, liabilities, fund equity, revenues, and expenditures or expenses. The funds are grouped into the categories governmental, proprietary, and fiduciary.

Governmental Fund Types

Governmental funds are used to account for the Borough's expendable financial resources and related liabilities, except those accounted for in proprietary funds. The following are the Borough's governmental fund types:

General Fund - The general fund is the principal operating fund of the Borough. It is used to account for all financial resources except those accounted for in another fund. It also includes the Borough's stabilization fund.

Capital Project Funds - These funds are used to account for all financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The capital project fund includes the capital reserve fund, the construction fund, and the general vehicle sinking fund.

Debt Service Fund - This fund is used to account for the accumulation of resources for, and payment of, long-term debt interest and principal.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Fund Types (Continued)

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. It is comprised of the following funds: the parks and recreation fund, the liquid fuels fund, the police training fund, and the train station fund.

Proprietary Fund Types

Proprietary funds are used to account for activities that are similar to those often found in the private sector. Following is the Borough's proprietary fund types:

Enterprise Fund - The enterprise fund is used to account for the Borough's operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost of providing goods or services to the residents on a continuing basis be financed or recovered primarily through user charges or cost reimbursement plans. The sewer fund is used to account for those financial activities. This fund accounts for the revenues and expenses of providing sewer service to residents, commercial and industrial entities, and other neighboring municipalities.

Internal Service Funds - These funds are used to account for hospitalization and unemployment costs which are services provided to the Borough employees as benefits. These funds include the health insurance fund and unemployment compensation fund.

Fiduciary Fund Types

These are the funds that account for the assets held by the Borough as a trustee or agent for individuals, private organizations, and/or governmental units. The funds included in this category are:

Pension Trust Funds - These funds are used to account for the accumulation of resources to be used for retirement and other benefits. These funds include the non-uniformed pension fund and police pension fund.

Expendable Trust Fund - This fund reports assets held by the Borough for the benefit of its employees pursuant to an Internal Revenue Code Section 457 deferred compensation plan.

Agency Funds - These funds are used to account for assets held by the Borough as agent for others. Agency funds are custodial in nature and do not involve measurement of results of operations. These funds include the payroll fund and subdivision fee escrow fund.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Major and Nonmajor Funds

The funds are further classified major and nonmajor as follows:

Major:

General Fund

Capital Projects Funds:

Capital Project Fund

General Vehicle Sinking Fund

Special Revenue Fund:

Parks and Recreation Fund

Proprietary Fund:

Sewer Fund

Nonmajor:

Special Revenue Funds:

Liquid Fuels Fund

Police Training Fund

Train Station Fund

Debt Service Fund

Government-Wide Financial Statements

The statement of net position - cash basis and the statement of activities - cash basis display information about the Borough as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the Borough that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the cash basis of accounting which is the same accounting basis used in preparing the fund financial statements.

The government-wide statement of activities - cash basis presents direct expenses and program revenues for each function or program of the Borough's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Borough, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Borough.

Fund Financial Statements

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for nonmajor funds. Fiduciary funds are reported by fund type.

Basis of Accounting

The accounting and financial reporting treatment is determined by the basis of accounting. The basis of accounting indicates the timing of transactions or events for recognition in the financial reports.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

The government-wide financial statements and the fund financial statements are reported using the cash basis of accounting. Revenues are recorded when received and expenses are recorded when paid. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources. When both restricted and unrestricted resources are available for use, it is the Borough's policy to use restricted resources first, then unrestricted resources as they are needed.

The Borough distinguishes 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 Borough's principal ongoing operations. The principal operating revenues of the Borough are charges to customers for sales and services. Operating expenses include the cost of sales and services, and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When amounts are available in multiple fund balance classifications, it is the Borough's policy to normally use funds in the following order: restricted, committed, assigned, and unassigned. The Borough may elect to selectively spend unassigned balances first to defer the use of these classified balances.

Budgets and Budgetary Accounting

An operating budget is adopted each year for substantially all funds on the cash basis of accounting. The budget for 2015 was proposed November 20, 2014, with final adoption on December 18, 2014. There were no budget revisions or amendments.

Budgetary data are included in the Borough's management information system and are employed as a management control device during the year.

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand and interest-bearing bank deposits. They are carried at cost, which approximates fair value.

Investments

Investments are recorded at market value.

Capital Assets and Depreciation

The Borough follows the cash basis of accounting and records all capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), as an expenditure or expense when purchased. Since the capital assets are recorded as an expenditure or expense when purchased, no depreciation is computed on these assets.

Compensated Absences

The Borough allows full time police officers to accumulate sick leave and compensatory time. Up to 175 days of unused sick leave and 100 hours of compensatory time can carry forward year to year. Upon termination or retirement, the officer will be paid for these accumulated days at a rate of fifty percent of accumulated sick leave and one hundred percent of compensatory time up to the maximum days. These amounts are recorded as expenses when paid.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pension Plans

All eligible full-time employees of the Borough participate in either the defined contribution non-uniformed pension plan or the defined benefit police pension plan. The Borough adheres to GASB Statement No. 67, *Financial Reporting for Pension Plans*. That statement establishes a financial reporting framework for state and local governmental pension plans that are administered through trusts or equivalent arrangements. GASB 67 applies to stand-alone financial statements issued for governmental pension plans, and to pension plans included as pension trust funds of the sponsoring government unit. That statement establishes a financial reporting framework for defined benefit pension plans that distinguishes between two categories of information: (a) current financial information about plan assets and financial activities, and (b) actuarially determined information, from a long-term perspective, about the funded status of the plan and the progress being made in accumulating sufficient assets to pay benefits when due.

The Borough also adheres to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, which amends GASB Statement No. 27*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The financial statements for the Borough are prepared on the cash basis of accounting and therefore do not reflect any long-term liabilities or related expenses. The Borough made all required contributions for the year ended December 31, 2015, and has recognized them as expenditures and expenses in the governmental and proprietary funds, respectively.

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of pooled separate accounts is principally derived from the market value of the underlying investments, which are valued at quoted market prices. Unit values of pooled separate accounts are calculated daily. Unallocated insurance contracts are valued at contract value. Contract value represents contributions made under the contract, plus interest at the contracted rate, less funds used to pay benefits or administrative expenses charged by the insurance contract holder.

Fund Balance Classification

Fund balance for the governmental funds can be classified in five different categories: nonspendable, restricted, committed, assigned, and unassigned.

Nonspendable fund balance includes amounts that are not in a spendable form or are required to be maintained intact.

Restricted fund balance includes amounts that can be spent only for specific purposes stipulated by external resources providers, constitutionally, or through enabling legislation. Restrictions may be changed only with the consent of the resource providers.

Committed fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the Borough Council. Commitments may be changed only by the government taking the same formal action that imposed the constraint originally.

Assigned fund balance comprises amounts intended to be used by the government for specific purposes. Intent can be expressed by the Borough Council or by an official or body to which the Borough Council delegates the authority.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classification (Continued)

In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Unassigned fund balance is the residual classification for the general fund and includes all amounts not contained in other classifications. Unassigned amounts are available for any purpose.

The Borough typically considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. However, the Borough reserves the right to selectively spend unassigned resources first to defer the use of the classified balances. The Borough considers committed and assigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classification could be used.

Interfund Activity

Exchange transactions between governmental funds or between proprietary funds are eliminated on the government-wide statements.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Use of Estimates

The process of preparing financial statements in conformity with the cash basis of accounting requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accordingly, actual results may differ from those estimates. The Borough's most significant estimates relate to the determination of postemployment healthcare benefit obligations, expense allocations, and actuarially determined amounts related to its pension plans as disclosed in Note 7.

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. No extraordinary items occurred during the year ended December 31, 2015.

Special items are transactions or events that are within the control of the Borough and that are either unusual in nature or infrequent in occurrence. The Borough considers the receipt of debt proceeds from the 2015 General Obligation Note Series A in the amount of \$467,658 to be a special item for the year ended December 31, 2015.

Pending Changes in Accounting Principles

In March 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. The objective of this statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. The provisions of this statement are effective for the Borough's 2016 financial statements.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pending Changes in Accounting Principles (Continued)

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and accountability. The provisions of this statement are effective for the Borough's 2016 financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions (OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and accountability. The provisions of this statement are effective for the Borough's 2017 financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The objective of this statement is to improve accounting and financial reporting for state and local governments for postemployment benefits other than pensions (OPEB). The provisions of this statement are effective for the Borough's 2018 financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to identify the hierarchy of generally accepted accounting principles (GAAP) in the context of the current governmental financial reporting environment. The provisions of this statement are effective for the Borough's 2016 financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. The objective of this statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs in order to better assess (a) whether current-year revenues were sufficient to pay for current-year services, (b) compliance with finance-related legal or contractual requirements, (c) where a government's financial resources come from and how it uses them, and (d) financial position and economic condition and how they have changed over time. The provisions of this statement are effective for the Borough's 2016 financial statements.

In December 2015, GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The provisions of this statement are effective for the Borough's 2016 financial statements.

In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. The objective of this statement is to enhance comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. The provisions of this statement are effective for the Borough's 2016 financial statements.

The effects of the implementation of these standards have not yet been determined.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Standards Adopted in 2015

During the current year, the Borough adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which amends GASB Statement No. 27. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The financial statements for the Borough are prepared on the cash basis of accounting and therefore do not reflect any long-term liabilities or related expenses. Disclosures related to the pension plans have been expanded to improve decision usefulness, support assessments of accountability, and create additional transparency.

Commensurate with implementation of GASB Statement No. 68, the Borough adopted GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*. This statement amends GASB Statement No. 68 and requires that, at transition, a government should recognize a beginning deferred outflow of resources for its pension contributions made after the measurement date of the beginning net pension liability. The financial statements of the Borough are prepared on the cash basis of accounting and therefore do not reflect any long-term liabilities or related expenses.

NOTE 2 - CASH and CASH EQUIVALENTS and INVESTMENTS

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of governmental funds for investment purposes. In addition to the investments authorized for governmental funds, fiduciary fund investments may also be made in corporate stocks and bonds, real estate, and other investments consistent with sound business practice.

The deposit and investment policy of the Borough adheres to state statutes and prudent business practice. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the Borough.

Cash and Cash Equivalents - Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Borough does not have a policy to limit custodial credit risk for cash accounts. As of December 31, 2015, \$7,419,918 of the Borough's bank balance of \$7,681,285 was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	-0-
Collateralized with Securities Held by the Pledging Financial Institution	-0-
Uninsured and Collateral Held by the Pledging Financial Institution's	
Trust Department not in the Borough's Name	<u>7,419,918</u>
	7,419,918

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 2 - CASH and CASH EQUIVALENTS and INVESTMENTS (Continued)

Reconciliation of Cash and Cash Equivalents to the Financial Statements

Uninsured Amount Above	7,419,918
Insured Amount	<u>261,367</u>
Bank Balance	7,681,285
Outstanding Checks	<u>(138,624)</u>
Total Cash and Cash Equivalents per the Financial Statements	7,542,661

Investments

As of December 31, 2015, the Borough had the following investments:

Investments	Maturity	Fair Value
Corporate & Foreign Bonds	< 1 Year	602,851
Corporate & Foreign Bonds	1 - 5 Years	3,152,148
Corporate & Foreign Bonds	6 - 10 Years	652,637
Federal Home Loan Bank Notes	< 1 Year	30,613
Federal Home Loan Bank Notes	1 - 5 Years	30,096
Federal Home Loan Bank Notes	6 - 10 Years	111,837
Federal Farm Credit Bank Notes	< 1 Year	30,025
Federal Farm Credit Bank Notes	6 - 10 Years	29,511
Federal Home Loan Mortgage Corp	1 - 5 Years	224,986
U.S. Treasury Notes	< 1 Year	50,859
Federated Government Obligations Money Market Fund		81,810
State and Municipal Bonds	< 1 Year	115,310
State and Municipal Bonds	1 - 5 Years	1,165,976
State and Municipal Bonds	6 - 10 Years	223,114
Common Stocks		3,001,172
Nationwide Pooled Separate Accounts		<u>1,235,300</u>
		10,738,245

Interest Rate Risk

The Borough limits its exposure to fair value losses arising from increasing interest rates by limiting the maturity of investments, except for investments in the pension fund, to a maximum of five years. The investment policy for the pension fund is contained in the pension plan documents and disclosed in Note 7.

Credit Risk

The Borough has adopted a formal investment policy that limits its investment choices for all funds, except the pension fund, to investments backed by the U.S. government and other select high-grade investments. The investment policy prescribes diversification and sets the primary investment objectives, in priority order, as safety, liquidity, and yield. The investment policy for the pension fund is contained in the pension plan documents and disclosed in Note 7.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 2 - CASH and CASH EQUIVALENTS and INVESTMENTS (Continued)

Credit Risk (Continued)

As of December 31, 2015, the Borough's investments were rated as:

	Money Market Mutual Fund	US Government Agencies	State and Municipal Bonds	Corporate Debt	Government Related Entities
AAA	81,810		82,013	108,153	
AA		50,859	868,955	1,075,558	457,068
A			477,740	2,992,132	
BBB				231,793	
Not Rated			75,692		
	<u>81,810</u>	<u>50,859</u>	<u>1,504,400</u>	<u>4,407,636</u>	<u>457,068</u>

Concentration of Credit Risk

The Borough's investment policy for non-pension related investments sets standards to ensure diversification to avoid concentrations of credit risk. The investment policy related to pension fund investments is contained in the pension plan documents. Concentrations are defined as investments held by the Borough, other than those issued or explicitly guaranteed by the U.S. Government, in any one organization that represent 5% or more of the total investments. At December 31, 2015, there were no concentrations for the Borough's total investments.

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's investment policy for non-pension funds does not prescribe specified percentage limits for investment options but sets broader guidelines regarding diversification. The Borough has investments subject to custodial credit risk in its investments in the insurance company's general account and pooled separate accounts of one insurance company. Of the Borough's investment securities of \$10,738,245 at December 31, 2015, \$1,235,300 are held by the insurance company, not in the name of the Borough, consisting of \$257,825 in the insurance company's general account and \$977,475 in various pooled separate accounts.

NOTE 3 - REAL ESTATE TAXES

Based on assessments provided by the county, real estate taxes are billed and collected by the tax collector. The Borough's tax rate for the year ended December 31, 2015, was 5.20 mills (\$5.20 per \$1,000 of assessed valuation) as levied by Borough Council.

The schedule for real estate taxes levied each year is as follows:

February 1	Levy Date
February 1 - April 30	2% Discount Period
May 1 - June 30	Face Payment Period
July 1 - December 31	10% Penalty Period
January 1	Lien Date

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 4 - INTERFUND ACCOUNTS

Interfund transfers for the year ended December 31, 2015, were as follows:

Fund	Transfers In	Transfers Out
General Fund	319,997	737,052
Capital Project Fund	733,219	428,760
Debt Service Fund	540,270	497
General Vehicle Sinking Fund	127,000	-0-
Parks and Recreation Fund	20,000	-0-
Health Insurance Fund	-0-	277,500
Sewer Revenue Fund	<u>1,000</u>	<u>297,677</u>
	1,741,486	1,741,486

Transfers were made from the general fund to the debt service fund for debt service payments.

Transfers were made from the general fund to the general vehicle sinking fund to fund vehicle purchases.

Transfers were made from the general fund to the capital project fund to fund future capital projects.

Transfers were made from the general fund to the parks and recreation fund to fund future park projects.

Transfers were made from the construction fund to the capital reserve fund to transfer receipt of grant proceeds.

Transfers were made from the debt service fund to the general fund related to debt service payments.

Transfers were made from the health insurance fund to the general fund for health insurance payments.

Transfers were made from the health insurance fund to the sewer revenue fund for health insurance payments.

Transfers were made from the sewer revenue fund to the debt service fund for debt principal and interest payments.

Transfers were made from the sewer revenue fund to the general vehicle sinking fund to fund vehicle purchases.

NOTE 5 - GENERAL LONG-TERM DEBT

The Borough issues general obligation debt to provide funds for major capital improvements. The debt service of the sewer revenue bonds is secured by and payable out of the revenues from the sewer system. The Borough has pledged its full faith, credit, and taxing power for the guarantee of the debt service on the general obligation bonds and notes.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 5 - GENERAL LONG-TERM DEBT (Continued)

The Borough issued the General Obligation Note - Series of 2009, a \$836,300 non-revolving drawdown note, for the purposes of funding the improvements to the Borough's street lights. Payments on the note are due June 15th and December 15th through June 15, 2022 at a fixed interest rate of 4.29%. Due to unforeseen changes in the scope of this project, the Borough did not draw down on the full amount of available funds and borrowed only \$423,500 on this note. There was no balance outstanding as of December 31, 2015 as the amount of the note was paid off during the year.

The Borough issued General Obligation Bonds - Series 2010 in the amount of \$6,435,000 for the purpose of a current refunding of the General Obligation Bonds Series of 2005 and to pay the related costs. These underlying funds were initially borrowed for the purpose of the expansion and upgrade of the wastewater treatment plant, expansion of the effluent outfall system and expansion of the sewage collection system. Debt service payments are funded by a transfer from the sewer fund to the debt service fund. Payments on the bonds are due June 1st and December 1st through December 1, 2025 with interest rates from 2.000% to 3.625%. During 2015, General Obligation Note Series 2015 A was issued to pay off the balance of this bond. Due to the refunding, there was no balance outstanding at December 31, 2015.

The General Obligation Bond - Series 2013, a \$3,000,000 revolving drawdown bond, was issued for the purposes of funding capital projects related to the Elizabethtown Amtrak Station. The bond is payable in full on May 16, 2016. Until then, interest accrues at an annual variable rate of 66.30% of the sum of one-month LIBOR plus 225 basis points, with a minimum rate of 2.75% and a maximum rate of 7.00%. Interest payments are due quarterly. The Borough drew down \$329,026 on the bond during 2015. There was no balance outstanding as of December 31, 2015 as the amount of the bond was paid off during the year.

The Borough issued General Obligation Note - Series A of 2015 in the amount of \$4,939,000 for the purposes of an advance refunding the General Obligation Bonds Series 2010 and to pay the related costs. These underlying funds were initially borrowed for the purpose of the expansion and upgrade of the wastewater treatment plant, expansion of the effluent outfall system and expansion of the sewage collection system. Debt service payments are funded by a transfer from the sewer fund to the debt service fund. The note matures on December 1, 2025. Payments are due June 1st and December 1st through December 1, 2022, the fixed rate term, at a fixed interest rate of 1.900%. At the conclusion of the fixed rate term, interest will accrue at the lesser of 66.00% of the *Wall Street Journal* Prime Rate reset on the first day of the month, or 3.750% with a maximum rate of 3.750%. The balance outstanding at December 31, 2015 was \$4,744,450. As a result of this advanced refunding, the Borough reduced its total debt service requirement of the General Obligation Bonds Series of 2010 by \$275,430, which resulted in an economic gain (difference between present value of the debt service payments of the refunded and refunding bonds) of \$274,626.

The General Obligation Note - Series AA of 2015, a \$1,510,000 revolving drawdown note, was issued for the purposes of funding capital projects related to the construction of a new Public Works Facility. The note matures on December 1, 2034. Payments are due June 1st and December 1st through December 1, 2025, the fixed rate term, at a fixed interest rate of 2.250%. At the conclusion of the fixed rate term, interest will accrue at the lesser of 66.00% of the *Wall Street Journal* Prime Rate reset on the first day of the month, or 4.850% with a maximum rate of 4.850%. The Borough drew down \$29,632 on the note during 2015. The balance outstanding at December 31, 2015 was \$29,632.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 5 - GENERAL LONG-TERM DEBT (Continued)

Currently, the Borough has debt with interest rates and outstanding principal amounts at December 31, 2015, as follows:

	Interest Rates	Principal Amount Outstanding at December 31, 2015
General Obligation Note - Series A of 2015	1.90%	4,744,850
General Obligation Note - Series AA of 2015	2.25%	<u>29,632</u>
		4,774,482

The following schedule reveals the annual debt service requirements to maturity for each of the debt issues:

Year Ending December 31	General Obligation Note, Series of 2015 A		General Obligation Bonds, Series of 2015 AA	
	Interest Payment	Principal Payment	Interest Payment	Principal Payment
2016	90,154	440,850	667	29,632
2017	81,776	445,460	-0-	-0-
2018	73,312	458,550	-0-	-0-
2019	64,600	464,960	-0-	-0-
2020	55,766	476,200	-0-	-0-
2021 - 2025	<u>196,071</u>	<u>2,458,830</u>	<u>-0-</u>	<u>-0-</u>
	561,679	4,744,850	667	29,632

Year Ending December 31	Totals	
	Interest Payment	Principal Payment
2016	90,821	470,482
2017	81,776	445,460
2018	73,312	458,550
2019	64,600	464,960
2020	55,766	476,200
2021 - 2025	<u>196,071</u>	<u>2,458,830</u>
	562,346	4,774,482

Changes in Long-Term Liabilities

During the year ended December 31, 2015, the following changes occurred in long-term liabilities:

	Balance January 1	Additions	Reductions	Balance December 31
Governmental Activities				
General Obligation Debt	702,084	358,658	1,031,110	29,632
Compensated Absences	<u>243,996</u>	<u>15,591</u>	<u>32,089</u>	<u>227,498</u>
Total Governmental Activities	946,080	374,249	1,063,199	257,130

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 5 - GENERAL LONG-TERM DEBT (Continued)

Changes in Long-Term Liabilities (Continued)

	Balance January 1	Additions	Reductions	Balance December 31
Business-Type Activities				
General Obligation Debt	<u>4,830,000</u>	<u>4,939,000</u>	<u>5,024,150</u>	<u>4,744,850</u>
Total Government	<u>5,776,080</u>	<u>5,313,249</u>	<u>6,087,349</u>	<u>5,001,980</u>

The Borough pays the long-term debt obligations from the debt service fund and capital project fund. Debt service payments from the debt service fund are funded by transfers from the general fund and the sewer revenue fund. The Borough pays the long-term compensated absences obligations from the general fund.

NOTE 6 - RISK MANAGEMENT

The Borough maintains both insurance contracts and self-funded arrangements to deal with the risk of loss arising from the following events: torts; theft of, damage to, or destruction of assets; business interruptions; errors and omissions; job-related illnesses or injuries to employees; acts of God; and losses resulting from providing medical benefits to employees and their dependents.

Insurance contracts cover public officials, law enforcement, automobile, and umbrella liabilities. The contracts also provide employee, tax collector, treasurer, and employee blanket bonds.

The Borough has self-funded arrangements, as described below, for health, unemployment, and workers' compensation claims.

Health Insurance

The Borough is a member of the Intergovernmental Insurance Cooperative (IIC) through which it self-insures for employee health claims. These claims are administered by a third party administrator (TPA). During the year ended December 31, 2015, the Borough remitted their contracted monthly amount to IIC who pays the funds directly to the TPA. Under the shared pooling agreement with IIC, the Borough's claims may exceed their monthly contributions and no additional payments are required to cover their underpayment. At the end of the pool's fiscal year in March, the excess or deficit of the pool is allocated to all the members. The Borough was limited in liability for claims to \$40,000 individually and approximately \$659,000 in the aggregate.

Employee contributions are recorded in the health insurance fund for the plan. Borough contributions for monthly claims liability are shown in the general and sewer funds for the year ended December 31, 2015.

As of December 31, 2015, there are no additional assessments relating to the health plan.

Unemployment

The Borough has elected to self-insure for unemployment compensation rather than contribute to the state fund. Monies are deposited into the unemployment compensation fund to fund the payment of these unemployment claims. Expenditures are recorded in the unemployment compensation fund when invoiced by the state and paid by the Borough. There were no unemployment claims paid in 2015.

As of December 31, 2015, the Borough is not aware of any additional unemployment claims.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 6 - RISK MANAGEMENT (Continued)

Self-Insurance - Workers' Compensation

The Borough participates in the Susquehanna Municipal Trust which is a cooperative voluntary trust arrangement for sixty-seven member municipal entities. This agreement states that the Borough pays an annual premium to the trust for the purpose of seeking prevention or lessening of claims due to injuries of employees of the members and pooling workers' compensation and occupational disease insurance risks, reserves, claims, and losses and providing self-insurance and re-insurance thereof.

It is the intent of the members of the trust that the trust will utilize funds contributed by the members to provide self-insurance and reimbursement to the members for their obligations to pay compensation as required under the Workers' Compensation Act and the Pennsylvania Occupational Disease Act and to purchase excess and aggregate insurance. The trust is limited in liability up to \$1,000,000 for a claim over its life. As of December 31, 2015, the Borough is not aware of any additional assessments relating to the trust.

NOTE 7 - PENSION PLANS

The **Borough of Elizabethtown** administers one single employer defined benefit pension plan - the police pension plan (PPP). The Borough also administers a defined contribution pension plan - the non-uniformed employee pension plan (NEPP). The assets of the plans are not commingled. The plans do not issue stand-alone financial statements.

Summary of Significant Accounting Policies

Basis of Accounting

The plans' financial statements are prepared using the cash basis of accounting. Contributions to the plans are recognized in the period in which contributions are made. Benefits are recognized when paid.

Method Used to Value Investments

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Fixed income securities are valued by a recognized pricing service based on observable inputs.

Plan Membership

Membership of each plan consisted of the following at January 1, 2015, the date of the latest actuarial valuation:

	PPP	NEPP
Retirees and Beneficiaries Currently Receiving Benefits and Terminated Employees Entitled to Benefits, but not yet Receiving Them	7	-0-
Active Plan Participants:		
Fully Vested	10	15
Partially Vested	0	5
Non-Vested	<u>6</u>	<u>3</u>
	<u>16</u>	<u>23</u>
Total Plan Membership	23	23

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 7 - PENSION PLANS (Continued)

POLICE PENSION PLAN

The PPP is a single-employer defined benefit pension plan controlled by the provisions of municipal ordinance adopted pursuant to Act 205.

Plan Administration

The plan is governed by Borough Council which may amend plan provisions, subject to collective bargaining and to Act 600, *the Municipal Police Pension Law*. Borough Council is responsible for the management of plan assets, and has delegated the authority to manage certain plan assets to Susquehanna Trust and Investment Company.

Benefits Provided

The PPP covers all full-time, uniformed employees of the Borough upon employment and provides retirement, disability, and death benefits to plan members and their beneficiaries.

Members are eligible for normal retirement upon attaining age 50 and 25 years of vesting service. The normal retirement benefit is equal to 50% of average monthly compensation during the final 36 months of employment, plus an additional \$20.00 per month for each completed year of service in excess of 25 years, up to an additional \$100.00 per month. Members hired before 1993 have all their unused sick leave included in final pay. Members hired after 1992 only have unused sick leave earned over their last 36 months included. Upon death, the retiree's spouse or eligible child receives a benefit equal to 50% of the member's benefit. Active members who become disabled in the line of duty are eligible for disability pension benefits equal to 50% of the member's monthly salary at the time of disability. If an active member is eligible for retirement on the date of death, monthly death benefits are payable to his/her surviving spouse or eligible child equal to 50% of the monthly benefit the member would have been receiving if retired at the time of death.

The plan administrator will only take into account the first \$265,000 of compensation, as adjusted for cost-of-living increases in accordance with IRC Section 402(a)(17) of any participant's annual compensation for determining all benefits provided under the plan for the applicable 12 month period. An annual cost-of-living adjustment which is tied to the percentage of adjustment to social security benefits for the year, is made to retired members with a maximum total cost-of-living increase of 20%, and a maximum benefit of 75% of the salary used for computing retirement benefits. The cost of living adjustment for 2015 was 1.7%.

Funding Standards and State Aid

The Borough is required to make annual contributions to the plan pursuant to Act 205, which specifies minimum funding standards for municipal pension plans in the Commonwealth. Act 205 requires the Borough to budget and contribute to the plan the minimum municipal obligation, which includes both the normal cost of the plan and an amortization contribution sufficient to amortize unfunded liabilities by target dates established under the Act.

Act 205 also establishes a general municipal pension system state aid program, financed by a tax on the premiums of casualty and fire insurance policies sold in the Commonwealth. The Borough is eligible for this aid for each of its pension plans; however, the ultimate obligation to contribute the minimum municipal obligation to the plans is the Borough's.

Vesting

A member's benefits vest upon completion of 12 years of vesting service.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 7 - PENSION PLANS (Continued)

POLICE PENSION PLAN (Continued)

Contributions

Plan members are required to contribute 5% of pay. However, if an actuarial study shows the plan to have sufficient assets to fund plan benefits, employee contributions may be suspended.

The Borough is required to make actuarially determined periodic contributions as outlined in the funding standards and state aid section.

The Borough contributed \$427,654, of which \$140,671 was Act 205 funds, and members contributed \$72,186 during 2015.

Investment Policy

The plan's policy in regard to the allocation of invested assets is established and may be amended by Borough Council by a majority vote of its members. It is the policy of the Borough Council to pursue an investment strategy to obtain a reasonable diversification of investments, which have a ready market for resale. The following was the Borough's adopted asset allocation policy as of December 31, 2015:

Asset Class	Target Allocation
Short-term investments with maturities of one year or less which do not substantially fluctuate in market value	0 - 25%
Intermediate-term fixed income securities that provide a reasonable rate of investment income with relatively small fluctuations in market value	50 - 70%
Long-term fixed income securities that provide a reasonable rate of investment income with potential wide fluctuations in market value	0 - 10%
Common stocks or equity funds which provide for the possibility of long-term growth in market value	25 - 45%

Concentrations

Concentrations are defined as investments held by the PPP, other than those issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments, in any one organization that represent 5% or more of the plan's fiduciary net position. At December 31, 2015, there were no concentrations for the Borough's PPP investments.

Rate of Return

For the year ended December 31, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 1.33%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 7 - PENSION PLANS (Continued)

POLICE PENSION PLAN (Continued)

Net Pension Liability

The total pension liability is based on the January 1, 2015 actuarial valuation and updated procedures were used to roll forward the total pension liability to the plan's December 31, 2015 year end. The components of the net pension liability of the PPP at December 31, 2015, were as follows:

Total Pension Liability	9,099,429
Plan Fiduciary Net Position	<u>8,341,415</u>
Net Pension Liability	758,014
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	91.7%

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2015, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation - Moderate inflation based on long-term historical average rates. Provision is not made for advance funding of sharply higher rates of inflation experienced in some years. The effects of such higher rates are reflected in the funding after their occurrence.

Actuarial Value of Assets - Market value as determined by the trustee.

Actuarial Cost Method - Entry Age Normal

Salary Increases - 5.00% annual increases.

Investment Rate of Return - 7.00%

Mortality Rates - Mortality rates were based on the RP-2000 table, which does not include projected mortality improvements.

Disability Rates - SOA 1987 group LTD table - males, 6 month elimination. 100% of disabilities are assumed to be service-related.

Retirement Date - Active members are assumed to retire upon attaining age 53 and 25 years of service, or age on valuation date, if greater. Vested former members are assumed to retire at normal retirement age, or age on valuation date, if greater.

Preretirement Death Benefit - Liabilities are computed on the assumption that all participants will have spouses of the same age at the date of eligibility.

Unused Sick Leave in Final Average Pay at Retirement - For participants with 20 or more years of service at 1/1/2013, a load of 10.5% is added to the retirement liability. All other participants are valued with a load of 2.3%.

Expenses - Provision for administrative expenses is added to annual contribution requirement.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 7 - PENSION PLANS (Continued)

POLICE PENSION PLAN (Continued)

Actuarial Assumptions (Continued)

Cost of Living Increases - 3.00% per year.

Changes in Actuarial Assumptions and Methods -

	<u>Prior</u>	<u>Current</u>
Cost of Living	4.00%	3.00%

Long-Term Expected Rate of Return - The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected Inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plans' target asset allocation as of December 31, 2015 are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.00 - 3.00%
Domestic Equity	5.50 - 7.50%
International Equity	4.50 - 6.50%
Real Estate	4.50 - 6.50%
Cash	0.00 - 1.00%

Discount Rate - The discount rate used to measure the total pension liability was 7.00% and is based on the long-term expected rate of return on pension plan investments that are expected to be used to finance the payment of benefits. The plan's fiduciary net position is projected to be sufficient to make projected benefit payments and plan assets are expected to be invested using a strategy to achieve that return. The Borough has always met the funding requirements of Act 205, which required full funding of the entry age normal cost plus plan expenses, as well as amortization of the unfunded liability to ultimately achieve a 100% funded status.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the PPP, calculated using the discount rate of 7.00% as determined in the January 1, 2015 valuation, as well as what the net pension liability of the PPP would be if it were calculated using a discount rate that is 1 percentage point lower (6.00%) or 1 percentage point higher (8.00%) than the current rate.

Interest Rate	Net Pension Liability
6.00%	747,423
7.00%	758,013
8.00%	768,604

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 7 - PENSION PLANS (Continued)

POLICE PENSION PLAN (Continued)

Changes in the Net Pension Liability - PPP

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Increase (Decrease) in Net Pension Liability (a) – (b)
Balance at 12/31/14	8,980,548	8,154,565	825,983
Changes for the year:			
Service Cost	229,466		229,466
Interest	74,131		74,131
Changes in benefit terms	30,506		30,506
Differences between expected and actual experience	153,120		153,120
Changes in assumptions	2,748		2,748
Contributions - Employer		286,983	(286,983)
Contributions - Commonwealth		140,671	(140,671)
Contributions - Employee		72,186	(72,186)
Net investment income		62,980	(62,980)
Benefit payments, including refunds of employee contributions	(371,090)	(371,090)	-0-
Administrative expense		(4,880)	4,880
Net changes	<u>118,881</u>	<u>186,850</u>	<u>(67,969)</u>
Balance at 12/31/15	9,099,429	8,341,415	758,014

NON-UNIFORMED EMPLOYEE PENSION PLAN

NEPP is a single-employer defined contribution pension plan controlled by the provisions of municipal ordinance adopted pursuant to Act 205. The NEPP covers all of the Borough's general employees who attain age 18, work at least 37.5 hours per week, as a full-time permanent employee that is not a police officer.

Plan Administration

The plan is governed by Borough Council which may amend plan provisions, subject to the Borough Code. Borough Council is responsible for the management of plan assets, and has delegated the authority to manage certain plan assets to Susquehanna Trust and Investment Company.

Benefit Provisions

Normal retirement benefits are paid, commencing at age 65, in the form of a life or joint and survivor annuity, subject to certain minimum balance requirements. Lump sum payments may be paid at the option of the participant.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 7 - PENSION PLANS (Continued)

NON-UNIFORMED EMPLOYEE PENSION PLAN (Continued)

Vesting

Participants are vested in the employer's contributions in accordance with the following schedule:

Completed Years of Service	Vested Percentage
0 - 2	0%
3	20%
4	40%
5	60%
6	80%
7 or more	100%

Forfeitures are added to the employer base contribution account of each participant who is employed by the Borough on the last day of the plan year, in proportion to compensation during the plan year.

Employer Contributions

The Borough contributes 6.5% percent of the active participant's pay to the NEPP (base contribution). If eligible, the Borough contributes 8.5% of the Borough Manager's pay to the NEPP. There are no participant contributions to the NEPP.

The Borough contributed \$80,592, of which \$78,896 was Act 205 funds, during 2015.

NOTE 8 - EXPENDABLE TRUST FUND

The Borough administers a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. The compensation deferred is not available to the employee or his beneficiary until termination, retirement, death, or an unforeseeable emergency. Employees can elect to defer up to a maximum percentage of their compensation as specified in the plan document. Employee contributions to the plan for the year ended December 31, 2015, were \$94,386. There are no employer contributions to the plan.

NOTE 9 - FUND BALANCE CLASSIFICATIONS

At December 31, 2015, components of fund balance are as follows:

	General Fund	Other Funds	Capital Projects Funds	Total Governmental Funds
Committed to Offset 2016 Budget Deficit	953,002	-0-	-0-	953,002

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 9 - FUND BALANCE CLASSIFICATIONS (Continued)

	General Fund	Other Funds	Capital Projects Funds	Total Governmental Funds
Restricted for:				
Construction and Maintenance of Roads and Bridges		132,189		132,189
Law Enforcement Purposes in Accordance with the Federal Equitable Sharing Program		39,160		39,160
Maintenance of the Fun Fort		8,860		8,860
General Parks Expenditures		4,088		4,088
Amphitheater Development		162,164		162,164
Capital Projects		<u>125,311</u>		<u>125,311</u>
Total Restricted	<u>-0-</u>	<u>471,772</u>	<u>-0-</u>	<u>471,772</u>
Assigned to:				
Capital Improvements			667,461	667,461
Debt Service Obligations		2,475		2,475
Vehicle and Equipment Purchases			249,387	249,387
Maintenance and Related Capital Projects of Parks and Recreation Facilities		126,740		126,740
Police Department Training and Equipment		2,566		2,566
Train Station Upkeep and Maintenance		<u>31,402</u>		<u>31,402</u>
Total Assigned	<u>-0-</u>	<u>163,183</u>	<u>916,848</u>	<u>1,080,031</u>
Unassigned	<u>529,337</u>	<u>-0-</u>	<u>-0-</u>	<u>529,337</u>
	1,482,339	634,955	916,848	3,034,142

As part of the 2012 budget, the Borough established a stabilization fund in accordance with the provisions of the Pennsylvania Borough Code Act of 1965 (the Act) related to operating reserve funds. Additions to the stabilization fund from the general fund will be determined as part of the annual budget process and shall not cause the stabilization fund's balance to exceed five percent of the estimated current year general fund revenues. The Borough intends to use such funds to balance any budget deficits from revenue shortfalls or as otherwise permitted by the Act. For financial reporting, the stabilization fund is combined with the general fund. The stabilization fund's balance at December 31, 2015 is \$277,836 and is presented as part of the unassigned general fund balance.

The Borough established fund balance policies governing fund balances of the general fund, capital projects fund, parks and recreation fund, health insurance fund, general vehicle sinking fund, and the stabilization fund. In 2015, the general fund and the parks and recreation fund exceeded their respective minimum fund balance goals. The minimum unassigned fund balance goal of the general fund is between 0.5% and 2% of the general fund budgeted or actual revenues. The minimum assigned fund balance goal of the parks and recreation fund is \$100,000. The minimum fund balance goal of the capital project fund is \$1,000,000 by 2020. The Borough plans to increase the capital project fund balance towards its minimum balance goal by annual budgeted transfers. The health insurance fund exceeded its goal by approximately \$87,000.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 10 - POSTEMPLOYMENT HEALTH CARE BENEFITS

Description

The Borough has adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post Retirement Benefits Other Than Pensions*. Relevant disclosures within this note are related to GASB Statement No. 45. The financial statements for the Borough are prepared on the cash basis of accounting and therefore do not reflect any long-term liabilities or related expenses.

The Borough maintains a single employer defined benefit plan to provide post retirement healthcare benefits to Borough employees. Under the Elizabethtown Borough Police Contract, police officers who reach normal or disability retirement are eligible to receive hospitalization and major medical benefits to age 65. If the officer was hired on or before January 1, 2009 and is married at the time of retirement, the officer's spouse to whom he/she was married at the time of retirement is eligible to receive the same benefit subject to the conditions as outlined in the police contract. Under the Elizabethtown Borough Retired Employees Medical Plan, retirees and their spouse are eligible to receive hospitalization and major medical benefits to age 65, provided that they retired prior to January 1, 2010. The Borough pays 100% of the cost of the benefit at the time of the officer's retirement, and any increase in the cost thereafter is borne by the retiree. The plan does not issue stand-alone financial statements.

Funding Policy

The Borough has elected to finance postemployment benefits on a pay-as-you-go basis. The Borough recognizes expenditures for postemployment group insurance when claims are filed with the plan administrator. These financial statements assume that pay-as-you-go funding will continue.

Annual OPEB Cost and Net OPEB Obligation

The Borough's annual cost for other post employment retirement benefits (OPEB) is calculated based on the annual required contribution (ARC) of the Borough, an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years. The following illustrates the components of the Borough's annual OPEB cost for the current year and prior year, the amount actually contributed to the Plan, and changes in the Borough's net OPEB obligation:

	2015	2014
Annual Required Contribution	255,033	258,821
Interest on OPEB Obligation	41,992	35,494
Adjustment to Annual Required Contribution	<u>(57,288)</u>	<u>(48,422)</u>
Annual OPEB Cost	239,737	245,893
Contributions Made	<u>(95,675)</u>	<u>(101,484)</u>
Estimated Increase in Net OPEB Obligation	144,062	144,409
Net OPEB Obligation - Beginning of Year	<u>933,150</u>	<u>788,741</u>
Net OPEB Obligation - End of Year	1,077,212	933,150

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 10 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The Borough's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2015, 2014, and 2013, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation End of Year
2015	239,737	40%	1,077,212
2014	245,893	41%	933,150
2013	248,567	34%	788,741

Funding Status and Funding Progress

As of January 1, 2015, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits equaled \$2,575,233, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,575,233. The covered payroll (annual payroll of active employees covered by the Plan) equaled \$1,407,766, and the ratio of the UAAL to the covered payroll equaled 182.93%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about the future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The funding progress, presented above, is to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. However, because the Borough maintains no plan assets, information relative to plan asset required disclosures is not applicable.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the Borough and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Borough and plan members to that point. There are no legal or contractual funding limitations that would potentially affect the projection of benefits for financial accounting purposes. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the actuarial valuation dated January 1, 2015, the entry age normal cost method was used. Because the Borough funds its OPEB on a pay-as-you-go basis, the Plan has no assets (investments) legally held exclusively for paying the post-retirement medical benefits. Actuarial assumptions included an interest rate of 4.5% per annum. Assumptions also include medical inflation of 6.0% in 2015 and 5.5% in 2016 through 2020; rates gradually decrease from 5.4% in 2021 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. Withdrawal rates are low and gradually decrease from 5.5% at age 20 to 0.0% at age 50. Mortality and disability are determined based on the RP 2000 Table and the SOA 1987 group LTD table, respectively. Annual per capita claims costs range from \$4,876 to \$10,264 based on age and gender.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 10 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

Actuarial Methods and Assumptions (Continued)

While most assumptions remained consisted to the January 1, 2012 valuation, the assumptions related to per capita claims costs, health care cost trend rate, and mortality, have been updated to reflect more current information.

NOTE 11 - CONTINGENCIES and COMMITMENTS

General

Amounts received from grantor agencies are subject to audit and adjustment by grantor agencies, principally the county, state, and federal government. Any disallowed claims, including amounts already collected, may constitute a future disbursement of the applicable fund. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Borough expects such amounts, if any, to be immaterial.

The Borough is involved in various claims and legal actions arising in the ordinary course of business. The outcome of these matters cannot be determined at this time.

Construction Commitment

The Borough has entered into an agreement for a sewer system capacity study. The study began in 2015 and is anticipated to be completed in 2016. As of December 31, 2015, the Borough had the following related commitment:

Sewer System Capacity Study Agreement	145,000
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Collective Bargaining Agreement

The Borough has entered into a collective bargaining agreement with the Elizabethtown Police Officers Association (the Association) which will expire December 31, 2017. The agreement stipulates wages, benefits, and general working conditions for the Borough's police officers. The scheduled pay increase for 2016 is 3%.

Borough of Elizabethtown

SCHEDULE of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES - BUDGET and ACTUAL - Cash Basis - GENERAL FUND Year Ended December 31, 2015

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 3,570,996	\$ 3,570,996	\$ 3,943,369	\$ 372,373
Licenses and Permits	141,300	141,300	193,001	51,701
Fines and Forfeits	28,500	28,500	48,334	19,834
Interests, Rents, and Royalties	21,200	21,200	24,342	3,142
Intergovernmental	286,700	286,700	298,418	11,718
Charges for Services	849,559	849,559	919,341	69,782
Total Revenues	4,898,255 *	4,898,255 *	5,426,805	528,550
EXPENDITURES				
General Government	372,979	372,979	342,028	30,951
Public Safety	2,218,409	2,218,409	2,049,226	169,183
Public Works	1,312,549	1,312,549	1,134,821	177,728
Culture and Recreation	346,876	346,876	326,196	20,680
Community Development	80,100	80,100	66,595	13,505
Insurance, Pension, and Other Benefits	1,258,496	1,258,496	1,221,620	36,876
Total Expenditures	5,589,409	5,589,409	5,140,486	448,923
EXCESS (DEFICIENCY) of REVENUES OVER EXPENDITURES	(691,154)	(691,154)	286,319	977,473
OTHER FINANCING SOURCES (USES)				
Refunds of Prior Year Expenditures	4,500	4,500	101,092	96,592
Sale of Assets	1,500	1,500	31,825	30,325
Interfund Transfers	(323,953)	(323,953)	(417,055)	(93,102)
Net Other Financing Uses	(317,953)	(317,953)	(284,138)	33,815
NET CHANGES in FUND BALANCES	\$ (1,009,107)	\$ (1,009,107)	\$ 2,181	\$ 1,011,288

*Budgeted revenue does not include budgeted beginning cash balance.

See independent auditors' report.

Borough of Elizabethtown

SCHEDULE of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES - BUDGET and ACTUAL - Cash Basis - PARKS AND RECREATION FUND Year Ended December 31, 2015

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interests, Rents, and Royalties	\$ 300	\$ 300	\$ 422	\$ 122
Intergovernmental	455,000	455,000	-0-	(455,000)
Donations	-0-	-0-	82,164	82,164
Miscellaneous	-0-	-0-	12,307	12,307
Total Revenues	455,300 *	455,300 *	94,893	(360,407)
EXPENDITURES				
Culture and Recreation	<u>720,700</u>	<u>720,700</u>	<u>93,835</u>	<u>626,865</u>
Total Expenditures	<u>720,700</u>	<u>720,700</u>	<u>93,835</u>	<u>626,865</u>
EXCESS (DEFICIENCY) of REVENUES OVER EXPENDITURES	(265,400)	(265,400)	1,058	266,458
OTHER FINANCING SOURCES				
Interfund Transfers	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>-0-</u>
Net Other Financing Sources	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>-0-</u>
NET CHANGES in FUND BALANCES	<u>\$ (245,400)</u>	<u>\$ (245,400)</u>	<u>\$ 21,058</u>	<u>\$ 266,458</u>

*Budgeted revenue does not include budgeted beginning cash balance.

See independent auditors' report.

Borough of Elizabethtown

SCHEDULE of INDEBTEDNESS

Year Ended December 31, 2015

	Year of Issue	Original Amount of Issue	Outstanding January 1, 2015	Debt Issued During Year	Principal Paid During Year	Outstanding December 31, 2015	Annual Principal Payments	Final Maturity
GENERAL OBLIGATION DEBT								
General Obligation Note, Series of 2009	2009	836,300 (4.290%)	\$ 275,430	\$ -0-	\$ 275,430	\$ -0-	Matured	
General Obligation Bonds, Series of 2010	2010	6,435,000 (2.000% - 3.625%)	4,830,000	-0-	4,830,000	-0-	Matured	
General Obligation Bonds, Series of 2013	2013	3,000,000 Variable	426,654	329,026	755,680	-0-	Matured	
General Obligation Note, Series A of 2015	2015	4,939,000 (1.900%)	-0-	4,939,000	194,150	4,744,850	Scheduled	12/1/25
General Obligation Note, Series AA of 2015	2015	1,510,000 (2.250%)	<u>-0-</u>	<u>29,632</u>	<u>-0-</u>	<u>29,632</u>	Interest Only	12/1/34
TOTALS			<u>\$ 5,532,084</u>	<u>\$ 5,297,658</u>	<u>\$ 6,055,260</u>	<u>\$ 4,774,482</u>		

See independent auditors' report.

Borough of Elizabethtown
Concise Statement for Publication - Year 2015

GENERAL FUND

Cash Balance, January 1, 2015		1,480,158
Receipts		
Real Estate Taxes	2,387,112	
Earned Income Taxes	1,247,555	
Other Receipts and Transfers	<u>1,925,055</u>	5,559,722
Disbursements		
General Government	342,028	
Public Safety	2,049,226	
Public Works	1,134,821	
Culture and Recreation	326,196	
Other Disbursements	<u>1,705,270</u>	<u>5,557,541</u>
Cash Balance, December 31, 2015		<u><u>1,482,339</u></u>

OTHER FUNDS

	Cash and Investments January 1, 2015	Receipts	Disbursements	Cash and Investments December 31, 2015
Liquid Fuels	174,793	251,020	293,624	132,189
Parks and Recreation	406,105	114,893	93,835	427,163
Police Training	58,556	2,710	19,540	41,726
Debt Service	507	648,773	646,805	2,475
Capital Project	319,041	1,622,743	1,274,323	667,461
General Vehicle Sinking	206,411	135,749	92,773	249,387
Train Station	21,798	32,629	23,025	31,402
Sewer	2,507,482	2,992,444	2,116,592	3,383,334
Health Insurance	1,306,270	59,677	278,269	1,087,678
Unemployment				
Compensation	19,995	20	-0-	20,015
457 Deferred				
Compensation	1,421,836	119,146	305,682	1,235,300
Non-Uniformed Pension	1,089,444	86,369	14,283	1,161,530
Police Pension	<u>8,154,565</u>	<u>562,820</u>	<u>375,970</u>	<u>8,341,415</u>
	<u><u>15,686,803</u></u>	<u><u>6,628,993</u></u>	<u><u>5,534,721</u></u>	<u><u>16,781,075</u></u>

See independent auditors' report.

Borough of Elizabethtown
Concise Statement for Publication - Year 2015
(Continued)

SCHEDULE of INDEBTEDNESS

Type	Balance December 31, 2015	Final Maturity
General Obligation Debt:		
General Obligation Note, Series A 2015	4,744,850	12/01/25
General Obligation Note, Series AA 2015	<u>29,632</u>	12/01/34
	<u>4,774,482</u>	

Assessed Valuation of Taxable Real Estate - \$463,914,000

See independent auditors' report.