

Borough of Elizabethtown

Year Ended December 31, 2014



TROUT, EBERSOLE & GROFF<sub>LLP</sub>

CPAs | BUSINESS ADVISORS

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# Borough of Elizabethtown

## Financial Statements with Supplementary Information

Year Ended December 31, 2014

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# Borough of Elizabethtown

## Financial Statements with Supplementary Information

Year Ended December 31, 2014

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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, 2014, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 financial position - cash basis of the discretely presented component unit of the **Borough of Elizabethtown**, Pennsylvania, as of December 31, 2014, or the changes in the net position - cash basis 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 financial position - cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Borough of Elizabethtown**, Pennsylvania, as of December 31, 2014, and the respective changes in the financial position - cash basis 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**

#### ***Other 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 41 and 42, schedule of indebtedness on page 43, and the concise statement for publication on pages 44 and 45, are presented for purposes of additional analysis and are not a required part of the primary government basic financial statements. The schedule of expenditures of federal awards on pages 46 and 47 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

Such information 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. The 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, schedule of expenditures of federal awards, and concise statement for publication is 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.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2015, on our consideration of the **Borough of Elizabethtown's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the **Borough of Elizabethtown's** internal control over financial reporting and compliance.

January 29, 2015  
Lancaster, Pennsylvania

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

# Borough of Elizabethtown

## STATEMENT of NET POSITION -

Cash Basis

December 31, 2014

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Current Assets:			
Unrestricted Cash and Cash Equivalents	\$ 3,512,778	\$ 2,507,482	\$ 6,020,260
Restricted Cash for Park Expenditures	126,771		126,771
Restricted Cash for Street Improvements	174,793		174,793
Restricted Cash for Capital Projects per Grant Agreement	125,185		125,185
Restricted Cash for Law Enforcement per Federal Equitable Sharing Program	54,107		54,107
	<u>3,993,634</u>	<u>2,507,482</u>	<u>6,501,116</u>
<b>LIABILITIES</b>			
	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<b>NET POSITION</b>			
Restricted for:			
Park Expenditures	126,771		126,771
Construction and Maintenance for Roads and Bridges	174,793		174,793
Capital Projects per Grant Agreement	125,185		125,185
Law Enforcement per Federal Equitable Sharing Program	54,107		54,107
Unrestricted	<u>3,512,778</u>	<u>2,507,482</u>	<u>6,020,260</u>
<b>TOTAL NET POSITION</b>	<u>\$ 3,993,634</u>	<u>\$ 2,507,482</u>	<u>\$ 6,501,116</u>

See notes to financial statements.

## Borough of Elizabethtown

STATEMENT of ACTIVITIES -

Cash Basis

Year Ended December 31, 2014

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	\$ 477,714		\$ 13,825		\$ (463,889)		\$ (463,889)
Public Safety	2,831,110	356,429	217,019	54,105	(2,203,557)		(2,203,557)
Public Works	1,673,169	635,568	51,447	228,427	(757,727)		(757,727)
Culture and Recreation	523,218	5,420	29,739		(488,059)		(488,059)
Community Development	3,366,057	33,334		2,803,162	(529,561)		(529,561)
Debt Service - Principal	1,584,537				(1,584,537)		(1,584,537)
Debt Service - Interest	175,271				(175,271)		(175,271)
<b>Total Governmental Activities</b>	<b>10,631,076</b>	<b>1,030,751</b>	<b>312,030</b>	<b>3,085,694</b>	<b>(6,202,601)</b>	<b>-0-</b>	<b>(6,202,601)</b>
Business-Type Activities:							
Sewer Operations	2,145,599	2,556,432	-0-	-0-	-0-	410,833	410,833
<b>Total Primary Government</b>	<b><u>\$ 12,776,675</u></b>	<b><u>\$ 3,587,183</u></b>	<b><u>\$ 312,030</u></b>	<b><u>\$ 3,085,694</u></b>	<b>\$ (6,202,601)</b>	<b>\$ 410,833</b>	<b>\$ (5,791,768)</b>

See notes to financial statements.

## Borough of Elizabethtown

### STATEMENT of ACTIVITIES -

Cash Basis

(Continued)

Year Ended December 31, 2014

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					\$ 2,296,565		\$ 2,296,565
Public Utility Realty, Earned Income, Local Services, and Realty Transfer Taxes, net					1,489,926		1,489,926
Cable Television Franchise Fee					134,505		134,505
Investment Earnings					3,492	2,882	6,374
Sale of Fixed Assets					24,666		24,666
Refunds of Prior Year Expenditures					78,236	28,469	106,705
Other Income					19,024		19,024
Special Items and Transfers:							
Proceeds from Long-Term Debt					1,604,011		1,604,011
Transfers					531,206	(531,206)	-0-
					<u>6,181,631</u>	<u>(499,855)</u>	<u>5,681,776</u>
					<b>(20,970)</b>	<b>(89,022)</b>	<b>(109,992)</b>
<b>CHANGES in NET POSITION</b>							
<b>NET POSITION</b>							
Beginning					<u>4,014,604</u>	<u>2,596,504</u>	<u>6,611,108</u>
Ending					<u><b>\$ 3,993,634</b></u>	<u><b>\$ 2,507,482</b></u>	<u><b>\$ 6,501,116</b></u>

See notes to financial statements.

**Borough of Elizabethtown**  
BALANCE SHEET -  
GOVERNMENTAL FUNDS - Cash Basis  
December 31, 2014

	<b>Major Funds</b>					<b>Total Governmental Funds</b>
	<b>General Fund</b>	<b>Capital Project Fund</b>	<b>Parks and Recreation Fund</b>	<b>General Vehicle Sinking Fund</b>	<b>Other Funds</b>	
<b>ASSETS</b>						
Unrestricted Cash and Cash Equivalents	\$ 1,480,158	\$ 319,041	\$ 154,149	\$ 206,411	\$ 26,754	\$ 2,186,513
Restricted Cash and Cash Equivalents			251,956		228,900	480,856
	<u>1,480,158</u>	<u>319,041</u>	<u>406,105</u>	<u>206,411</u>	<u>255,654</u>	<u>2,667,369</u>
<b>LIABILITIES and FUND BALANCES</b>						
<b>LIABILITIES</b>	-0-	-0-	-0-	-0-	-0-	-0-
<b>FUND BALANCES</b>						
Restricted			251,956		228,900	480,856
Committed	1,052,307					1,052,307
Assigned		319,041	154,149	206,411	26,754	706,355
Unassigned	427,851					427,851
	<u>1,480,158</u>	<u>319,041</u>	<u>406,105</u>	<u>206,411</u>	<u>255,654</u>	<u>2,667,369</u>
<b>TOTAL FUND BALANCES</b>	<u>1,480,158</u>	<u>319,041</u>	<u>406,105</u>	<u>206,411</u>	<u>255,654</u>	<u>2,667,369</u>
<b>TOTAL LIABILITIES and FUND BALANCES</b>	<u>\$ 1,480,158</u>	<u>\$ 319,041</u>	<u>\$ 406,105</u>	<u>\$ 206,411</u>	<u>\$ 255,654</u>	<u>\$ 2,667,369</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, 2014

Total Fund Balance - Governmental Funds - Cash Basis \$ 2,667,369

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.

1,326,265

**TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES - Cash Basis**

**\$ 3,993,634**

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, 2014

	Major Funds					Total Governmental Funds
	General Fund	Capital Project Fund	Parks and Recreation Fund	General Vehicle Sinking Fund	Other Funds	
<b>REVENUES</b>						
Taxes	\$ 3,781,746					\$ 3,781,746
Licenses and Permits	168,495					168,495
Fines and Forfeits	51,856					51,856
Interest, Rents, and Royalties	24,361	296	450	187	9,692	34,986
Intergovernmental	296,912	2,803,162			228,427	3,328,501
Charges for Service	904,263	2,091				906,354
Service Agreement Revenue					24,000	24,000
Donations			15,029			15,029
Miscellaneous			4,136		56,884	61,020
<b>Total Revenues</b>	<b>5,227,633</b>	<b>2,805,549</b>	<b>19,615</b>	<b>187</b>	<b>319,003</b>	<b>8,371,987</b>
<b>EXPENDITURES</b>						
General Government	335,651	4,000				339,651
Public Safety	2,101,775			62,476	1,399	2,165,650
Public Works	1,142,806	110,143			304,883	1,557,832
Culture and Recreation	329,264	64,317	75,198			468,779
Community Development	51,388	3,262,274				3,313,662
Debt Service - Principal		1,177,357			407,180	1,584,537
Debt Service - Interest		6,210			169,061	175,271
Insurance, Pension, and Other Benefits	1,085,769					1,085,769
<b>Total Expenditures</b>	<b>5,046,653</b>	<b>4,624,301</b>	<b>75,198</b>	<b>62,476</b>	<b>882,523</b>	<b>10,691,151</b>
<b>EXCESS (DEFICIENCY) of REVENUES over EXPENDITURES</b>	<b>\$ 180,980</b>	<b>\$ (1,818,752)</b>	<b>\$ (55,583)</b>	<b>\$ (62,289)</b>	<b>\$ (563,520)</b>	<b>\$ (2,319,164)</b>

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, 2014

	<b>Major Funds</b>					<b>Total Governmental Funds</b>
	<b>General Fund</b>	<b>Capital Project Fund</b>	<b>Parks and Recreation Fund</b>	<b>General Vehicle Sinking Fund</b>	<b>Other Funds</b>	
<b>OTHER FINANCING SOURCES (USES)</b>						
Refunds of Prior Year Expenses	\$ 77,406					\$ 77,406
Insurance Recoveries					830	830
Sale of Assets	19,566			5,100		24,666
Proceeds from Long-Term Debt		1,604,011				1,604,011
Interfund Transfers	(231,961)	156,461		35,000	571,706	531,206
<b>Net Other Financing Sources (Uses)</b>	<b>(134,989)</b>	<b>1,760,472</b>	<b>-0-</b>	<b>40,100</b>	<b>572,536</b>	<b>2,238,119</b>
 <b>NET CHANGES in FUND BALANCES</b>	 <b>45,991</b>	 <b>(58,280)</b>	 <b>(55,583)</b>	 <b>(22,189)</b>	 <b>9,016</b>	 <b>(81,045)</b>
 <b>FUND BALANCES</b>						
Beginning	1,434,167	377,321	461,688	228,600	246,638	2,748,414
 <b>Ending</b>	 <b><u>\$ 1,480,158</u></b>	 <b><u>\$ 319,041</u></b>	 <b><u>\$ 406,105</u></b>	 <b><u>\$ 206,411</u></b>	 <b><u>\$ 255,654</u></b>	 <b><u>\$ 2,667,369</u></b>

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, 2014

Net Changes in Fund Balances - Total Governmental Funds - Cash Basis \$ (81,045)

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.

60,075

**CHANGES in NET POSITION of GOVERNMENTAL ACTIVITIES - Cash Basis**

**\$ (20,970)**

See notes to financial statements.

**Borough of Elizabethtown**

STATEMENT of NET POSITION -

PROPRIETARY FUNDS -

Cash Basis

December 31, 2014

	<u>Enterprise Fund</u>		
	<u>Major Fund</u>	Internal Service Fund	Total
	Sewer Fund		
<b>ASSETS</b>			
Cash and Cash Equivalents	<u>\$ 2,507,482</u>	<u>\$ 1,326,265</u>	<u>\$ 3,833,747</u>
<b>LIABILITIES</b>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<b>NET POSITION - Unrestricted</b>	<u>\$ 2,507,482</u>	<u>\$ 1,326,265</u>	<u>\$ 3,833,747</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, 2014

	<u>Enterprise Fund</u>		
	<u>Major Fund</u>		
	Sewer Fund	Internal Service Fund	Total
<b>OPERATING REVENUES</b>			
Charges for Service	\$ 2,556,432	\$ 28,773	\$ 2,585,205
<b>OPERATING EXPENSES</b>			
Collection and Transmission	357,893		357,893
Wastewater Treatment	811,265		811,265
Wastewater Disposal and Sludge Management	157,514		157,514
General, Administrative, Customer Service, and Other	338,990		338,990
Insurance and Employee Benefits	<u>341,188</u>	<u>-0-</u>	<u>341,188</u>
<b>Total Operating Expenses</b>	<u>2,006,850</u>	<u>-0-</u>	<u>2,006,850</u>
<b>OPERATING INCOME</b>	<b>549,582</b>	<b>28,773</b>	<b>578,355</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment Earnings	2,882	1,302	4,184
Refund of Prior Year Revenues	(138,749)		(138,749)
Refund of Prior Year Expenditures	<u>28,469</u>	<u>30,000</u>	<u>58,469</u>
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(107,398)</u>	<u>31,302</u>	<u>(76,096)</u>
<b>INCOME BEFORE TRANSFERS</b>	<b>442,184</b>	<b>60,075</b>	<b>502,259</b>
<b>TRANSFERS OUT</b>	<u>(531,206)</u>	<u>-0-</u>	<u>(531,206)</u>
<b>CHANGES in NET POSITION</b>	<b>(89,022)</b>	<b>60,075</b>	<b>(28,947)</b>
<b>NET POSITION</b>			
Beginning	<u>2,596,504</u>	<u>1,266,190</u>	<u>3,862,694</u>
<b>Ending</b>	<u><b>\$ 2,507,482</b></u>	<u><b>\$ 1,326,265</b></u>	<u><b>\$ 3,833,747</b></u>

See notes to financial statements.

**Borough of Elizabethtown**

STATEMENT of NET POSITION -

FIDUCIARY FUNDS -

Cash Basis

December 31, 2014

	<b>Pension Trust Funds</b>	<b>Expendable Trust Fund</b>	<b>Agency Funds</b>
<b>ASSETS</b>			
Cash and Cash Equivalents			\$ 19,372
Investments (at Fair Value):			
Money Market Fund	94,946		
Fixed Income Securities	4,755,128		
Governmental Obligations	1,524,218		
Mutual Funds	2,869,717		
Pooled Separate Funds		1,421,837	
	<u>9,244,009</u>	<u>1,421,837</u>	<u>19,372</u>
<b>TOTAL ASSETS</b>	<b><u>9,244,009</u></b>	<b><u>1,421,837</u></b>	<b><u>19,372</u></b>
<b>LIABILITIES</b>			
Due to Developers			6,105
Other Current Liabilities			13,267
	<u>-0-</u>	<u>-0-</u>	<u>19,372</u>
<b>TOTAL LIABILITIES</b>	<b><u>-0-</u></b>	<b><u>-0-</u></b>	<b><u>19,372</u></b>
<b>NET POSITION - Restricted</b>	<b><u>\$ 9,244,009</u></b>	<b><u>\$ 1,421,837</u></b>	<b><u>\$ -0-</u></b>

See notes to financial statements.

**Borough of Elizabethtown**  
STATEMENT of CHANGES in NET POSITION -  
FIDUCIARY FUNDS -  
Cash Basis  
Year Ended December 31, 2014

	<b>Pension Trust Funds</b>	<b>Expendable Trust Fund</b>
<b>ADDITIONS</b>		
Contributions:		
Commonwealth	\$ 197,507	
Employer	185,356	
Employee	<u>69,329</u>	<u>73,867</u>
	<b>452,192</b>	<b>73,867</b>
Investment Income:		
Net appreciation in fair value of investments	286,317	73,837
Interest and Dividends	227,427	
Investment Expenses	<u>(48,583)</u>	<u>(9,408)</u>
Net Investment Income	<b>465,161</b>	<b>64,429</b>
<b>Total Additions</b>	<b>917,353</b>	<b>138,296</b>
<b>DEDUCTIONS</b>		
Administrative Expenses	6,330	
Retirement Benefits	<u>324,941</u>	<u>55,437</u>
<b>Total Deductions</b>	<b>331,271</b>	<b>55,437</b>
<b>CHANGES in NET POSITION</b>	<b>586,082</b>	<b>82,859</b>
<b>NET POSITION</b>		
Beginning	<u>8,657,927</u>	<u>1,338,978</u>
<b>Ending</b>	<b><u>\$ 9,244,009</u></b>	<b><u>\$ 1,421,837</u></b>

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 15 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 11,500 residents in approximately 4,250 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 are 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, 2014, 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 Regional Authority (EARA)**

The Elizabethtown Area Regional Authority (EARA) was formed pursuant to ordinances enacted by the Council of the **Borough of Elizabethtown** and the Boards of Supervisors of Mount Joy Township, Conoy Township, and West Donegal Township. EARA is charged with the implementation of the regional strategic plan and the conduct of a transportation study. For the year ended December 31, 2014, the Borough contributed \$2,500 to EARA.

EARA is composed of a twelve-member board with three representatives from each of the following four entities: **Borough of Elizabethtown**, Mount Joy Township, Conoy Township, and West Donegal Township. EARA is not reported as part of the Borough's reporting entity.

During 2014, the EARA board decided to dissolve EARA due to lack of activity. On November 21, 2014, the Certificate of Dissolution was recorded in the Office of the Recorder of Deeds in and for Lancaster County, Pennsylvania, which serves as the EARA's dissolution date.

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

**Borough of Elizabethtown**  
NOTES to FINANCIAL STATEMENTS  
(Continued)

**NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Joint Ventures (Continued)**

**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, 2014, the Borough did not make any contributions to EAWA. Complete financial statements for EAWA can be obtained from the Elizabethtown Area Water Authority Manager, 211 West Hummelstown Street, Elizabethtown, PA 17022.

**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 quarterly contribution to GEARS. For the year ended December 31, 2014, the Borough contributed \$99,348 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 17 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, 2014 was \$24,653. 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.

**Borough of Elizabethtown**  
NOTES to FINANCIAL STATEMENTS  
(Continued)

**NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**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.

**Borough of Elizabethtown**  
NOTES to FINANCIAL STATEMENTS  
(Continued)

**NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fiduciary Fund Types (Continued)**

**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.

**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.

**Borough of Elizabethtown**  
NOTES to FINANCIAL STATEMENTS  
(Continued)

**NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

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 2014 was proposed November 21, 2013, with final adoption on December 19, 2013. 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.

**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.

**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 has adopted 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. 27, *Accounting for Pensions by State and Local Governmental Employers*. That statement requires that an employer recognize annual pension expenditures or expenses equal to its contractually required contributions. If contributions from governmental or proprietary funds are required but not made, the difference would be recorded as a liability in the general long-term debt account group. The Borough made all required contributions for the year ended December 31, 2014, and has recognized them as expenditures and expenses in the governmental and proprietary funds, respectively.

**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.

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.

**Borough of Elizabethtown**  
NOTES to FINANCIAL STATEMENTS  
(Continued)

**NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fund Balance Classification (Continued)**

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, 2014.

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 2013 General Obligation Bonds in the amount of \$1,604,011 to be a special item for the year ended December 31, 2014.

**Pending Changes in Accounting Principles**

In June 2012, GASB Issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which replaces 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 provisions of this statement are effective for the Borough's 2015 financial statements.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which amends GASB Statement No. 68. The objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this statement are required to be applied simultaneously with the provisions of GASB Statement No. 68.

**Borough of Elizabethtown**  
NOTES to FINANCIAL STATEMENTS  
(Continued)

**NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Pending Changes in Accounting Principles (Continued)**

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

**Accounting Standards Adopted in 2014**

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*. The objective of the statement is to improve financial reporting by state and local government pension plans. This Statement replaces the requirements of GASB Statements No. 25 and 50 as they relate to pension plans that are administered through trusts. As a result of implementation of this standard in 2014, certain elements of the pension trust funds included in these financial statements have been disaggregated. The 457 deferred compensation plan is now presented as an expendable trust fund, separate from pension funds. Disclosures related to pension plans have been expanded to improve decision usefulness, support assessments of accountability, and create additional transparency.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The objective of this statement is to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. The Borough's beginning balances, current year results, and disclosures were not impacted by the implementation of this new standard.

For the year ended December 31, 2014, the Borough also adopted the provisions of GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this statement is to provide accounting and financial reporting guidance to a governmental financial reporting entity that offers nonexchange financial guarantees and for governmental entities that receive guarantees on their obligations. The Borough's beginning balances, current year results, and disclosures were not impacted by the implementation of this new standard.

**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, 2014, \$6,319,658 of the Borough's bank balance of \$6,570,164 was exposed to custodial credit risk as follows:

**Borough of Elizabethtown**  
 NOTES to FINANCIAL STATEMENTS  
 (Continued)

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

**Cash and Cash Equivalents - Custodial Credit Risk (Continued)**

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>6,319,658</u>
	<b>6,319,658</b>

**Reconciliation of Cash and Cash Equivalents to the Financial Statements**

Uninsured Amount Above	6,319,658
Insured Amount	<u>250,506</u>
Bank Balance	6,570,164
Outstanding Checks	<u>(49,676)</u>
<b>Total Cash and Cash Equivalents per the Financial Statements</b>	<b>6,520,488</b>

**Investments**

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

Investments	Maturity	Fair Value
Corporate & Foreign Bonds	< 1 Year	385,633
Corporate & Foreign Bonds	1 - 5 Years	2,843,231
Corporate & Foreign Bonds	6 - 10 Years	946,199
Federal Home Loan Bank Notes	< 1 Year	125,912
Federal Home Loan Bank Notes	1 - 5 Years	61,662
Federal Home Loan Bank Notes	6 - 10 Years	81,689
Federal Farm Credit Bank Notes	< 1 Year	25,989
Federal Farm Credit Bank Notes	1 - 5 Years	31,031
Federal Farm Credit Bank Notes	6 - 10 Years	29,797
Federal Home Loan Mortgage Corp	1 - 5 Years	223,984
U.S. Treasury Notes	< 1 Year	76,117
U.S. Treasury Notes	1 - 5 Years	106,414
Federated Government Obligations Money Market Fund		94,946
State and Municipal Bonds	1 - 5 Years	1,079,795
State and Municipal Bonds	6 - 10 Years	261,894
Common Stocks		2,869,716
Nationwide Pooled Separate Accounts		<u>1,421,837</u>
		<b>10,665,846</b>

**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.

**Borough of Elizabethtown**  
 NOTES to FINANCIAL STATEMENTS  
 (Continued)

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

**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.

As of December 31, 2014, the Borough's investments were rated as:

	US Government Agencies	State and Municipal Bonds	Corporate Debt	Government Related Entities
AAA		81,750	109,864	
AA	182,531	790,798	1,064,982	580,064
A		393,691	2,657,579	
BBB		-0-	342,638	
Not Rated		<u>75,450</u>		
	<u>182,531</u>	<u>1,341,689</u>	<u>4,175,063</u>	<u>580,064</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, 2014, 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 \$10,665,846 at December 31, 2014, \$1,421,837 are held by the insurance company, not in the name of the Borough, consisting of \$168,253 in the insurance company's general account and \$1,253,584 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, 2014, was 5.00 mills (\$5.00 per \$1,000 of assessed valuation) as levied by Borough Council.

**Borough of Elizabethtown**  
 NOTES to FINANCIAL STATEMENTS  
 (Continued)

**NOTE 3 - REAL ESTATE TAXES (Continued)**

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

**NOTE 4 - INTERFUND ACCOUNTS**

Interfund transfers for the year ended December 31, 2014, were as follows:

Fund	Transfers In	Transfers Out
General Fund	-0-	231,961
Capital Project Fund	156,461	-0-
Debt Service Fund	571,706	-0-
General Vehicle Sinking Fund	35,000	-0-
Sewer Revenue Fund	<u>-0-</u>	<u>531,206</u>
	<b>763,167</b>	<b>763,167</b>

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 future vehicle purchases.

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

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

**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.

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 15<sup>th</sup> and December 15<sup>th</sup> 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. The balance outstanding at December 31, 2014, was \$275,430.

**Borough of Elizabethtown**  
 NOTES to FINANCIAL STATEMENTS  
 (Continued)

**NOTE 5 - GENERAL LONG-TERM DEBT (Continued)**

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%. The balance outstanding at December 31, 2014, was \$4,830,000.

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 will be 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 \$1,604,011 on the bond during 2014. The balance outstanding at December 31, 2014 was \$426,654.

Currently, the Borough has debt with interest rates and outstanding principal amounts at December 31, 2014, as follows:

	Interest Rates	Principal Amount Outstanding at December 31, 2014
General Obligation Note - Series of 2009	4.29%	275,430
General Obligation Bonds - Series of 2010	2.00% - 3.625%	4,830,000
General Obligation Bonds - Series of 2013	Variable	<u>426,654</u>
		<b>5,532,084</b>

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 2009		General Obligation Bonds, Series of 2010	
	Interest Payment	Principal Payment	Interest Payment	Principal Payment
2015	11,460	33,570	148,706	385,000
2016	10,004	34,470	141,006	390,000
2017	8,509	36,530	132,232	395,000
2018	6,926	38,110	121,862	410,000
2019	5,273	39,760	109,562	420,000
2020 - 2024	5,491	92,990	338,374	2,320,000
2025	<u>-0-</u>	<u>-0-</u>	<u>18,488</u>	<u>510,000</u>
	<b>47,663</b>	<b>275,430</b>	<b>1,010,230</b>	<b>4,830,000</b>

**Borough of Elizabethtown**  
 NOTES to FINANCIAL STATEMENTS  
 (Continued)

**NOTE 5 - GENERAL LONG-TERM DEBT (Continued)**

Year Ending December 31	General Obligation Bonds, Series of 2013		Totals	
	Interest Payment	Principal Payment	Interest Payment	Principal Payment
2015	11,733	-0-	171,899	418,570
2016	4,400	426,654	155,410	851,124
2017	-0-	-0-	140,741	431,530
2018	-0-	-0-	128,788	448,110
2019	-0-	-0-	114,835	459,760
2020 - 2024	-0-	-0-	343,865	2,412,990
2025	-0-	-0-	18,488	510,000
	<b>16,133</b>	<b>426,654</b>	<b>1,074,026</b>	<b>5,532,084</b>

**Changes in Long-Term Liabilities**

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

	Balance January 1	Additions	Reductions	Balance December 31
General Obligation Debt	5,512,610	1,604,011	1,584,537	5,532,084
Other Postemployment Health Benefits	788,741	245,893	101,484	933,150
Compensated Absences	231,715	12,281	-0-	243,996
	<b>6,533,066</b>	<b>1,862,185</b>	<b>1,686,021</b>	<b>6,709,230</b>

**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.

**Borough of Elizabethtown**  
NOTES to FINANCIAL STATEMENTS  
(Continued)

**NOTE 6 - RISK MANAGEMENT (Continued)**

**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, 2014, 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 \$35,000 individually and \$666,000 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, 2014.

As of December 31, 2014, 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 2014.

As of December 31, 2014, the Borough is not aware of any additional unemployment claims.

**Self-Insurance - Workers' Compensation**

The Borough participates in the Susquehanna Municipal Trust which is a cooperative voluntary trust arrangement for sixty 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, 2014, 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.

**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.

**Borough of Elizabethtown**  
 NOTES to FINANCIAL STATEMENTS  
 (Continued)

**NOTE 7 - PENSION PLANS (Continued)**

**Summary of Significant Accounting Policies (Continued)**

**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.

**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.

**Plan Membership**

Membership of each plan consisted of the following at January 1, 2013 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	7	11
Partially Vested	0	10
Non-Vested	<u>8</u>	<u>2</u>
<b>Total Plan Membership</b>	<b><u>15</u></b>	<b><u>23</u></b>
	<b>22</b>	<b>23</b>

**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 Pension Plan Funding Standard and Recovery Act*. 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.

**Borough of Elizabethtown**  
NOTES to FINANCIAL STATEMENTS  
(Continued)

**NOTE 7 - PENSION PLANS (Continued)**

**POLICE PENSION PLAN (Continued)**

**Benefits Provided (Continued)**

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 \$260,000 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 2014 was 1.5%.

**Vesting**

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

**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 \$304,863, of which \$119,507 was Act 205 funds, and members contributed \$69,329 during 2014.

**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, 2014:

**Borough of Elizabethtown**  
 NOTES to FINANCIAL STATEMENTS  
 (Continued)

**NOTE 7 - PENSION PLANS (Continued)**

**POLICE PENSION PLAN (Continued)**

**Investment Policy (Continued)**

<b>Asset Class</b>	<b>Target Allocation</b>
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, 2014, there were no concentrations for the Borough's PPP investments.

**Rate of Return**

For the year ended December 31, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 6.17%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Net Pension Liability**

The total pension liability is based on the January 1, 2013 actuarial valuation and update procedures were used to roll forward the total pension liability to the plan's December 31, 2014 year end. The components of the net pension liability of the PPP at December 31, 2014, were as follows:

Total Pension Liability	8,563,481
Plan Fiduciary Net Position	<u>8,154,565</u>
<b>Net Pension Liability</b>	<b>408,916</b>

Plan Fiduciary Net Position as a Percentage of Total Pension Liability	95.2%
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**Actuarial Assumptions**

The total pension liability was determined by an actuarial valuation as of January 1, 2013, using the following actuarial assumptions, applied to all prior periods included in the measurement:

**Borough of Elizabethtown**  
NOTES to FINANCIAL STATEMENTS  
(Continued)

**NOTE 7 - PENSION PLANS (Continued)**

**POLICE PENSION PLAN (Continued)**

**Actuarial Assumptions (Continued)**

**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** - The long-term expected rate of return on pension plan investments of 7.00% was determined by management in consultation with the PPP's investment advisor based upon the asset allocation above.

**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 normal cost.

**Cost of Living Increases** - 4.00% per year, pursuant to Act 600.

**Changes in Actuarial Assumptions and Methods -**

	<u>Prior</u>	<u>Current</u>
Salary Scale	6.00%	5.00%
Inclusion of Unused Sick Leave in Final Average Pay	Not Included.	See above.

**Borough of Elizabethtown**  
 NOTES to FINANCIAL STATEMENTS  
 (Continued)

**NOTE 7 - PENSION PLANS (Continued)**

**POLICE PENSION PLAN (Continued)**

**Actuarial Assumptions (Continued)**

**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, 2013 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	Fair Value of Assets (a)	Entry Age Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Net Position as a % of Total Liability (b-a)/b	Funded Ratio (a/b)
6.00%	7,061,659	9,109,342	2,047,683	22.5%	77.5%
7.00%	7,061,659	8,091,422	1,029,763	12.7%	87.3%
8.00%	7,061,659	7,237,410	175,751	2.4%	97.6%

**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.

**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.

The NEPP covers all of the Borough's general employees who work at least 37.5 hours per week, as a full-time permanent employee that is not a police officer.

The Borough contributed \$78,000, of which \$78,000 was Act 205 funds, during 2014.

**Borough of Elizabethtown**  
 NOTES to FINANCIAL STATEMENTS  
 (Continued)

**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, 2014, were \$73,867. There are no employer contributions to the plan. In its financial statements prior to 2014, the Borough reported this fund as a pension trust fund in its fiduciary fund financial statements. As a result of guidance in GASB Statement Nos. 67 and 68, this fund has been classified as an expendable trust fund in the current year.

**NOTE 9 - FUND BALANCE CLASSIFICATIONS**

Restricted fund balance represents fund balances that can only be used for specific purposes stipulated by the external resource providers, constitutionally, or through enabling legislation. Restrictions may be changed only with the consent of the resource providers. At December 31, 2014 the Borough has the following restricted balance:

<b>Liquid Fuels Fund</b>	
Restricted for Construction and Maintenance for Roads and Bridges	174,793
<b>Police Training Fund</b>	
Restricted for law enforcement purposes in accordance with the Federal Equitable Sharing Program	54,107
<b>Park and Recreation Fund</b>	
Donor Restricted for Maintenance of the Fun Fort	11,306
Donor Restricted for General Parks Expenditures	35,465
Donor Restricted for Amphitheater Development	80,000
Grant Restricted for Capital Projects	<u>125,185</u>
	<b>251,956</b>

Committed fund balances represent fund balances that can be used only for the specific purposes determined by a formal action of the government's highest level of decision making authority. At December 31, 2014, the Borough has included the following committed fund balance:

<b>General Fund</b>	
Committed to Offset 2015 Budget Deficit	1,052,307

Assigned fund balance comprises amounts intended to be used by the government for specific purposes determined by the governing body or by an official or body to which the governing body delegates the authority.

<b>Capital Projects Fund</b>	
Assigned for the Funding of Future Capital Improvements	319,041
<b>Debt Service Fund</b>	
Assigned for the Payment of Debt Service Obligations	507

**Borough of Elizabethtown**  
NOTES to FINANCIAL STATEMENTS  
(Continued)

**NOTE 9 - FUND BALANCE CLASSIFICATIONS (Continued)**

<b>General Vehicle Sinking Fund</b>	
Assigned for Future Purchases of Public Works Vehicles and Equipment	206,411
<b>Park and Recreation</b>	
Assigned for the Upkeep and Maintenance of Parks and Recreation Facilities as well as Related Capital Projects	154,149
<b>Police Training Fund</b>	
Assigned for Training of and Equipment for the Borough's Police Department	4,449
<b>Train Station Fund</b>	
Assigned for the Upkeep and Maintenance of the Elizabethtown Train Station	21,798

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, 2014 is \$280,441 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 2014, 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 budget. 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 \$306,000.

**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.

**Borough of Elizabethtown**  
 NOTES to FINANCIAL STATEMENTS  
 (Continued)

**NOTE 10 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)**

**Description (Continued)**

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.

**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:

	<b>2014</b>	<b>2013</b>
Annual Required Contribution	258,821	258,821
Interest on OPEB Obligation	35,494	28,150
Adjustment to Annual Required Contribution	<u>(48,422)</u>	<u>(38,404)</u>
Annual OPEB Cost	245,893	248,567
Contributions Made	<u>(101,484)</u>	<u>(85,389)</u>
Estimated Increase in Net OPEB Obligation	144,409	163,178
Net OPEB Obligation - Beginning of Year	<u>788,741</u>	<u>625,563</u>
Net OPEB Obligation - End of Year	<b>933,150</b>	<b>788,741</b>

The Borough's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2014, 2013, and 2012 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation End of Year
2014	245,893	41%	933,150
2013	248,567	34%	788,741
2012	251,410	22%	625,563

**Borough of Elizabethtown**  
NOTES to FINANCIAL STATEMENTS  
(Continued)

**NOTE 10 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)**

**Funding Status and Funding Progress**

As of January 1, 2012, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits equaled \$2,465,704, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,465,704. The covered payroll (annual payroll of active employees covered by the Plan) equaled \$1,180,182, and the ratio of the UAAL to the covered payroll equaled 208.93%.

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, 2012, 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 7.5% in the first year gradually decreasing by 0.5% per year to a rate of 5.5% in 2016; rates gradually decrease from 5.3% in 2017 to 4.2% in 2089 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 \$4,674 to \$9,838 based on age and gender.

While most assumptions remained consisted to the January 1, 2009 valuation, the assumptions related to per capita claims costs, health care cost trend rate, and mortality, have been updated to reflect more current information.

**Borough of Elizabethtown**  
NOTES to FINANCIAL STATEMENTS  
(Continued)

**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 awarded a construction contract related to the installation of pedestrian pathways and simultaneous storm water drainage improvements on March 14, 2013. The Borough expects to complete this project with grant funds that the Borough has been awarded for this project. The construction began in 2014 and is anticipated to be completed in 2015. As of December 31, 2014, the Borough has the following related construction commitment:

Pedestrian & Bicycle Pathway Connector Project	<b>184,793</b>
--	----------------

**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, 2015. The agreement stipulates wages, benefits, and general working conditions for the Borough's police officers. The scheduled pay increase for 2015 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, 2014

	Budget Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 3,431,301	\$ 3,431,301	\$ 3,781,746	\$ 350,445
Licenses and Permits	135,000	135,000	168,495	33,495
Fines and Forfeits	29,500	29,500	51,856	22,356
Interests, Rents, and Royalties	21,350	21,350	24,361	3,011
Intergovernmental	282,400	282,400	296,912	14,512
Charges for Services	<u>803,652</u>	<u>803,652</u>	<u>904,263</u>	<u>100,611</u>
<b>Total Revenues</b>	<b>4,703,203 *</b>	<b>4,703,203 *</b>	<b>5,227,633</b>	<b>524,430</b>
<b>EXPENDITURES</b>				
General Government	395,068	395,068	335,651	59,417
Public Safety	2,225,948	2,225,948	2,101,775	124,173
Public Works	1,265,650	1,265,650	1,142,806	122,844
Culture and Recreation	349,360	349,360	329,264	20,096
Community Development	52,341	52,341	51,388	953
Insurance, Pension, and Other Benefits	<u>1,146,600</u>	<u>1,146,600</u>	<u>1,085,769</u>	<u>60,831</u>
<b>Total Expenditures</b>	<b>5,434,967</b>	<b>5,434,967</b>	<b>5,046,653</b>	<b>388,314</b>
<b>EXCESS (DEFICIENCY) of REVENUES OVER EXPENDITURES</b>	<b>(731,764)</b>	<b>(731,764)</b>	<b>180,980</b>	<b>912,744</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Refunds of Prior Year Expenditures	2,000	2,000	77,406	75,406
Sale of Assets	2,500	2,500	19,566	17,066
Interfund Transfers	<u>(113,395)</u>	<u>(113,395)</u>	<u>(231,961)</u>	<u>(118,566)</u>
<b>Net Other Financing Uses</b>	<b>(108,895)</b>	<b>(108,895)</b>	<b>(134,989)</b>	<b>(26,094)</b>
<b>NET CHANGES in FUND BALANCES</b>	<b><u>\$ (840,659)</u></b>	<b><u>\$ (840,659)</u></b>	<b><u>\$ 45,991</u></b>	<b><u>\$ 886,650</u></b>

\*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, 2014

	Budget Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Interests, Rents, and Royalties	\$ 300	\$ 300	\$ 450	\$ 150
Intergovernmental	455,000	455,000	-0-	(455,000)
Donations	-0-	-0-	15,029	15,029
Miscellaneous	-0-	-0-	4,136	4,136
	<b>455,300 *</b>	<b>455,300 *</b>	<b>19,615</b>	<b>(435,685)</b>
<b>EXPENDITURES</b>				
General Government	4,000	4,000	-0-	4,000
Culture and Recreation	638,200	638,200	75,198	563,002
	<b>642,200</b>	<b>642,200</b>	<b>75,198</b>	<b>567,002</b>
<b>NET CHANGES in FUND BALANCES</b>	<b><u>\$ (186,900)</u></b>	<b><u>\$ (186,900)</u></b>	<b><u>\$ (55,583)</u></b>	<b><u>\$ 131,317</u></b>

\*Budgeted revenue does not include budgeted beginning cash balance.

See independent auditors' report.

## Borough of Elizabethtown

SCHEDULE of INDEBTEDNESS  
Year Ended December 31, 2014

	Year of Issue	Original Amount of Issue	Outstanding January 1, 2014	Debt Issued During Year	Principal Paid During Year	Outstanding December 31, 2014	Annual Principal Payments	Final Maturity
<b>GENERAL OBLIGATION DEBT</b>								
General Obligation Note, Series of 2009	2009	836,300 (4.290%)	\$ 307,610	\$ -0-	\$ 32,180	\$ 275,430	Scheduled	6/15/22
General Obligation Bonds, Series of 2010	2010	6,435,000 (2.000% - 3.625%)	5,205,000	-0-	375,000	4,830,000	Scheduled	12/01/25
General Obligation Bonds, Series of 2013	2013	3,000,000 Variable	<u>-0-</u>	<u>1,604,011</u>	<u>1,177,357</u>	<u>426,654</u>	Interest Only	5/16/16
<b>TOTALS</b>			<b><u>\$ 5,512,610</u></b>	<b><u>\$ 1,604,011</u></b>	<b><u>\$ 1,584,537</u></b>	<b><u>\$ 5,532,084</u></b>		

See independent auditors' report.

**Borough of Elizabethtown**  
 Concise Statement for Publication - Year 2014

**GENERAL FUND**

<b>Cash Balance, January 1, 2014</b>		1,434,167
<b>Receipts</b>		
Real Estate Taxes	2,296,565	
Earned Income Taxes	1,192,065	
Other Receipts and Transfers	<u>1,835,975</u>	5,324,605
<b>Disbursements</b>		
General Government	335,651	
Public Safety	2,101,775	
Public Works	1,142,806	
Culture and Recreation	329,264	
Other Disbursements	<u>1,369,118</u>	<u>5,278,614</u>
<b>Cash Balance, December 31, 2014</b>		<b><u><u>1,480,158</u></u></b>

**OTHER FUNDS**

	Cash and Investments January 1, 2014	Receipts	Disbursements	Cash and Investments December 31, 2014
Liquid Fuels	198,515	228,766	252,488	174,793
Parks and Recreation	461,688	19,615	75,198	406,105
Police Training	3,068	56,887	1,399	58,556
Debt Service	5,037	571,711	576,241	507
Capital Project	377,321	4,566,021	4,624,301	319,041
General Vehicle Sinking	228,600	40,287	62,476	206,411
Train Station	40,018	34,175	52,395	21,798
Sewer	2,596,504	2,587,783	2,676,805	2,507,482
Health Insurance	1,246,814	59,456	-0-	1,306,270
Unemployment Compensation	19,376	619	-0-	19,995
457 Deferred Compensation	1,338,978	138,296	55,437	1,421,837
Non-Uniformed Pension	997,904	118,489	26,949	1,089,444
Police Pension	<u>7,660,023</u>	<u>798,864</u>	<u>304,322</u>	<u>8,154,565</u>
	<b><u><u>15,173,846</u></u></b>	<b><u><u>9,220,969</u></u></b>	<b><u><u>8,708,011</u></u></b>	<b><u><u>15,686,804</u></u></b>

See independent auditors' report.

**Borough of Elizabethtown**  
Concise Statement for Publication - Year 2014  
(Continued)

**SCHEDULE of INDEBTEDNESS**

<b>Type</b>	<b>Balance December 31, 2014</b>	<b>Final Maturity</b>
General Obligation Debt:		
General Obligation Bonds, Series 2010	4,830,000	12/01/25
General Obligation Note - Series 2009	275,430	06/15/22
General Obligation Bonds, Series 2013	<u>426,654</u>	05/16/16
	<u><b>5,532,084</b></u>	

Assessed Valuation of Taxable Real Estate - \$463,684,900

See independent auditors' report.

**Borough of Elizabethtown**  
 SCHEDULE of EXPENDITURES of FEDERAL AWARDS  
 Year Ended December 31, 2014

Federal Grantor Project Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date	Grant Amount	Total Received for the Year	Expenditures
<b>U.S Department of Justice</b>							
Equitable Sharing Program	D	16.922	N/A	01/01/14 - 12/31/15	54,105	<b>54,105</b>	<b>-0-</b>
<b>U.S. Department of Transportation Passed Through the Pennsylvania Department of Transportation:</b>							
Federal Transit - Formula Grants (Note 2)	I	20.507	PA-90-X768-5307	02/10/14 - 06/30/15	744,128	<u><b>744,128</b></u>	<u><b>744,128</b></u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>						<u><b>798,233</b></u>	<u><b>744,128</b></u>

**Legend**

D = Direct funding

I = Indirect funding

CFDA = Catalog of Federal Domestic Assistance

See independent auditors' report.

**Borough of Elizabethtown**  
SCHEDULE of EXPENDITURES of FEDERAL AWARDS  
(Continued)  
Year Ended December 31, 2014

NOTES to SCHEDULE of EXPENDITURES of FEDERAL AWARDS

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of expenditures of federal awards is prepared on the cash basis of accounting.

**NOTE 2 - CLUSTER IDENTIFICATION**

Project Title	Federal CFDA Number	Cluster
Federal Transit - Formula Grants	20.507	Federal Transit Cluster

See independent auditors' report.

**INDEPENDENT AUDITORS' REPORT on INTERNAL CONTROL over FINANCIAL REPORTING and on  
COMPLIANCE and OTHER MATTERS BASED on an AUDIT of FINANCIAL STATEMENTS  
PERFORMED in ACCORDANCE with GOVERNMENT AUDITING STANDARDS**

To the Board Officers and Members  
**Borough of Elizabethtown**  
Lancaster County, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Borough of Elizabethtown**, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise **Borough of Elizabethtown's** basic financial statements and have issued our report thereon dated January 29, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered **Borough of Elizabethtown's** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Borough of Elizabethtown's** internal control. Accordingly, we do not express an opinion on the effectiveness of **Borough of Elizabethtown's** internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items #2014-001 and #2014-002 to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether **Borough of Elizabethtown's** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Borough of Elizabethtown's Response to Findings**

**Borough of Elizabethtown's** response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. **Borough of Elizabethtown's** response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

January 29, 2015  
Lancaster, Pennsylvania

*Trout, Ebersole & Groff, LLP*

TROUT, EBERSOLE & GROFF, LLP  
Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT on COMPLIANCE for each MAJOR PROGRAM  
and on INTERNAL CONTROL over COMPLIANCE REQUIRED by OMB CIRCULAR A-133**

To the Board Officers and Members  
**Borough of Elizabethtown**  
Lancaster County, Pennsylvania

**Report on Compliance for Each Major Federal Program**

We have audited **Borough of Elizabethtown's** compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on **Borough of Elizabethtown's** major federal program for the year ended December 31, 2014. **Borough of Elizabethtown's** major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for the **Borough of Elizabethtown's** major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Borough of Elizabethtown's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of **Borough of Elizabethtown's** compliance.

***Opinion on Each Major Federal Program***

In our opinion, **Borough of Elizabethtown** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2014.

## Report on Internal Control over Compliance

Management of **Borough of Elizabethtown** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered **Borough of Elizabethtown's** internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Borough of Elizabethtown's** internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

January 29, 2015  
Lancaster, Pennsylvania

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

**Borough of Elizabethtown**  
SCHEDULE of FINDINGS and QUESTIONED COSTS  
Year Ended December 31, 2014

A. Summary of Auditors' Results

1. The auditors' report expresses an unmodified opinion on the cash basis, primary government financial statements of the **Borough of Elizabethtown**.
2. Two material weaknesses and no significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the **Borough of Elizabethtown** were disclosed during the audit.
4. No material weaknesses or significant deficiencies relating to the audit of the major federal program are reported in the Independent Auditors' Report on Compliance for each Major Program and on Internal Control over Compliance Required by OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the **Borough of Elizabethtown** expresses an unmodified opinion.
6. Audit findings relative to the major federal award programs for the **Borough of Elizabethtown** are reported in part C of this schedule.
7. The program tested as a major program is: Federal Transit - Formula Grants - CFDA #20.507.
8. The threshold for distinguishing type A and B programs was \$300,000.
9. The **Borough of Elizabethtown** was not determined to be a low-risk auditee.

**Borough of Elizabethtown**  
SCHEDULE of FINDINGS and QUESTIONED COSTS  
(Continued)  
Year Ended December 31, 2014

B. Findings and Questioned Costs - Financial Statements Audit

**Material Weaknesses**

#2014-001 - Internal Control Over Financial Reporting - Financial Statement Preparation

Criteria: An integral component of an entity's internal control over financial reporting is the ability to prepare financial statements and the related notes to the financial statements.

Statement of Condition: The Borough has designated an individual responsible to oversee Trout, Ebersole & Groff, LLP's preparation of the financial statements. The Borough has assumed responsibility for evaluating the adequacy and results of the financial statements and related notes to the financial statements and accepted responsibility for them. However, the Borough's designee does not possess the expertise necessary to prepare the financial statements and the notes to the financial statements for the Borough of Elizabethtown in conformity with the cash basis of accounting.

Cause and Effect: It is not uncommon for small entities to lack the expertise necessary to prepare the financial statements and the notes to the financial statements. The Borough has evaluated the costs and benefits of developing this expertise, and determined that it is more beneficial to engage its independent auditors to provide this service.

Borough Response: The Borough concurs with the finding. The Borough staff is qualified to manage the financial activities of regular Borough business. However, as is similar with other small municipalities, the staff does not possess the expertise to prepare the financial statements and the notes to the financial statements. It is not anticipated that the Borough will have the resources to employ any individual with such expertise on a full-time basis. The Borough contracts with Trout, Ebersole & Groff, LLP on an annual basis to perform this function. A Borough employee is designated to oversee the preparation of the financial statements by the third-party.

#2014-002 - Reporting Debt Proceeds

Criteria: Proper recording of transactions is crucial to ensure that the financial statements are free of material misstatement.

Statement of Condition: The Borough received bond proceeds from the 2013 General Obligation Bonds during 2014 to pay for expenses related to the pedestrian and bicycle pathway connector project. The bond proceeds, in one instance, were incorrectly recorded in the contributions account instead of the bond proceeds account resulting in revenues being overstated and borrowings being understated.

Cause and Effect: The Borough did not have a reconciling process for the bond activity recorded in general ledger accounts compared to the activity on the lender's secure website.

Borough Response: The bond account will be monitored and reconciled monthly on a spreadsheet to confirm proper recording of transactions.

**Borough of Elizabethtown**  
SCHEDULE of FINDINGS and QUESTIONED COSTS  
(Continued)  
Year Ended December 31, 2014

C. Findings and Questioned Costs - Major Federal Awards Programs Audit

None

**Borough of Elizabethtown**  
SUMMARY SCHEDULE of PRIOR AUDIT FINDINGS  
Year Ended December 31, 2014

There are no prior audit findings.



## Elizabethtown Borough

United States Department of Transportation (oversight agency for this audit)

The Borough of Elizabethtown respectfully submits the following corrective action plan for the year ended December 31, 2014.

Name and address of independent public accounting firm:

Trout, Ebersole & Groff, LLP  
Certified Public Accountants  
1705 Oregon Pike  
Lancaster, Pennsylvania 17601

Audit period: January 1, 2014 through December 31, 2014

The findings from the December 31, 2014 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

### **FINDINGS - FINANCIAL STATEMENT AUDIT**

#### **Material Weaknesses**

##### **#2014-001 - Internal Control Over Financial Reporting - Financial Statement Preparation**

**Criteria:** An integral component of an entity's internal control over financial reporting is the ability to prepare financial statements and the related notes to the financial statements.

**Statement of Condition:** The Borough has designated an individual responsible to oversee Trout, Ebersole & Groff, LLP's preparation of the financial statements. The Borough has assumed responsibility for evaluating the adequacy and results of the financial statements and related notes to the financial statements and accepted responsibility for them. However, the Borough's designee does not possess the expertise necessary to prepare the financial statements and the notes to the financial statements for the Borough of Elizabethtown in conformity with the cash basis of accounting.

**Cause and Effect:** It is not uncommon for small entities to lack the expertise necessary to prepare the financial statements and the notes to the financial statements. The Borough has evaluated the costs and benefits of developing this expertise, and determined that it is more beneficial to engage its independent auditors to provide this service.

**Borough Response:** The Borough concurs with the finding. The Borough staff is qualified to manage the financial activities of regular Borough business. However, as is similar with other small municipalities, the staff does not possess the expertise to prepare the financial statements and the notes to the financial statements. It is not anticipated that the Borough will have the resources to employ any individual with such expertise on a full-time basis. The Borough contracts with Trout, Ebersole & Groff, LLP on an annual basis to perform this function. A Borough employee is designated to oversee the preparation of the financial statements by the third-party.

**#2014-002 - Reporting Debt Proceeds**

**Criteria:** Proper recording of transactions is crucial to ensure that the financial statements are free of material misstatement.

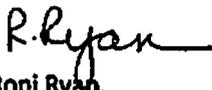
**Statement of Condition:** The Borough received bond proceeds from the 2013 General Obligation Bonds during 2014 to pay for expenses related to the pedestrian and bicycle pathway connector project. The bond proceeds, in one instance, were incorrectly recorded in the contributions account instead of the bond proceeds account resulting in revenues being overstated and borrowings being understated.

**Cause and Effect:** The Borough did not have a reconciling process for the bond activity recorded in general ledger accounts compared to the activity on the lender's secure website.

**Borough Response:** The bond account will be monitored and reconciled monthly on a spreadsheet to confirm proper recording of transactions.

If the United States Department of Transportation has questions regarding this plan, please call Roni Ryan, Borough Manager, at (717) 367-1700.

Sincerely Yours,



Roni Ryan,  
Borough Manager, Borough of Elizabethtown