

**BOROUGH OF
ELIZABETHTOWN**

YEAR ENDED DECEMBER 31, 2010

Borough of Elizabethtown

Financial Statements with Supplementary Information

Year Ended December 31, 2010

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Borough of Elizabethtown

Financial Statements with Supplementary Information

Year Ended December 31, 2010

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Borough of Elizabethtown

Financial Statements with Supplementary Information

Year Ended December 31, 2010

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INDEPENDENT AUDITORS' REPORT

To the Borough Council
Borough of Elizabethtown
Elizabethtown, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Borough of Elizabethtown** as of and for the year ended December 31, 2010, which collectively comprise the Borough's basic primary government financial statements as listed in the table of contents. These financial statements are the responsibility of the Borough's management. Our responsibility is to express an opinion on these primary government 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, the Borough's policy is to prepare its financial statements on the cash basis of accounting, which differs from accounting principles generally accepted in the United States of America.

The financial statements referred to above include only the primary government of the **Borough of Elizabethtown**, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the Borough's legal entity. The financial statements do not include financial data for the Borough's legally separate component unit, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the Borough's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the **Borough of Elizabethtown** as of December 31, 2010, and the changes in its financial position for the year then ended in conformity with the cash basis of accounting as described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the primary government of the **Borough of Elizabethtown** as of December 31, 2010, and for the year then ended in conformity with the cash basis of accounting as described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2011, 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, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance with 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* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 14 and 52 and 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with the cash basis of accounting, which consisted of inquiries of management about methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of combining nonmajor fund financial statements, schedule of indebtedness, and schedule of real estate taxes are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the 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. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting records and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with the cash basis of accounting. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Trout, Ebersole & Groff, LLP

January 27, 2011
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Borough of Elizabethtown
MANAGEMENT'S DISCUSSION and ANALYSIS
Year Ended December 31, 2010

Management's Discussion and Analysis

The financial management team of **Elizabethtown Borough** offers readers of the Borough's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended December 31, 2010. We encourage readers to consider the information presented in conjunction with the notes to the basic financial statements and the financial statements to enhance the understanding of the Borough's financial performance.

Financial Highlights

The following information highlights the most significant activity within the Borough's financial position over the last year. Though not intended to be all-inclusive, this information provides a snapshot of the most important factors in the Borough's financial position for the previous fiscal year:

- The assets of the Borough exceeded its liabilities at the close of the most recent fiscal year by \$4,780,430 (net assets). Of this amount, \$4,745,407 (unrestricted net assets) may be used to meet the Borough's ongoing obligations to citizens and creditors.
- The Borough's total net assets increased by \$332,809.
- As of the close of the current fiscal year, the Borough's governmental funds reported a combined ending fund balance of \$1,622,343, an increase of \$408,828, in comparison with the prior year. Approximately 97.8 percent of this total amount, or \$1,587,320, is available for spending at the Borough's discretion (unreserved fund balance).
- At the end of the current fiscal year, the unreserved fund balance for the general fund was \$534,362, or 11.5 percent of the total fund expenditures.
- The Borough had \$7,772,089 in debt outstanding versus \$7,161,267 last year, or an increase of 8.5 percent.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

Borough of Elizabethtown
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended December 31, 2010

Overview of the Financial Statements (Continued)

Government-Wide Financial Statements (Continued)

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

The statement of activities presents information showing how the Borough's net assets changed during the most recent fiscal year. All changes in net assets are recorded using the cash basis of accounting.

Both of the government-wide financial statements distinguish functions of the Borough that are supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Borough include general government, public safety, economic development, and parks and recreation. The business-type activities of **Elizabethtown Borough** include sewer. The government-wide financial statements can be found on pages 15 through 17 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. **Elizabethtown Borough**, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Borough can be divided into these categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements.

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

The Borough maintains individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, park and recreation fund, capital reserve fund, and general vehicle sinking fund which are considered to be major funds. Data from the other four governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

Borough of Elizabethtown
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended December 31, 2010

Overview of the Financial Statements (Continued)

Governmental Funds (Continued)

The Borough adopts an annual appropriated budget for its general fund and parks and recreation fund. A budgetary comparison statement has been provided for the general fund and parks and recreation fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 18 and 20 through 21 of this report.

Proprietary Funds

Elizabethtown Borough maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide statements. The Borough uses enterprise funds to account for its sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer operations. The sewer fund is considered to be a major fund of the Borough.

The basic proprietary fund financial statements can be found on pages 23 and 24 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement, because the resources of those funds are not available to support the Borough's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements can be found on pages 25 and 26 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27 through 51 of this report.

Other Supplemental Information

In addition to the basic financial statements and accompanying notes, the report also presents certain required supplementary information.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the basic financial statements as other supplementary information. Combining and individual fund statements and schedules can be found on pages 57 through 63 of this report.

Borough of Elizabethtown
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended December 31, 2010

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of **Elizabethtown Borough**, assets exceeded liabilities by \$4,780,430 at the close of the most recent fiscal year.

The balance of unrestricted net assets, \$4,745,407, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Borough is able to report positive balances in two categories of net assets, both for the government as a whole as well as its separate business-type activities.

Table 1 provides a summary of the Borough's net assets for 2010 compared to 2009:

(Table 1)
Net Assets - Cash Basis

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Assets						
Current Assets	2,826,342	2,326,275	1,954,088	2,121,347	4,780,430	4,447,622
Liabilities						
Total Liabilities	-0-	-0-	-0-	-0-	-0-	-0-
Net Assets						
Restricted	35,023	34,836	-0-	-0-	35,023	34,836
Unrestricted	<u>2,791,319</u>	<u>2,291,439</u>	<u>1,954,088</u>	<u>2,121,347</u>	<u>4,745,407</u>	<u>4,412,786</u>
Total Net Assets	2,826,342	2,326,275	1,954,088	2,121,347	4,780,430	4,447,622

Borough of Elizabethtown
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended December 31, 2010

Government-Wide Financial Analysis (Continued)

(Table 2)						
Changes in Net Assets - Cash Basis						
	2010	2009	2010	2009	2010	2009
	Governmental	Governmental	Business-Type	Business-Type	2010	2009
	Activities	Activities	Activities	Activities	Total	Total
Revenues						
Program Revenues:						
Charges for Services	947,040	909,768	2,253,914	2,176,929	3,200,954	3,086,697
Operating Grants and Contributions	300,305	257,191	-0-	-0-	300,305	257,191
Capital Grants and Contributions	4,885,854	978,450	-0-	-0-	4,885,854	978,450
General Revenues:						
Property Taxes, Levied for General Purposes, net	1,926,422	1,901,180	-0-	-0-	1,926,422	1,901,180
Public Utility Realty, Earned Income, Emergency Management and Realty Transfer Taxes, net	1,287,381	1,328,753	-0-	-0-	1,287,381	1,328,753
Cable Television Franchise Fee	125,196	124,575	-0-	-0-	125,196	124,575
Investment Earnings	16,711	8,445	10,379	11,707	27,090	20,152
Sale of Fixed Assets	11,290	23,351	-0-	-0-	11,290	23,351
Refunds of Prior Year Expenditures	111,631	85,342	11,744	34,512	123,375	119,854
Transfers	692,474	856,577	(692,474)	-0-	-0-	856,577
Redemption of Lease Rental Debt	-0-	(526,334)	-0-	-0-	-0-	(526,334)
Advance Refunding of Long-Term Debt	(6,160,000)	-0-	-0-	-0-	(6,160,000)	-0-
Proceeds from Long-Term Debt	11,459,498	1,102,635	-0-	-0-	11,459,498	1,102,635
Other Revenue	276,373	19,916	126,197	358,485	402,570	378,401
Total Revenues	15,880,175	7,069,849	1,709,760	2,581,633	17,589,935	9,651,482
Expenses						
General Government	586,094	515,878	-0-	-0-	586,094	515,878
Public Safety	2,464,576	2,365,588	-0-	-0-	2,464,576	2,365,588
Public Works	1,719,941	2,007,888	1,877,019	2,126,347	3,596,960	4,134,235
Culture and Recreation	389,487	346,591	-0-	-0-	389,487	346,591
Community Development	5,275,410	1,402,215	-0-	-0-	5,275,410	1,402,215
Debt Service - Principal	4,674,832	343,590	-0-	-0-	4,674,832	343,590
Debt Service - Interest	269,767	30,848	-0-	-0-	269,767	30,848
Total Expenses	15,380,107	7,012,598	1,877,019	2,126,347	17,257,126	9,138,945
Increase (Decrease) in Net Assets	500,068	57,251	(167,259)	455,286	332,809	512,537

Borough of Elizabethtown
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended December 31, 2010

Government-Wide Financial Analysis (Continued)

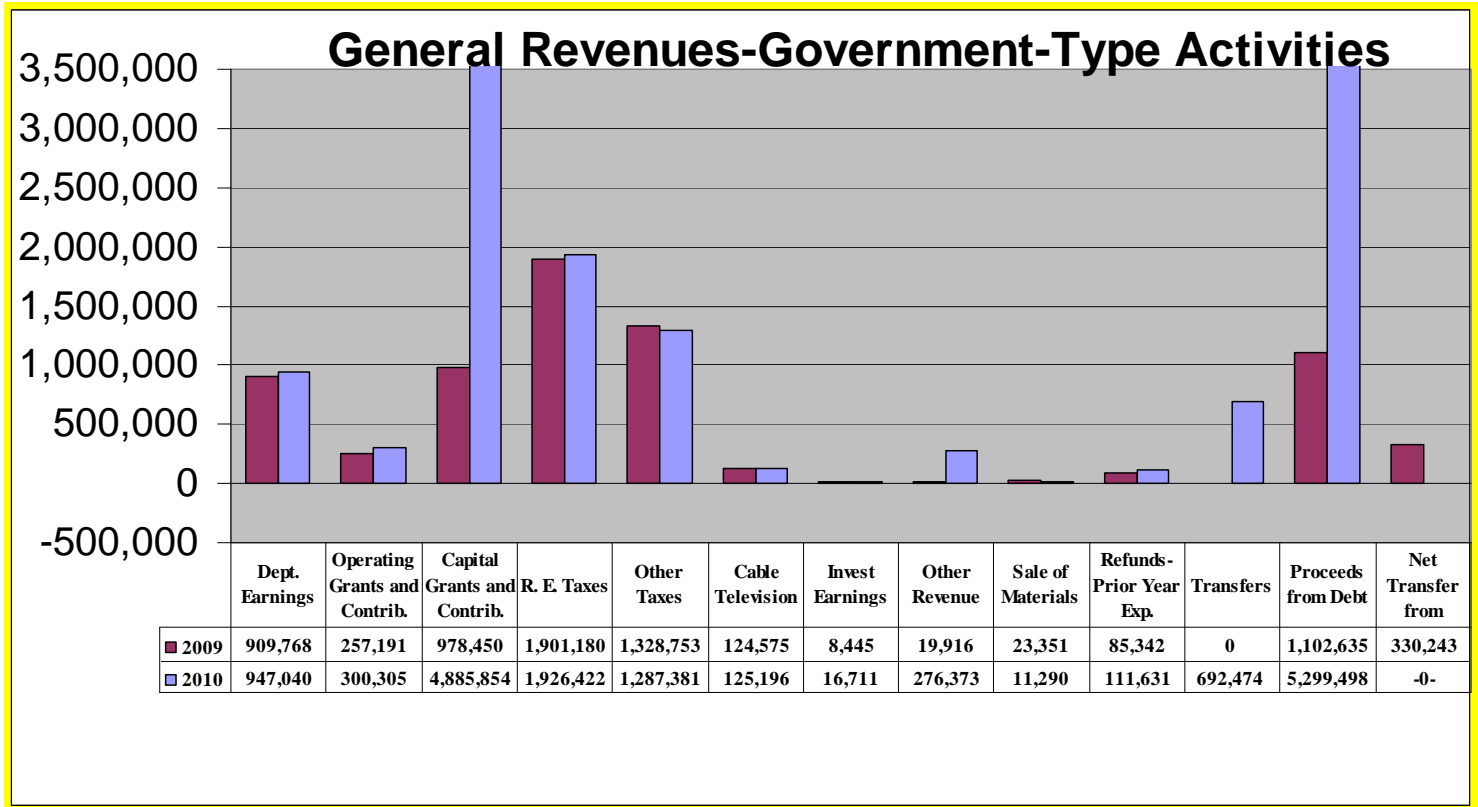
Governmental Activities

Governmental activities increased **Elizabethtown Borough's** net assets by \$500,068. Key elements of this increase are as follows:

- The Borough received a \$250,000 Residential Reinvestment Grant for Pedestrian Pathways. The project expenses are expected to begin in 2011.
- Insurance refunds to the General Fund of \$42,469, exceeded the budgeted amount.
- The Act 511 Taxes received in 2010 were \$69,604 more than the amount budgeted.
- Real Estate Taxes collected in 2010 were \$37,272 more than the amount budgeted.
- The Borough received \$27,419 additional building permit revenues than the budgeted amount.
- The Borough received an emergency snow reimbursement in the amount of \$15,834.

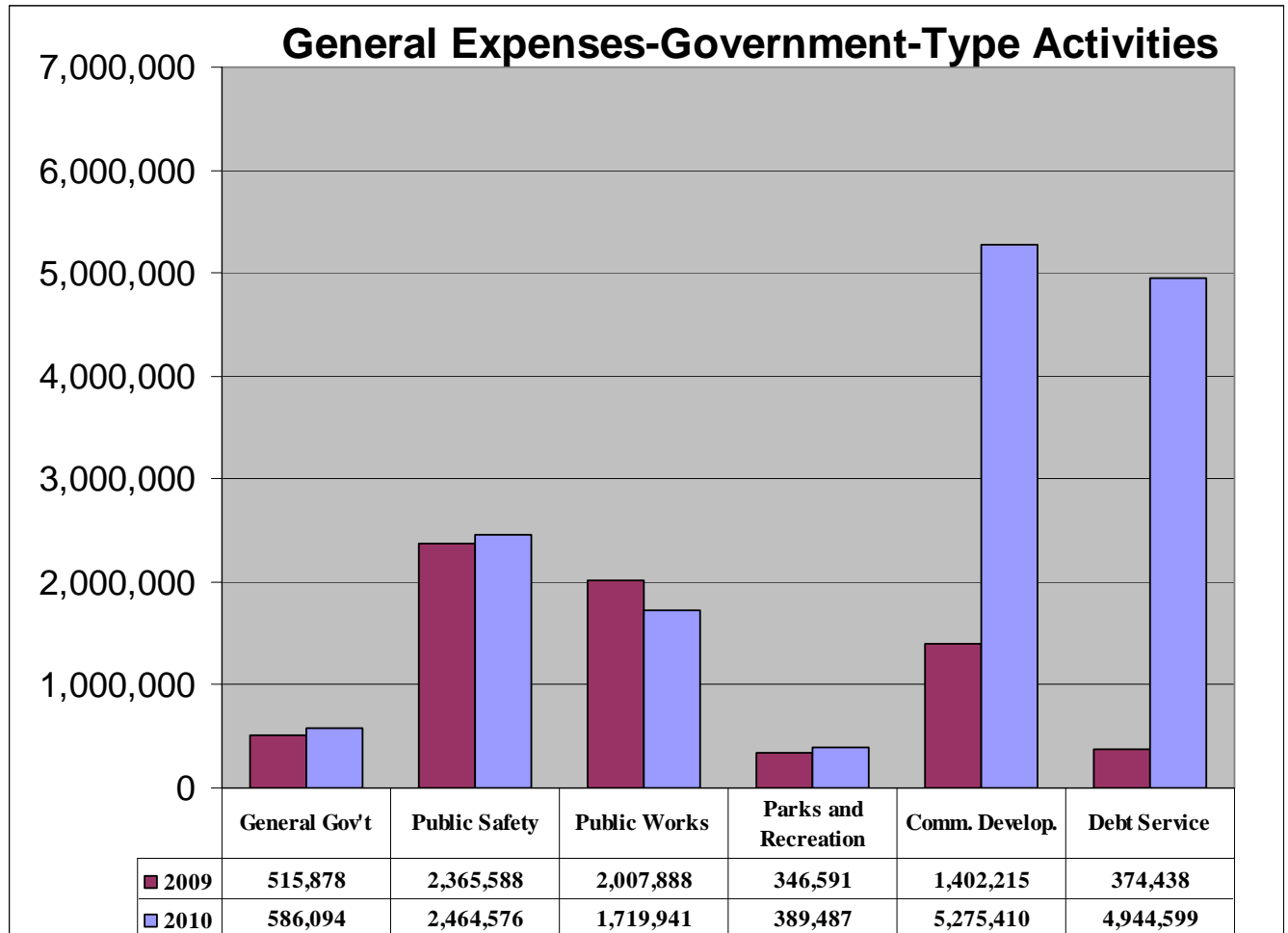
Borough of Elizabethtown
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended December 31, 2010

Government-Wide Financial Analysis (Continued)



Borough of Elizabethtown
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended December 31, 2010

Government-Wide Financial Analysis (Continued)



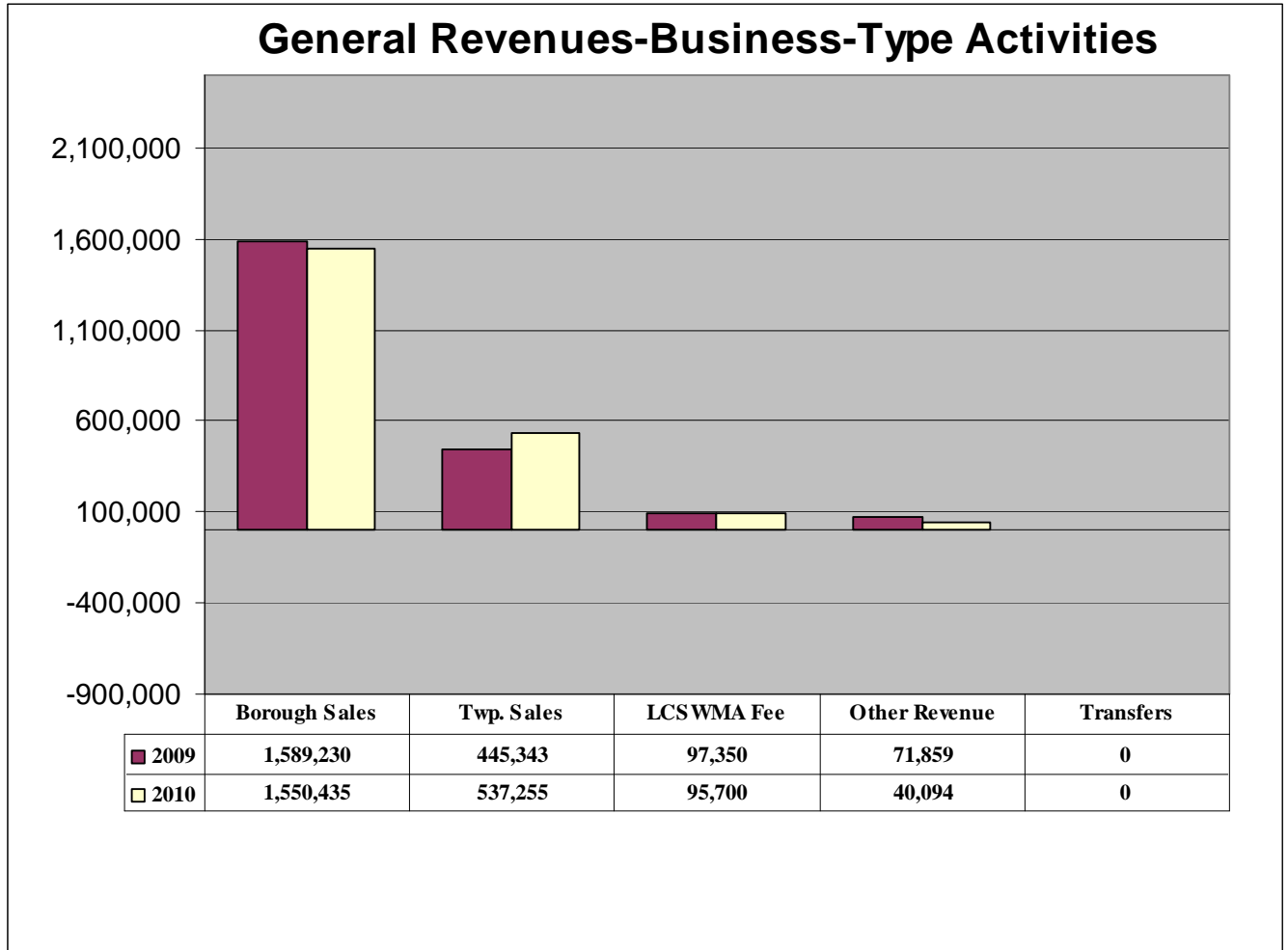
Business-Type Activities

Business-type activities decreased the Borough's net assets by \$167,259. Key elements of the total decrease are as follows:

- Repurchased 50,000 GPD reserved sewer capacity from the Department of Corrections for \$165,000.
- Paid \$156,000 debt on line of credit for utility improvements during the West College Avenue Phase I construction.

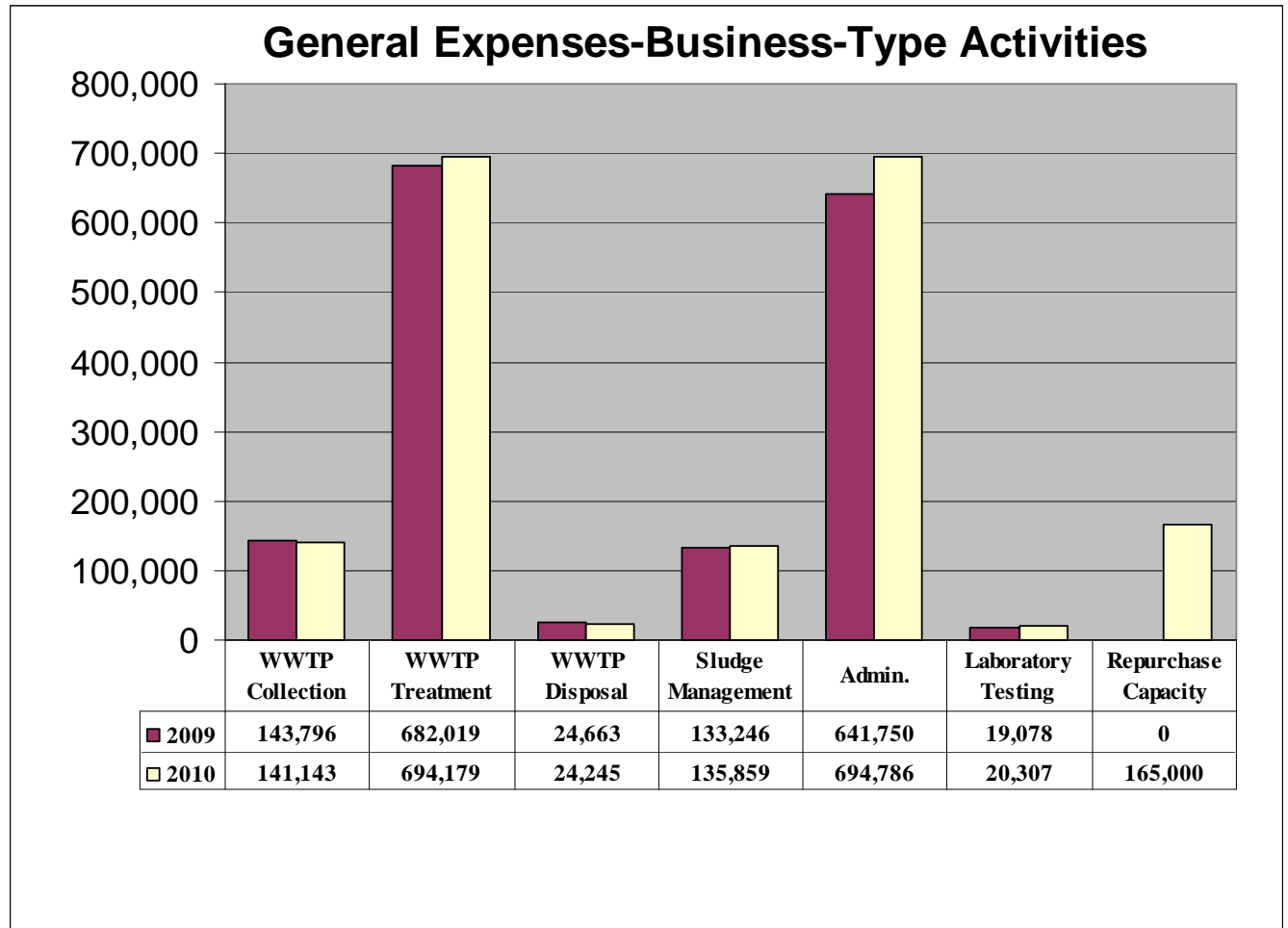
Borough of Elizabethtown
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended December 31, 2010

Government-Wide Financial Analysis (Continued)



Borough of Elizabethtown
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended December 31, 2010

Government-Wide Financial Analysis (Continued)



Financial Analysis of the Government's Funds

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

Governmental Funds

The focus of the Borough's governmental funds is to provide information on inflow, outflow, and balances of available resources. Such information is useful in assessing the Borough's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Borough of Elizabethtown
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended December 31, 2010

Governmental Funds (Continued)

As of the end of the current fiscal year, the Borough's governmental funds reported combined ending fund balances of \$1,622,343, an increase of \$408,828 in comparison with the prior year. Approximately 97.8 percent of this total amount, or \$1,587,320, constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to pay debt service in the amount of \$35,023.

The general fund is the main operating fund of the Borough. At the end of the current fiscal year, the unreserved fund balance in the general fund was \$534,362. As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Unreserved fund balance represents 11.5 percent of total general fund expenditures. Key factors in the performance of the general fund are as follows:

- Real Estate Property tax revenues received were \$37,272 more than budgeted.
- Police Department contracted services fees exceeded the budgeted amount by \$15,050.
- Trash and recycling fees billed to trash customers add \$535,487 to the general fund, \$5,487 over the budgeted amount.
- Revenues from Act 511 taxes, including earned income and the Real Estate Transfer Tax, were \$69,604 more than budgeted in 2010.
- The Borough received \$27,419 in additional building permit revenues than budgeted.

Proprietary Funds

The Borough's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the sewer operation at the end of the year amounted to \$1,954,088. The total decrease in the net assets was \$167,259. Other factors concerning the finances of these funds have already been addressed in the discussion of the Borough's business-type activities.

General Fund Budgetary Highlights

No changes were made during the fiscal year to the original budget adopted by Borough Council for the fiscal year ending December 31, 2010.

For the year, general fund revenues exceeded the budget by 7.8 percent. Correspondingly, the cost of general government for the recently completed fiscal year was less than the budget by 2.4 percent.

Borough of Elizabethtown
MANAGEMENT'S DISCUSSION and ANALYSIS
(Continued)
Year Ended December 31, 2010

Economic Factors and Next Year's Budgets and Rates

The Borough is in the enviable position of having a broad base of residential, commercial, institutional, and industrial properties within its corporate limits. This allows the Borough to withstand sudden economic upturns or downturns from year to year. Highlights for the next fiscal year include:

- Electric rates for the non-street lighting Borough accounts are stabilized for another two years under a contract with Constellation New Energy, electricity provider.
- Increased sewer rates by 16% beginning the first quarter in 2011 for residential and commercial customers.
- A number of federal, state and county grants have been awarded to the Borough for several capital improvement projects in 2011 including overflow parking facilities for the train station, renovations to Center Square, installation of pedestrian pathways downtown, and construction of West College Avenue Phase II.

Requests for Information

This financial report is designed to provide a general overview of the finances for **Elizabethtown Borough** for any interested person(s) or parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Borough Manager, Elizabethtown Borough, 600 S. Hanover Street, Elizabethtown, PA 17022.

Borough of Elizabethtown
 STATEMENT of NET ASSETS - Cash Basis
 December 31, 2010

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	<u>\$ 2,826,342</u>	<u>\$ 1,954,088</u>	<u>\$ 4,780,430</u>
 LIABILITIES	 <u>-0-</u>	 <u>-0-</u>	 <u>-0-</u>
 NET ASSETS			
Restricted	285,023		285,023
Unrestricted	<u>2,541,319</u>	<u>1,954,088</u>	<u>4,495,407</u>
 TOTAL NET ASSETS	 <u>\$ 2,826,342</u>	 <u>\$ 1,954,088</u>	 <u>\$ 4,780,430</u>

See notes to financial statements.

Borough of Elizabethtown
 STATEMENT of ACTIVITIES - Cash Basis
 Year Ended December 31, 2010

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities:							
General Government	\$ 586,094		\$ 10,121		\$ (575,973)		\$ (575,973)
Public Safety	2,464,576	311,975	231,146		(1,921,455)		(1,921,455)
Public Works	1,719,941	628,803	33,906	213,173	(844,059)		(844,059)
Culture and Recreation	389,487	6,262	25,132		(358,093)		(358,093)
Community Development	5,275,410			4,672,681	(602,729)		(602,729)
Debt Service - Principal	4,674,832				(4,674,832)		(4,674,832)
Debt Service - Interest	269,767				(269,767)		(269,767)
Total Governmental Activities	15,380,107	947,040	300,305	4,885,854	(9,246,908)	-0-	(9,246,908)
Business-Type Activities:							
Sewer Operations	<u>1,877,019</u>	<u>2,253,914</u>				<u>376,895</u>	<u>376,895</u>
Total Primary Government	\$ 17,257,126	\$ 3,200,954	\$ 300,305	\$ 4,885,854	\$ (9,246,908)	\$ 376,895	\$ (8,870,013)

See notes to financial statements.

Borough of Elizabethtown
STATEMENT of ACTIVITIES - Cash Basis
(Continued)
Year Ended December 31, 2010

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Assets		
		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					\$ 1,926,422		\$ 1,926,422
Public Utility Realty, Earned Income, Emergency Management, and Realty Transfer Taxes, net					1,287,381		1,287,381
Cable Television Franchise Fee					125,196		125,196
Investment Earnings					16,711	10,379	27,090
Sale of Fixed Assets					11,290		11,290
Other Income					276,373		276,373
Special Items, Extraordinary Items, and Transfers:							
Transfer from Joint Venture						126,197	126,197
Proceeds from Long-Term Debt					11,459,498		11,459,498
Advance Refunding of Long-Term Debt					(6,160,000)		(6,160,000)
Refunds of Prior Year Expenditures					111,631	11,744	123,375
Transfers					692,474	(692,474)	-0-
Total General Revenues and Transfers					9,746,976	(544,154)	9,202,822
CHANGES in NET ASSETS					500,068	(167,259)	332,809
NET ASSETS							
Beginning					2,326,274	2,121,347	4,447,621
Ending					<u>\$ 2,826,342</u>	<u>\$ 1,954,088</u>	<u>\$ 4,780,430</u>

See notes to financial statements.

Borough of Elizabethtown
BALANCE SHEET -
GOVERNMENTAL FUNDS - Cash Basis
December 31, 2010

	Major Funds					Total Governmental Funds
	General Fund	Capital Reserve Fund	Park and Recreation Fund	General Vehicle Sinking Fund	Other Funds	
ASSETS						
Cash and Cash Equivalents	<u>\$ 534,362</u>	<u>\$ 479,334</u>	<u>\$ 352,485</u>	<u>\$ 122,193</u>	<u>\$ 133,969</u>	<u>\$ 1,622,343</u>
LIABILITIES and FUND BALANCES						
LIABILITIES	-0-	-0-	-0-	-0-	-0-	-0-
FUND BALANCES						
Reserve for Debt Service					35,023	35,023
Reserve for Capital Grant		250,000				250,000
Unreserved - Undesignated:						
General Fund	534,362					534,362
Special Revenue Funds			352,485		88,960	441,445
Capital Projects Funds		229,334		122,193	9,986	361,513
TOTAL FUND BALANCES	<u>534,362</u>	<u>479,334</u>	<u>352,485</u>	<u>122,193</u>	<u>133,969</u>	<u>1,622,343</u>
 TOTAL LIABILITIES and FUND BALANCES	 <u>\$ 534,362</u>	 <u>\$ 479,334</u>	 <u>\$ 352,485</u>	 <u>\$ 122,193</u>	 <u>\$ 133,969</u>	 <u>\$ 1,622,343</u>

See notes to financial statements.

Borough of Elizabethtown
RECONCILIATION of the GOVERNMENTAL FUNDS BALANCE SHEET
to the STATEMENT of NET ASSETS
December 31, 2010

Total fund balance - governmental funds	\$ 1,622,343
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Amounts reported for governmental activities in the statement of net assets 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 assets.

1,203,999

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	<u>\$ 2,826,342</u>
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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, 2010

	Major Funds					Total
	General	Capital	Park and	General Vehicle	Other	Governmental
	Fund	Reserve	Recreation	Sinking	Funds	Funds
		Fund	Fund	Fund		
REVENUES						
Taxes	\$ 3,209,177					\$ 3,209,177
Licenses and Permits	186,037					186,037
Fines and Forfeits	39,420					39,420
Interest, Rents, and Royalties	19,400	3,906	1,832	517	6,166	31,821
Intergovernmental	450,253	4,762,902	14,457		213,173	5,440,785
Charges for Service	851,203	2,740				853,943
Miscellaneous			1,645	3	2,654	4,302
Total Revenues	4,755,490	4,769,548	17,934	520	221,993	9,765,485
EXPENDITURES						
General Government	314,959	48,892				363,851
Public Safety	1,730,906	46,305		119,115	2,982	1,899,308
Public Works	1,093,706	125,990			227,334	1,447,030
Culture and Recreation	280,149	2,500	48,486			331,135
Community Development	199,917	5,104,104				5,304,021
Debt Service - Principal		4,497,682			177,150	4,674,832
Debt Service - Interest		14,240			255,527	269,767
Issuance Costs					167,882	167,882
Insurance, Pension, and Other Benefits	1,012,021					1,012,021
Total Expenditures	4,631,658	9,839,713	48,486	119,115	830,875	15,469,847
EXCESS (DEFICIENCY) of						
REVENUES OVER						
EXPENDITURES	\$ 123,832	\$ (5,070,165)	\$ (30,552)	\$ (118,595)	\$ (608,882)	\$ (5,704,362)

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, 2010

	Major Funds					Total
	General Fund	Capital Reserve Fund	Park and Recreation Fund	General Vehicle Sinking Fund	Other Funds	Governmental Funds
OTHER FINANCING						
SOURCES (USES)						
Refunds of Prior Year						
Expenditures	\$ 98,800	12,770	7,050			\$ 118,620
Sale of Assets	4,298					4,298
Proceeds from Long-Term Debt		5,010,654			6,448,644	11,459,298
Refunding of Long-Term Debt					(6,160,000)	(6,160,000)
Interfund Transfers	(36,500)	375,889		35,000	316,585	690,974
Net Other Financing Sources	66,598	5,399,313	7,050	35,000	605,229	6,113,190
NET CHANGES in FUND BALANCES	190,430	329,148	(23,502)	(83,595)	(3,653)	408,828
FUND BALANCES						
Beginning	343,932	150,186	375,987	205,788	137,622	1,213,515
Ending	\$ 534,362	\$ 479,334	\$ 352,485	\$ 122,193	\$ 133,969	\$ 1,622,343

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
Year Ended December 31, 2010

Net changes in fund balances - total governmental funds	\$ 408,828
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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. 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.

91,240

CHANGES in NET ASSETS of GOVERNMENTAL ACTIVITIES	<u>\$ 500,068</u>
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See notes to financial statements.

Borough of Elizabethtown
 STATEMENT of NET ASSETS -
 PROPRIETARY FUNDS - Cash Basis
 December 31, 2010

	Enterprise Fund <u>Major Fund</u>	Internal Service Fund	Total
ASSETS			
Cash and Cash Equivalents	<u>\$ 1,954,088</u>	<u>\$ 1,203,999</u>	<u>\$ 3,158,087</u>
LIABILITIES	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
NET ASSETS - Unrestricted	<u><u>\$ 1,954,088</u></u>	<u><u>\$ 1,203,999</u></u>	<u><u>\$ 3,158,087</u></u>

See notes to financial statements.

Borough of Elizabethtown
STATEMENT of REVENUES, EXPENSES, and CHANGES in NET ASSETS -
PROPRIETARY FUNDS - Cash Basis
Year Ended December 31, 2010

	<u>Enterprise Fund</u> <u>Major Fund</u>		
	Sewer Fund	Internal Service Fund	Total
OPERATING REVENUES			
Charges for Service	\$ 2,253,914	\$ 26,686	\$ 2,280,600
OPERATING EXPENSES			
Collection and Transmission	141,143		141,143
Wastewater Treatment	694,179		694,179
Wastewater Disposal	24,245		24,245
Sludge Management	135,859		135,859
Laboratory and Testing	20,307		20,307
Repurchase of Capacity	165,000		165,000
General, Administrative, Customer Service, and Other	696,286	9,269	705,555
Total Operating Expenses	<u>1,877,019</u>	<u>9,269</u>	<u>1,886,288</u>
OPERATING INCOME	376,895	17,417	394,312
NONOPERATING REVENUES			
Investment Earnings	10,379	5,828	16,207
Transfer in From Joint Venture	126,197		126,197
Refund of Prior Year Expenditures	11,744	67,994	79,738
Total Nonoperating Revenues	<u>148,320</u>	<u>73,822</u>	<u>222,142</u>
INCOME BEFORE TRANSFERS	525,215	91,239	616,454
TRANSFERS OUT	<u>(692,474)</u>	<u>-0-</u>	<u>(692,474)</u>
CHANGES in NET ASSETS	(167,259)	91,239	(76,020)
NET ASSETS			
Beginning	<u>2,121,347</u>	<u>1,112,760</u>	<u>3,234,107</u>
Ending	<u><u>\$ 1,954,088</u></u>	<u><u>\$ 1,203,999</u></u>	<u><u>\$ 3,158,087</u></u>

See notes to financial statements.

Borough of ElizabethtownSTATEMENT of NET ASSETS -
FIDUCIARY FUNDS - Cash Basis
December 31, 2010

	Pension Trust Funds	Agency Funds
ASSETS		
Cash and Cash Equivalents	\$ 3	\$ 25,578
Investments (at Fair Value):		
Federated Governmental Obligation		
Money Market Fund	246,219	
Fixed Income Securities	2,897,754	
Governmental Obligations	1,570,705	
Mutual Funds and Pooled Separate Funds	2,965,929	
	<hr/>	<hr/>
TOTAL ASSETS	<u>7,680,610</u>	<u>25,578</u>
LIABILITIES		
Due to Developers	-0-	13,611
Other Current Liabilities	-0-	11,967
	<hr/>	<hr/>
TOTAL LIABILITIES	<u>-0-</u>	<u>25,578</u>
NET ASSETS - Restricted	<u>\$ 7,680,610</u>	<u>\$ -0-</u>

See notes to financial statements.

Borough of Elizabethtown
 STATEMENT of CHANGES in NET ASSETS -
 FIDUCIARY FUNDS - Cash Basis
 Year Ended December 31, 2010

	Pension Trust Funds
ADDITIONS	
Contributions:	
Commonwealth	\$ 177,916
Employer	237,137
Employee	<u>168,571</u>
	583,624
Investment Earnings	<u>636,721</u>
Total Additions	1,220,345
DEDUCTIONS	
Administrative Expenses	52,713
Retirement Benefits	<u>288,300</u>
Total Deductions	<u>341,013</u>
CHANGES in NET ASSETS	879,332
NET ASSETS - Restricted	
Beginning	<u>6,801,278</u>
Ending	<u>\$ 7,680,610</u>

See notes to financial statements.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES

The **Borough of Elizabethtown** 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 11,900 residents in approximately 4,200 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*, 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. 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.

Based on the foregoing criteria, 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)

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

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 Authority 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 Authority operates the 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, 2010, 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 Park Authority (EAPA)

The Elizabethtown Area Park Authority (EAPA) was formed to take title of the 166 acre recreational land jointly purchased by **Borough of Elizabethtown**, Mount Joy Township, and West Donegal Township and to develop the site for park and recreation purposes. The Board of EAPA was composed of nine members with three from each of the following entities: **Borough of Elizabethtown**, Mount Joy Township, and West Donegal Township. EAPA is not reported as part of the Borough's reporting entity.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint Ventures (Continued)

Elizabethtown Area Park Authority (EAPA) (Continued)

EAPA was dissolved during 2010. The Borough received a final distribution of \$6,992. Complete financial statements for EAPA can be obtained from the Assistant Township Administrator, Mount Joy Township, 159 Merts Drive, 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 and West Donegal Township. Presently, EARA's sole function is to act as a conduit financing authority. However, the indentures and respective loan agreements allow for the EARA to assume ownership and operation of all or part of the sewer system if the respective entities approve. For the year ended December 31, 2010, the Borough made a contribution to EARA in the amount of \$2,500. The Borough received a refund of its share of EARA's sewer vehicle sinking fund in the amount of \$126,197.

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

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.

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. The Board of EAWA is composed of five members with three from the **Borough of Elizabethtown** and two from West Donegal Township. EAWA is not reported as part of the Borough's reporting entity.

For the year ended December 31, 2010, the Borough did not make any contributions to EAWA. Complete financial statements for EAWA can be obtained from the Elizabethtown Area Water Authority Manager, 5 Municipal Drive, Elizabethtown, PA 17022.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint Ventures (Continued)

Greater Elizabethtown Area Recreation and Community Services (GEARS)

The Greater Elizabethtown Area Recreation and Community Services (GEARS) were formed to provide recreational, continuing education, and social-service activities/programs for the children, youth, and adults of the participating municipalities in a fiscally responsible manner. The GEARS is composed of a fifteen-member board with three members from each of the following five entities: **Borough of Elizabethtown**, Conoy Township, 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** was required to make a quarterly contribution to GEARS. For the year ended December 31, 2010, the Borough contributed \$87,537 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.

Basis of Presentation - Fund Accounting

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

Governmental Fund Types

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

General Fund - The general fund is the principal operating fund of the Borough. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects Fund - This fund is used to account for financial resources related to asset acquisitions, construction, and improvements.

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 Fund - This fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Fund Accounting (Continued)

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 type:

Enterprise Fund - Enterprise funds are 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 following funds are used to account for those financial activities:

Sewer Revenue Fund - 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. This fund includes 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. This fund includes the 457 deferred compensation fund, non-uniformed pension fund, and police pension fund.

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. This fund includes 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 Reserve Fund

General Vehicle Sinking Fund

Special Revenue Fund:

Parks and Recreation Fund

Proprietary Funds:

Sewer Fund

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Fund Accounting (Continued)

Major and Nonmajor Funds (Continued)

Nonmajor:

Special Revenue Funds:

Liquid Fuels Fund

Police Training Fund

Capital Projects Fund:

Street Light Reserve Fund

Debt Service Fund

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

Basis of Accounting

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

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

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

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Borough follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

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.

Budgets and Budgetary Accounting

An operating budget is adopted each year for substantially all funds on the cash basis of accounting. The budget for 2010 was proposed October 30, 2009, with final adoption on December 17, 2009. 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 made all required contributions for the year ended December 31, 2010, and has recognized them as expenditures in the general fund.

Deferred Compensation Plan

The Borough offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457.

Fund Equity

Unreserved fund balance for governmental fund types represents the amount available for budgeting future operations. Reserved and restricted fund balances for governmental and fiduciary fund types represent the amounts that have been identified for a specific expenditure. Unrestricted net assets for proprietary fund types represent the assets available for future operations or distribution.

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 statement and accompanying notes. Accordingly, actual results may differ from those estimates.

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, 2010.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Extraordinary and Special Items (Continued)

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 following special items occurred during the year ended December 31, 2010:

The Borough received debt proceeds from the 2008 General Obligation Note, Series A, the 2010 General Obligation Note, Series A, the 2010 General Obligation Note Series C and the 2010 General Obligation Bond in the amount of \$11,459,498.

The Borough refunded the series of 2005 General Obligation bond in the amount of \$6,160,000 with the issuance of the 2010 General Obligation Note.

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, 2010, \$4,403,096 of the Borough's bank balance of \$4,903,906 was exposed to custodial credit risk as:

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>4,403,096</u> 4,403,096

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)

Reconciliation of Cash and Cash Equivalents to the Financial Statements

Uninsured Amount Above	4,403,906
Plus: Insured Amount	<u>500,000</u>
Bank Balance	4,903,906
Less: Outstanding Checks	<u>(97,895)</u>
Total Cash and Cash Equivalents per the Financial Statements	4,806,011

Investments

As of December 31, 2010, the Borough had the following investments:

Investments	Maturity	Fair Value
Abbott Lab Bond	1-5 Years	50,346
AT&T Inc. Convertible	1-5 Years	49,825
Avon Products, Inc. Bond	6-10 Years	102,656
Berks County PA Build America Bond	6-10 Years	30,802
Boeing Cap Corp Bond	6-10 Years	53,010
Chevron Corp Bond	1-5 Years	80,067
Cisco Systems Inc. Bond	6-10 Years	104,770
Coca Cola Co Bond	6-10 Years	54,671
Disney Walt Co Bond	1-5 Years	81,910
Dupont El De Nemours Bond	1-5 Years	53,290
Federal Farm Credit Bank Bonds	1-5 Years	139,435
Federal Farm Credit Bank Bonds	6-10 Years	31,927
Federal Home Loan Bank Bonds	< 1 Year	45,174
Federal Home Loan Bank Bonds	1-5 Years	353,676
Federal Home Loan Bank Bonds	6-10 Years	31,798
Federated Government Obligation Money Market Fund		246,221
FPL Group Cap, Inc. Bond	1-5 Years	51,118
General Electric Cap Corp	6-10 Years	110,454
Glaxosmithkline Cap Bond	1-5 Years	54,289
Goldman Sachs Group Bond	1-5 Years	191,917
Hershey Co. Bond	1-5 Years	51,558
Hewlett Packard Co. Bond	6-10 Years	112,673
JP Morgan Chase & Co Bond	1-5 Years	103,489
Medtronic, Inc. Bond	1-5 Years	76,964
Merck & Co Inc. Bond	1-5 Years	107,290
Microsoft Corp Bond	6-10 Years	104,981

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

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

Investments (Continued)

Mutual Funds and Pooled Separate Funds		3,067,149
Oracle Corp Bond	1-5 Years	112,428
PepsiCo, Inc. Bond	6-10 Years	104,909
Robinson Township PA Municipal Bond	1-5 Years	32,197
Shell Intl Fin Bond	1-5 Years	51,348
Sherwin Williams Bond	1-5 Years	102,893
Statoil Asa Bond	6-10 Years	99,024
Teva Pharmaceuticals Bond	1-5 Years	50,874
Wells Fargo Co Bond	1-5 Years	77,771
United States Treasury Bonds	1-5 Years	161,425
United States Treasury Notes	< 1 Year	256,121
United States Treasury Notes	1-5 Years	974,933
United States Treasury Notes	6-10 Years	<u>115,227</u>
		7,680,610

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.

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.

As of December 31, 2010, the Borough's investments were rated as:

Investments	Standard & Poor's
Federal Farm Credit Bank Bonds	AAA
Federal Home Loan Bank Bonds	No Rating Available
Federated Government Obligation Money Market Fund	AAA
Microsoft Corp Bond	AAA
General Electric Cap Corp	AA+
Abbott Lab Bond	A-1+
Chevron Corp Bond	A-1+
Merck & Co Inc. Bond	A-1+
Cisco Systems Inc. Bond	A+
Coca Cola Co Bond	A+

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

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

Credit Risk (Continued)

Investments	Standard & Poor's
Glaxosmithkline Cap Bond	No Rating Available
JP Morgan Chase & Co Bond	A-
Boeing Cap Corp Bond	A
Disney Walt Co Bond	A-1
Dupont E.I. De Nemours Bond	A-1
Hershey Co. Bond	A-1
Hewlett-Packard Co. Bond	A
Oracle Corp Bond	A-1
Goldman Sachs Group Bond	A
Wells Fargo Co Bond	A-1+
Teva Pharmaceuticals Bond	A-
Statoil Asa Bond	AA-
Sherwin Williams Bond	A-1
Shell Intl Fin Bond	No Rating Available
PepsiCo, Inc. Bond	A
Medtronic, Inc. Bond	A-1+
FPL Group Cap, Inc. Bond	No Rating Available
Avon Products, Inc. Bond	A-
AT&T Inc. Convertible	A-

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. More than 5% of the Borough's investments are in United States Treasury Notes, Vanguard Total Stock Market Index Fund, Vanguard Index FDS 500 Sig Fund, and Federal Home Loan Bank Bonds. These investments are 17.53%, 19.51%, 8.21%, and 5.61% of fiduciary funds and 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 mutual funds and pooled separate accounts.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

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, 2010, was 4.20 mills (\$4.20 per \$1,000 of assessed valuation) as levied by Borough Council.

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

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

NOTE 4 - INTERFUND ACCOUNTS

Interfund transfers for the year ended December 31, 2010, were as follows:

Fund	Transfers In	Transfers Out
General Fund	55,000	91,500
Capital Reserve Fund	375,889	-0-
Debt Service Fund	268,026	6,441
General Vehicle Sinking Fund	35,000	-0-
Street Lighting Fund	55,000	-0-
Sewer Revenue Fund	6,441	700,415
Unemployment Comp Fund	<u>3,000</u>	<u>-0-</u>
	798,356	798,356

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

Transfers were made from the general fund and sewer fund to the unemployment compensation fund to replenish the reserve balance.

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

Transfers were made from the debt service fund to the sewer revenue fund for debt issuance cost overpayment.

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

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 4 - INTERFUND ACCOUNTS (Continued)

Transfers were made from the sewer revenue fund to the general fund for debt payments on the street lighting project.

Transfers were made from the sewer revenue fund to the capital reserve fund for the funding of current and future capital improvements.

NOTE 5 - GENERAL LONG-TERM DEBT

The Borough issues general obligation debt and self-liquidating 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 Sewer Revenue Bonds, Series of 1969 were issued for the purpose of making certain capital improvements to the sewer system. The payments on the 1969 Sewer Revenue Bonds will be made from the sewer fund of the Borough.

The 2005 General Obligation Bonds were issued for the purpose of refunding the Elizabethtown Area Regional Authority's Guaranteed Sewer Revenue Bonds (Borough of Elizabethtown Project), Series A of 1999. These 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. The payments on the bonds are made from the sewer fund of the Borough. These bonds were advance refunded during the year ended December 31, 2010 with the proceeds of the General Obligation Bonds Series of 2010.

The General Obligation Note - Series A of 2010, a \$3,000,000 revolving drawdown note, was issued for the purposes of funding the reconstruction of the Elizabethtown Amtrak Station. The note will be payable in full on May 15, 2013. Until then, interest accrues at an annual variable rate of 66.3% 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%. The applicable interest rate at December 31, 2010, is 2.75%. Interest payments are due quarterly. The balance outstanding at December 31, 2010, was \$1,057,128.

The General Obligation Note - Series B of 2010, a \$1,000,000 revolving drawdown note, was issued for the purposes of funding Phase 1 of the College Avenue Project. The note will be payable in full on May 15, 2011. Until then, interest accrues at an annual variable rate of 66.3% 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%. The applicable interest rate at December 31, 2010, is 2.75%. Interest payments are due quarterly. The balance outstanding at December 31, 2010 is \$0.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 5 - GENERAL LONG-TERM DEBT (Continued)

The General Obligation Note - Series C of 2010, a \$2,500,000 revolving drawdown note, was issued for the purposes of funding Phase 2 of the College Avenue Project. The note will be payable in full on May 15, 2013. Until then, interest accrues at an annual variable rate of 66.3% 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%. The applicable interest rate at December 31, 2010, is 2.75%. Interest payments are due quarterly. The balance outstanding at December 31, 2010, was \$28,611.

The Borough issued General Obligation Note - Series of 2009, a \$836,300 non-revolving drawdown note, for the purposes of funding the Train Station Project. Payments on the note are due June 15th and December 15th through December 15, 2029 at a fixed interest rate of 4.29%. To date, the Borough borrowed \$423,500 on this note. The balance outstanding at December 31, 2010, was \$396,350.

The Borough issued General Obligation Note - 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. Payments on the note are due June 1st and December 1st through December 1, 2025 with interest rates from 2.00% to 3.625%. The balance outstanding at December 31, 2010, was \$6,285,000. The Borough's savings will amount to \$262,305 through the term of the Bonds. The present value of these savings is \$265,181

Currently, the Borough has debt with interest rates and outstanding principal amounts at December 31, 2010, as follows:

	Issue	Interest Rates	Principal Amount Outstanding at December 31, 2010
General Obligation Note - Series of 2010	2010	2.00% - 3.625%	6,285,000
General Obligation Note - Series of 2009	2009	4.29%	396,350
General Obligation Note - Series A	2010	Variable	1,057,128
General Obligation Note - Series C	2010	Variable	28,611
Sewer Revenue Bonds	1969	5.60%	<u>5,000</u>
			7,772,089

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 5 - GENERAL LONG-TERM DEBT (Continued)

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

Year Ending December 31	2010 General Obligation Note Series A		General Obligation Note Series of 2009		2010 General Obligation Note Series C	
	Interest Payment	Principal Payment	Interest Payment	Principal Payment	Interest Payment	Principal Payment
2011	29,071	-0-	16,703	28,340	787	-0-
2012	29,071	-0-	15,474	29,560	787	-0-
2013	13,324	1,057,128	14,192	30,840	361	28,611
2014	-0-	-0-	12,855	32,180	-0-	-0-
2015	-0-	-0-	11,460	33,570	-0-	-0-
2016-2020	-0-	-0-	34,265	190,170	-0-	-0-
2021-2025	-0-	-0-	1,938	51,690	-0-	-0-
2026-2030	-0-	-0-	-0-	-0-	-0-	-0-
2031-2032	-0-	-0-	-0-	-0-	-0-	-0-
	71,466	1,057,128	106,887	396,350	1,935	28,611

Year Ending December 31	General Obligation Note Series of 2010		Sewer Revenue Bonds Series of 1969		Totals	
	Interest Payment	Principal Payment	Interest Payment	Principal Payment	Interest Payment	Principal Payment
2011	177,806	355,000	-0-	5,000	224,367	388,340
2012	170,706	355,000	-0-	-0-	216,038	384,560
2013	163,606	370,000	-0-	-0-	191,483	1,486,579
2014	156,206	375,000	-0-	-0-	169,061	407,180
2015	148,706	385,000	-0-	-0-	160,166	418,570
2016-2020	601,624	2,050,000	-0-	-0-	635,889	2,240,170
2021-2025	259,900	2,395,000	-0-	-0-	261,838	2,446,690
2026-2030	-0-	-0-	-0-	-0-	-0-	-0-
2031-2032	-0-	-0-	-0-	-0-	-0-	-0-
	1,678,554	6,285,000	-0-	5,000	1,858,842	7,772,089

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 5 - GENERAL LONG-TERM DEBT (Continued)

Changes in Long-Term Liabilities

During the year ended December 31, 2010, the following changes occurred in long-term debt:

	Balance January 1	Additions	Reductions	Balance December 31
General Obligation Debt	7,156,267	11,445,654	10,834,832	7,767,089
Self-Liquidating Debt	5,000	-0-	-0-	5,000
Other Post Employment Health Benefits	158,932	229,510	76,828	311,614
Compensated Absences	<u>252,867</u>	<u>17,197</u>	<u>-0-</u>	<u>270,064</u>
	7,573,066	11,692,361	10,911,660	8,353,767

NOTE 6 - RISK MANAGEMENT

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

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

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

Health Insurance

The Borough is a member of the Intergovernmental Insurance Cooperative (IIC) through which it self-insures for employee health claims. These claims are administered by NCAS. During the year ended December 31, 2010, the Borough remitted their contracted monthly amount to IIC who pays the funds directly to NCAS. 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 \$30,000 individually and \$378,870 in the aggregate.

Employee contributions are recorded in the Health Insurance Fund for the NCAS plan. Borough contributions for monthly claims liability are shown in the general and sewer funds for the year ended December 31, 2010.

As of December 31, 2010, there are no additional assessments relating to the health plan.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 6 - RISK MANAGEMENT (Continued)

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. Unemployment claims in the amount of \$9,269 were paid in 2010.

As of December 31, 2010, 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 thirty member municipalities. 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 \$500,000 for a claim over its life. As of December 31, 2010, the Borough is not aware of any additional assessments relating to the trust.

NOTE 7 - PENSION PLANS

The **Borough of Elizabethtown** administers one defined benefit pension plan - the police pension plan (PPP). The Borough also administers two defined contribution pension plans - the non-uniformed employee pension plan (NEPP) and the 457 deferred compensation plan (DCP). 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.

Method Used to Value Investments

Investments are reported at fair value.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 7 - PENSION PLANS (Continued)

Plan Descriptions and Contribution Information

Membership of the plan consisted of the following at January 1, 2009 the date of the latest actuarial valuation:

	PPP
Retirees and Beneficiaries Currently Receiving Benefits and Terminated Employees Entitled to Benefits, but not yet Receiving Them	3
Active Plan Participants:	
Fully Vested	9
Partially Vested	0
Non-Vested	<u>7</u>
	16
Total Plan Membership	19

Police Pension Plan

Plan Description

PPP is a single-employer defined benefit pension plan that covers all full-time, uniformed employees of the Borough. PPP provides retirement, disability, and death benefits to plan members and their beneficiaries.

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 at rates that for individual employees, increase over time so that sufficient assets will be available to pay benefits when due.

The actual required contribution is determined annually through the budgeting process. The results of actuarial valuations are used in budgeting for future years.

The Borough contributed \$332,973, of which \$103,515 was Act 205 funds, and members contributed \$61,011 during 2010.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 7 - PENSION PLANS (Continued)

Non-Uniformed Employee Pension Plan

Plan Description

NEPP is a single-employer defined contribution pension plan that covers all full-time, non-uniformed employees of the Borough. NEPP provides retirement and disability benefits to plan members and their beneficiaries.

Contributions

The Borough will contribute an amount equal to 6.5% of each eligible participant's compensation. Employee contributions are not permitted.

The Borough contributed \$82,080, of which \$74,401 was Act 205 funds, during 2010.

457 Deferred Compensation Plan

Plan Description

The DCP is a single-employer defined contribution pension plan in which all eligible, full-time employees of the Borough may elect to participate. Employees can elect to defer up to a maximum percentage of their compensation as specified in the plan document. At December 31, 2010, there were 23 plan members.

Contributions

The employee contributions to the plan for the year ended December 31, 2010, were \$107,560.

Annual Pension Cost and Net Pension Obligation

The Borough's annual pension cost and net pension obligation for the PPP for the current year were as follows:

	PPP
Annual Required Contribution	332,973
Interest on Net Pension Obligation	(2,687)
Adjustment to Annual Required Contribution	<u>3,838</u>
Annual Pension Cost	334,124
Contributions Made	<u>332,973</u>
Increase in Net Pension Obligation	1,151
Net Pension Obligation Beginning of Year	<u>(38,381)</u>
Net Pension Obligation (Asset) End of Year	(37,230)

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 7 - PENSION PLANS (Continued)

Annual Pension Cost and Net Pension Obligation (Continued)

The annual required contributions for the PPP for 2010 were determined as part of the January 1, 2009 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included a) 7% investment rate of return, and b) a projected salary increase of 6% for the PPP. The actuarial value of assets for the PPP was market value as determined by the trustee. The unfunded actuarial accrued liability is being amortized for the plans using the level dollar closed amortization method. The remaining amortization period at January 1, 2010, for the PPP was 11 years.

Three Year Trend Information

PPP

Calendar Annual Year	Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
2008	255,319	99.5%	(39,568)
2009	334,649	99.7%	(38,381)
2010	334,124	99.7%	(37,230)

Concentrations

Police Pension Plan

PPP has greater than 5% concentrations in US Treasury Notes, US Treasury Bonds, Vanguard 500 Index Admiral Fund and Vanguard Total Stock Market Index Fund.

The plans do not issue stand-alone financial reports.

NOTE 8 - LITIGATION

The Borough is involved in several claims. However, it is anticipated that any of these potential claims not covered by insurance would not materially affect the financial position of the Borough.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 9 - FUND EQUITY

Fund balances have been reserved as follows:

Debt Service Funds:	
Reserve for Debt Service	35,023
Capital Reserve Funds:	
Reserve for Capital Grant	250,000
Trust Funds:	
Restricted for Retirement Benefits	6,732,861
Restricted for Deferred Compensation Payments	947,749

NOTE 10 - POST EMPLOYMENT HEALTHCARE BENEFITS

Description

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

The Borough maintains a single employer defined benefit plan to provide post retirement healthcare benefits to Borough employees. Under the Elizabethtown Borough Police Contract, police officers who reach normal or disability retirement are eligible to receive hospitalization and major medical benefits to age 65. If the officer was hired on or before January 1, 2009 and is married at the time of retirement, the officer's spouse 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 Non-Uniformed Employees Contract, 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 post employment benefits on a pay-as-you-go basis. The Borough recognizes expenditures for post employment 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:

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 10 - POST EMPLOYMENT HEALTHCARE BENEFITS (Continued)

	2010	2009
Annual Required Contribution	222,358	222,358
Interest on OPEB Obligation	7,152	-0-
Adjustment to Annual Required Contribution	<u>(9,757)</u>	<u>-0-</u>
Annual OPEB Cost	219,753	222,358
Contributions Made	<u>67,071</u>	63,426
Estimated Increase in Net OPEB Obligation	152,682	158,932
Net OPEB Obligation - Beginning of Year	<u>158,932</u>	<u>-0-</u>
Net OPEB Obligation - End of Year	311,614	158,932

The Borough's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2010 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation- End of Year
12/31/2010	219,753	31%	311,614
12/31/2009	222,358	29%	158,932

Because 2009 was the year of transition for GASB Statement No. 45, requirements of GASB Statement No. 45 have been implemented prospectively; therefore, the above illustration does not reflect similar information respective of the two preceding years.

Funding Status and Funding Progress

As of January 1, 2009, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits equaled \$2,089,449, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,089,449. The covered payroll (annual payroll of active employees covered by the Plan) equaled \$1,271,918, and the ratio of the UAAL to the covered payroll equaled 164.28%.

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. Additionally, because 2009 was the year of transition for GASB Statement No. 45, requirements of GASB Statement No. 45 have been implemented prospectively; therefore, the funding progress does not reflect similar information respective of the two preceding years.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 10 - POST EMPLOYMENT HEALTHCARE BENEFITS (Continued)

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, 2009, 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 8.0% in the first year gradually decreasing by 0.5% per year to a rate of 5% in 2015; rates gradually decrease from 5.3% in 2015 to 4.2% in 2099 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.

NOTE 11 - CAPITAL IMPROVEMENT PROJECTS

Train Station Renovation

The Borough is in the process of the renovation of the train station and grounds. The project construction commenced in 2009 and is expected to be completed in 2011. Bids were awarded in 2009 and funding was secured through American Recovery and Reinvestment Act (ARRA) grants in the amount of \$9,234,839. As of December 31, 2010 the Borough has received \$4,733,542 of the grant funding and has spent a total of \$5,778,421 in reimbursable costs. As of December 31, 2010 the Borough had Construction contracts for the train station renovation with a remaining commitment of \$412,800.

Street Lighting Upgrades

The Borough has contracted with Municipal Energy Managers, Inc. (MEM) for the purchase, upgrade, and maintenance of the street lights in the Borough in order to achieve energy and maintenance cost savings, beyond debt service, over the life of the 20 year contract. The Borough is financing this project with the General Obligation Note Series of 2009. As of December 31, 2010, the Borough has paid \$423,000 of the total contract amount of \$836,300 to MEM and is halting further payments until MEM shows satisfactory performance with the terms of the contract.

In order to track the results of this project, the Borough has established the street lights reserve fund to account for the purchase and upgrade. Upon completion, the Borough will transfer annually funds from the general fund equal to estimated street lighting costs had the MEM agreement not been entered into. The Borough will pay maintenance, electricity and debt service expenses from this fund and considers the fund balance the realized savings.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 12 - PURCHASE COMMITMENT

The Borough has contracted with Constellation NewEnergy, Inc. to exclusively purchase all electricity requirements at an agreed-upon price of \$0.077004 per kWh. This agreement expires in December 2012.

Borough of Elizabethtown

SCHEDULE of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -

BUDGET and ACTUAL - Cash Basis -

GENERAL FUND

Year Ended December 31, 2010

	Budget Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 3,124,780	\$ 3,124,780	\$ 3,209,177	\$ 84,397
Licenses and Permits	154,800	154,800	186,037	31,237
Fines and Forfeits	47,000	47,000	39,420	(7,580)
Interests, Rents, and Royalties	22,555	22,555	19,400	(3,155)
Intergovernmental	252,700	252,700	450,253	197,553
Charges for Services	806,280	806,280	851,203	44,923
Total Revenues	4,408,115	4,408,115	4,755,490	347,375
EXPENDITURES				
General Government	303,946	303,946	314,959	(11,013)
Public Safety	1,878,050	1,878,050	1,730,906	147,144
Public Works	1,135,188	1,135,188	1,093,706	41,482
Culture and Recreation	319,491	319,491	280,149	39,342
Community Development	42,900	42,900	199,917	(157,017)
Insurance, Pension, and Other Benefits	1,064,721	1,064,721	1,012,021	52,700
Total Expenditures	4,744,296	4,744,296	4,631,658	112,638
EXCESS (DEFICIENCY) of REVENUES OVER EXPENDITURES	(336,181)	(336,181)	123,832	460,013
OTHER FINANCING SOURCES (USES)				
Refunds of Prior Year Expenditures	29,000	29,000	98,800	69,800
Transfer in from Elizabethtown Area				
Park Authority	0	-0-	0	-0-
Sale of Assets	3,000	3,000	4,298	1,298
Interfund Transfers	-0-	-0-	(36,500)	(36,500)
Net Other Financing Sources	32,000	32,000	66,598	34,598
NET CHANGES in FUND BALANCES	\$ (304,181)	\$ (304,181)	\$ 190,430	\$ 494,611

Budgeted revenue does not include beginning cash balance.

See auditors' report.

Borough of Elizabethtown

SCHEDULE of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES - BUDGET and ACTUAL - Cash Basis - PARK AND RECREATION FUND Year Ended December 31, 2010

	Budget Amounts		Actual	Variance With
	Original	Final		Final Budget
				Positive
				(Negative)
REVENUES				
Interests, Rents, and Royalties	\$ 300	\$ 300	\$ 1,832	\$ 1,532
Intergovernmental	20,000	\$ 20,000	14,457	\$ (5,543)
Miscellaneous	<u>1,000</u>	<u>1,000</u>	<u>1,645</u>	<u>645</u>
Total Revenues	21,300	21,300	17,934	(3,366)
EXPENDITURES				
Culture and Recreation	<u>48,000</u>	<u>48,000</u>	<u>48,486</u>	<u>486</u>
EXCESS (DEFICIENCY)				
of REVENUES				
OVER EXPENDITURES	(26,700)	(26,700)	(30,552)	(3,852)
OTHER FINANCING SOURCES				
Refund of Prior Year				
Expenditures	<u>-0-</u>	<u>-0-</u>	<u>7,050</u>	<u>7,050</u>
Net Other Financing Sources	<u>-0-</u>	<u>-0-</u>	<u>7,050</u>	<u>7,050</u>
NET CHANGES in				
FUND BALANCES	\$ (26,700)	\$ (26,700)	\$ (23,502)	\$ 3,198

Budgeted revenue does not include beginning cash balance.

See auditors' report.

Borough of Elizabethtown
REQUIRED SUPPLEMENTARY INFORMATION -
SCHEDULE of FUNDING PROGRESS -
Unaudited

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Police Pension Plan:						
01/01/2005	3,520,526	\$ 3,991,795	\$ 471,269	88.2 %	\$ 964,336	48.9 %
01/01/2006	3,831,363					
01/01/2007	4,275,154	5,282,032	1,006,878	80.9 %	1,074,441	93.7 %
01/01/2008	4,772,880					
01/01/2009	4,631,602	\$ 6,078,430	\$ 1,446,828	76.2 %	\$ 1,169,352	123.7 %
01/01/2010	5,268,364					

See auditors' report.

Borough of Elizabethtown
REQUIRED SUPPLEMENTARY INFORMATION -
SCHEDULE of EMPLOYER CONTRIBUTIONS -
Unaudited

Police Pension Plan:

Calendar Year	Annual Required Contribution	Contributions from Employer	Percentage Contributed
2005	\$ 181,608	\$ 181,608	100.0 %
2006	188,293	188,293	100.0 %
2007	240,309	240,309	100.0 %
2008	254,095	254,095	100.0 %
2009	333,462	333,462	100.0 %
2010	332,973	332,973	100.0 %

See auditors' report.

Borough of Elizabethtown

NOTES to REQUIRED SUPPLEMENTARY INFORMATION - Unaudited

The information presented on the required supplementary schedules on pages 54 and 55 was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows.

	Police Pension Plan
Valuation Date	01/01/2009
Actuarial Cost Method	Entry Age
Amortization Method	Level Dollar Closed
Remaining Amortization Period	11 Years
Asset Valuation Method	Market Value as Determined by Trustee
Actuarial Assumptions:	
Investment Rate of Return	7%
Projected Salary Increases	6% Annual

See auditors' report.

Borough of Elizabethtown

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS - Cash Basis

December 31, 2010

	<u>Special Revenue Fund</u>		Debt Service Fund	<u>Capital Project Fund</u>	Total
	Liquid Fuels Fund	Police Training Fund		Street Light Reserve Fund	
ASSETS					
Cash and Cash Equivalents	<u>\$ 85,712</u>	<u>\$ 3,248</u>	<u>\$ 35,023</u>	<u>\$ 9,986</u>	<u>\$ 133,969</u>
LIABILITIES and FUND BALANCES					
LIABILITIES	-0-	-0-	-0-	-0-	-0-
FUND BALANCES					
Reserve for Debt Service			35,023		35,023
Unreserved - Undesignated:					
Capital Projects				9,986	9,986
Special Revenue Fund	<u>85,712</u>	<u>3,248</u>			<u>88,960</u>
TOTAL FUND BALANCES	<u>85,712</u>	<u>3,248</u>	<u>35,023</u>	<u>9,986</u>	<u>133,969</u>
TOTAL LIABILITIES and FUND BALANCES	<u>\$ 85,712</u>	<u>\$ 3,248</u>	<u>\$ 35,023</u>	<u>\$ 9,986</u>	<u>\$ 133,969</u>

See auditors' report.

Borough of Elizabethtown
 COMBINING STATEMENT of REVENUES, EXPENDITURES, and
 CHANGES in FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS - Cash Basis
 Year Ended December 31, 2010

	<u>Special Revenue Funds</u>			<u>Capital Project Fund</u>	
	<u>Liquid Fuels Fund</u>	<u>Police Training Fund</u>	<u>Debt Service Fund</u>	<u>Street Light Reserve Fund</u>	<u>Total</u>
REVENUES					
Interest, Rents, and Royalties	\$ 659	\$ 4	\$ 5,489	\$ 14	\$ 6,166
Intergovernmental	213,173				213,173
Miscellaneous		2,654			2,654
Total Revenues	213,832	2,658	5,489	14	221,993
EXPENDITURES					
Public Safety		2,982			2,982
Public Works	227,334				227,334
Debt Service - Principal			150,000	27,150	177,150
Debt Service - Interest			237,649	17,878	255,527
Issuance Costs			167,882		167,882
Total					
Expenditures	227,334	2,982	555,531	45,028	830,875
EXCESS (DEFICIENCY) of REVENUES OVER EXPENDITURES	(13,502)	(324)	(550,042)	(45,014)	(608,882)
OTHER FINANCING SOURCES (USES)					
Bond Issuance Costs					-0-
Proceeds from Long-Term Debt			6,448,644		6,448,644
Advance Refunding of Long-Term Debt			(6,160,000)		(6,160,000)
Interfund Transfers			261,585	55,000	316,585
Net Other Financing Sources	-0-	-0-	550,229	55,000	605,229
NET CHANGES in FUND BALANCES	(13,502)	(324)	187	9,986	(3,653)
FUND BALANCES					
Beginning	99,214	3,572	34,836	-0-	137,622
Ending	\$ 85,712	\$ 3,248	\$ 35,023	\$ 9,986	\$ 133,969

See auditors' report.

Borough of Elizabethtown
COMBINING STATEMENT of NET ASSETS - INTERNAL SERVICE FUNDS -
Cash Basis
December 31, 2010

	Health Insurance Fund	Unemployment Compensation Fund	Total
ASSETS			
Cash and Cash Equivalents	<u>\$ 1,199,072</u>	<u>\$ 4,927</u>	<u>\$ 1,203,999</u>
LIABILITIES	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
NET ASSETS - Unrestricted	<u>\$ 1,199,072</u>	<u>\$ 4,927</u>	<u>\$ 1,203,999</u>

See auditors' report.

Borough of Elizabethtown
 COMBINING STATEMENT of REVENUES, EXPENSES, and CHANGES in
 NET ASSETS - INTERNAL SERVICE FUNDS - Cash Basis
 Year Ended December 31, 2010

	Health Insurance Fund	Unemployment Compensation Fund	Total
OPERATING REVENUES			
Charges for Service	\$ 23,686	\$ 3,000	\$ 26,686
OPERATING EXPENSES		<u>9,269</u>	<u>9,269</u>
OPERATING INCOME (LOSS)	23,686	(6,269)	17,417
NONOPERATING REVENUES			
Investment Income	5,795	33	5,828
Refund of Prior Year Expenditures	<u>67,994</u>		<u>67,994</u>
TOTAL NONOPERATING REVENUES	<u>73,789</u>	<u>33</u>	<u>73,822</u>
CHANGES in NET ASSETS	97,475	(6,236)	91,239
NET ASSETS			
Beginning	<u>1,101,597</u>	<u>11,163</u>	<u>1,112,760</u>
Ending	<u>\$ 1,199,072</u>	<u>\$ 4,927</u>	<u>\$ 1,203,999</u>

See auditors' report.

Borough of Elizabethtown
COMBINING STATEMENT of NET ASSETS - FIDUCIARY FUNDS -
PENSION TRUST FUNDS - Cash Basis
December 31, 2010

	Non-Uniformed Pension Fund	Police Pension Fund	Deferred Compensation Fund	Total
ASSETS				
Cash and Cash Equivalents	\$ 1	\$ 2		\$ 3
Investments (at Fair Value):				
Federated Governmental Obligation Money				
Market Fund	65,923	180,296		246,219
Fixed Income Securities	391,351	2,506,403		2,897,754
Governmental Obligations	62,999	1,507,706		1,570,705
Mutual Funds and Pooled Separate Funds	217,833	1,800,347	947,749	2,965,929
TOTAL ASSETS	738,107	5,994,754	947,749	7,680,610
LIABILITIES	-0-	-0-	-0-	-0-
NET ASSETS - Restricted	\$ 738,107	\$ 5,994,754	\$ 947,749	\$ 7,680,610

See auditors' report.

Borough of Elizabethtown
 COMBINING STATEMENT of CHANGES in NET ASSETS -
 FIDUCIARY FUNDS - PENSION TRUST FUNDS - Cash Basis
 Year Ended December 31, 2010

	Non-Uniformed Pension Fund	Police Pension Fund	Deferred Compensation Fund	Total
ADDITIONS				
Contributions:				
Commonwealth	\$ 74,401	\$ 103,515		\$ 177,916
Employer	7,679	229,458		237,137
Employee		61,011	107,560	168,571
	<u>82,080</u>	<u>393,984</u>	<u>107,560</u>	<u>583,624</u>
Investment Income	<u>53,871</u>	<u>473,464</u>	<u>109,386</u>	<u>636,721</u>
Total Additions	135,951	867,448	216,946	1,220,345
DEDUCTIONS				
Administrative Expenses	10,930	35,797	5,986	52,713
Retirement Benefits	<u>177,839</u>	<u>105,261</u>	<u>5,200</u>	<u>288,300</u>
Total Deductions	<u>188,769</u>	<u>141,058</u>	<u>11,186</u>	<u>341,013</u>
CHANGES in NET ASSETS	(52,818)	726,390	205,760	879,332
NET ASSETS - Restricted				
Beginning of Year	<u>790,925</u>	<u>5,268,364</u>	<u>741,989</u>	<u>6,801,278</u>
End of Year	<u>\$ 738,107</u>	<u>\$ 5,994,754</u>	<u>\$ 947,749</u>	<u>\$ 7,680,610</u>

See auditors' report.

Borough of Elizabethtown
COMBINING STATEMENT of NET ASSETS - AGENCY FUNDS -
Cash Basis
December 31, 2010

	Payroll Fund	Subdivision Fee Escrow Fund	Total
ASSETS			
Cash and Cash Equivalents	<u>\$ -0-</u>	<u>\$ 25,578</u>	<u>\$ 25,578</u>
LIABILITIES			
Due to Developers	-0-	13,611	13,611
Other Current Liabilities	<u>-0-</u>	<u>11,967</u>	<u>11,967</u>
TOTAL LIABILITIES	<u>-0-</u>	<u>25,578</u>	<u>25,578</u>
NET ASSETS	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

See auditors' report.

Borough of Elizabethtown
SCHEDULE of INDEBTEDNESS
Year Ended December 31, 2010

	Year of Issue	Original Amount of Issue	Outstanding January 1, 2010	Debt Issued During Year	Principal Paid During Year	Outstanding December 31, 2010	Annual Principal Payments	Final Maturity
GENERAL OBLIGATION DEBT								
General Obligation Bond	2005	7,080,000 (3.000% - 4.350%)	\$ 6,160,000	\$ -0-	\$ 6,160,000	\$ -0-	Matured	
General Obligation Note, Series A	2008	3,000,000 Variable	416,051	1,168,221	1,584,272	-0-	Matured	
General Obligation Note, Series B	2008	1,000,000 Variable	156,716	-0-	156,716	-0-	Matured	
General Obligation Note, Series C	2008	2,500,000 Variable	-0-	-0-	-0-	-0-	Matured	
General Obligation Note	2009	836,300 (4.290%)	423,500	-0-	27,150	396,350	Interest Only	12/15/29
General Obligation Note, Series A	2010	3,000,000 Variable	-0-	3,813,822	2,756,694	1,057,128	Interest Only	5/15/13
General Obligation Note, Series B	2010	1,000,000 Variable	-0-	-0-	-0-	-0-	Interest Only	5/15/11
General Obligation Note, Series C	2010	2,500,000 Variable	-0-	28,611	-0-	28,611	Interest Only	5/15/13
General Obligation Bond	2010	6,435,000 (2.000% - 3.625%)	-0-	6,435,000	150,000	6,285,000	Interest Only	12/1/25
Total General Obligation Debt			7,156,267	11,445,654	10,834,832	7,767,089		
SELF-LIQUIDATING DEBT								
Sewer Revenue Bonds	1969	740,000 (5.600%)	5,000	-0-	-0-	5,000	Due Upon Demand	
Total Self-Liquidating Debt			5,000	-0-	-0-	5,000		
TOTALS			\$ 7,161,267	\$ 11,445,654	\$ 10,834,832	\$ 7,772,089		

See auditors' report.

Borough of Elizabethtown
SCHEDULE of REAL ESTATE TAXES
Year Ended December 31, 2010

	Real Estate Tax
ASSESSED VALUATION	
Value of all Real Estate	\$ 564,499,800
Less: Exempt	<u>(105,445,300)</u>
CURRENT LEVY	
Real Estate Taxable	459,054,500
TAX RATE	
Road and General Borough Purpose Mills Levied	<u>x 4.20Mills</u>
Total Levied	1,928,029
Add: Interim Tax Levies and Additions	10,401
Penalties Assessed and Collected	<u>3,736</u>
	1,942,166
Less: Abatements Allowed, Exonerations, and Removals	4,207
Discounts	<u>34,072</u>
Total Current Levy	1,903,887
PRIOR YEARS	
Outstanding Beginning of Year	111,618
Add: Penalties and Interest Assessed - net of Tax Claim Bureau Charges	<u>8,294</u>
	119,912
Less: Exonerations, Removals, Deceased, etc.	<u>-0-</u>
Total Prior Years	119,912
TOTAL AVAILABLE for COLLECTION	2,023,799
Collections During Year	<u>1,926,422</u>
Balance Outstanding, End of Year	<u>97,377</u>
BALANCE OUTSTANDING, End of Year	
2009 Duplicate and Interims	65,646
2008 and Prior Duplicates	<u>31,731</u>
	<u>\$ 97,377</u>

See auditors' report.

Borough of Elizabethtown
SCHEDULE of EXPENDITURES of FEDERAL AWARDS
Year Ended December 31, 2010

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
U.S. Department of Justice							
ARRA - Public Safety Partnership and Community Policing Grants	D	16.710	COPS-SOS-2009-1	07/01/09 - 06/30/11	159,779	<u>\$ 159,779</u>	<u>\$ 159,779</u>
U.S. Department of Transportation							
Passed Through the Pennsylvania							
Department of Transportation:							
ARRA - Federal Transit - Capital Investment Grants***	I	20.500	PA-96-X0001-00	07/17/09 - 01/31/11	1,414,728	168,267	394,647
ARRA - Federal Transit - Formula Grants***	I	20.507	PA-96-X0001-00	07/17/09 - 01/31/11	7,820,111	<u>4,342,191</u>	<u>4,667,230</u>
Total Passed Through the Pennsylvania Department of Transportation						<u>4,510,458</u>	<u>5,061,877</u>
Federal Emergency Management Agency							
Passed Through the Pennsylvania							
Emergency Management Agency:							
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	I	97.036	1898-DR-PA-071-23016-00	02/05/10 - 02/11/10	15,833	<u>15,833</u>	<u>15,833</u>
TOTAL EXPENDITURES of FEDERAL AWARDS						<u>\$ 4,686,070</u>	<u>\$ 5,237,489</u>

Legend

D = Direct funding

I = Indirect funding

CFDA = Catalog of Federal Domestic Assistance

*** = Component of the Federal Transit Cluster

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.

See auditors' report.

**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 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, 2010, which collectively comprise **Borough of Elizabethtown's** basic financial statements and have issued our report thereon dated January 27, 2011. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered **Borough of Elizabethtown's** internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **Borough of Elizabethtown's** internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting 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 #2010-01 and #2010-02 to be material weaknesses.

Compliance and Other Matters

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

We noted certain other matters that we reported to management of **Borough of Elizabethtown** in a separate letter dated January 27, 2011.

Borough of Elizabethtown's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit **Borough of Elizabethtown's** response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Borough Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Trout, Ebersole & Groff, LLP

January 27, 2011
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT on COMPLIANCE with REQUIREMENTS THAT COULD HAVE a
DIRECT and MATERIAL EFFECT on each MAJOR PROGRAM and on INTERNAL CONTROL over
COMPLIANCE in ACCORDANCE with OMB CIRCULAR A-133**

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

Compliance

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 each of **Borough of Elizabethtown's** major federal programs for the year ended December 31, 2010. **Borough of Elizabethtown's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of **Borough of Elizabethtown's** management. Our responsibility is to express an opinion on **Borough of Elizabethtown's** compliance based on our audit.

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. Our audit does not provide a legal determination of **Borough of Elizabethtown's** compliance with those requirements.

In our opinion, **Borough of Elizabethtown** complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2010.

Internal Control Over Compliance

The management of **Borough of Elizabethtown** is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered **Borough of Elizabethtown's** internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-13, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item #2010-03 to be a material weakness.

Borough of Elizabethtown's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit **Borough of Elizabethtown's** response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of management, Borough Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Trout, Ebersole & Groff, LLP

January 27, 2011
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Borough of Elizabethtown
SCHEDULE of FINDINGS and QUESTIONED COSTS
Year Ended December 31, 2010

A. Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the financial statements of the **Borough of Elizabethtown**.
2. Two material weaknesses relating to the audit of the financial statements are reported in the 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. One significant deficiency relating to the audit of the major federal programs is reported in the Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133. This significant deficiency was determined to be a material weakness.
5. The auditors' report on compliance for the major federal award programs for the **Borough of Elizabethtown** expresses an unqualified 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 programs tested as major programs are: Federal Transit - Capital Investment Grants - CFDA #20.500 and 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.

B. Findings - Financial Statements Audit

Material Weaknesses

#2010-01 - Preparation of Financial Statements

The Borough has designated an employee 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 accepted responsibility for them. However, the Borough staff does not possess the expertise 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. We noted one transaction that was not recorded on the Borough's general ledger related to grant money received by the Capital Reserve Fund.

Borough of Elizabethtown
SCHEDULE of FINDINGS and QUESTIONED COSTS
(Continued)
Year Ended December 31, 2010

B. Findings - Financial Statements Audit (Continued)

Material Weaknesses (Continued)

#2010-01 - Preparation of Financial Statements (Continued)

The Borough staff should include these transactions in its general ledger accounts. These transactions should be subject to the same accounting, reconciliation, and review controls as the Borough's other transactions.

Borough Response: The Borough concurs with the finding.

Corrective Action Plan: 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 an 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. The Borough has maintained meticulous files for all grants funds received for special projects and has worked with Trout, Ebersole & Groff to identify proper journal entries in the financial system to accompany the records for these transactions.

#2010-02 - Accounting for Bond Issuances and Advance Bond Refunding

During the audit, we recommended journal entries to reflect all aspects of the refinancing of the General Obligation Bonds, Series of 2005 with the General Obligation Bonds, Series of 2010. We routinely provide assistance with infrequently occurring transactions of this nature.

Borough Response: The Borough concurs with the finding.

Corrective Action Plan: Borough staff will continue to work with Trout, Ebersole & Groff, LLC to research and implement an accounting system for infrequent transactions.

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

Material Weakness

#2010-03 - Federal Transit - Capital Investment Grants - CFDA #20.500

We noted two instances of grant expenses not recorded in the general ledger for the train station project.

The Borough staff should include these transactions in its general ledger accounts. These transactions should be subject to the same accounting, reconciliation, and review controls as the Borough's other transactions.

Borough of Elizabethtown
SCHEDULE of FINDINGS and QUESTIONED COSTS
(Continued)
Year Ended December 31, 2010

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

Borough Response: The Borough concurs with the finding.

Corrective Action Plan: All grant expenses for the train station project have been approved by Borough Council on their public meeting agendas, reported to the Pennsylvania Department of Transportation as per the Reimbursement Agreement and federal funding regulations, and maintained in the project files. Borough staff has worked with Trout, Ebersole & Groff, LLP to identify proper journal entries in the financial system to accompany these records and will record transactions accordingly.

Borough of Elizabethtown
SUMMARY SCHEDULE of PRIOR AUDIT FINDINGS
Year Ended December 31, 2010

There are no prior audit findings.



Elizabethtown Borough

Corrective Action Plan

January 27, 2011

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, 2010.

Name and address of independent public accounting firm:

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

Audit period: January 1, 2010 through December 31, 2010

The findings from the December 31, 2010 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

#2010-01 – Preparation of Financial Statements

The Borough has designated an employee 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 accepted responsibility for them. However, the Borough staff does not possess the expertise 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. We noted one transaction that was not recorded on the Borough's general ledger related to grant money received by the Capital Reserve Fund.

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www.etownonline.com

The Borough staff should include these transactions in its general ledger accounts. These transactions should be subject to the same accounting, reconciliation, and review controls as the Borough's other transactions.

Borough Response: The Borough concurs with the finding.

Corrective Action Plan:

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 an 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. The Borough has maintained meticulous files for all grants funds received for special projects and has worked with Trout, Ebersole & Groff to indentify proper journal entries in the financial system to accompany the records for these transactions.

#2010-02 - Accounting for Bond Issuances and Advance Bond Refunding:

During the audit, we recommended journal entries to reflect all aspects of the refinancing of the General Obligation Bonds, Series of 2005 with the General Obligation Bonds, Series of 2010. We routinely provide assistance with infrequently occurring transactions of this nature.

Borough's Response:

The Borough concurs with the finding.

Corrective Action Plan:

Borough staff will continue to work with Trout, Ebersole & Groff, LLC to research and implement an accounting system for infrequent transactions.

#2010-03 – Federal Transit – Capital Investment Grants – CFDA #20.500

We noted two instances of grant expenses not recorded in the general ledger for the train station project.

The Borough staff should include these transactions in its general ledger accounts. These transactions should be subject to the same accounting, reconciliation, and review controls as the Borough's other transactions.

Borough Response:

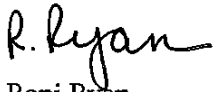
The Borough concurs with the finding.

Corrective Action Plan:

All grant expenses for the train station project have been approved by Borough Council on their public meeting agendas, reported to the Pennsylvania Department of Transportation as per the Reimbursement Agreement and federal funding regulations, and maintained in the project files. Borough staff has worked with Trout, Ebersole & Groff, LLC to identify proper journal entries in the financial system to accompany these records and will record transactions accordingly.

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

Sincerely Yours,

A handwritten signature in cursive script that reads "R. Ryan".

Roni Ryan

Borough Manager, Borough of Elizabethtown