

Borough of Elizabethtown

Year Ended December 31, 2012

 **TROUT, EBERSOLE & GROFF<sub>LLP</sub>**  
CPAs | BUSINESS ADVISORS

SERVICE | ANSWERS | TRUST

# **Borough of Elizabethtown**

## **Financial Statements with Supplementary Information**

Year Ended December 31, 2012

### **TABLE of CONTENTS**

	Page
<b>Independent Auditors' Report</b>	1 - 3
<b>Supplementary Information</b>	
Management's Discussion and Analysis	4 - 14
<b>Financial Statements</b>	
Statement of Net Position - Cash Basis	15
Statement of Activities - Cash Basis	16 & 17
Balance Sheet - Governmental Funds - Cash Basis	18
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	19
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds - Cash Basis	20 & 21
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	22
Statement of Net Position - Proprietary Funds - Cash Basis	23
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds - Cash Basis	24
Statement of Net Position - Fiduciary Funds - Cash Basis	25
Statement of Changes in Net Position - Fiduciary Funds - Cash Basis	26
Notes to Financial Statements	27 - 50

# **Borough of Elizabethtown**

## **Financial Statements with Supplementary Information**

Year Ended December 31, 2012

### **TABLE of CONTENTS (Continued)**

	Page
<b>Supplementary Information</b>	
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Cash Basis - General Fund	51
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Cash Basis - Parks and Recreation Fund	52
Supplementary Information - Schedule of Funding Progress - Unaudited	53
Supplementary Information - Schedule of Employer Contributions - Unaudited	54
Notes to Supplementary Information - Unaudited	55
Combining Balance Sheet - Nonmajor Governmental Funds - Cash Basis	56
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds - Cash Basis	57
Combining Schedule of Net Position - Internal Service Funds - Cash Basis	58
Combining Schedule of Revenues, Expenses, and Changes in Net Position - Internal Service Funds - Cash Basis	59
Combining Schedule of Net Position - Fiduciary Funds - Pension Trust Funds - Cash Basis	60
Combining Schedule of Changes in Net Position - Fiduciary Funds - Pension Trust Funds - Cash Basis	61
Combining Schedule of Net Position - Agency Funds - Cash Basis	62
Schedule of Indebtedness	63

# Borough of Elizabethtown

## Financial Statements with Supplementary Information

Year Ended December 31, 2012

### TABLE of CONTENTS (Continued)

	Page
<b>Supplementary Information (Continued)</b>	
Schedule of Expenditures of Federal Awards	64 & 65
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	66 & 67
Report on Compliance for Each Major Federal Program	68 & 69
Schedule of Findings and Questioned Costs	70 & 71
Summary Schedule of Prior Audit Findings	72
Corrective Action Plan	73 & 74

## INDEPENDENT AUDITORS' REPORT

To the Borough Council  
**Borough of Elizabethtown**  
Elizabethtown, Pennsylvania

### Report on the Financial Statements

We have audited the accompanying financial statements - cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Borough of Elizabethtown**, Pennsylvania (the Borough) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the basic financial statements - cash basis of the Borough's primary government as listed in the table of contents, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

## SERVICE | ANSWERS | TRUST

LANCASTER OFFICE: 1705 Oregon Pike, Lancaster, PA 17601 • 717-569-2900 • 800-448-1384 • Fax 717-569-0141  
ELIZABETHTOWN OFFICE: 222 South Market Street, Suite 202, Elizabethtown, PA 17022 • 717-367-3225 • Fax 717-367-3324  
HARRISBURG OFFICE: 2000 Linglestown Road, Suite 104, Harrisburg, PA 17110 • 717-545-0453 • Fax 717-545-7374

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis net 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**, Pennsylvania, as of December 31, 2012, and the respective changes in the cash basis net position thereof for the year then ended in accordance with the cash basis of accounting described in Note 1.

## ***Report on Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole that collectively comprise the Borough of Elizabethtown's primary government financial statements. The combining and individual nonmajor fund financial statements on pages 56 through 62, schedule of indebtedness on page 63, and schedule of expenditures of federal awards on pages 64 and 65, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the primary government financial statements.

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

The management's discussion and analysis on pages 4 through 14, the budgetary comparison information on pages 51 through 52, and schedules of funding progress and employer contributions on pages 53 and 54 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

## ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2013, on our consideration of the **Borough of Elizabethtown's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Borough of Elizabethtown's internal control over financial reporting and compliance.

## **Basis of Accounting**

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

**Component Unit**

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. As discussed in Note 1, 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, 2012, and the changes in its financial position for the year then ended in conformity with the cash basis of account. Our opinion is not modified with respect to that matter.



March 11, 2013  
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP  
Certified Public Accountants

**Borough of Elizabethtown**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
Year Ended December 31, 2012

**Management's Discussion and Analysis**

The financial management team of **Borough of Elizabethtown** offers readers of the Borough's financial statements this narrative overview and analysis of the financial activities for the year ended December 31, 2012. 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 year:

- The assets of the Borough exceeded its liabilities at the close of the most recent financial reporting year by \$6,159,041 (net position). Of this amount, \$5,911,170 (unrestricted net position) may be used to meet the Borough's ongoing obligations to citizens and creditors.
- The Borough's total net position increased by \$648,461.
- As of the close of the current financial reporting year, the Borough's governmental funds reported a combined ending fund balance of \$2,228,504, an increase of \$359,419, in comparison with the prior year. Approximately 88.9 percent of this total amount, or \$1,980,633, is available for spending at the Borough's discretion (committed, assigned, and unassigned fund balance).
- At the end of the current financial reporting year, the fund balance for the general fund was \$1,191,310, or 24.9 percent of the total fund expenditures.
- The Borough had \$6,053,408 in general obligation debt outstanding versus \$6,688,902 last year, or a decrease of 9.5 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 **Borough of Elizabethtown's** finances in a manner similar to a private-sector business.

The statement of net position presents information on all of the Borough's assets and liabilities, with the difference between the two reported as net position. Over a period of years, increases and decreases in the net position 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 position changed during the most recent fiscal year. All changes in net position are recorded using the cash basis of accounting.



**Borough of Elizabethtown**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended December 31, 2012

**Overview of the Financial Statements (Continued)**

**Government-Wide Financial Statements (Continued)**

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, public works - solid waste, public works - highways and streets, economic development, and parks and recreation. The business-type activities of **Borough of Elizabethtown** include sewage collection and treatment. 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. **Borough of Elizabethtown**, 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, parks and recreation fund, capital project 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.

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 to 21 of this report.

**Proprietary Funds**

**Borough of Elizabethtown** 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.

**Borough of Elizabethtown**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended December 31, 2012

**Overview of the Financial Statements (Continued)**

**Proprietary Funds (Continued)**

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 statements, 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 basic 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 26 through 49 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 56 through 62 of this report.

**Government-Wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of **Borough of Elizabethtown**, assets exceeded liabilities by \$6,159,041 at the close of the most recent fiscal year.

The balance of unrestricted net position, \$5,911,170, may be used to meet the government's ongoing obligations to citizens and creditors. Net position in the amount of \$234,778 is restricted for the construction and maintenance of roads and bridges and net position in the amount of \$13,093 is restricted for the maintenance of the Fun Fort.

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

Table 1 provides a summary of the Borough's net position for 2012 compared to 2011:

**Borough of Elizabethtown**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended December 31, 2012

**Government-Wide Financial Analysis (Continued)**

(Table 1)  
**Net Position - Cash Basis**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Assets</b>						
Current Assets	3,658,171	3,186,841	2,500,870	2,323,739	6,159,041	5,510,580
<b>Liabilities</b>						
Total Liabilities	-0-	-0-	-0-	-0-	-0-	-0-
<b>Net Assets</b>						
Restricted	247,871	193,842	-0-	-0-	247,871	193,842
Unrestricted	<u>3,410,300</u>	<u>2,992,999</u>	<u>2,500,870</u>	<u>2,323,739</u>	<u>5,911,170</u>	<u>5,316,738</u>
<b>Total Net Assets</b>	<b>3,658,171</b>	<b>3,186,841</b>	<b>2,500,870</b>	<b>2,323,739</b>	<b>6,159,041</b>	<b>5,510,580</b>

**Governmental Activities**

Governmental activities increased **Borough of Elizabethtown's** net position by \$471,330 as further illustrated in Table 1 as well as Graph 1 and Graph 2. Key elements of this increase are as follows:

- The Borough received \$16,486 more in fines for violations than the amount budgeted.
- Insurance refunds to the general fund of \$73,348, exceeded the budgeted amount.
- The Act 511 taxes received in 2012 were \$247,659 more than the amount budgeted. Real estate taxes and PILOT payments collected in 2012 were \$27,245 more than budgeted.
- The Borough spent \$115,578 less than budgeted for the police department in 2012.
- The Borough did not spend the full 2012 liquid fuel allocation by the end of the year because portions of the annual paving projects were deferred to the next year. The liquid fuels fund balance increased by \$56,247.
- The Borough is undertaking several multi-year capital projects related to the train station renovation, redirecting a portion of West College Avenue, and expanding the pedestrian and bicycle pathways. These projects are funded by grants and temporary borrowing on drawdown bonds. Based on the annual activity level of these projects, capital grants and contributions, proceeds from debt, and expenditures related to debt service - principal, public works, community development, and culture and recreation, will fluctuate but maintain a neutral effect on overall net position.

**Borough of Elizabethtown**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended December 31, 2012

**Government-Wide Financial Analysis (Continued)**

**Governmental Activities (Continued)**

(Table 2)						
Changes in Net Position - Cash Basis						
	2012	2011	2012	2011	2012	2011
	Governmental	Governmental	Business-Type	Business-Type	Total	Total
	Activities	Activities	Activities	Activities		
<b>Revenues</b>						
Program Revenues:						
Charges for Services	1,012,119	970,070	2,639,113	2,794,761	3,651,232	3,764,831
Operating Grants and Contributions	284,721	441,042	-0-	-0-	284,721	441,042
Capital Grants and Contributions	1,976,732	4,791,878	41,645	-0-	2,018,377	4,791,878
General Revenues:						
Property Taxes, Levied for General Purposes, net	2,262,223	2,265,756	-0-	-0-	2,262,223	2,265,756
Public Utility Realty, Earned Income, Local Service, and						
Realty Transfer Taxes, net	1,432,677	1,387,790	-0-	-0-	1,432,677	1,387,790
Cable Television Franchise Fee	124,086	124,447	-0-	-0-	124,086	124,447
Investment Earnings	8,949	11,416	9,335	10,777	18,284	22,193
Sale of Fixed Assets	6,951	4,501	-0-	-0-	6,951	4,501
Refunds of Prior Year Expenditures	89,666	96,936	32,757	122,032	122,423	218,968
Transfers	525,706	655,623	(525,706)	(655,623)	-0-	-0-
Proceeds from Long-Term Debt	1,162,727	3,059,117	-0-	-0-	1,162,727	3,059,117
Other Revenue	22,893	23,604	-0-	-0-	22,893	23,604
<b>Total Revenues</b>	<b>8,909,450</b>	<b>13,832,180</b>	<b>2,197,144</b>	<b>2,271,947</b>	<b>11,106,594</b>	<b>16,104,127</b>
<b>Expenses</b>						
General Government	437,547	385,205	-0-	-0-	437,547	385,205
Public Safety	2,610,194	2,672,288	-0-	-0-	2,610,194	2,672,288
Public Works	2,872,084	4,032,884	2,020,013	1,902,296	4,892,097	5,935,180
Culture and Recreation	420,057	445,805	-0-	-0-	420,057	445,805
Community Development	110,934	1,585,123	-0-	-0-	110,934	1,585,123
Debt Service - Principal	1,798,221	4,142,305	-0-	-0-	1,798,221	4,142,305
Debt Service - Interest	189,083	208,071	-0-	-0-	189,083	208,071
<b>Total Expenses</b>	<b>8,438,120</b>	<b>13,471,681</b>	<b>2,020,013</b>	<b>1,902,296</b>	<b>10,458,133</b>	<b>15,373,977</b>
<b>Increase in Net Position</b>	<b>471,330</b>	<b>360,499</b>	<b>177,131</b>	<b>369,651</b>	<b>648,461</b>	<b>730,150</b>

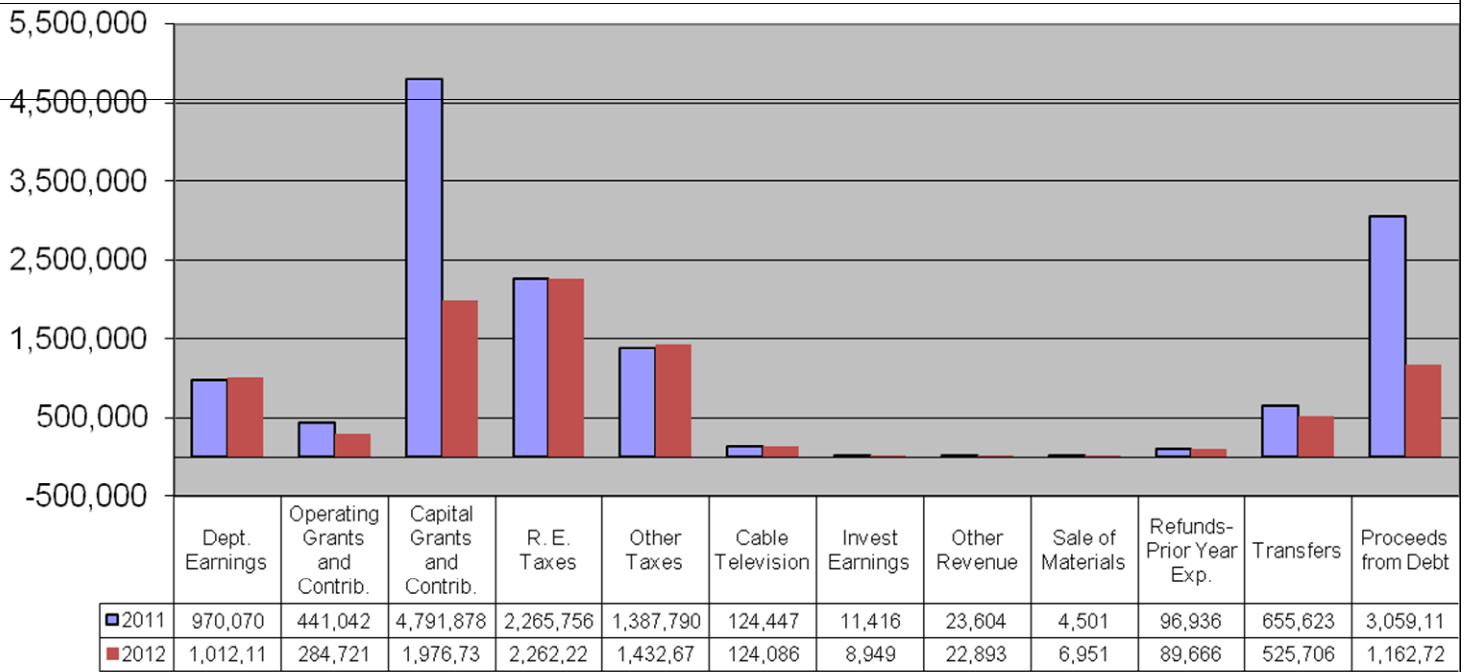
**Borough of Elizabethtown**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended December 31, 2012

**Government-Wide Financial Analysis (Continued)**

**Governmental Activities (Continued)**

**(Graph 1)**

**Program & General Revenues-Government-Type Activities**

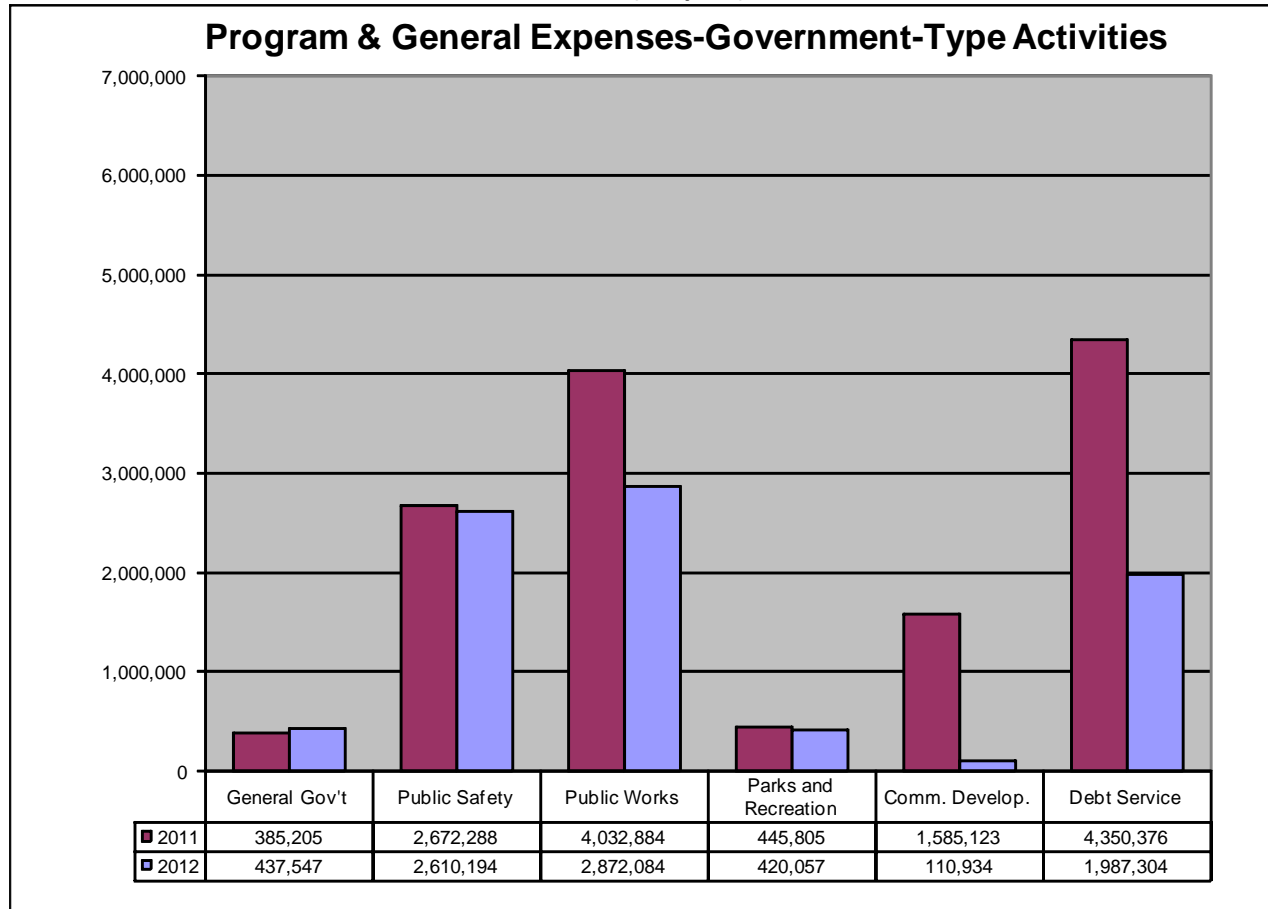


**Borough of Elizabethtown**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended December 31, 2012

**Government-Wide Financial Analysis (Continued)**

**Governmental Activities (Continued)**

(Graph 2)



**Business-Type Activities**

Business-type activities increased the Borough's net position by \$177,131 as illustrated in Table 1 as well as Graphs 3 and 4. While the business-type activities remained profitable, the increase in net position has slowed compared to the prior year for the following reasons:

- Received \$79,145 in nutrient credit trading revenues in 2012.
- Sales to Borough customers were strong and exceeded budgeted amounts by \$143,572.
- Other revenue decreased by \$260,331 from the prior year which had included several nonrecurring one-time receipts.
- The sewer plant was damaged during the 2011 Tropical Storm Lee. Expenses incurred for repairs in 2011 and 2012 were reimbursed by approximately \$50,000 combined receipts from state and federal grants as well as insurance refunds.

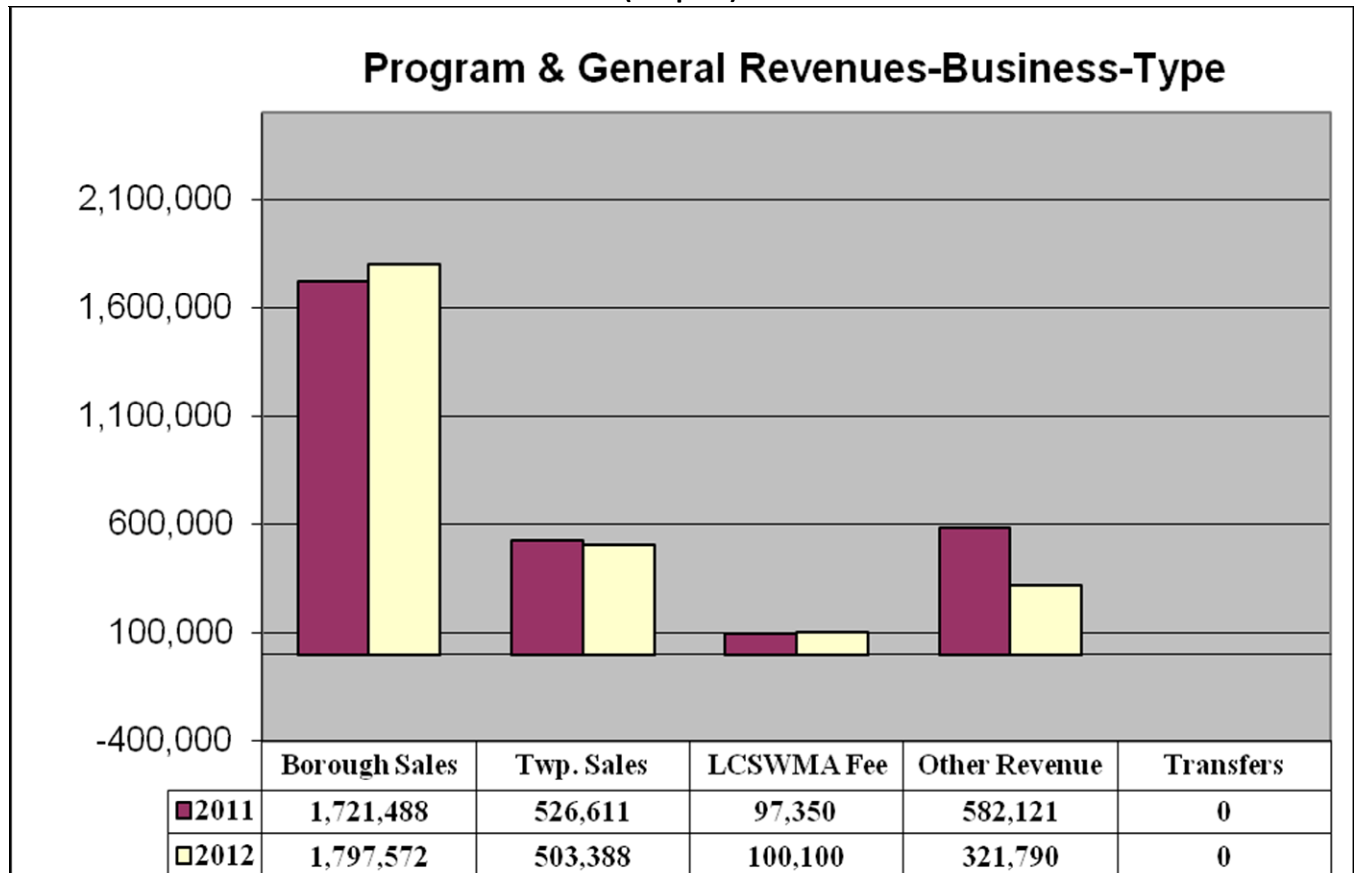
**Borough of Elizabethtown**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended December 31, 2012

**Government-Wide Financial Analysis (Continued)**

**Business-Type Activities (Continued)**

- Expenses related to the collection system increased by \$110,480 due to planned maintenance projects.
- Expenses related to the wastewater treatment plant increased from prior year by \$94,858 which is a combination of increased payments for electricity, caused primarily by timing differences of payments, and the continued impact of Tropical Storm Lee.
- Administrative expenses decreased by \$86,897 from the prior year. Across the board, expenses in this area were lower. Also some salaries previously allocated to the sewer fund are now paid from the general fund.

(Graph 3)

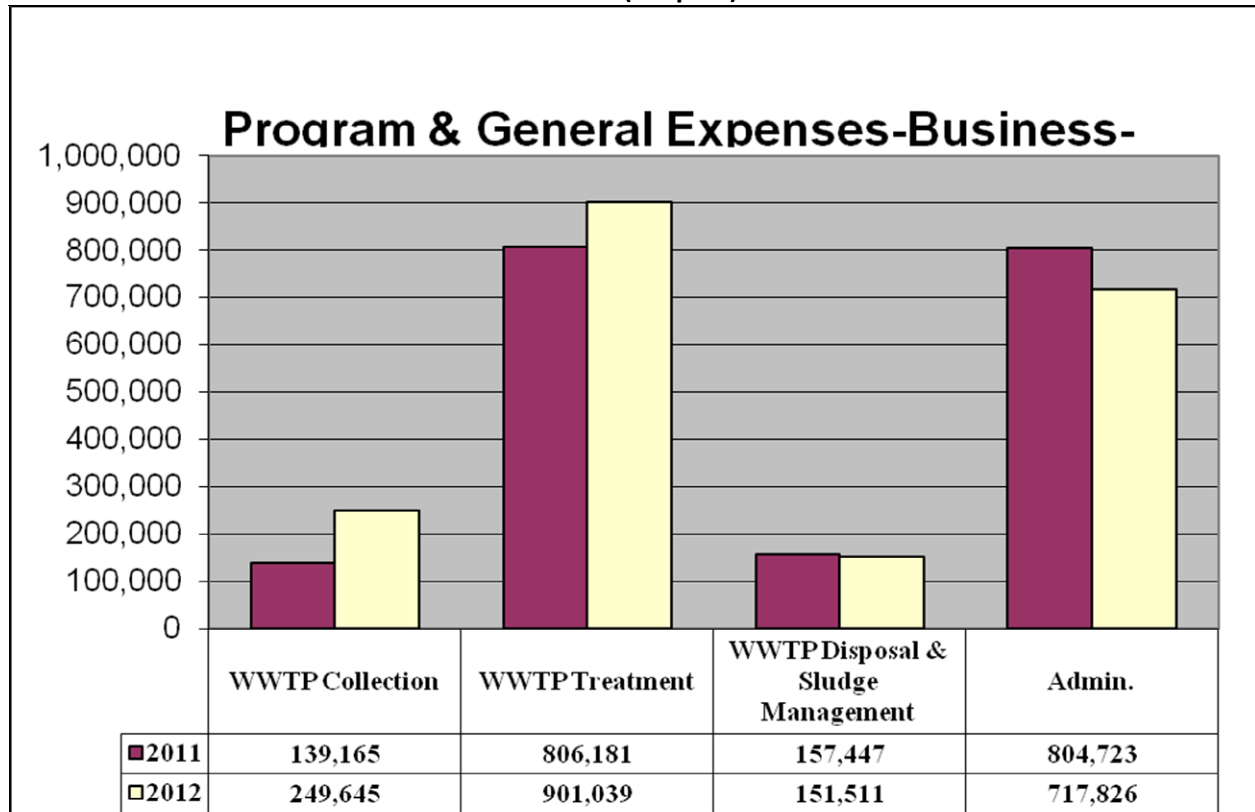


**Borough of Elizabethtown**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended December 31, 2012

**Government-Wide Financial Analysis (Continued)**

**Business-Type Activities (Continued)**

(Graph 4)



**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 financial reporting year.

As of the end of the current financial reporting year, the Borough's governmental funds reported combined ending fund balances of \$2,228,504, an increase of \$359,419 in comparison with the prior year. Approximately 88.9 percent of this total amount, or \$1,980,633, constitutes committed, assigned, and unassigned fund balance, which is available for spending at the government's discretion. \$943,367 of this amount has been committed by Borough Council to offset the budgeted 2013 general fund deficit and the purchase of new police radios. The remainder of the fund balance is restricted to indicate that external parties limit the use of those funds as further disclosed in Note 8.



**Borough of Elizabethtown**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended December 31, 2012

**Financial Analysis of the Government's Funds (Continued)**

**Governmental Funds (Continued)**

The general fund is the main operating fund of the Borough. At the end of the current financial reporting year, the fund balance in the general fund was \$1,191,310. As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Fund balance represents 24.9 percent of total general fund expenditures. Key factors in the performance of the general fund are as follows:

- Real estate property tax revenues and PILOT payments received were \$27,245 more than budgeted.
- Police department expenses were \$115,578 less than budgeted.
- The Borough spent \$33,837 less than budgeted for legal services in 2012.
- The Borough received \$57,044 more than budgeted for contracted services and Live Scan fees in the police department in 2012.
- Revenues from Act 511 taxes, including earned income, local service, and real estate transfer tax, were \$247,660 more than budgeted in 2012.
- The Borough received \$16,486 more in revenues for fines and ordinance violations than budgeted.
- The Borough spent \$31,800 less than budgeted for snow and ice removal in 2012.
- The Borough did not spend the full 2012 liquid fuel allocation by the end of the year because portions of the annual paving projects were deferred to the next year. The liquid fuels fund balance increased by \$56,247.

**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 position of the sewer operation at the end of the year amounted to \$2,500,870. The total increase in the net position was \$177,131. 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 year ended December 31, 2012.

For the year, general fund revenues exceeded the budget by 10.5 percent. The cost of general government for the recently completed financial reporting year was less than the budget by 3.3 percent.

**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:

**Borough of Elizabethtown**  
MANAGEMENT'S DISCUSSION and ANALYSIS  
(Continued)  
Year Ended December 31, 2012

**Economic Factors and Next Year's Budgets and Rates (Continued)**

- Electric rates for the non-street lighting Borough accounts are stabilized for another three years under a contract with Constellation New Energy, electricity provider.
- A number of federal and state grants have been awarded to the Borough for several capital improvement projects to be continued in 2013 including overflow parking facilities for the train station, installation of pedestrian pathways downtown, and improvements to the community park.
- Borough Council adopted the 2013 budget at its December 2012 meeting without tax rate increases to the citizenry. Specifically, the general fund budget includes \$5,835,173 of revenues (including the anticipated beginning fund balance) and \$5,825,324 of expenditures.

**Requests for Information**

This financial report is designed to provide a general overview of the finances for **Borough of Elizabethtown** 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, **Borough of Elizabethtown**, 600 S. Hanover Street, Elizabethtown, PA 17022.

**Borough of Elizabethtown**

## STATEMENT of NET POSITION -

Cash Basis

December 31, 2012

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	<u><u>\$ 3,658,171</u></u>	<u><u>\$ 2,500,870</u></u>	<u><u>\$ 6,159,041</u></u>
<b>LIABILITIES</b>	<u><u>-0-</u></u>	<u><u>-0-</u></u>	<u><u>-0-</u></u>
<b>NET POSITION</b>			
Restricted for:			
Construction and Maintenance for Roads and Bridges	234,778		234,778
Maintenance of the Fun Fort	13,093		13,093
Unrestricted	<u>3,410,300</u>	<u>2,500,870</u>	<u>5,911,170</u>
<b>TOTAL NET POSITION</b>	<u><u>\$ 3,658,171</u></u>	<u><u>\$ 2,500,870</u></u>	<u><u>\$ 6,159,041</u></u>

See notes to financial statements.

# Borough of Elizabethtown

## STATEMENT of ACTIVITIES -

Cash Basis

Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General Government	\$ 437,547		\$ 13,017		\$ (424,530)		\$ (424,530)
Public Safety	2,610,194	338,960	203,441		(2,067,793)		(2,067,793)
Public Works	2,872,084	670,435	51,401	1,881,222	(269,026)		(269,026)
Culture and Recreation	420,057	2,724	16,862	1,170	(399,301)		(399,301)
Community Development	110,934			94,340	(16,594)		(16,594)
Debt Service - Principal	1,798,221				(1,798,221)		(1,798,221)
Debt Service - Interest	189,083				(189,083)		(189,083)
<b>Total Governmental Activities</b>	<b>8,438,120</b>	<b>1,012,119</b>	<b>284,721</b>	<b>1,976,732</b>	<b>(5,164,548)</b>	<b>-0-</b>	<b>(5,164,548)</b>
Business-Type Activities:							
Sewer Operations	<u>2,020,013</u>	<u>2,639,113</u>	<u>-0-</u>	<u>41,645</u>	<u>-0-</u>	<u>660,745</u>	<u>660,745</u>
<b>Total Primary Government</b>	<b><u>\$ 10,458,133</u></b>	<b><u>\$ 3,651,232</u></b>	<b><u>\$ 284,721</u></b>	<b><u>\$ 2,018,377</u></b>	<b><u>\$ (5,164,548)</u></b>	<b>\$ 660,745</b>	<b>\$ (4,503,803)</b>

See notes to financial statements.

# Borough of Elizabethtown

## STATEMENT of ACTIVITIES -

Cash Basis

(Continued)

Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purposes, net					\$ 2,262,223		\$ 2,262,223
Public Utility Realty, Earned Income, Local Services, and Realty Transfer Taxes, net					1,432,677		1,432,677
Cable Television Franchise Fee					124,086		124,086
Investment Earnings					8,949	9,335	18,284
Sale of Fixed Assets					6,951		6,951
Other Income					22,893		22,893
Special Items and Transfers:							
Proceeds from Long-Term Debt					1,162,727		1,162,727
Refunds of Prior Year Expenditures					89,666	32,757	122,423
Transfers					525,706	(525,706)	-0-
<b>Total General Revenues, Special Items, and Transfers</b>					<b>5,635,878</b>	<b>(483,614)</b>	<b>5,152,264</b>
<b>CHANGES in NET POSITION</b>					<b>471,330</b>	<b>177,131</b>	<b>648,461</b>
<b>NET POSITION</b>							
Beginning					3,186,841	2,323,739	5,510,580
Ending					<b>\$ 3,658,171</b>	<b>\$ 2,500,870</b>	<b>\$ 6,159,041</b>

See notes to financial statements.

**Borough of Elizabethtown**  
BALANCE SHEET -  
GOVERNMENTAL FUNDS - Cash Basis  
December 31, 2012

	Major Funds					Total Governmental Funds
	General Fund	Capital Project Fund	Parks and Recreation Fund	General Vehicle Sinking Fund	Other Funds	
<b>ASSETS</b>						
Cash and Cash Equivalents	<u>\$ 1,191,310</u>	<u>\$ 275,457</u>	<u>\$ 293,952</u>	<u>\$ 193,370</u>	<u>\$ 274,415</u>	<u>\$ 2,228,504</u>
<b>LIABILITIES and FUND BALANCES</b>						
<b>LIABILITIES</b>	-0-	-0-	-0-	-0-	-0-	-0-
<b>FUND BALANCES</b>						
Restricted			13,093		234,778	247,871
Committed	943,367					943,367
Assigned		275,457	280,859	193,370	39,637	789,323
Unassigned	<u>247,943</u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>247,943</u>
<b>TOTAL FUND BALANCES</b>	<u>1,191,310</u>	<u>275,457</u>	<u>293,952</u>	<u>193,370</u>	<u>274,415</u>	<u>2,228,504</u>
<b>TOTAL LIABILITIES and FUND BALANCES</b>	<u>\$ 1,191,310</u>	<u>\$ 275,457</u>	<u>\$ 293,952</u>	<u>\$ 193,370</u>	<u>\$ 274,415</u>	<u>\$ 2,228,504</u>

See notes to financial statements.

**Borough of Elizabethtown**  
RECONCILIATION of the GOVERNMENTAL FUNDS BALANCE SHEET  
to the STATEMENT of NET POSITION  
December 31, 2012

Total Fund Balance - Governmental Funds	\$ 2,228,504
---	--------------

Amounts reported for governmental activities in the statement of net position are different because:	<u>1,429,667</u>
--	------------------

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

<b>TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 3,658,171</u></b>
---	----------------------------

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, 2012

	Major Funds					Total Governmental Funds
	General Fund	Capital Project Fund	Parks and Recreation Fund	General Vehicle Sinking Fund	Other Funds	
<b>REVENUES</b>						
Taxes	\$ 3,689,883					\$ 3,689,883
Licenses and Permits	146,451					146,451
Fines and Forfeits	45,453					45,453
Interest, Rents, and Royalties	28,531	910	1,056	562	9,482	40,541
Intergovernmental	282,173	1,760,044	1,170		215,518	2,258,905
Charges for Service	908,347	1,901				910,248
Service Agreement Revenue					22,000	22,000
Miscellaneous			5,000		5,920	10,920
<b>Total Revenues</b>	<b>5,100,838</b>	<b>1,762,855</b>	<b>7,226</b>	<b>562</b>	<b>252,920</b>	<b>7,124,401</b>
<b>EXPENDITURES</b>						
General Government	312,772	17,731	5,000			335,503
Public Safety	1,947,300	1,500			3,802	1,952,602
Public Works	1,105,509	1,376,801			185,154	2,667,464
Culture and Recreation	331,071		28,846			359,917
Community Development	44,705	156,851				201,556
Debt Service - Principal		1,413,661			384,560	1,798,221
Debt Service - Interest		2,915			186,169	189,084
Insurance, Pension, and Other Benefits	1,044,047					1,044,047
<b>Total Expenditures</b>	<b>4,785,404</b>	<b>2,969,459</b>	<b>33,846</b>	<b>-0-</b>	<b>759,685</b>	<b>8,548,394</b>
<b>EXCESS (DEFICIENCY) of REVENUES over EXPENDITURES</b>	<b>\$ 315,434</b>	<b>\$ (1,206,604)</b>	<b>\$ (26,620)</b>	<b>\$ 562</b>	<b>\$ (506,765)</b>	<b>\$ (1,423,993)</b>

See notes to financial statements.



# Borough of Elizabethtown

## STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES - GOVERNMENTAL FUNDS - Cash Basis (Continued)

Year Ended December 31, 2012

	Major Funds					Total Governmental Funds
	General Fund	Capital Project Fund	Parks and Recreation Fund	General Vehicle Sinking Fund	Other Funds	
<b>OTHER FINANCING SOURCES (USES)</b>						
Refunds of Prior Year Expenses	\$ 89,566				\$ 100	\$ 89,666
Refunds of Prior Year Revenues	(1,638)					(1,638)
Sale of Assets	6,626	325				6,951
Proceeds from Long-Term Debt		1,162,727				1,162,727
Interfund Transfers	(129,434)	50,000		35,000	570,140	525,706
<b>Net Other Financing Sources (Uses)</b>	<b>(34,880)</b>	<b>1,213,052</b>	<b>-0-</b>	<b>35,000</b>	<b>570,240</b>	<b>1,783,412</b>
 <b>NET CHANGES in FUND BALANCES</b>	 <b>280,554</b>	 <b>6,448</b>	 <b>(26,620)</b>	 <b>35,562</b>	 <b>63,475</b>	 <b>359,419</b>
 <b>FUND BALANCES</b>						
Beginning	910,756	269,009	320,572	157,808	210,940	1,869,085
 <b>Ending</b>	 <b><u>\$ 1,191,310</u></b>	 <b><u>\$ 275,457</u></b>	 <b><u>\$ 293,952</u></b>	 <b><u>\$ 193,370</u></b>	 <b><u>\$ 274,415</u></b>	 <b><u>\$ 2,228,504</u></b>

See notes to financial statements.

**Borough of Elizabethtown**  
RECONCILIATION of the GOVERNMENTAL FUNDS  
STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES  
to the STATEMENT of ACTIVITIES  
Year Ended December 31, 2012

Net Changes in Fund Balances - Total Governmental Funds	\$ 359,419
---	------------

Amounts reported for governmental activities in the statement of activities are different because:

The internal service funds, which are used by management to charge the costs of services to individual funds, are not reported in the statement of activities. 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.

<u>111,911</u>
----------------

**CHANGES in NET POSITION of GOVERNMENTAL ACTIVITIES**

<u><u>\$ 471,330</u></u>
--------------------------

See notes to financial statements.

**Borough of Elizabethtown**

STATEMENT of NET POSITION -

PROPRIETARY FUNDS - Cash Basis

December 31, 2012

	<b>Enterprise Fund</b>		
	<b>Major Fund</b>	<b>Internal Service Fund</b>	<b>Total</b>
	<b>Sewer Fund</b>		
<b>ASSETS</b>			
Cash and Cash Equivalents	<u><u>\$ 2,500,870</u></u>	<u><u>\$ 1,429,667</u></u>	<u><u>\$ 3,930,537</u></u>
<b>LIABILITIES</b>	<u><u>-0-</u></u>	<u><u>-0-</u></u>	<u><u>-0-</u></u>
<b>NET POSITION - Unrestricted</b>	<u><u>\$ 2,500,870</u></u>	<u><u>\$ 1,429,667</u></u>	<u><u>\$ 3,930,537</u></u>

See notes to financial statements.

# Borough of Elizabethtown

## STATEMENT of REVENUES, EXPENSES, and CHANGES in NET POSITION - PROPRIETARY FUNDS - Cash Basis Year Ended December 31, 2012

	Enterprise Fund		
	<u>Major Fund</u>		
	Sewer Fund	Internal Service Fund	Total
<b>OPERATING REVENUES</b>			
Charges for Service	\$ 2,639,113	\$ 31,892	\$ 2,671,005
<b>OPERATING EXPENSES</b>			
Collection and Transmission	249,645		249,645
Wastewater Treatment	901,039		901,039
Wastewater Disposal and Sludge Management	151,511		151,511
General, Administrative, Customer Service, and Other	380,765		380,765
Insurance and Employee Benefits	<u>337,053</u>	<u>8</u>	<u>337,061</u>
<b>Total Operating Expenses</b>	<b><u>2,020,013</u></b>	<b><u>8</u></b>	<b><u>2,020,021</u></b>
<b>OPERATING INCOME</b>	<b>619,100</b>	<b>31,884</b>	<b>650,984</b>
<b>NONOPERATING REVENUES</b>			
Investment Earnings	9,335	5,027	14,362
Intergovernmental	41,645		41,645
Refund of Prior Year Expenditures	<u>32,757</u>	<u>75,000</u>	<u>107,757</u>
<b>Total Nonoperating Revenues</b>	<b><u>83,737</u></b>	<b><u>80,027</u></b>	<b><u>163,764</u></b>
<b>INCOME BEFORE TRANSFERS</b>	<b>702,837</b>	<b>111,911</b>	<b>814,748</b>
<b>TRANSFERS OUT</b>	<b><u>(525,706)</u></b>	<b><u>-0-</u></b>	<b><u>(525,706)</u></b>
<b>CHANGES in NET POSITION</b>	<b>177,131</b>	<b>111,911</b>	<b>289,042</b>
<b>NET POSITION</b>			
Beginning	<u>2,323,739</u>	<u>1,317,756</u>	<u>3,641,495</u>
<b>Ending</b>	<b><u>\$ 2,500,870</u></b>	<b><u>\$ 1,429,667</u></b>	<b><u>\$ 3,930,537</u></b>

See notes to financial statements.

**Borough of Elizabethtown**

## STATEMENT of NET POSITION -

## FIDUCIARY FUNDS - Cash Basis

December 31, 2012

	<b>Pension Trust Funds</b>	<b>Agency Funds</b>
<b>ASSETS</b>		
Cash and Cash Equivalents		\$ 48,125
Investments (at Fair Value):		
Money Market Fund	382,420	
Fixed Income Securities	3,351,403	
Governmental Obligations	1,813,125	
Mutual Funds and Pooled Separate Funds	<u>3,386,043</u>	<u>          </u>
<b>TOTAL ASSETS</b>	<b><u>8,932,991</u></b>	<b><u>48,125</u></b>
<b>LIABILITIES</b>		
Due to Developers		35,666
Other Current Liabilities	<u>          </u>	<u>12,459</u>
<b>TOTAL LIABILITIES</b>	<b><u>-0-</u></b>	<b><u>48,125</u></b>
<b>NET POSITION - Restricted</b>	<b><u>\$ 8,932,991</u></b>	<b><u>\$ -0-</u></b>

See notes to financial statements.

**Borough of Elizabethtown**  
 STATEMENT of CHANGES in NET POSITION -  
 FIDUCIARY FUNDS - Cash Basis  
 Year Ended December 31, 2012

	<b>Pension Trust Funds</b>
<b>ADDITIONS</b>	
Contributions:	
Commonwealth	\$ 185,958
Employer	164,909
Employee	<u>122,489</u>
	473,356
Investment Earnings	<u>635,907</u>
<b>Total Additions</b>	<b>1,109,263</b>
<b>DEDUCTIONS</b>	
Administrative Expenses	52,887
Retirement Benefits	<u>254,052</u>
<b>Total Deductions</b>	<b><u>306,939</u></b>
<b>CHANGES in NET POSITION</b>	<b>802,324</b>
<b>NET POSITION</b>	
Beginning	<u>8,130,667</u>
<b>Ending</b>	<b><u><u>\$ 8,932,991</u></u></b>

See notes to financial statements.

**Borough of Elizabethtown**  
NOTES to FINANCIAL STATEMENTS

**NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES**

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

The Borough is a full service municipality with a 4.5 million gallon daily wastewater treatment facility. The Borough encompasses greater than 40 miles of roads and employs 15 full-time police officers. The Borough has three municipal parks totaling 39 acres and a volunteer fire company.

The Borough provides sewer, zoning, code enforcement, police, trash/recycling, street, and parks services to approximately 11,500 residents in approximately 4,250 households.

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

**Reporting Entity**

Consistent with guidance contained in Statement No. 14 of the Governmental Accounting Standards Board (GASB), *The Financial Reporting Entity*, 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.

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

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

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

**Elizabethtown Industrial Development Authority**

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

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

**Joint Ventures**

**Elizabethtown Area Community Services Authority (EACSA)**

The Elizabethtown Area Community Services Authority (EACSA) was formed to acquire the Elizabethtown Area Community Center which is located at 70 South Poplar Street in the Borough. The EACSA is composed of an eight-member board with two representatives from each of the four surrounding municipalities: **Borough of Elizabethtown**, Conoy Township, Mount Joy Township, and West Donegal Township. The EACSA operates a gym, social service agencies, senior center, and school-aged day care. The EACSA is not reported as part of the Borough's reporting entity. For the year ended December 31, 2012, the Borough did not make any contributions to EACSA. A copy of EACSA's state filing can be obtained from the **Borough of Elizabethtown** office at 600 South Hanover Street, Elizabethtown, PA 17022.

**Elizabethtown Area Regional Authority (EARA)**

The Elizabethtown Area Regional Authority (EARA) was formed pursuant to ordinances enacted by the Council of the **Borough of Elizabethtown** and the Boards of Supervisors of Mount Joy Township, Conoy Township, and West Donegal Township. EARA is charged with the implementation of the regional strategic plan and the conduct of a transportation study. For the year ended December 31, 2012, the Borough contributed \$2,500 to EARA.

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

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



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

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

**Joint Ventures (Continued)**

**Elizabethtown Area Water Authority (EAWA)**

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

For the year ended December 31, 2012, the Borough did not make any contributions to EAWA. Complete financial statements for EAWA can be obtained from the Elizabethtown Area Water Authority Manager, 211 West Hummelstown Street, Elizabethtown, PA 17022.

**Greater Elizabethtown Area Recreation and Community Services (GEARS)**

The Greater Elizabethtown Area Recreation and Community Services (GEARS) were formed to provide recreational, continuing education, and social-service activities/programs for the children, youth, and adults of the participating municipalities in a fiscally responsible manner. The GEARS is composed of a twelve-member board with three members from each of the following four entities: **Borough of Elizabethtown**, Elizabethtown Area School District, Mount Joy Township, and West Donegal Township. GEARS is not reported as part of the Borough's reporting entity. As a member of GEARS, the **Borough of Elizabethtown** was required to make a quarterly contribution to GEARS. For the year ended December 31, 2012, the Borough contributed \$97,379 to GEARS which was reported as an expenditure of the general fund. Complete financial statements for GEARS can be obtained from the GEARS office at the Elizabethtown Area Middle School at 600 East High Street, Elizabethtown, PA 17022.

**Lancaster County Tax Collection Bureau (Bureau)**

The Borough participates with 17 school districts and the municipalities represented by those school districts for the collection of earned income taxes and local service taxes. Each public school district appoints one member to serve on the joint operating committee and 16 members are appointed by the participating municipalities. The Bureau's operating expenditures are deducted from the distributions which are made quarterly. The Borough's portion of the operating expenditures for the year ended December 31, 2012 was \$27,097. Financial information for the Bureau can be obtained from the Administrative Office at 1845 William Penn Way, Lancaster, PA 17601.

**Basis of Presentation - Fund Accounting**

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

**Governmental Fund Types**

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

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

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

**Basis of Presentation - Fund Accounting (Continued)**

**Governmental Fund Types (Continued)**

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

**Capital Projects Fund** - This fund is used to account for all financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. This fund includes the capital reserve fund, and the construction fund held by the Borough as well as the general vehicle sinking fund.

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

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

**Proprietary Fund Types**

Proprietary funds are used to account for activities that are similar to those often found in the private sector. Following is the Borough's proprietary fund 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 sewer fund is used to account for those financial activities. This fund accounts for the revenues and expenses of providing sewer service to residents, commercial and industrial entities, and other neighboring municipalities.

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

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

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

**Basis of Presentation - Fund Accounting (Continued)**

**Fiduciary Fund Types (Continued)**

**Agency Funds** - These funds are used to account for assets held by the Borough as agent for others. Agency funds are custodial in nature and do not involve measurement of results of operations. 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 Project Fund
  - General Vehicle Sinking Fund
- Special Revenue Fund:
  - Parks and Recreation Fund
- Proprietary Funds:
  - Sewer Fund

Nonmajor:

- Special Revenue Funds:
  - Liquid Fuels Fund
  - Police Training Fund
  - Train Station Fund
- Debt Service Fund

**Government-Wide Financial Statements**

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

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

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

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

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

**Fund Financial Statements**

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

**Basis of Accounting**

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

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

The Borough distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Borough's principal ongoing operations. The principal operating revenues of the Borough are charges to customers for sales and services. Operating expenses include the cost of sales and services, and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

**Budgets and Budgetary Accounting**

An operating budget is adopted each year for substantially all funds on the cash basis of accounting. The budget for 2012 was proposed November 15, 2012, with final adoption on December 20, 2012. 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, 2012, 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 Balance Classification**

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

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

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

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

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

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

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

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

Beginning fund balances for the Borough's governmental funds have been restated to reflect the above classifications.

**Interfund Activity**

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

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

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

**Interfund Activity (Continued)**

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. The Borough's most significant estimates relate to the determination of postemployment healthcare benefit obligations and expense allocations.

**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, 2012.

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 item occurred during the year ended December 31, 2012:

The Borough received debt proceeds from the 2010 General Obligation Bond, Series A and the 2010 General Obligation Bond, Series C in the amount of \$1,162,727.

**Accounting Standards Adopted in 2012**

In June 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Statement No. 63 was adopted by the Borough for the year ended December 31, 2012 and provides guidance on reporting deferred inflows and outflows of resources which are distinctly different from assets and liabilities. The Borough, a cash basis reporting entity, does not have any deferred inflow or outflows of resources but has changed certain financial statement terminology by primarily replacing the phrase "net assets" with the new term of "net position" The Borough's beginning balances and current year results were not impacted by the implementation of this new standard.

For the year ended December 31, 2012, the Borough also adopted the provisions of GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (1) Financial Accounting Standards Board (FASB) Statements and Interpretations, (2) Accounting Principles Board Opinions, (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. The Borough's beginning balances and current year results were not impacted by the implementation of this new standard.

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

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

**Pending Changes in Accounting Principles**

In June 2011, GASB issued Statement No. 61, *The Financial Reporting Entity*. The objective of this statement is to have financial reporting entity financial statements be more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. The provisions of this statement are effective for Borough's 2013 financial statements.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for the Borough's 2013 financial statements.

In March 2012, GASB issued Statement No. 66, *Technical Corrections, an Amendment of GASB Statements No. 10 and 62*. The objective of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncement*. The provisions of this statement are effective for the Borough's 2013 financial statements.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which replaces the requirements of GASB Statement No. 25. The objective of this statement is to improve financial reporting by state and local governmental pension plans. The provisions of this statement are effective for the Borough's 2014 financial statements.

In June 2012, GASB Issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which amends GASB Statement No. 27. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The provisions of this statement are effective for the Borough's 2015 financial statements.

The effect of implementation of these standards has not yet been determined.

**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.

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

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

**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, 2012, \$6,044,055 of the Borough's bank balance of \$6,314,108 was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	-0-
Collateralized with Securities Held by the Pledging Financial Institution	-0-
Uninsured and Collateral Held by the Pledging Financial Institution's Trust Department not in the Borough's Name	<u>6,044,055</u>
	<b>6,044,055</b>

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

Uninsured Amount Above	6,044,055
Insured Amount	<u>270,053</u>
Bank Balance	6,314,108
Outstanding Checks	<u>(106,942)</u>
<b>Total Cash and Cash Equivalents per the Financial Statements</b>	<b>6,207,166</b>

**Investments**

As of December 31, 2012, the Borough had the following investments:

Investments	Maturity	Fair Value
Adam & Arapahoe Counties Bonds	1-5 Years	81,273
Armstrong County, PA Series B Bonds	1-5 Years	32,240
Astrazeneca PLC Senior Note	6-10 Years	101,350
AT&T Inc. Convertible Bonds	1-5 Years	52,129
Avon Products, Inc. Bonds	6-10 Years	101,898
Beloit, Wisconsin Bonds	6-10 Years	103,634
Berks County, PA Build America Bonds	1-5 Years	33,701
Boeing Cap Corp. Bonds	6-10 Years	58,995
Cisco Systems Inc. Bonds	6-10 Years	115,957
Coca Cola Co. Senior Note	6-10 Years	59,641
Columbus, GA Water & Sewer Bonds	1-5 Years	101,572
Conneaut, PA School District Bonds	6-10 Years	85,015
Disney Walt Co. Bonds	< 1 Year	77,912
Dupont El De Nemours Bonds	6-10 Years	54,926
Federal Farm Credit Bank Bonds	< 1 Year	67,391
Federal Farm Credit Bank Bonds	1-5 Years	98,956
Federal Home Loan Bank Bonds	1-5 Years	270,323
Federated Government Obligation Money Market Fund		382,420
FPL Group Cap, Inc. Bonds	< 1 Year	50,790
General Electric Cap Corp. Bonds	1-5 Years	58,986
General Electric Cap Corp. Bonds	6-10 Years	85,159
Georgetown, MA Bonds	6-10 Years	76,592



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

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

**Investments (Continued)**

Investments	Maturity	Fair Value
GlaxoSmithKline Cap Bonds	< 1 Year	50,839
Goldman Sachs Group Bonds	1-5 Years	207,746
Growth Fund of America Class F		50,563
Hewlett Packard Co. Bonds	6-10 Years	108,157
IBM Corp. Bonds	1-5 Years	51,664
John Deere Cap Corp. Bonds	1-5 Years	106,753
JP Morgan Chase & Co. Bonds	1-5 Years	158,389
Las Vegas, NV Water Bonds	6-10 Years	53,806
Maryland State Bonds	6-10 Years	86,858
Medtronic, Inc. Bonds	1-5 Years	78,808
Merck & Co. Inc. Bonds	1-5 Years	108,533
Microsoft Corp. Bonds	6-10 Years	115,281
Mutual Funds and Pooled Separate Funds		1,044,390
New York State Bonds	6-10 Years	52,958
Onslow County, NC Bonds	6-10 Years	101,198
Oracle Corp Bonds	1-5 Years	113,161
PepsiCo, Inc. Bonds	6-10 Years	115,644
Pioneer Oak Ridge Small Cap Growth Fund Y		24,868
Richfield, MN Bonds	6-10 Years	72,022
Robinson Township, PA Municipal Bond	< 1 Year	30,466
Shell Intl Fin Bonds	1-5 Years	52,968
Sherwin Williams Bonds	1-5 Years	104,666
SPDR S&P 500 EFT Trust		49,844
Statoil Asa Bonds	1-5 Years	108,837
T. Rowe Price Equity Income Fund		51,982
Teva Pharmaceuticals Bonds	1-5 Years	52,569
Toyota Motor Crd Bonds	1-5 Years	105,204
Unilever Cap Corp. Bonds	6-10 Years	57,712
United States Treasury Bonds	< 1 Year	76,907
United States Treasury Notes	< 1 Year	204,008
United States Treasury Notes	1-5 Years	464,036
University of MD Bonds	6-10 Years	52,857
Vanguard 500 Index Fund Signal		24,564
Vanguard Index Fund Signal		25,540
Vanguard International Growth Fund Admiral		27,435
Vanguard Short Term Fed Fund Admiral		111,322
Vanguard Total Stock Market Index		2,086,852
Verizon Communications Bonds	1-5 Years	103,493
Virginia College Build America Bonds	1-5 Years	103,982
Wells Fargo Co. Bonds	1-5 Years	185,249
		<b>8,932,991</b>

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

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

**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, 2012, the Borough's investments were rated as:

Investments	Standard & Poor's
Adams & Arapahoe Counties Bonds	AA-
Armstrong County, PA Series B Bonds	AA
Astrazeneca PLC Senior Note	AA-
AT&T Inc. Convertible Bonds	A
Avon Products, Inc. Bonds	A-
Beloit, Wisconsin Bonds	A+
Berks County, PA Build America Bonds	AA
Boeing Cap Corp. Bonds	A
Cisco Systems Inc. Bonds	A+
Coca Cola Co. Senior Note	A+
Columbus, GA Water & Sewer Bonds	AA
Conneaut, PA School District Bonds	A
Disney Walt Co. Bonds	A
Dupont El De Nemours Bonds	A
Federal Farm Credit Bank Bonds	AA+
Federal Home Loan Bank Bonds	AA+
FPL Group Cap, Inc. Bonds	BBB+
General Electric Cap Corp. Bonds	AA+
Georgetown, MA Bonds	
GlaxoSmithKline Cap Bonds	A+
Goldman Sachs Group Bonds	A
Hewlett Packard Co. Bonds	A
IBM Corp. Bonds	A+
John Deere Cap Corp. Bonds	A
JP Morgan Chase & Co. Bonds	A+
Las Vegas, NV Water Bonds	AA+
Maryland State Bonds	AAA
Medtronic, Inc. Bonds	AA-
Merck and Co. Inc. Bonds	AA
Microsoft Corp. Bonds	AAA
New York State Bonds	AA

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

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

**Credit Risk (Continued)**

Investments	Standard & Poor's
Onslow County, NC Bonds	A+
Oracle Corp Bonds	A
PepsiCo, Inc. Bonds	A+
Richfield, MN Bonds	
Robinson Township, PA Municipal Bonds	AAA
Shell Intl Fin Bonds	AA
Sherwin Williams Bonds	A-1
Statoil ASA Bonds	AA-
Teva Pharmaceuticals Bonds	A-
Toyota Motor Crd Bonds	AA
Unilever Cap Corp. Bonds	A+
United States Treasury Bonds	AAA
Unites States Treasury Notes	AAA
University of MD Bonds	AA
Verizon Communications Bonds	A-
Virginia College Build America Bonds	AA+
Wells Fargo Co. Bonds	AA-

**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 and the Vanguard Total Stock Market Index Fund. These investments are 7.48% and 23.36% of fiduciary funds and total investments, respectively.

**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.

**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, 2012, was 5.00 mills (\$5.00 per \$1,000 of assessed valuation) as levied by Borough Council.

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

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

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

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

**NOTE 4 - INTERFUND ACCOUNTS**

Interfund transfers for the year ended December 31, 2012, were as follows:

<b>Fund</b>	<b>Transfers In</b>	<b>Transfers Out</b>
General Fund	-0-	129,434
Capital Project Fund	50,000	-0-
Debt Service Fund	570,140	-0-
General Vehicle Sinking Fund	35,000	-0-
Sewer Revenue Fund	<u>-0-</u>	<u>525,706</u>
	<b>655,140</b>	<b>655,140</b>

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

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

Transfers were made from the general fund to the capital project fund for flood related expenses.

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

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

**NOTE 5 - GENERAL LONG-TERM DEBT**

The Borough issues general obligation debt 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 Borough issued the General Obligation Note - Series of 2009, a \$836,300 non-revolving drawdown note, for the purposes of funding the improvements to the Borough's street lights. Payments on the note are due June 15<sup>th</sup> and December 15<sup>th</sup> through December 15, 2029 at a fixed interest rate of 4.29%. Due to unforeseen changes in the scope of this project, the Borough did not draw down on the full amount of available funds and borrowed only \$423,500 on this note. The balance outstanding at December 31, 2012, was \$338,450.

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

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

The Borough issued General Obligation Bonds - Series 2010 in the amount of \$6,435,000 for the purpose of a current refunding of the General Obligation Bonds Series of 2005 and to pay the related costs. These underlying funds were initially borrowed for the purpose of the expansion and upgrade of the wastewater treatment plant, expansion of the effluent outfall system and expansion of the sewage collection system. Debt service payments are funded by a transfer from the sewer fund to the debt service fund. Payments on the bonds are due June 1st and December 1st through December 1, 2025 with interest rates from 2.00% to 3.625%. The balance outstanding at December 31, 2012, was \$5,575,000.

The General Obligation Bonds - Series A of 2010, a \$3,000,000 revolving drawdown bond, was issued for the purposes of funding the reconstruction of the Elizabethtown Amtrak Station. The bond will be payable in full on May 15, 2013. Until then, interest accrues at an annual variable rate of 66.30% of the sum of one-month LIBOR plus 225 basis points, with a minimum rate of 2.75% and a maximum rate of 7.00%. The applicable interest rate at December 31, 2012, is 2.75%. Interest payments are due quarterly. There was no balance outstanding at December 31, 2012.

The General Obligation Bond - 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 bond will be payable in full on May 15, 2013. Until then, interest accrues at an annual variable rate of 66.30% of the sum of one-month LIBOR plus 225 basis points, with a minimum rate of 2.75% and a maximum rate of 7.00%. The applicable interest rate at December 31, 2012, is 2.75%. Interest payments are due quarterly. The balance outstanding at December 31, 2012, was \$139,958.

Currently, the Borough has debt with interest rates and outstanding principal amounts at December 31, 2012, as follows:

	<b>Interest Rates</b>	<b>Principal Amount Outstanding at December 31, 2012</b>
General Obligation Note - Series of 2009	4.29%	338,450
General Obligation Bonds - Series of 2010	2.00% - 3.625%	5,575,000
General Obligation Bonds - Series A of 2010	Variable	-0-
General Obligation Bonds - Series C of 2010	Variable	<u>139,958</u>
		<b>6,053,408</b>

**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	General Obligation Note, Series of 2009		General Obligation Bonds, Series of 2010	
	Interest Payment	Principal Payment	Interest Payment	Principal Payment
2013	14,192	30,840	163,606	370,000
2014	12,855	32,180	156,206	375,000
2015	11,460	33,570	148,706	385,000
2016	10,004	34,470	141,006	390,000
2017	8,509	36,530	132,232	395,000
2018 - 2022	17,690	170,860	480,498	2,180,000
2023 - 2025	<u>-0-</u>	<u>-0-</u>	<u>107,788</u>	<u>1,480,000</u>
	<b>74,710</b>	<b>338,450</b>	<b>1,330,042</b>	<b>5,575,000</b>

Year Ending December 31	General Obligation Bonds, Series C of 2010		Totals	
	Interest Payment	Principal Payment	Interest Payment	Principal Payment
2013	4,031	139,958	181,829	540,798
2014	-0-	-0-	169,061	407,180
2015	-0-	-0-	160,166	418,570
2016	-0-	-0-	151,010	424,470
2017	-0-	-0-	140,741	431,530
2018 - 2022	-0-	-0-	498,188	2,350,860
2023 - 2025	<u>-0-</u>	<u>-0-</u>	<u>107,788</u>	<u>1,480,000</u>
	<b>4,031</b>	<b>139,958</b>	<b>1,408,783</b>	<b>6,053,408</b>

**Changes in Long-Term Liabilities**

During the year ended December 31, 2012, the following changes occurred in long-term debt:

	Balance January 1	Additions	Reductions	Balance December 31
General Obligation Debt	6,688,902	1,162,727	1,798,221	6,053,408
Other Postemployment Health Benefits	452,114	251,410	77,961	625,563
Compensated Absences	<u>224,097</u>	<u>-0-</u>	<u>22,102</u>	<u>201,995</u>
	<b>7,365,113</b>	<b>1,414,137</b>	<b>1,898,284</b>	<b>6,880,966</b>

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

**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 Capital Blue Cross. During the year ended December 31, 2012, the Borough remitted their contracted monthly amount to IIC who pays the funds directly to Capital Blue Cross. 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 \$612,000 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, 2012.

As of December 31, 2012, there are no additional assessments relating to the health plan.

**Unemployment**

The Borough has elected to self-insure for unemployment compensation rather than contribute to the state fund. Monies are deposited into the unemployment compensation fund to fund the payment of these unemployment claims. Expenditures are recorded in the unemployment compensation fund when invoiced by the state and paid by the Borough. Unemployment claims in the amount of \$8 were paid in 2012.

As of December 31, 2012, 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 \$750,000 for a claim over its life. As of December 31, 2012, the Borough is not aware of any additional assessments relating to the trust.

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

**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.

**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.

**Plan Descriptions and Contribution Information**

Membership of the plan consisted of the following at January 1, 2011 the date of the latest actuarial valuation:

	<b>PPP</b>
Retirees and Beneficiaries Currently Receiving Benefits and Terminated Employees Entitled to Benefits, but not yet Receiving Them	<b>3</b>
Active Plan Participants:	
Fully Vested	9
Partially Vested	0
Non-Vested	<u>8</u>
	<u><b>17</b></u>
<b>Total Plan Membership</b>	<b>20</b>

**Police Pension Plan**

**Plan Description**

The PPP is a single-employer defined benefit pension plan that covers all full-time, uniformed employees of the Borough. The 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 \$285,832, of which \$120,923 was Act 205 funds, and members contributed \$59,782 during 2012.



**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 \$65,035, all of which was Act 205 funds, during 2012.

**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, 2012, there were 20 actively participating plan members.

**Contributions**

The employee contributions to the plan for the year ended December 31, 2012, were \$62,707.

**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:

	<b>PPP</b>
Annual Required Contribution	285,832
Interest on Net Pension Obligation	(2,528)
Adjustment to Annual Required Contribution	<u>3,612</u>
Annual Pension Cost	286,916
Contributions Made	<u>285,832</u>
Increase in Net Pension Obligation	1,084
Net Pension Obligation Beginning of Year	<u>(36,113)</u>
<b>Net Pension Obligation (Asset) End of Year</b>	<b>(35,029)</b>

The annual required contributions for the PPP for 2012 were determined as part of the January 1, 2011 actuarial valuation using the entry age normal actuarial cost method and the annual calculation of the minimum municipal obligation. 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 plan using the level dollar closed amortization method. The remaining amortization period at January 1, 2011, for the PPP was 6 years.

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

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

**Annual Pension Cost and Net Pension Obligation (Continued)**

**Three Year Trend Information - PPP**

Calendar Annual Year Cost (APC)	Pension APC Contributed	Percentage of Obligation (Asset)	Net Pension Obligation
2010	334,124	99.7%	(37,230)
2011	371,643	99.7%	(36,113)
2012	285,832	99.6%	(35,029)

**Concentrations - PPP**

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

The plans do not issue stand-alone financial reports.

**NOTE 8 - FUND BALANCE CLASSIFICATIONS**

Restricted fund balance represents fund balances that can only be used for specific purposes stipulated by the external resource providers, constitutionally, or through enabling legislation. Restrictions may be changed only with the consent of the resource providers. At December 31, 2012 the Borough has the following restricted balance:

<b>Liquid Fuels Fund</b>	
Restricted for Construction and Maintenance for Roads and Bridges	234,778
<b>Park and Recreation Fund</b>	
Donor Restricted for Maintenance of the Fun Fort	13,093

Committed fund balances represent fund balances that can be used only for the specific purposes determined by a formal action of the government's highest level of decision making authority. At December 31, 2011, the Borough has included the following committed fund balance:

<b>General Fund</b>	
Committed to Offset 2013 Budget Deficit	913,367
Committed for Future Purchase of Police Radios	30,000

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

<b>Capital Projects Fund</b>	
Assigned for the Funding of Future Capital Improvements	275,457
<b>Debt Service Fund</b>	
Assigned for the Payment of Debt Service Obligations	20,052

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

**NOTE 8 - FUND BALANCE CLASSIFICATIONS (Continued)**

**General Vehicle Sinking Fund**

Assigned for Future Purchases of Public Works Vehicles and Equipment	193,370
--	---------

**Park and Recreation**

Assigned for the Upkeep and Maintenance of Park and Recreation Facilities as well as Related Capital Projects	280,859
--	---------

**Police Training Fund**

Assigned for Training of and Equipment for the Borough's Police Department	3,812
--	-------

**Train Station Fund**

Assigned for the Upkeep and Maintenance of the Elizabethtown Train Station	15,773
--	--------

As part of the 2012 budget, the Borough established a stabilization fund in accordance with the provisions of the Pennsylvania Borough Code Act of 1965 (the Act) related to operating reserve funds. Additions to the stabilization fund from the general fund will be determined as part of the annual budget process and shall not cause the stabilization fund's balance to exceed five percent of the estimated current year general fund revenues. The Borough intends to use such funds to balance any budget deficits from revenue shortfalls or as otherwise permitted by the Act. For financial reporting, the stabilization fund is combined with the general fund. The stabilization fund's balance at December 31, 2012 is \$117,000 of which \$87,000 is presented as part of the unassigned general fund balance and \$30,000 as committed for future purchase of police radios.

**NOTE 9 - POSTEMPLOYMENT HEALTH CARE BENEFITS**

**Description**

The Borough follows the guidance contained in GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postretirement 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 postretirement health care benefits to Borough employees. Under the Elizabethtown Borough Police Contract, police officers who reach normal or disability retirement are eligible to receive hospitalization and major medical benefits to age 65. If the officer was hired on or before January 1, 2009 and is married at the time of retirement, the officer's spouse to whom he/she was married at the time of retirement is eligible to receive the same benefit subject to the conditions as outlined in the police contract. Under the Elizabethtown 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 postemployment benefits on a pay-as-you-go basis. The Borough recognizes expenditures for postemployment group insurance when claims are filed with the plan administrator. These financial statements assume that pay-as-you-go funding will continue.

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

**NOTE 9 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)**

**Annual OPEB Cost and Net OPEB Obligation**

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

	<b>2012</b>	<b>2011</b>
Annual Required Contribution	258,821	222,358
Interest on OPEB Obligation	20,345	14,023
Adjustment to Annual Required Contribution	<u>(27,756)</u>	<u>(19,131)</u>
Annual OPEB Cost	251,410	217,250
Contributions Made (Estimate)	<u>(77,961)</u>	<u>(76,750)</u>
Estimated Increase in Net OPEB Obligation	173,449	140,500
Net OPEB Obligation - Beginning of Year	<u>452,114</u>	<u>311,614</u>
<b>Net OPEB Obligation - End of Year</b>	<b>625,563</b>	<b>452,114</b>

The Borough's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2012, 2011, and 2010 were as follows:

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation- End of Year</b>
12/31/2012	251,410	22%	625,563
12/31/2011	217,250	35%	452,114
12/31/2010	219,753	31%	311,614

**Funding Status and Funding Progress**

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

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

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

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

**NOTE 9 - POSTEMPLOYMENT HEALTH CARE 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, 2012, the entry age normal cost method was used. Because the Borough funds its OPEB on a pay-as-you-go basis, the Plan has no assets (investments) legally held exclusively for paying the post-retirement medical benefits. Actuarial assumptions included an interest rate of 4.5% per annum. Assumptions also include medical inflation of 7.5% in the first year gradually decreasing by 0.5% per year to a rate of 5.5% in 2016; rates gradually decrease from 5.3% in 2017 to 4.2% in 2089 and later based on the society of actuaries long-run medical cost trend model. Withdrawal rates are low and gradually decrease from 5.5% at age 20 to 0.0% at age 50. Mortality and disability are determined based on the RP 2000 table and the SOA 1987 group LTD table, respectively. Annual per capita claims costs range from \$4,674 to \$9,838 based on age and gender.

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

**NOTE 10 - CONTINGENCIES and COMMITMENTS**

**General**

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

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

**Capital Project - Subsequent Event**

The Borough has recently completed significant improvements to the train station located in Elizabethtown as well as the installation of pedestrian and bicycle pathways in the Borough. The Borough anticipates entering into additional phases of these ongoing major projects in 2013. As of the end of January 2013, the Borough is in the process of awarding a construction contract in the estimated amount of \$2,500,000 to complete an overflow parking lot project at the train station and to connect the train station to the network of pedestrian and bicycle pathways completed to date. The Borough has and is in the process of securing grant funding for the entire project from state and federal sources but anticipates borrowing periodically on existing construction drawdown bonds for the payment of construction costs until grant reimbursements are received.

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

**NOTE 10 - CONTINGENCIES and COMMITMENTS (Continued)**

**Collective Bargaining Agreement**

The Borough's collective bargaining agreement with the Elizabethtown Police Officers Association (the Association) has expired effective December 31, 2012. The Borough and the Association have not yet been able to agree on terms for the renewal of this agreement and will be entering arbitration in the spring of 2013.

**Other Purchase Commitment**

The Borough has contracted with Constellation NewEnergy, Inc. to exclusively purchase all electricity requirements at an agreed-upon price of \$0.064628 per kWh. This agreement expires in December 2016.

The Borough has entered into a contract for waste and recyclable materials collection for the Borough of Elizabethtown with Lebanon Farms Disposal, Inc. in the agreed-upon amount of \$87.48 per collection site per year. The contract expires in December 2015.

**Borough of Elizabethtown**  
SCHEDULE of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -  
BUDGET and ACTUAL - Cash Basis -  
GENERAL FUND  
Year Ended December 31, 2012

	<b>Budget Amounts</b>			<b>Variance With Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>REVENUES</b>				
Taxes	\$ 3,433,616	\$ 3,433,616	\$ 3,689,883	\$ 256,267
Licenses and Permits	149,550	149,550	146,451	(3,099)
Fines and Forfeits	29,700	29,700	45,453	15,753
Interests, Rents, and Royalties	20,055	20,055	28,531	8,476
Intergovernmental	269,133	269,133	282,173	13,040
Charges for Services	797,651	797,651	908,347	110,696
<b>Total Revenues</b>	<b>4,699,705 *</b>	<b>4,699,705 *</b>	<b>5,100,838</b>	<b>401,133</b>
<b>EXPENDITURES</b>				
General Government	368,622	368,622	312,772	55,850
Public Safety	2,113,122	2,113,122	1,947,300	165,822
Public Works	1,093,590	1,093,590	1,105,509	(11,919)
Culture and Recreation	342,305	342,305	331,071	11,234
Community Development	48,900	48,900	44,705	4,195
Insurance, Pension, and Other Benefits	1,074,073	1,074,073	1,044,047	30,026
<b>Total Expenditures</b>	<b>5,040,612</b>	<b>5,040,612</b>	<b>4,785,404</b>	<b>255,208</b>
<b>EXCESS (DEFICIENCY) of REVENUES OVER EXPENDITURES</b>	<b>(340,907)</b>	<b>(340,907)</b>	<b>315,434</b>	<b>656,341</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Refunds of Prior Year Expenditures	2,000	2,000	89,566	87,566
Refunds of Prior Year Revenues			(1,638)	(1,638)
Sale of Assets	3,000	3,000	6,626	3,626
Interfund Transfers	(44,034)	(44,034)	(129,434)	(85,400)
<b>Net Other Financing Sources (Uses)</b>	<b>(39,034)</b>	<b>(39,034)</b>	<b>(34,880)</b>	<b>4,154</b>
<b>NET CHANGES in FUND BALANCES</b>	<b>\$ (379,941)</b>	<b>\$ (379,941)</b>	<b>\$ 280,554</b>	<b>\$ 660,495</b>

\*Budgeted revenue does not include beginning cash balance.

See independent auditors' report.

## Borough of Elizabethtown

SCHEDULE of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -  
BUDGET and ACTUAL - Cash Basis -  
PARKS AND RECREATION FUND  
Year Ended December 31, 2012

	Budget Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Interests, Rents, and Royalties	\$ 1,000	\$ 1,000	\$ 1,056	\$ 56
Intergovernmental			1,170	1,170
Miscellaneous	<u>200</u>	<u>200</u>	<u>5,000</u>	<u>4,800</u>
Total Revenues	1,200 *	1,200 *	7,226	6,026
EXPENDITURES				
General Government			5,000	(5,000)
Culture and Recreation	<u>18,200</u>	<u>18,200</u>	<u>28,846</u>	<u>(10,646)</u>
Total Expenditures	<u>18,200</u>	<u>18,200</u>	<u>33,846</u>	<u>(15,646)</u>
NET CHANGES in				
FUND BALANCES	<u>\$ (17,000)</u>	<u>\$ (17,000)</u>	<u>\$ (26,620)</u>	<u>\$ (9,620)</u>

\*Budgeted revenue does not include beginning cash balance.

See independent auditors' report.



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

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
<b>Police Pension Plan:</b>						
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					
01/01/2011	6,036,515	6,761,974	725,459	89.3 %	1,258,498	57.6 %
01/01/2012	\$ 6,479,109					

See independent auditors' report.

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

**Police Pension Plan**

<b>Calendar Year</b>	<b>Annual Required Contribution</b>	<b>Contributions from Employer</b>	<b>Percentage Contributed</b>
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 %
2011	371,643	371,643	100.0 %
2012	\$ 285,832	\$ 285,832	100.0 %

See independent auditors' report.

**Borough of Elizabethtown**  
NOTES to SUPPLEMENTARY INFORMATION -  
Unaudited

The information presented on the supplementary schedules on pages 52 and 53 was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows.

	<b>Police Pension Plan</b>
Valuation Date	01/01/2011
Actuarial Cost Method	Entry Age
Amortization Method	Level Dollar Closed
Remaining Amortization Period	7 Years
Asset Valuation Method	Market Value as Determined by Trustee
Actuarial Assumptions:	
Investment Rate of Return	7%
Projected Salary Increases	6% Annual

See independent auditors' report.

**Borough of Elizabethtown**  
 COMBINING BALANCE SHEET -  
 NONMAJOR GOVERNMENTAL FUNDS -  
 Cash Basis  
 December 31, 2012

	<b>Special Revenue Fund</b>				
	<b>Liquid Fuels Fund</b>	<b>Police Training Fund</b>	<b>Train Station Fund</b>	<b>Debt Service Fund</b>	<b>Total</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	<u>\$ 234,778</u>	<u>\$ 3,812</u>	<u>\$ 15,773</u>	<u>\$ 20,052</u>	<u>\$ 274,415</u>
<b>LIABILITIES and FUND BALANCES</b>					
<b>LIABILITIES</b>	-0-	-0-	-0-	-0-	-0-
<b>FUND BALANCES</b>					
Restricted	234,778				234,778
Assigned	<u>          </u>	<u>3,812</u>	<u>15,773</u>	<u>20,052</u>	<u>39,637</u>
<b>TOTAL FUND BALANCES</b>	<u>234,778</u>	<u>3,812</u>	<u>15,773</u>	<u>20,052</u>	<u>274,415</u>
<b>TOTAL LIABILITIES and FUND BALANCES</b>	<u>\$ 234,778</u>	<u>\$ 3,812</u>	<u>\$ 15,773</u>	<u>\$ 20,052</u>	<u>\$ 274,415</u>

See independent auditors' report.

**Borough of Elizabethtown**  
 COMBINING SCHEDULE of REVENUES, EXPENDITURES, and  
 CHANGES in FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS -  
 Cash Basis  
 Year Ended December 31, 2012

	Special Revenue Funds				
	Liquid Fuels Fund	Police Training Fund	Train Station Fund	Debt Service Fund	Total
<b>REVENUES</b>					
Interest, Rents, and Royalties	\$ 813	\$ 2	\$ 8,626	\$ 41	\$ 9,482
Intergovernmental	215,518				215,518
Service Agreement Revenue			22,000		22,000
Miscellaneous		5,920			5,920
<b>Total Revenues</b>	<b>216,331</b>	<b>5,922</b>	<b>30,626</b>	<b>41</b>	<b>252,920</b>
<b>EXPENDITURES</b>					
Public Safety		3,802			3,802
Public Works	160,084		25,070		185,154
Debt Service - Principal				384,560	384,560
Debt Service - Interest				186,169	186,169
<b>Total Expenditures</b>	<b>160,084</b>	<b>3,802</b>	<b>25,070</b>	<b>570,729</b>	<b>759,685</b>
<b>EXCESS (DEFICIENCY) of REVENUES OVER EXPENDITURES</b>	<b>56,247</b>	<b>2,120</b>	<b>5,556</b>	<b>(570,688)</b>	<b>(506,765)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Refunds of Prior Year Expenses			100		100
Interfund Transfers				570,140	570,140
<b>Net Other Financing Sources</b>	<b>-0-</b>	<b>-0-</b>	<b>100</b>	<b>570,140</b>	<b>570,240</b>
<b>NET CHANGES in FUND BALANCES</b>	<b>56,247</b>	<b>2,120</b>	<b>5,656</b>	<b>(548)</b>	<b>63,475</b>
<b>FUND BALANCES</b>					
Beginning	178,531	1,692	10,117	20,600	210,940
<b>Ending</b>	<b>\$ 234,778</b>	<b>\$ 3,812</b>	<b>\$ 15,773</b>	<b>\$ 20,052</b>	<b>\$ 274,415</b>

See independent auditors' report.

**Borough of Elizabethtown**  
COMBINING SCHEDULE of NET POSITION -  
INTERNAL SERVICE FUNDS -  
Cash Basis  
December 31, 2012

	Health Insurance Fund	Unemployment Compensation Fund	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	<u>\$ 1,409,688</u>	<u>\$ 19,979</u>	<u>\$ 1,429,667</u>
<b>LIABILITIES</b>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<b>NET POSITION - Unrestricted</b>	<u>\$ 1,409,688</u>	<u>\$ 19,979</u>	<u>\$ 1,429,667</u>

See independent auditors' report.

**Borough of Elizabethtown**  
COMBINING SCHEDULE of REVENUES, EXPENSES, and CHANGES in NET POSITION -  
INTERNAL SERVICE FUNDS -  
Cash Basis  
Year Ended December 31, 2012

	Health Insurance Fund	Unemployment Compensation Fund	Total
<b>OPERATING REVENUES</b>			
Charges for Service	\$ 26,692	\$ 5,200	\$ 31,892
<b>OPERATING EXPENSES</b>	<u>-0-</u>	<u>8</u>	<u>8</u>
<b>OPERATING INCOME</b>	26,692	5,192	31,884
<b>NONOPERATING REVENUES</b>			
Investment Income	4,987	40	5,027
Refund of Prior Year Expenditures	<u>75,000</u>	<u>          </u>	<u>75,000</u>
<b>TOTAL NONOPERATING REVENUES</b>	<u>79,987</u>	<u>40</u>	<u>80,027</u>
<b>CHANGES in NET POSITION</b>	106,679	5,232	111,911
<b>NET POSITION</b>			
Beginning	<u>1,303,009</u>	<u>14,747</u>	<u>1,317,756</u>
<b>Ending</b>	<u><b>\$ 1,409,688</b></u>	<u><b>\$ 19,979</b></u>	<u><b>\$ 1,429,667</b></u>

See independent auditors' report.

**Borough of Elizabethtown**  
 COMBINING SCHEDULE of NET POSITION -  
 FIDUCIARY FUNDS - PENSION TRUST FUNDS -  
 Cash Basis  
 December 31, 2012

	<b>Non-Uniformed Pension Fund</b>	<b>Police Pension Fund</b>	<b>Deferred Compensation Fund</b>	<b>Total</b>
<b>ASSETS</b>				
Investments (at Fair Value):				
Federated Governmental Obligation Money				
Market Fund	118,842	263,578		382,420
Fixed Income Securities	372,667	2,978,736		3,351,403
Governmental Obligations	131,517	1,681,608		1,813,125
Mutual Funds and Pooled Separate Funds	<u>254,796</u>	<u>2,086,857</u>	<u>1,044,390</u>	<u>3,386,043</u>
<b>TOTAL ASSETS</b>	<b><u>877,822</u></b>	<b><u>7,010,779</u></b>	<b><u>1,044,390</u></b>	<b><u>8,932,991</u></b>
<b>LIABILITIES</b>	<b><u>-0-</u></b>	<b><u>-0-</u></b>	<b><u>-0-</u></b>	<b><u>-0-</u></b>
<b>NET POSITION - Restricted</b>	<b><u>\$ 877,822</u></b>	<b><u>\$ 7,010,779</u></b>	<b><u>\$ 1,044,390</u></b>	<b><u>\$ 8,932,991</u></b>

See independent auditors' report.



**Borough of Elizabethtown**  
COMBINING SCHEDULE of CHANGES in NET ASSETS -  
FIDUCIARY FUNDS - PENSION TRUST FUNDS -  
Cash Basis

	<b>Non-Uniformed Pension Fund</b>	<b>Police Pension Fund</b>	<b>Deferred Compensation Fund</b>	<b>Total</b>
<b>ADDITIONS</b>				
Contributions:				
Commonwealth	\$ 65,035	\$ 120,923		\$ 185,958
Employer		164,909		164,909
Employee		59,782	62,707	122,489
	<u>65,035</u>	<u>345,614</u>	<u>62,707</u>	<u>473,356</u>
Investment Income	<u>48,699</u>	<u>474,760</u>	<u>112,448</u>	<u>635,907</u>
<b>Total Additions</b>	<b>113,734</b>	<b>820,374</b>	<b>175,155</b>	<b>1,109,263</b>
<b>DEDUCTIONS</b>				
Administrative Expenses	8,012	39,852	5,023	52,887
Retirement Benefits	<u></u>	<u>248,852</u>	<u>5,200</u>	<u>254,052</u>
<b>Total Deductions</b>	<b><u>8,012</u></b>	<b><u>288,704</u></b>	<b><u>10,223</u></b>	<b><u>306,939</u></b>
<b>CHANGES in NET POSITION</b>	<b>105,722</b>	<b>531,670</b>	<b>164,932</b>	<b>802,324</b>
<b>NET POSITION</b>				
Beginning	<u>772,100</u>	<u>6,479,109</u>	<u>879,458</u>	<u>8,130,667</u>
<b>Ending</b>	<b><u>\$ 877,822</u></b>	<b><u>\$ 7,010,779</u></b>	<b><u>\$ 1,044,390</u></b>	<b><u>\$ 8,932,991</u></b>

See independent auditors' report.

**Borough of Elizabethtown**  
 COMBINING SCHEDULE of NET POSITION -  
 AGENCY FUNDS -  
 Cash Basis  
 December 31, 2012

	<b>Payroll Fund</b>	<b>Subdivision Fee Escrow Fund</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	<u>\$ -0-</u>	<u>\$ 48,125</u>	<u>\$ 48,125</u>
<b>LIABILITIES</b>			
Due to Developers	-0-	35,666	35,666
Other Current Liabilities	<u>-0-</u>	<u>12,459</u>	<u>12,459</u>
<b>TOTAL LIABILITIES</b>	<u>-0-</u>	<u>48,125</u>	<u>48,125</u>
<b>NET POSITION</b>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

See independent auditors' report.

# Borough of Elizabethtown

## SCHEDULE of INDEBTEDNESS

Year Ended December 31, 2012

	Year of Issue	Original Amount of Issue	Outstanding January 1, 2012	Debt Issued During Year	Principal Paid During Year	Outstanding December 31, 2012	Annual Principal Payments	Final Maturity
<b>GENERAL OBLIGATION DEBT</b>								
General Obligation Note, Series of 2009	2009	836,300 (4.290%)	\$ 368,010		\$ 29,560	\$ 338,450	Scheduled	6/15/22
General Obligation Bonds, Series A of 2010	2010	3,000,000 Variable		32,401	32,401		Interest Only	5/15/13
General Obligation Bonds, Series C of 2010	2010	2,500,000 Variable	390,892	1,130,326	1,381,260	139,958	Interest Only	5/15/13
General Obligation Bonds, Series of 2010	2010	6,435,000 (2.000% - 3.625%)	<u>5,930,000</u>	<u></u>	<u>355,000</u>	<u>5,575,000</u>	Scheduled	12/01/25
<b>TOTALS</b>			<u><b>\$ 6,688,902</b></u>	<u><b>\$ 1,162,727</b></u>	<u><b>\$ 1,798,221</b></u>	<u><b>\$ 6,053,408</b></u>		

See independent auditors' report.

**Borough of Elizabethtown**  
SCHEDULE of EXPENDITURES of FEDERAL AWARDS  
Year Ended December 31, 2012

Federal Grantor Project Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date	Grant Amount	Total Received for the Year	Expenditures
<b>U.S. Department of Transportation</b>							
<b>Passed Through the Pennsylvania Department of Transportation:</b>							
Highway Planning and Construction (Federal-Aid Highway Program) (Note 2)	I/F	20.205	089180	10/22/09 - 10/31/11	350,000	\$ 28,720	\$ -0-
Highway Planning and Construction (Federal-Aid Highway Program) (Note 2)	I/F	20.205	008690	10/02/06 - 12/31/12	3,300,000	1,400,018	1,170,018
ARRA - Federal Transit - Capital Investment Grants (Note 2)	I/F	20.500	PA-96-X0001-00	07/17/09 - 12/31/12	1,414,728	11,379	9,431
ARRA - Federal Transit - Formula Grants (Note 2)	I/F	20.507	PA-96-X0001-00	07/17/09 - 12/31/12	7,820,111	<u>54,241</u>	<u>41,424</u>
<b>Total Passed Through the Pennsylvania Department of Transportation</b>						<b>1,494,358</b>	<b>1,220,873</b>
<b>U.S. Department of Homeland Security</b>							
<b>Passed Through the Pennsylvania Emergency Management Agency:</b>							
Public Assistance Grants	I/F	97.036	FEMA-4030-DR-PA-071-23016-00	09/03/11 - 03/03/13	159,228	<u>159,228</u>	<u>159,228</u>
<b>TOTAL EXPENDITURES of FEDERAL AWARDS</b>						<b><u>\$ 1,653,586</u></b>	<b><u>\$ 1,380,101</u></b>

**Legend**

I = Indirect funding

F = Federal share

CFDA = Catalog of Federal Domestic Assistance

See independent auditors' report.

**Borough of Elizabethtown**  
SCHEDULE of EXPENDITURES of FEDERAL AWARDS  
(Continued)  
Year Ended December 31, 2012

NOTES to SCHEDULE of EXPENDITURES of FEDERAL AWARDS

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE 2 - CLUSTER IDENTIFICATION**

Project Title	Federal CFDA Number	Cluster
Highway Planning and Construction (Federal Aid Highway Program)	20.205	Highway Planning and Construction Cluster
ARRA - Federal Transit - Capital Investment Grants	20.500	Federal Transit Cluster
ARRA - Federal Transit - Formula Grants	20.507	Federal Transit Cluster

See independent 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**

**INDEPENDENT AUDITORS' REPORT**

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

We have audited 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, 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, 2012, and the related notes to the financial statements, which collectively comprise **Borough of Elizabethtown's** basic financial statements, and have issued our report thereon dated March 11, 2013.

**Internal Control over Financial Reporting**

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

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

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 deficiency described in the accompanying schedule of findings and questioned costs as items #2012-01 to be a material weakness.

- 66 -

**SERVICE | ANSWERS | TRUST**

LANCASTER OFFICE: 1705 Oregon Pike, Lancaster, PA 17601 • 717-569-2900 • 800-448-1384 • Fax 717-569-0141  
ELIZABETHTOWN OFFICE: 222 South Market Street, Suite 202, Elizabethtown, PA 17022 • 717-367-3225 • Fax 717-367-3324  
HARRISBURG OFFICE: 2000 Linglestown Road, Suite 104, Harrisburg, PA 17110 • 717-545-0453 • Fax 717-545-7374

[www.troutcpa.com](http://www.troutcpa.com)

**Compliance and Other Matters**

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

**Borough of Elizabethtown's Response to Finding**

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

**Purpose of this Report**

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

March 11, 2013  
Lancaster, Pennsylvania

*Trout, Ebersole & Groff, LLP*

TROUT, EBERSOLE & GROFF, LLP  
Certified Public Accountants

**REPORT on COMPLIANCE for EACH MAJOR FEDERAL PROGRAM**

**INDEPENDENT AUDITORS' REPORT**

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

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

We have audited **Borough of Elizabethtown's** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on **Borough of Elizabethtown's** major federal program for the year ended December 31, 2012. **Borough of Elizabethtown's** major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditors' Responsibility**

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

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

**Opinion on Each Major Federal Program**

In our opinion, **Borough of Elizabethtown** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2012.



### Report on Internal Control Over Compliance

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

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

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

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

March 11, 2013  
Lancaster, Pennsylvania

*Trout, Ebersole & Groff, LLP*

TROUT, EBERSOLE & GROFF, LLP  
Certified Public Accountants

**Borough of Elizabethtown**  
SCHEDULE of FINDINGS and QUESTIONED COSTS  
Year Ended December 31, 2012

A. Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the financial statements of the **Borough of Elizabethtown**.
2. One material weakness and no significant deficiencies 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. No material weaknesses or significant deficiencies relating to the audit of the major federal programs are 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.
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 program tested as a major program is: Highway Planning and Construction (Federal-Aid Highway Program) - CFDA #20.205.
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 Weakness**

#2012-01 - 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.

Borough Response: The Borough concurs with the finding.

**Borough of Elizabethtown**  
SCHEDULE of FINDINGS and QUESTIONED COSTS  
(Continued)  
Year Ended December 31, 2012

B. Findings - Financial Statements Audit (Continued)

**Material Weakness** (Continued)

#2012-01 - Preparation of Financial Statements (Continued)

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.

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

None

**Borough of Elizabethtown**  
SUMMARY SCHEDULE of PRIOR AUDIT FINDINGS  
Year Ended December 31, 2012

There are no prior audit findings.



## **Corrective Action Plan**

**March 11, 2013**

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, 2012.

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, 2012 through December 31, 2012

The findings from the December 31, 2012 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**

##### **#2012-01 – 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.

600 South Hanover Street, Elizabethtown, PA 17022

---

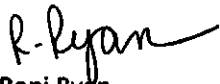
Phone (717) 367-1700 Fax (717) 367-6800  
[www.etownonline.com](http://www.etownonline.com)

**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 any individual with such expertise on a full-time basis. The Borough contracts with Trout, Ebersole & Groff, LLP on an annual basis to perform this function. A Borough employee is designated to oversee the preparation of the financial statements by the third-party.

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 black ink, appearing to read "R. Ryan", written over the printed name.

Roni Ryan

Borough Manager, Borough of Elizabethtown