

Borough of Elizabethtown

Year Ended December 31, 2016

Borough of Elizabethtown

Financial Statements with Supplementary Information

Year Ended December 31, 2016

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INDEPENDENT AUDITORS' REPORT

To the Borough Council
Borough of Elizabethtown
Elizabethtown, Pennsylvania

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Borough of Elizabethtown**, Pennsylvania (the Borough) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Borough's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Basis for Adverse Opinion on Discretely Presented Component Unit

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

Adverse Opinion on Discretely Presented Component Unit

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Discretely Presented Component Unit" paragraph, the financial statements referred to above do not present fairly the modified cash basis financial position of the discretely presented component unit of the **Borough of Elizabethtown**, Pennsylvania, as of December 31, 2016, or the changes in the modified cash basis financial position thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Borough of Elizabethtown**, Pennsylvania, as of December 31, 2016, and the respective changes in the modified cash basis financial position thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Borough of Elizabethtown's** basic primary government financial statements. The schedules of budgetary comparison information - modified cash basis on pages 43 and 44, schedule of indebtedness on page 45, and the concise statement for publication - modified cash basis on pages 46 and 47, are presented for purposes of additional analysis and are not a required part of the primary government basic financial statements.

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

January 30, 2017
Lancaster, Pennsylvania


TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Borough of Elizabethtown

STATEMENT of NET POSITION -

Modified Cash Basis

December 31, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Unrestricted Cash and Cash Equivalents	\$ 4,182,040	\$ 3,799,599	\$ 7,981,639
Restricted Cash for Park Expenditures	156,371		156,371
Restricted Cash for Street Improvements	220,401		220,401
Restricted Cash for Capital Projects per Grant Agreement	127,636		127,636
Restricted Cash for Law Enforcement per Federal Equitable Sharing Program	<u>39,199</u>	<u></u>	<u>39,199</u>
	<u>4,725,647</u>	<u>3,799,599</u>	<u>8,525,246</u>
LIABILITIES	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
NET POSITION			
Restricted for:			
Park Expenditures	156,371		156,371
Construction and Maintenance for Roads and Bridges	220,401		220,401
Capital Projects per Grant Agreement	127,636		127,636
Law Enforcement per Federal Equitable Sharing Program	39,199		39,199
Unrestricted	<u>4,182,040</u>	<u>3,799,599</u>	<u>7,981,639</u>
TOTAL NET POSITION	<u>\$ 4,725,647</u>	<u>\$ 3,799,599</u>	<u>\$ 8,525,246</u>

See notes to financial statements.

Borough of Elizabethtown

STATEMENT of ACTIVITIES -

Modified Cash Basis

Year Ended December 31, 2016

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	\$ 632,075		\$ 13,616		\$ (618,459)		\$ (618,459)
Public Safety	3,053,951	539,610	239,063		(2,275,278)		(2,275,278)
Public Works	1,641,327	633,390	83,352	293,823	(630,762)		(630,762)
Culture and Recreation	599,150	1,587	18,757		(578,806)		(578,806)
Community Development	75,467	27,197		249,647	201,377		201,377
Debt Service - Principal	475,050				(475,050)		(475,050)
Debt Service - Interest	88,000				(88,000)		(88,000)
Total Governmental Activities	6,565,020	1,201,784	354,788	543,470	(4,464,978)	-0-	(4,464,978)
Business-Type Activities:							
Sewer Operations	<u>2,340,833</u>	<u>3,308,620</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>967,787</u>	<u>967,787</u>
Total Primary Government	<u>\$ 8,905,853</u>	<u>\$ 4,510,404</u>	<u>\$ 354,788</u>	<u>\$ 543,470</u>	\$ (4,464,978)	\$ 967,787	\$ (3,497,191)

See notes to financial statements.

Borough of Elizabethtown

STATEMENT of ACTIVITIES -

Modified Cash Basis

(Continued)

Year Ended December 31, 2016

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					\$ 2,533,120		\$ 2,533,120
Public Utility Realty, Earned Income, Local Services, and Realty Transfer Taxes, net					1,621,746		1,621,746
Cable Television Franchise Fee					145,121		145,121
Investment Earnings					13,176	13,735	26,911
Sale of Fixed Assets					11,123		11,123
Refunds of Prior Year Expenditures					26,792	6,343	33,135
Other Income					19,396		19,396
Proceeds from Long-Term Debt					106,716		106,716
Transfers					571,600	(571,600)	-0-
Total General Revenues and Transfers					5,048,790	(551,522)	4,497,268
CHANGES in NET POSITION					583,812	416,265	1,000,077
NET POSITION							
Beginning					4,141,835	3,383,334	7,525,169
Ending					\$ 4,725,647	\$ 3,799,599	\$ 8,525,246

See notes to financial statements.

Borough of Elizabethtown
BALANCE SHEET -
GOVERNMENTAL FUNDS - Modified Cash Basis
December 31, 2016

	Major Funds					Total Governmental Funds
	General Fund	Capital Project Fund	Parks and Recreation Fund	General Vehicle Sinking Fund	Other Funds	
ASSETS						
Unrestricted Cash and Cash Equivalents	\$ 1,557,340	\$ 1,040,180	\$ 78,190	\$ 190,084	\$ 39,912	\$ 2,905,706
Restricted Cash and Cash Equivalents			284,007		259,600	543,607
TOTAL ASSETS	<u>1,557,340</u>	<u>1,040,180</u>	<u>362,197</u>	<u>190,084</u>	<u>299,512</u>	<u>3,449,313</u>
LIABILITIES and FUND BALANCES						
LIABILITIES	-0-	-0-	-0-	-0-	-0-	-0-
FUND BALANCES						
Restricted			284,007		259,600	543,607
Committed	1,008,497					1,008,497
Assigned		1,040,180	78,190	190,084	39,912	1,348,366
Unassigned	<u>548,843</u>					<u>548,843</u>
TOTAL FUND BALANCES	<u>1,557,340</u>	<u>1,040,180</u>	<u>362,197</u>	<u>190,084</u>	<u>299,512</u>	<u>3,449,313</u>
TOTAL LIABILITIES and FUND BALANCES	<u>\$ 1,557,340</u>	<u>\$ 1,040,180</u>	<u>\$ 362,197</u>	<u>\$ 190,084</u>	<u>\$ 299,512</u>	<u>\$ 3,449,313</u>

See notes to financial statements.

Borough of Elizabethtown
RECONCILIATION of the GOVERNMENTAL FUNDS BALANCE SHEET
to the STATEMENT of NET POSITION -
Modified Cash Basis
December 31, 2016

Total Fund Balances - Governmental Funds - Modified Cash Basis	\$ 3,449,313
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Amounts reported for governmental activities in the statement of net position - modified cash basis are different because:

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

<u>1,276,334</u>

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES - Modified Cash Basis

<u><u>\$ 4,725,647</u></u>

See notes to financial statements.

Borough of Elizabethtown
STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -
GOVERNMENTAL FUNDS -
Modified Cash Basis
Year Ended December 31, 2016

	Major Funds					
	General Fund	Capital Project Funds	Parks and Recreation Fund	General Vehicle Sinking Fund	Other Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 4,150,437					\$ 4,150,437
Licenses and Permits	193,745					193,745
Fines and Forfeits	56,967					56,967
Interest, Rents, and Royalties	23,492	2,631	978	660	8,823	36,584
Intergovernmental	351,807	94,554	155,093		293,823	895,277
Charges for Service	1,071,199	9,333				1,080,532
Service Agreement Revenue					24,000	24,000
Donations			3,900			3,900
Miscellaneous					3,740	3,740
Total Revenues	5,847,647	106,518	159,971	660	330,386	6,445,182
EXPENDITURES						
General Government	344,438	4,000	36			348,474
Public Safety	2,255,158			49,520	2,607	2,307,285
Public Works	1,121,443	181,363		170,443	233,584	1,706,833
Culture and Recreation	309,388		244,901			554,289
Community Development	60,858					60,858
Debt Service - Principal		34,200			440,850	475,050
Debt Service - Interest		2,250			85,750	88,000
Insurance, Pension, and Other Benefits	1,230,453					1,230,453
Total Expenditures	5,321,738	221,813	244,937	219,963	762,791	6,771,242
EXCESS (DEFICIENCY) of REVENUES over EXPENDITURES	\$ 525,909	\$ (115,295)	\$ (84,966)	\$ (219,303)	\$ (432,405)	\$ (326,060)

See notes to financial statements.

Borough of Elizabethtown
STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -
GOVERNMENTAL FUNDS -
Modified Cash Basis
(Continued)
Year Ended December 31, 2016

	Major Funds					Total
	General Fund	Capital Project Funds	Parks and Recreation Fund	General Vehicle Sinking Fund	Other Funds	Governmental Funds
CARRYFORWARD EXCESS (DEFICIENCY) of REVENUES over EXPENDITURES	\$ 525,909	\$ (115,295)	\$ (84,966)	\$ (219,303)	\$ (432,405)	\$ (326,060)
OTHER FINANCING SOURCES (USES)						
Refunds of Prior Year Expenses	26,792					26,792
Sale of Assets	1,123			10,000		11,123
Proceeds from Long-Term Debt		106,716				106,716
Interfund Transfers	(478,823)	381,298	20,000	150,000	524,125	596,600
Net Other Financing Sources (Uses)	(450,908)	488,014	20,000	160,000	524,125	741,231
NET CHANGES in FUND BALANCES	75,001	372,719	(64,966)	(59,303)	91,720	415,171
FUND BALANCES						
Beginning	1,482,339	667,461	427,163	249,387	207,792	3,034,142
Ending	\$ 1,557,340	\$ 1,040,180	\$ 362,197	\$ 190,084	\$ 299,512	\$ 3,449,313

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 -
Modified Cash Basis
Year Ended December 31, 2016

Net Changes in Fund Balances - Total Governmental Funds - Modified Cash Basis	\$ 415,171
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Amounts reported for governmental activities in the statement of activities - modified cash basis are different because:

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

<u>168,641</u>

CHANGES in NET POSITION of GOVERNMENTAL ACTIVITIES - Modified Cash Basis	<u><u>\$ 583,812</u></u>
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See notes to financial statements.

Borough of Elizabethtown

STATEMENT of NET POSITION -

PROPRIETARY FUNDS -

Modified Cash Basis

December 31, 2016

	<u>Enterprise Fund</u>		
	<u>Major Fund</u>	Internal	
	Sewer	Service	Total
	Fund	Funds	
ASSETS			
Cash and Cash Equivalents	<u>\$ 3,799,599</u>	<u>\$ 1,276,334</u>	<u>\$ 5,075,933</u>
LIABILITIES	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
NET POSITION - Unrestricted	<u>\$ 3,799,599</u>	<u>\$ 1,276,334</u>	<u>\$ 5,075,933</u>

See notes to financial statements.

Borough of Elizabethtown

STATEMENT of REVENUES, EXPENSES, and CHANGES in NET POSITION -
 PROPRIETARY FUNDS -
 Modified Cash Basis
 Year Ended December 31, 2016

	<u>Enterprise Fund</u>		
	<u>Major Fund</u>		
	Sewer Fund	Internal Service Funds	Total
OPERATING REVENUES			
Charges for Service	\$ 3,308,620	\$ 30,504	\$ 3,339,124
OPERATING EXPENSES			
Collection and Transmission	430,628		430,628
Wastewater Treatment	896,262		896,262
Wastewater Disposal and Sludge Management	167,694		167,694
General, Administrative, Customer Service, and Other	491,993		491,993
Insurance and Employee Benefits	354,256	3,110	357,366
Total Operating Expenses	<u>2,340,833</u>	<u>3,110</u>	<u>2,343,943</u>
OPERATING INCOME	967,787	27,394	995,181
NONOPERATING REVENUES			
Investment Earnings	13,735	4,706	18,441
Refund of Prior Year Expenditures	6,343	161,541	167,884
Total Nonoperating Revenues	<u>20,078</u>	<u>166,247</u>	<u>186,325</u>
INCOME BEFORE TRANSFERS	987,865	193,641	1,181,506
TRANSFERS	<u>(571,600)</u>	<u>(25,000)</u>	<u>(596,600)</u>
CHANGES in NET POSITION	416,265	168,641	584,906
NET POSITION			
Beginning	3,383,334	1,107,693	4,491,027
Ending	<u><u>\$ 3,799,599</u></u>	<u><u>\$ 1,276,334</u></u>	<u><u>\$ 5,075,933</u></u>

See notes to financial statements.

Borough of Elizabethtown

STATEMENT of NET POSITION -

FIDUCIARY FUNDS -

Modified Cash Basis

December 31, 2016

	Pension Trust Funds	Expendable Trust Fund	Agency Funds
ASSETS			
Cash and Cash Equivalents	\$ 2,335		\$ 23,482
Investments (at Fair Value):			
Money Market Fund	435,732		
Fixed Income Securities	4,069,868		
Governmental Obligations	1,691,291		
Mutual Funds	3,843,529		
Insurance Company General Account		339,152	
Pooled Separate Funds		1,112,863	
TOTAL ASSETS	<u>10,042,755</u>	<u>1,452,015</u>	<u>23,482</u>
LIABILITIES			
Due to Developers			9,773
Other Current Liabilities			13,709
TOTAL LIABILITIES	<u>-0-</u>	<u>-0-</u>	<u>23,482</u>
NET POSITION - Restricted	<u>\$ 10,042,755</u>	<u>\$ 1,452,015</u>	<u>\$ -0-</u>

See notes to financial statements.

Borough of Elizabethtown
 STATEMENT of CHANGES in NET POSITION -
 FIDUCIARY FUNDS -
 Modified Cash Basis
 Year Ended December 31, 2016

	Pension Trust Funds	Expendable Trust Fund
ADDITIONS		
Contributions:		
Commonwealth of Pennsylvania	\$ 223,107	
Employer	262,670	
Employee	<u>68,055</u>	<u>133,785</u>
	553,832	133,785
Investment Income:		
Net appreciation in fair value of investments	198,350	103,978
Interest and Dividends	272,632	
Investment Expenses	<u>(52,095)</u>	<u>(9,048)</u>
Net Investment Income	<u>418,887</u>	<u>94,930</u>
Total Additions	972,719	228,715
DEDUCTIONS		
Retirement Benefits	<u>432,909</u>	<u>12,000</u>
CHANGES in NET POSITION	539,810	216,715
NET POSITION		
Beginning	<u>9,502,945</u>	<u>1,235,300</u>
Ending	<u>\$ 10,042,755</u>	<u>\$ 1,452,015</u>

See notes to financial statements.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES

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

The Borough is a full service municipality with a 4.5 million gallon daily wastewater treatment facility. The Borough encompasses greater than 40 miles of roads and employs 17 full-time police officers. The Borough has three municipal parks totaling 39 acres and a volunteer fire company.

The Borough provides sewer, zoning, code enforcement, police, trash/recycling, street, and parks services to approximately 11,545 residents in approximately 4,290 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*, as amended, the criteria used by the Borough to evaluate the possible inclusion of related entities (authorities, boards, councils, and so forth) within its reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given case, the Borough reviews the applicability of the following criteria:

The Borough is financially accountable for:

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

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

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

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

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

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

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Elizabethtown Industrial Development Authority

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

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

Joint Ventures

Elizabethtown Area Community Services Authority (EACSA)

The Elizabethtown Area Community Services Authority (EACSA) was formed to acquire the Elizabethtown Area Community Center which is located at 70 South Poplar Street in the Borough. The EACSA is composed of an eight-member board with two representatives from each of the four surrounding municipalities: **Borough of Elizabethtown**, Conoy Township, Mount Joy Township, and West Donegal Township. The EACSA operates a gym, social service agencies, senior center, and school-aged day care. The EACSA is not reported as part of the Borough's reporting entity. For the year ended December 31, 2016, the Borough did not make any contributions to EACSA. A copy of EACSA's state filing can be obtained from the **Borough of Elizabethtown** office at 600 South Hanover Street, Elizabethtown, PA 17022.

Elizabethtown Area Water Authority (EAWA)

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

For the year ended December 31, 2016, the Borough made contributions and paid for water services of \$5,706 to EAWA of which \$3,539 was reported as an expenditure of the general fund, \$1,876 was reported in the sewer fund, and \$291 was reported in the train station fund. The Borough transferred a vehicle to EAWA for \$10,000. Complete financial statements for EAWA can be obtained from the Elizabethtown Area Water Authority Manager, 211 West Hummelstown Street, Elizabethtown, PA 17022.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint Ventures (Continued)

Greater Elizabethtown Area Recreation and Community Services (GEARS)

The Greater Elizabethtown Area Recreation and Community Services (GEARS) was 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. GEARS is composed of a twelve-member board with three members from each of the following four entities: **Borough of Elizabethtown**, Elizabethtown Area School District, Mount Joy Township, and West Donegal Township. GEARS is not reported as part of the Borough's reporting entity. As a member of GEARS, the **Borough of Elizabethtown** is required to make a capital reserve contribution and quarterly contributions to GEARS. For the year ended December 31, 2016, the Borough contributed \$101,528 to GEARS which was reported as an expenditure of the general fund. Complete financial statements for GEARS can be obtained from the GEARS office at the Elizabethtown Area Middle School at 600 East High Street, Elizabethtown, PA 17022.

Lancaster County Tax Collection Bureau (Bureau)

The Borough participates with 16 school districts and the municipalities represented by those school districts for the collection of earned income taxes and local service taxes. Each public school district appoints one member to serve on the joint operating committee and 16 members are appointed by the participating municipalities. The Bureau's operating expenditures are deducted from the distributions which are made monthly. The Borough's portion of the operating expenditures for the year ended December 31, 2016 was \$21,664. 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. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent.

Basis of Presentation - Financial Statements

Government-Wide Financial Statements

The statement of net position - modified cash basis and the statement of activities - modified cash basis display information about the Borough as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. 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 modified cash basis of accounting which is the same accounting basis used in preparing the fund financial statements.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Financial Statements (Continued)

Government-Wide Financial Statements (Continued)

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

Fund Financial Statements

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for nonmajor funds. Internal service funds are combined and the totals are presented in a separate column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

Governmental Fund Types

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

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

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

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

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

Proprietary Fund Types

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

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary Fund Types (Continued)

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

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

Fiduciary Fund Types

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

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

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

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

Major and Nonmajor Funds

The funds are further classified major and nonmajor as follows:

Major:

General Fund

Capital Projects Funds:

Capital Project Fund

General Vehicle Sinking Fund

Special Revenue Fund:

Parks and Recreation Fund

Proprietary Fund:

Sewer Fund

Nonmajor:

Special Revenue Funds:

Liquid Fuels Fund

Police Training Fund

Train Station Fund

Debt Service Fund

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 modified 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 is reported as other financing sources. Investments are recorded at fair value, which is the only modification from the pure cash basis of accounting.

When both restricted and unrestricted resources are available for use, the Borough follows its annual budget in determining whether to use restricted or unrestricted resources first.

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

Budgets and Budgetary Accounting

An operating budget is adopted each year for substantially all funds on the modified cash basis of accounting. The budget for 2016 was proposed on November 1, 2015, with final adoption on December 17, 2015. There were no budget revisions or amendments.

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

Cash and Cash Equivalents

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

Investments

The Borough categorizes the fair value measurements of its investments based on the hierarchy established by the modified cash basis of accounting. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Investments with remaining maturities at the time of purchase of one year or less are stated at amortized cost which approximates fair value. The securities of 2a7-like investment pools are valued at amortized cost, which approximates fair value of the pool.

Capital Assets and Depreciation

The Borough follows the modified 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 paid. Since the capital assets are recorded as an expenditure or expense when paid, no depreciation is computed on these assets.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

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

Pension Plans

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

The Borough also adheres to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which amends GASB Statement No. 27, as applicable to the modified cash basis of accounting. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The financial statements for the Borough are prepared on the modified cash basis of accounting and therefore do not reflect any long-term liabilities or related expenses. The Borough made all required contributions for the year ended December 31, 2016, and has recognized them as expenditures and expenses in the governmental and proprietary funds, respectively.

Fund Balance Classification

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

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

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

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

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classification (Continued)

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.

Interfund Activity

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

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

Use of Estimates

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

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. 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. Neither type of transaction occurred during the year ended December 31, 2016.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Standards Adopted in 2016

During the current year, the Borough adopted GASB Statement No. 72, *Fair Value Measurement and Application*, as applicable to the modified cash basis of accounting. The objective of this statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. As a result of implementation of this standard in 2016, the Borough has revised the disclosures regarding investments.

During the current year, the Borough adopted GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as applicable to the modified cash basis of accounting. The objective of this statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and accountability. The Borough's beginning balances and current year results were not affected by the implementation of this new standard.

During the current year, the Borough adopted GASB Statement No. 77, *Tax Abatement Disclosures*, as applicable to the modified cash basis of accounting. The objective of this statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs in order to better assess (a) whether current-year revenues were sufficient to pay for current-year services, (b) compliance with finance-related legal or contractual requirements, (c) where a government's financial resources come from and how it uses them, and (d) financial position and economic condition and how they have changed over time. As a result of implementation of this standard in 2016, the Borough revised the disclosures regarding tax abatements.

During the current year, the Borough adopted GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, as applicable to the modified cash basis of accounting. The objective of this statement is to enhance comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. The Borough's beginning balances and current year results were not affected by the implementation of this new standard.

Pending Changes in Accounting Principles

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

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

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pending Changes in Accounting Principles (Continued)

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units*. The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The statement amends GASB Statement No. 14, *The Financial Reporting Entity*, by specifying that a component unit should be included in the reporting entity using the blending method if the component unit is organized as a not-for-profit corporation, the primary government is the sole corporate member, and the component unit is included in the financial reporting entity pursuant to the provisions of paragraphs 21 through 37 of GASB Statement No. 14. The provisions of this statement are effective for the Borough's 2017 financial statements.

In March, 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions of this statement are effective for the Borough's 2017 financial statements.

In March, 2016, GASB issued Statement No. 82, *Pension Issues - an Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions of this statement are effective for the Borough's 2017 financial statements.

In November, 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. The objective of this statement is to provide financial statement users with information about asset retirement obligations (AROs) that were not addressed in GASB standards by establishing uniform accounting and financial reporting requirements for these obligations. An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The provisions of this statement are effective for the Borough's 2019 financial statements.

The effects of the implementation of these standards and their applicability to the modified cash basis of accounting have 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, certificates of deposit, and certain other high-quality bank and corporate instruments. 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.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

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

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

Cash and Cash Equivalents - Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Borough does not have a policy to limit custodial credit risk for cash accounts. As of December 31, 2016, none of the Borough's bank balance of \$184,221 was exposed to custodial credit.

Reconciliation of Cash and Cash Equivalents to the Financial Statements

Bank Accounts Deposits	184,221
Plus: External Investment Pool Balances	
Classified as Cash and Cash Equivalents	8,561,331
Less: Outstanding Checks	<u>(194,489)</u>
Total Cash and Cash Equivalents per the Financial Statements	8,551,063

Investments

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that GASB statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Investments' fair value measurements are as follows at December 31, 2016:

Investments	Recorded Value	Fair Value Measurements Using			Maturity
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
Investments Recorded at Fair Value:					
Government Agency Bonds	397,719		397,719		1 - 5 Years
Municipal Bonds	207,322		207,322		< 1 Year
	1,182,254		1,182,254		1 - 5 Years
Corporate & Foreign Bonds	415,108		415,108		< 1 Year
	3,210,042		3,210,042		1 - 5 Years
	348,714		348,714		6 - 10 Years
Mutual Funds	3,843,529	3,843,529			
Money Market Funds	435,732	435,732			
Nationwide General Account	339,152		339,152		
Nationwide Pooled Separate Accounts	<u>1,112,863</u>	<u> </u>	<u>1,112,863</u>	<u> </u>	
Total Investments Fair Value	11,492,435	4,279,261	7,213,174	-0-	

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

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

Investments (Continued)

	Recorded Value	Maturity
Investments Recorded at Amortized Cost:		
PLGIT - Class	1,063,665	<30 Days
PLGIT PRIME	<u>7,497,666</u>	<30 Days
Total Investments at Amortized Cost	8,561,331	
 Total Investments	 20,053,766	
Less: External Investment Pool Balances		
Classified as Cash and Cash Equivalents	<u>(8,561,331)</u>	
Total Investments per the Financial Statements	11,492,435	

Debt and equity securities categorized as Level 1 are valued based on prices quoted in active markets for those securities. Debt securities categorized as Level 2 are valued using a matrix pricing technique that values securities based on their relationship to benchmark quoted prices. Pooled separate accounts categorized as Level 2 are valued by the issuer of the account based on the fair value of the underlying investments. The carrying amount of insurance company general account investments is deemed to approximate fair value.

The Pennsylvania Local Government Investment Trust (PLGIT) Liquid Asset Fund is a 2a7-like pool. The amortized cost, which approximates fair value of the pool, is determined by the pool's share price. The Borough has no regulatory oversight for the pool, which is governed by the Board of Trustees and is administered by PFM Asset Management, LLC. The pool is audited annually by Ernst & Young, LLP, an independently elected public official.

Restrictions on Qualified Investment Pool Withdrawals

The Borough's investments in the PLGIT account are subject to a one-day holding period. The Borough is limited to two withdrawals per calendar month from the PLGIT PRIME account.

Interest Rate Risk

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

Credit Risk

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

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

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

Credit Risk (Continued)

As of December 31, 2016, the Borough's investments, per Standard & Poor's, were rated as:

	Money Market Mutual Fund	PLGIT Class & PRIME	State and Municipal Bonds	Corporate Debt	Government Related Entities
AAA	4,279,261	8,561,331	81,407	106,262	
AA			1,046,470	1,001,091	197,210
A			185,829	2,085,247	
BBB				783,433	
BB				198,342	
Not Rated			75,869		
	<u>4,279,261</u>	<u>8,561,331</u>	<u>1,389,575</u>	<u>4,174,375</u>	<u>197,210</u>

Concentration of Credit Risk

The Borough's investment policy for non-pension related investments sets standards to ensure diversification to avoid concentrations of credit risk. The investment policy related to pension fund investments is contained in the pension plan documents. Concentrations are defined as investments held by the Borough, other than those issued or explicitly guaranteed by the U.S. Government, mutual funds, external investment pools and other pooled investments, in any one organization that represent 5% or more of the total investments of the pension trust funds. At December 31, 2016, there were no concentrations for the Borough's total investments.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Borough will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Borough's investment policy for non-pension funds does not prescribe specified percentage limits for investment options but sets broader guidelines regarding diversification. The Borough has investments subject to custodial credit risk in its investments in the insurance company's general account and pooled separate accounts of one insurance company. Of the Borough's investment securities of \$11,492,435 at December 31, 2016, \$1,452,015 are held by the insurance company, not in the name of the Borough, consisting of \$339,152 in the insurance company's general account and \$1,112,863 in various pooled separate accounts.

NOTE 3 - REAL ESTATE TAXES

Based on assessments provided by the county, real estate taxes are billed and collected by the tax collector. The Borough's tax rate for the year ended December 31, 2016, was 5.50 mills (\$5.50 per \$1,000 of assessed valuation) as levied by Borough Council.

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

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

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 4 - INTERFUND ACCOUNTS

Interfund transfers for the year ended December 31, 2016, were as follows:

Fund	Transfers In	Transfers Out
General Fund	25,000	503,823
Capital Project Fund	381,298	-0-
Debt Service Fund	526,600	2,475
General Vehicle Sinking Fund	150,000	-0-
Parks and Recreation Fund	20,000	-0-
Health Insurance Fund	-0-	25,000
Sewer Revenue Fund	-0-	571,600
	1,102,898	1,102,898

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

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

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

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

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

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

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

NOTE 5 - GENERAL LONG-TERM DEBT

The Borough issues general obligation debt to provide funds for major capital improvements. The Borough has pledged its full faith, credit, and taxing power for the guarantee of the debt service on the general obligation notes.

The Borough issued General Obligation Note - Series A of 2015 in the amount of \$4,939,000 for the purposes of an advance refunding of the General Obligation Bonds Series 2010 and to pay the related costs. These underlying funds were initially borrowed for the purpose of the expansion and upgrade of the wastewater treatment plant, expansion of the effluent outfall system, and expansion of the sewage collection system. Debt service payments are funded by a transfer from the sewer fund to the debt service fund. The note matures on December 1, 2025. Payments are due June 1st and December 1st through December 1, 2022, the fixed rate term, at a fixed interest rate of 1.900%. At the conclusion of the fixed rate term, interest will accrue at the lesser of 66.00% of the *Wall Street Journal* Prime Rate reset on the first day of the month, or 3.750%. The balance outstanding at December 31, 2016 was \$4,304,000.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 5 - GENERAL LONG-TERM DEBT (Continued)

The General Obligation Note - Series AA of 2015, a \$1,510,000 revolving drawdown note, was issued for the purposes of funding capital projects related to the construction of a new Public Works Facility. The note matures on December 1, 2034. Payments are due June 1st and December 1st through December 1, 2025, the fixed rate term, at a fixed interest rate of 2.250%. At the conclusion of the fixed rate term, interest will accrue at the lesser of 66.00% of the *Wall Street Journal* Prime Rate reset on the first day of the month, or 4.850%. The Borough drew down \$106,715 on the note during 2016. The balance outstanding at December 31, 2016 was \$102,147.

Currently, the Borough has debt with interest rates and outstanding principal amounts at December 31, 2016, as follows:

	Interest Rates	Principal Amount Outstanding at December 31, 2016
General Obligation Note - Series A of 2015	1.90%	4,304,000
General Obligation Note - Series AA of 2015	2.25%	<u>102,147</u>
		4,406,147

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

	General Obligation Note, Series A of 2015		General Obligation Note, Series AA of 2015	
Year Ending December 31	Interest Payment	Principal Payment	Interest Payment	Principal Payment
2017	81,776	445,460	1,638	72,790
2018	73,312	458,550	661	29,357
2019	64,600	464,960	-0-	-0-
2020	55,766	476,200	-0-	-0-
2021	46,718	486,650	-0-	-0-
2022 - 2025	<u>149,353</u>	<u>1,972,180</u>	<u>-0-</u>	<u>-0-</u>
	471,525	4,304,000	2,299	102,147

	Totals	
Year Ending December 31	Interest Payment	Principal Payment
2017	83,414	518,250
2018	73,973	487,907
2019	64,600	464,960
2020	55,766	476,200
2021	46,718	486,650
2022 - 2025	<u>149,353</u>	<u>1,972,180</u>
	473,824	4,406,147

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 5 - GENERAL LONG-TERM DEBT (Continued)

Changes in Long-Term Liabilities

During the year ended December 31, 2016, the following changes occurred in long-term liabilities:

	Balance January 1	Additions	Reductions	Balance December 31
Governmental Activities				
General Obligation Debt	29,632	106,715	34,200	102,147
Compensated Absences	<u>227,498</u>	<u>23,091</u>	<u>26,574</u>	<u>224,015</u>
Total Governmental Activities	257,130	129,806	60,774	326,162
Business-Type Activities				
General Obligation Debt	<u>4,744,850</u>	<u>-0-</u>	<u>440,850</u>	<u>4,304,000</u>
Total Government	5,001,980	129,806	501,624	4,630,162

The Borough pays the long-term debt obligations from the debt service fund and capital project fund. Debt service payments from the debt service fund are funded by transfers from the sewer fund and payments from the capital project fund are made from existing fund balance or transfers in from the general fund, as needed. The Borough pays the long-term compensated absences obligations from the general fund.

NOTE 6 - RISK MANAGEMENT

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

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

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

Health Insurance

The Borough is a member of the Intergovernmental Insurance Cooperative (IIC) through which it self-insures for employee health claims. These claims are administered by a third party administrator (TPA). During the year ended December 31, 2016, the Borough remitted their contracted monthly amount to IIC who pays the funds directly to the TPA. Under the shared pooling agreement with IIC, the Borough's claims may exceed their monthly contributions and no additional payments are required to cover their underpayment. At the end of the pool's fiscal year in March, the excess or deficit of the pool is allocated to all the members. The Borough was limited in liability for claims to \$40,000 individually and approximately \$636,000 in the aggregate.

Employee contributions are recorded in the health insurance fund for the plan. Borough contributions for monthly claims liability are shown in the general and sewer funds for the year ended December 31, 2016.

As of December 31, 2016, there are no additional assessments relating to the health plan.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 6 - RISK MANAGEMENT (Continued)

Unemployment

The Borough has elected to self-insure for unemployment compensation rather than contribute to the state fund. Monies are deposited into the unemployment compensation fund to fund the payment of these unemployment claims. Expenditures are recorded in the unemployment compensation fund when invoiced by the state and paid by the Borough. There were no unemployment claims paid in 2016.

As of December 31, 2016, 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 seventy-one member municipal entities. This agreement states that the Borough pays an annual premium to the trust for the purpose of seeking prevention or lessening of claims due to injuries of employees of the members and pooling workers' compensation and occupational disease insurance risks, reserves, claims, and losses and providing self-insurance and re-insurance thereof.

It is the intent of the members of the trust that the trust will utilize funds contributed by the members to provide self-insurance and reimbursement to the members for their obligations to pay compensation as required under the Workers' Compensation Act and the Pennsylvania Occupational Disease Act and to purchase excess and aggregate insurance. As of December 31, 2016, the Borough is not aware of any additional assessments relating to the trust.

NOTE 7 - PENSION PLANS

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

Summary of Significant Accounting Policies

Basis of Accounting

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

Method Used to Value Investments

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

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 7 - PENSION PLANS (Continued)

Plan Membership

Membership of each plan consisted of the following at January 1, 2015 for the PPP and January 1, 2016 for the NEPP, the date of the latest actuarial valuation:

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

POLICE PENSION PLAN (PPP)

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

Plan Administration

The plan is governed by Borough Council which may amend plan provisions, subject to collective bargaining and to Act 600, *the Municipal Police Pension Law*. Borough Council is responsible for the management of plan assets, and has delegated the authority to manage certain plan assets to BB&T Retirement & Institutional Services.

Benefits Provided

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

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

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 7 - PENSION PLANS (Continued)

POLICE PENSION PLAN (PPP) (Continued)

Benefits Provided (Continued)

The plan administrator will only take into account the first \$265,000 of compensation, as adjusted for cost-of-living increases in accordance with IRC Section 402(a)(17) of any participant's annual compensation for determining all benefits provided under the plan for the applicable 12 month period. An annual cost-of-living adjustment which is tied to the percentage of adjustment to social security benefits for the year, is made to retired members with a maximum total cost-of-living increase of 20%, and a maximum benefit of 75% of the salary used for computing retirement benefits. There was no cost of living adjustment for the year ended December 31, 2016.

Funding Standards and State Aid

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

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

Vesting

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

Contributions

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

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

The Borough contributed \$391,110, of which \$141,529 was Act 205 funds, and members contributed \$68,055 during 2016.

Investment Policy

The plan's policy in regard to the allocation of invested assets is established and may be amended by Borough Council by a majority vote of its members. It is the policy of the Borough Council to pursue an investment strategy to obtain a reasonable diversification of investments, which have a ready market for resale. The following was the Borough's adopted asset allocation policy as of December 31, 2016:

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 7 - PENSION PLANS (Continued)

POLICE PENSION PLAN (PPP) (Continued)

Investment Policy (Continued)

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

Concentrations

Concentrations are defined as investments held by the PPP, other than those issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments, in any one organization that represent 5% or more of the plan's fiduciary net position. At December 31, 2016, there were no concentrations for the Borough's PPP investments.

Rate of Return

For the year ended December 31, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 5.24%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability

The total pension liability is based on the January 1, 2015 actuarial valuation and updated procedures were used to roll forward the total pension liability to the plan's December 31, 2016 year end. The components of the net pension liability of the PPP at December 31, 2016, were as follows:

Total Pension Liability	9,200,131
Plan Fiduciary Net Position	<u>8,788,711</u>
Net Pension Liability	411,420
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	 95.5%

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 7 - PENSION PLANS (Continued)

POLICE PENSION PLAN (PPP) (Continued)

Actuarial Assumptions

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

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

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

Actuarial Cost Method - Entry Age Normal

Salary Increases - 5.00% annual increases.

Investment Rate of Return - 7.00%

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

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

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

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

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

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

Cost of Living Increases - 3.00% per year.

Changes in Actuarial Assumptions and Methods - None.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 7 - PENSION PLANS (Continued)

POLICE PENSION PLAN (PPP) (Continued)

Actuarial Assumptions (Continued)

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

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

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

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

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

Interest Rate	Net Pension Liability
6.00%	422,053
7.00%	411,420
8.00%	400,787

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 7 - PENSION PLANS (Continued)

POLICE PENSION PLAN (PPP) (Continued)

Changes in the Net Pension Liability - PPP

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Increase (Decrease) in Net Pension Liability (a) - (b)
Balance at 12/31/15	9,099,429	8,341,415	758,014
Changes for the Year:			
Service Cost	237,177		237,177
Interest	74,431		74,431
Changes in Benefit Terms	30,506		30,506
Differences Between Expected and Actual Experience	153,120		153,120
Changes in Assumptions	2,748		2,748
Contributions - Employer		249,581	(249,581)
Contributions - Commonwealth of Pennsylvania		141,529	(141,529)
Contributions - Employee		68,055	(68,055)
Net Investment Income		385,411	(385,411)
Benefit Payments, Including Refunds of Employee Contributions	(397,280)	(397,280)	-0-
Net Changes	<u>100,702</u>	<u>447,296</u>	<u>(346,594)</u>
Balance at 12/31/16	9,200,131	8,788,711	411,420

NON-UNIFORMED EMPLOYEE PENSION PLAN (NEPP)

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

Plan Administration

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

Benefit Provisions

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

Borough of Elizabethtown
 NOTES to FINANCIAL STATEMENTS
 (Continued)

NOTE 7 - PENSION PLANS (Continued)

NON-UNIFORMED EMPLOYEE PENSION PLAN (NEPP) (Continued)

Vesting

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

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

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

Employer Contributions

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

The Borough contributed \$86,706, of which \$81,578 was Act 205 funds, during 2016.

NOTE 8 - EXPENDABLE TRUST FUND

The Borough administers a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. The compensation deferred is not available to the employee or his beneficiary until termination, retirement, death, or an unforeseeable emergency. Employees can elect to defer up to a maximum percentage of their compensation as specified in the plan document. Employee contributions to the plan for the year ended December 31, 2016, were \$133,785. There are no employer contributions to the plan.

NOTE 9 - FUND BALANCE CLASSIFICATIONS

At December 31, 2016, components of fund balance are as follows:

	General Fund	Other Funds	Capital Projects Funds	Total Governmental Funds
Committed to Offset 2017 Budget Deficit	1,008,497	-0-	-0-	1,008,497

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 9 - FUND BALANCE CLASSIFICATIONS (Continued)

	General Fund	Other Funds	Capital Projects Funds	Total Governmental Funds
Restricted for:				
Construction and Maintenance of Roads and Bridges		220,401		220,401
Law Enforcement Purposes in Accordance with the Federal Equitable Sharing Program		39,199		39,199
Maintenance of the Fun Fort		8,708		8,708
Amphitheater Development		147,663		147,663
Capital Projects		<u>127,636</u>		<u>127,636</u>
Total Restricted	<u>-0-</u>	543,607	<u>-0-</u>	543,607
Assigned to:				
Capital Improvements			1,040,180	1,040,180
Vehicle and Equipment Purchases			190,084	190,084
Maintenance and Related Capital Projects of Parks and Recreation Facilities		78,190		78,190
Police Department Training and Equipment		3,701		3,701
Train Station Upkeep and Maintenance		<u>36,211</u>		<u>36,211</u>
Total Assigned	<u>-0-</u>	118,102	1,230,264	1,348,366
Unassigned	548,843	-0-	-0-	548,843
	1,557,340	661,709	1,230,264	3,449,313

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, 2016 is \$278,903 and is presented as part of the unassigned general fund balance.

The Borough established fund balance policies governing fund balances of the general fund, capital projects fund, parks and recreation fund, health insurance fund, general vehicle sinking fund, and the stabilization fund. In 2016, the general fund exceeded the respective minimum fund balance goal. The minimum unassigned fund balance goal of the general fund is between 0.5% and 2% of the general fund budgeted or actual revenues. The minimum assigned fund balance goal of the parks and recreation fund is \$100,000. The minimum fund balance goal of the capital project fund is \$1,000,000 by 2020. The Borough plans to increase the capital project fund balance towards its minimum balance goal by annual budgeted transfers. The health insurance fund exceeded its goal by approximately \$256,000.

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 10 - POSTEMPLOYMENT HEALTH CARE BENEFITS

Description

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

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

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

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

	2016	2015
Annual Required Contribution	255,033	255,033
Interest on OPEB Obligation	48,474	41,992
Adjustment to Annual Required Contribution	<u>(66,132)</u>	<u>(57,288)</u>
Annual OPEB Cost	237,375	239,737
Contributions Made	<u>(104,427)</u>	<u>(95,675)</u>
Estimated Increase in Net OPEB Obligation	132,948	144,062
Net OPEB Obligation - Beginning of Year	<u>1,077,212</u>	<u>933,150</u>
Net OPEB Obligation - End of Year	1,210,160	1,077,212

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 10 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The Borough's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2016, 2015, and 2014, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation End of Year
2016	237,375	44%	1,210,160
2015	239,737	40%	1,077,212
2014	245,893	41%	933,150

Funding Status and Funding Progress

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

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

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

Actuarial Methods and Assumptions

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

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

Borough of Elizabethtown
NOTES to FINANCIAL STATEMENTS
(Continued)

NOTE 10 - POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

Actuarial Methods and Assumptions (Continued)

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

NOTE 11 - CONTINGENCIES and COMMITMENTS

General

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

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

Construction Commitment

The Borough has entered into a contract for various construction projects. The work began in 2016 and is anticipated to be completed in 2017. As of December 31, 2016, the amount remaining in the contract is approximately \$367,000.

Collective Bargaining Agreement

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

NOTE 12 - TAX ABATEMENTS

The Borough has enacted a Local Economic Revitalization Tax Assistance (LERTA) program to encourage building improvements, new construction, and redevelopment in certain deteriorated areas of the Borough. The program is authorized by a Borough Ordinance in accordance with the Local Economic Revitalization Tax Assistance Act. Property tax abatements are limited to that portion of additional property tax assessment attributable to the actual cost of new construction or improvements in accordance with an exemption schedule.

The tax abatements are obtained through application by the property owner, who must provide proof that the improvements have been made. As of and for the year ended December 31, 2016, there were no tax abatements resulting from this program.

NOTE 13 - SUBSEQUENT EVENTS

Subsequent to December 31, 2016, the Borough entered into contracts of approximately \$460,000 for various capital projects for work expected to be completed in 2017.

Borough of Elizabethtown

SCHEDULE of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES - BUDGET and ACTUAL - Modified Cash Basis - GENERAL FUND Year Ended December 31, 2016

	Budget Amounts			Variance With Final Budget Favorable (Nonfavorable)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 3,820,786	\$ 3,820,786	\$ 4,150,437	\$ 329,651
Licenses and Permits	146,550	146,550	193,745	47,195
Fines and Forfeits	29,000	29,000	56,967	27,967
Interests, Rents, and Royalties	17,200	17,200	23,492	6,292
Intergovernmental	302,100	302,100	351,807	49,707
Charges for Services	857,666	857,666	1,071,199	213,533
Total Revenues	5,173,302 *	5,173,302 *	5,847,647	674,345
EXPENDITURES				
General Government	411,886	411,886	344,438	67,448
Public Safety	2,347,496	2,347,496	2,255,158	92,338
Public Works	1,406,002	1,406,002	1,121,443	284,559
Culture and Recreation	332,632	332,632	309,388	23,244
Community Development	95,535	95,535	60,858	34,677
Insurance, Pension, and Other Benefits	1,299,978	1,299,978	1,230,453	69,525
Total Expenditures	5,893,529	5,893,529	5,321,738	571,791
EXCESS (DEFICIENCY) of REVENUES OVER EXPENDITURES				
	(720,227)	(720,227)	525,909	1,246,136
OTHER FINANCING SOURCES (USES)				
Refunds of Prior Year Expenditures	5,000	5,000	26,792	21,792
Sale of Assets	1,500	1,500	1,123	(377)
Interfund Transfers	(239,075)	(239,075)	(478,823)	(239,748)
Net Other Financing Uses	(232,575)	(232,575)	(450,908)	(218,333)
NET CHANGES in FUND BALANCES				
	\$ (952,802)	\$ (952,802)	\$ 75,001	\$ 1,027,803

*Budgeted revenue does not include budgeted beginning cash balance.

See independent auditors' report.

Borough of Elizabethtown

SCHEDULE of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES - BUDGET and ACTUAL - Modified Cash Basis - PARKS and RECREATION FUND Year Ended December 31, 2016

	<u>Budget Amounts</u>		<u>Actual</u>	Variance With Final Budget Favorable (Nonfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interests, Rents, and Royalties	\$ 300	\$ 300	\$ 978	\$ 678
Intergovernmental	455,000	455,000	155,093	(299,907)
Donations	-0-	-0-	3,900	3,900
Miscellaneous	500	500	-0-	(500)
Total Revenues	455,800 *	455,800 *	159,971	(295,829)
EXPENDITURES				
General Government	-0-	-0-	36	(36)
Culture and Recreation	770,643	770,643	244,901	525,742
Total Expenditures	770,643	770,643	244,937	525,706
EXCESS (DEFICIENCY) of REVENUES OVER EXPENDITURES	(314,843)	(314,843)	(84,966)	229,877
OTHER FINANCING SOURCES				
Interfund Transfers	-0-	-0-	20,000	20,000
Net Other Financing Sources	-0-	-0-	20,000	20,000
NET CHANGES in FUND BALANCES	<u>\$ (314,843)</u>	<u>\$ (314,843)</u>	<u>\$ (64,966)</u>	<u>\$ 249,877</u>

*Budgeted revenue does not include budgeted beginning cash balance.

See independent auditors' report.

Borough of Elizabethtown

SCHEDULE of INDEBTEDNESS

Year Ended December 31, 2016

	Year of Issue	Original Amount of Issue	Outstanding January 1, 2016	Debt Issued During Year	Principal Paid During Year	Outstanding December 31, 2016	Annual Principal Payments	Final Maturity
GENERAL OBLIGATION DEBT								
General Obligation Note, Series A of 2015	2015	4,939,000	\$ 4,744,850	\$ -0-	\$ 440,850	\$ 4,304,000	Scheduled	12/1/25
General Obligation Note, Series AA of 2015	2015	1,510,000	<u>29,632</u>	<u>106,715</u>	<u>34,200</u>	<u>102,147</u>	Scheduled	12/1/34
TOTALS			<u>\$ 4,774,482</u>	<u>\$ 106,715</u>	<u>\$ 475,050</u>	<u>\$ 4,406,147</u>		

See independent auditors' report.

Borough of Elizabethtown

Concise Statement for Publication - Modified Cash Basis - Year 2016

GENERAL FUND

Cash Balance, January 1, 2016		1,482,339
Receipts		
Real Estate Taxes	2,533,120	
Earned Income Taxes	1,237,984	
Other Receipts and Transfers	<u>2,104,458</u>	5,875,562
Disbursements		
General Government	344,438	
Public Safety	2,255,158	
Public Works	1,121,443	
Culture and Recreation	309,388	
Other Disbursements	<u>1,770,134</u>	<u>5,800,561</u>
Cash Balance, December 31, 2016		<u><u>1,557,340</u></u>

OTHER FUNDS

	Cash and Investments January 1, 2016	Receipts	Disbursements	Cash and Investments December 31, 2016
Liquid Fuels	132,189	294,606	206,394	220,401
Parks and Recreation	427,163	179,971	244,937	362,197
Police Training	41,726	3,781	2,607	42,900
Debt Service	2,475	524,125	526,600	-0-
Capital Project	667,461	594,532	221,813	1,040,180
General Vehicle Sinking	249,387	160,660	219,963	190,084
Train Station	31,402	31,999	27,190	36,211
Sewer	3,383,334	3,328,698	2,767,433	3,944,599
Health Insurance	1,087,678	196,673	28,110	1,256,241
Unemployment Compensation	20,015	78	-0-	20,093
457 Deferred Compensation	1,235,300	237,763	21,048	1,452,015
Non-Uniformed Pension	1,161,530	128,143	35,629	1,254,044
Police Pension	<u>8,341,415</u>	<u>844,576</u>	<u>397,280</u>	<u>8,788,711</u>
	<u><u>16,781,075</u></u>	<u><u>6,525,605</u></u>	<u><u>4,699,004</u></u>	<u><u>18,607,676</u></u>

See independent auditors' report.

Borough of Elizabethtown
Concise Statement for Publication - Modified Cash Basis - Year 2016
(Continued)

SCHEDULE of INDEBTEDNESS

Type	Balance December 31. 2016	Final Maturity
General Obligation Debt:		
General Obligation Note, Series A of 2015	4,304,000	12/01/25
General Obligation Note, Series AA of 2015	<u>102,147</u>	12/01/34
	<u>4,406,147</u>	

Assessed Valuation of Taxable Real Estate - \$467,117,000

See independent auditors' report.