

BOROUGH OF GETTYSBURG

FINANCIAL
REPORT

DECEMBER 31, 2005

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INDEPENDENT AUDITOR'S REPORT

To the Borough Council
Borough of Gettysburg
Gettysburg, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Gettysburg, Pennsylvania as of and for the year ended December 31, 2005, which collectively comprise the basic financial statements of the Borough's primary government as listed in the table of contents. These financial statements are the responsibility of the Borough's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Management has not included the Pension Trust Fund of the Municipal Authority (blended component unit) in the financial statements. Accounting principles generally accepted in the United States of America require the Municipal Authority Pension Trust Fund to be presented as aggregate remaining fund information. The amount by which this departure would affect the aggregate remaining fund information has not been determined.

In our opinion, except for the effects of the omission of the Municipal Authority's Pension Trust Fund, as discussed above, the aggregate remaining fund information referred to above presents fairly, in all material respects, the financial position of the aggregate remaining fund information of the Borough of Gettysburg as of December 31, 2005, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Borough of Gettysburg, Pennsylvania as of December 31, 2005 and the respective changes in its financial position, and where applicable, cash flows thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2006, on our consideration of the Borough of Gettysburg's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

To the Borough Council
Borough of Gettysburg

The management's discussion and analysis on pages 3 to 10, the historical pension information on page 47, and the general fund budgetary comparison schedules on pages 48 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and express no opinion on it.

The Borough of Gettysburg has not presented the historical pension information for the Pension Trust Fund of the Municipal Authority (blended component unit). Accounting principles generally accepted in the United States has determined this is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Borough of Gettysburg's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements of the Borough of Gettysburg. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
March 17, 2006

BOROUGH OF GETTYSBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2005

UNAUDITED

As management of the Borough of Gettysburg, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Borough of Gettysburg for the fiscal year ended December 31, 2005. We encourage readers to consider the information presented here in conjunction with additional information that can be found in the basic financial statements and the accompanying notes to those financial statements.

Financial Highlights

- The assets of the Borough of Gettysburg exceeded liabilities at December 31, 2005 by \$ 34,155,252. Of this amount \$ 4,497,924 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The total net assets increased by \$ 739,457. Of this amount \$ 858,498 was associated with governmental activities and (\$ 119,041) with business-type activities.
- At December 31, 2005, the governmental funds reported combined fund balances of \$ 397,723, of which \$ 225,801 was unreserved and is available for spending at the Borough of Gettysburg's discretion.
- Governmental fund balances decreased \$ 934,241 during the year.

Overview of the Financial Statements

This discussion and analysis is to serve as an introduction to the Borough of Gettysburg's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional supplementary information. See the table for contents for page numbers.

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

- The Statement of Net Assets presents information on all of the Borough of Gettysburg's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Borough of Gettysburg is improving or deteriorating.
- The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

BOROUGH OF GETTYSBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2005

UNAUDITED

Overview of the Financial Statements – continued

- Government-wide financial statements distinguish functions of the Borough of Gettysburg that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The Borough of Gettysburg's governmental activities include Public Safety, Health and Welfare, Community Development, Highways, General Government, Culture and Recreation, Parking Facilities and Interest on Long-term Debt. The business-type activities of the Borough of Gettysburg are the water and sewer operations.

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

- Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information is useful in evaluating the Borough of Gettysburg's near-term financing requirements.
- Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information for governmental funds with information presented for governmental activities in the government-wide financial statements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison.
- The Borough of Gettysburg maintains seven individual government funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General and Capital Projects Funds, both of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.
- The Borough of Gettysburg adopts an annual appropriated budget for all of the governmental funds except for the debt service fund. A budgetary comparison statement for the General Fund has been provided to demonstrate compliance with this budget.

BOROUGH OF GETTYSBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2005

UNAUDITED

Overview of the Financial Statements – continued

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

Proprietary funds provide the same type of information as the government-wide statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer funds since both are considered to be major funds of the Borough.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Borough of Gettysburg's programs.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning funding progress for the Borough's employee pension obligations.

Government-Wide Financial Analysis

As stated earlier, net assets may serve over time as a useful indicator of a government's financial position.

In the case of the Borough of Gettysburg, assets exceeded liabilities by \$34,155,252 at the close of the most recent fiscal year. By far the largest portion of the Borough's net assets reflects its investment in capital assets (e.g., land, buildings, equipment and construction in progress,) less any related outstanding debt used to acquire those assets.

BOROUGH OF GETTYSBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2005

UNAUDITED

Government-Wide Financial Analysis -- continued

The Borough uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Borough's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. This is the first year of the inclusion of the Gettysburg Municipal Authority financial data, which is a legally separate component unit. This is shown below as business-type activities.

BOROUGH OF GETTYSBURG'S NET ASSETS

	Governmental Activities		Business-type Activities	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Current assets	\$ 1,419,802	\$ 1,746,228	\$ 4,499,618	\$ 3,699,297
Capital assets and other assets	<u>8,977,086</u>	<u>14,109,819</u>	<u>32,432,153</u>	<u>35,598,623</u>
TOTAL ASSETS	10,396,888	15,856,047	36,931,771	39,297,920
Other liabilities	1,453,590	855,276	1,038,368	1,483,804
Long-term liabilities	<u>2,106,830</u>	<u>9,158,289</u>	<u>8,574,619</u>	<u>9,192,152</u>
TOTAL LIABILITIES	3,560,420	10,013,565	9,612,987	10,675,956
Net assets:				
Invested in capital assets				
Net of related debt	6,675,539	4,931,892	21,498,507	22,631,435
Restricted	5,983	246,890	1,477,299	2,716,526
Unrestricted	<u>154,946</u>	<u>663,700</u>	<u>4,342,978</u>	<u>3,274,003</u>
TOTAL NET ASSETS	<u>\$ 6,836,468</u>	<u>\$ 5,842,482</u>	<u>\$ 27,318,784</u>	<u>\$ 28,621,964</u>

BOROUGH OF GETTYSBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2005

UNAUDITED

Changes in Net Assets

The following is a summary of the Borough of Gettysburg's changes in net assets:

	Governmental Activities		Business-Type Activities	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues:				
Program Revenues:				
Charges for Services	\$ 1,148,319	\$ 1,094,318	\$ 3,733,766	\$ 3,600,527
Operating Grants and Contributions	395,685	390,259	0	0
Capital Grants and Contributions	1,218,707	271,932	96,500	0
General Revenues:				
Taxes:				
Property	1,373,631	1,445,580	0	0
Income	419,012	370,626	0	0
Real Estate Transfer	120,141	118,734	0	0
Emergency municipal services tax	240,584	0	0	0
Admission	93,827	67,920	0	0
Occupational	29,600	25,464	0	0
Hotel	30,000	30,000	0	0
Other	2,180	2,335	0	0
Rental Income	0	0	23,792	0
Interest and Investment Earnings	15,345	18,184	138,744	90,079
Miscellaneous	36,464	12,426	113,872	9,252
Transfer in (out)	57,922		(57,922)	0
Gain (Loss) on Sale of Equipment	<u>0</u>	<u>(23,935)</u>	<u>0</u>	<u>0</u>
	5,181,417	3,823,843	4,048,752	3,699,858
Expenses:				
General Government	674,507	608,894	0	0
Public Safety	1,511,792	1,378,815	0	0
Health and Welfare	17,558	17,732	0	0
Highways and Parking Facilities	1,478,463	1,475,771	0	0
Culture and Recreation	342,965	308,007	0	0
Community Development	217,206	257,447	0	0
Interest on Long Term Debt	80,428	249,921	0	0
Water and Sewer	<u>0</u>	<u>0</u>	<u>4,167,793</u>	<u>3,469,956</u>
Total Expenses	4,322,919	4,296,587	4,167,793	3,469,956
Increase (Decrease) in Net Assets	858,498	(472,744)	(119,041)	229,902
Net Assets – Beginning (as restated)	<u>5,977,970</u>	<u>6,315,226</u>	<u>27,437,825</u>	<u>28,392,062</u>
Net Assets – Ending	<u>\$ 6,836,468</u>	<u>\$ 5,842,482</u>	<u>\$ 27,318,784</u>	<u>\$ 28,621,964</u>

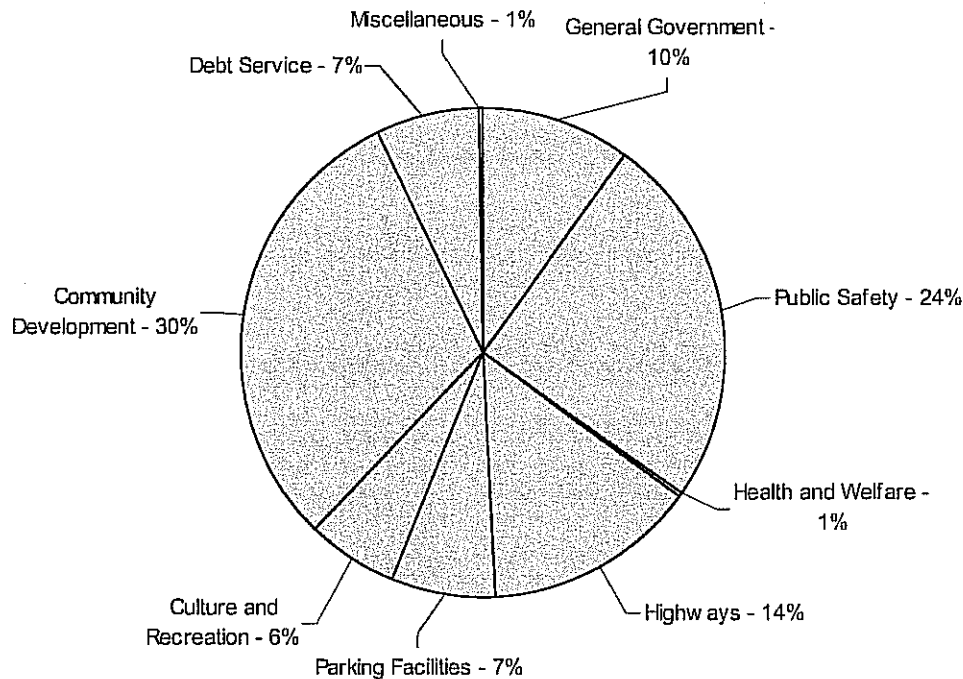
BOROUGH OF GETTYSBURG
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005
UNAUDITED

Financial Analysis of the Government's Funds

Governmental Funds - As noted earlier, the Borough of Gettysburg uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The focus of the Borough of Gettysburg's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing financing requirements. Unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. The Borough of Gettysburg's governmental funds reported combined ending fund balances of \$ 397,723. Approximately one-half of this total amount (\$ 255,801) constitutes unreserved fund balance which is available for spending at the government's discretion. The remainder of the fund balance (\$ 171,922) is reserved to indicate that it is not available for new spending because it has already been committed for prepaid expenses and fuel inventory.

The general fund is the primary operating fund of the Borough. During the year, expenditures exceeded revenues and other financing sources (transfers in from other funds) in the general fund by \$ 127,982.

The chart below illustrates the breakdown of governmental funds costs:



BOROUGH OF GETTYSBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2005

UNAUDITED

Proprietary Funds – The Borough's proprietary fund statements provide the same type of information found in the government-wide financial statements, but with more detail.

Budgetary Highlights

The original budget for The Borough of Gettysburg was not changed during the year for either the governmental funds or the proprietary funds.

During the year, general fund revenues exceeded budget by \$ 178,318 (primarily taxes), while expenditures exceeded budgetary estimates by \$ 68,563. However, net operating transfers out were higher than expected, resulting in an actual decrease in fund balance that exceeded the final budget amount by \$ 93,422.

Capital Asset Administration

The Borough of Gettysburg's investment in capital assets includes land, buildings and improvements, equipment, streets, storm sewer systems, lighting systems, and other infrastructure. This investment in capital assets as of December 31, 2005 was \$ 30,890,621 (net of accumulated depreciation). Major capital asset events during the year were:

- Additions of \$ 3,016,390 in total capital assets and \$ 200,937 of deletions. The majority of changes to capital assets were construction in progress. The majority of the increase was the Lincoln Train Station and ongoing sanitary sewer maintenance projects that were incomplete as of December 31, 2005.
- Depreciation expense of \$ 1,983,897 was charged in 2005.

Comparative Statement of Capital Assets:

	Governmental Activities		Business-type Activities	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land and Improvements	\$ 23,081	\$ 23,081	\$ 103,782	\$ 103,782
Building and Improvements	5,956,631	5,956,631	22,626,970	22,625,394
Machinery and Equipment	1,486,048	1,433,994	0	0
Furniture and Fixtures	84,900	84,900	0	0
Collections	14,150	7,150	0	0
Construction in Progress	2,588,242	777,872	862,451	248,200
Infrastructure	<u>4,533,772</u>	<u>4,533,772</u>	<u>28,309,202</u>	<u>27,979,000</u>
Total Capital Assets	<u>\$ 14,686,824</u>	<u>\$ 12,817,400</u>	<u>\$ 51,902,405</u>	<u>\$ 50,956,376</u>

Additional information on capital assets can be found in Note 5 in the Notes to Primary Government Basic Financial Statements.

BOROUGH OF GETTYSBURG

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2005

UNAUDITED

Debt Administration

The Borough of Gettysburg had total outstanding bonded debt of \$ 11,718,506, general obligation notes of \$ 218,271 and a mortgage note for \$ 50,000. All of these amounts are backed by the full faith and credit of the Borough of Gettysburg. Following is a comparative statement of outstanding debt:

	Governmental Activities		Business-type Activities	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
General Obligation Bond	\$ 1,918,048	\$ 2,215,169	\$ 9,456,347	\$ 10,247,367
General Obligation Note	218,271	281,895	0	0
Loan Payable	<u>50,000</u>	<u>50,000</u>	<u>0</u>	<u>0</u>
	\$ 2,186,319	\$ 2,547,064	\$ 9,456,347	\$ 10,247,367
Compensated Absences	<u>344,111</u>	<u>332,261</u>	<u>0</u>	<u>0</u>
Total Debt	<u>\$ 2,530,430</u>	<u>\$ 2,879,325</u>	<u>\$ 9,456,347</u>	<u>\$ 10,247,367</u>

During the year \$ 1,088,141 of bonded debt and \$63,624 of General Obligation Notes was retired, and no new debt was added. Additionally, a net of \$ 11,850 in additional compensated absences was accrued.

The Borough of Gettysburg maintains a rating of "AAA" assigned by Standard and Poor's with the understanding that the debt is guaranteed by a financial guaranty insurance policy. As a borough, there are legal limitations on the amount of debt that can be outstanding. Additional information on the Borough of Gettysburg's long term debt can be found in note 7 in the Notes to Primary Government Basic Financial Statements.

Economic Factor's and Next Year's Budget

Assessed valuation for real estate taxes has averaged 1.1% annual growth over the last four years and 1% over the last 10 years. The general fund budget for 2006 reflects a 9% increase in revenues and no change in expenses compared to the 2005 budget.

The Gettysburg Municipal Authority does not expect the budget for 2006 to be substantially different from 2005. With the growth going on in the townships, revenue sources are up slightly and the Authority does not expect any unusual expenditures. Various capital projects for both the water and sewer funds appear in the 2006 budget as part of the overall operating budget.

Request for Information

This financial report is designed to provide a general overview of the Borough of Gettysburg's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Borough Manager, 59 East High Street, Gettysburg, PA 17325.

BOROUGH OF GETTYSBURG

STATEMENT OF NET ASSETS

December 31, 2005

ASSETS	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL
Current Assets			
Cash and cash equivalents	\$ 258,967	\$ 3,336,296	\$ 3,595,263
Investments	0	0	0
Receivables:			
Taxes receivable - net of allowance	132,404	0	132,404
Accounts and grants receivable - billed	856,509	457,161	1,313,670
Accounts and grants receivable - unbilled	0	290,510	290,510
Internal balances	0	322,216	0 *
Prepaid expenses	166,526	38,558	205,084
Inventory	5,396	54,877	60,273
Total current assets	<u>1,419,802</u>	<u>4,499,618</u>	<u>5,919,420</u>
Noncurrent Assets			
Restricted investments	5,983	1,470,130	1,476,113
Mortgages receivable, net of allowance for uncollectible accounts	96,000	0	96,000
Accrued interest receivable	21,245	7,169	28,414
Bond issue costs	48,529	64,233	112,762
Capital assets, net of accumulated depreciation	8,805,329	30,890,621	39,695,950
Total noncurrent assets	<u>8,977,086</u>	<u>32,432,153</u>	<u>41,409,239</u>
TOTAL ASSETS	<u>\$ 10,396,888</u>	<u>\$ 36,931,771</u>	<u>\$ 47,006,443</u>
LIABILITIES			
Current liabilities			
Internal balances	\$ 322,216	\$ 0	\$ 0 *
Accounts payable	606,816	63,674	670,490
Accrued expenses	74,807	13,634	88,441
Accrued interest	14,380	25,196	39,576
Unearned revenue	11,771	7,346	19,117
Consumer deposits	0	46,790	46,790
Portion due or payable within one year:			
Compensated absences/vision benefit	55,097	0	55,097
Loan payable	50,000	0	50,000
General obligation bond and notes payable	318,503	881,728	1,200,231
Total current liabilities	<u>1,453,590</u>	<u>1,038,368</u>	<u>2,169,742</u>
Long term liabilities			
Portion due or payable after one year:			
Compensated absences/vision benefit	289,014	0	289,014
General obligation bond and notes payable	1,817,816	8,574,619	10,392,435
Total long term liabilities	<u>2,106,830</u>	<u>8,574,619</u>	<u>10,681,449</u>
TOTAL LIABILITIES	<u>3,560,420</u>	<u>9,612,987</u>	<u>12,851,191</u>
NET ASSETS			
Invested in capital assets, net of related debt	6,675,539	21,498,507	28,174,046
Restricted	5,983	1,477,299	1,483,282
Unrestricted	154,946	4,342,978	4,497,924
Total net assets	<u>6,836,468</u>	<u>27,318,784</u>	<u>34,155,252</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,396,888</u>	<u>\$ 36,931,771</u>	<u>\$ 47,006,443</u>

* - Net of eliminations

The Notes to Financial Statements are an integral part of this statement.

BOROUGH OF GETTYSBURG
STATEMENT OF ACTIVITIES
Year ended December 31, 2005

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 674,507	\$ 96,831	\$ 19,933	\$ 43,448	\$ 514,295	\$ 0	\$ 514,295
Public safety	1,511,792	238,493	109,754	19,105	1,144,440	0	1,144,440
Health and welfare	17,558	0	0	0	17,558	0	17,558
Highways	958,704	0	26,025	112,133	820,546	0	820,546
Parking	519,759	760,795	10,677	0	251,713	0	251,713
Culture and recreation	342,965	52,200	0	69,663	221,102	0	221,102
Community development	217,206	0	229,296	974,358	986,448	0	986,448
Interest on long-term debt	80,428	0	0	0	80,428	0	80,428
Total governmental activities	4,322,919	1,148,319	395,685	1,218,707	1,560,208	0	1,560,208
Business-type activities:							
Water	1,883,071	1,862,347	0	0	0	20,724	(20,724)
Sewer	2,284,722	1,871,419	0	96,500	0	316,803	(316,803)
Total business-type activities	4,167,793	3,733,766	0	0	0	337,527	(337,527)
Total primary government	\$ 8,490,712	\$ 4,882,085	\$ 395,685	\$ 1,218,707	(1,560,208)	(337,527)	(1,897,735)
General revenues:							
Taxes:							
Property taxes					1,373,631	0	1,373,631
Earned income taxes					419,012	0	419,012
Real estate transfer tax					120,141	0	120,141
Emergency municipal services tax					240,584	0	240,584
Admission taxes					93,827	0	93,827
Occupational taxes					29,600	0	29,600
Hotel taxes					30,000	0	30,000
Other taxes					2,180	0	2,180
Rental income					0	23,792	23,792
Interest and investment earnings					15,345	138,744	154,089
Miscellaneous income					36,464	113,872	150,336
Transfer in (out)					57,922	(57,922)	0
Total general revenues and transfers					2,418,706	218,486	2,637,192
Change in net assets					858,498	(119,041)	739,457
Net assets - beginning (as restated)					5,977,970	27,437,825	33,415,795
Net assets - ending					\$ 6,836,468	\$ 27,318,784	\$ 34,155,252

The Notes to Financial Statements are an integral part of this statement.

BOROUGH OF GETTYSBURG

**BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2005**

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 169,290	\$ 33,578	\$ 56,099	\$ 258,967
Investments	0	0	5,983	5,983
Accounts and grants receivable	128,848	722,129	5,532	856,509
Taxes receivable, net of allowance	129,996	0	0	129,996
Mortgages receivable, net of allowance	0	0	96,000	96,000
Accrued interest receivable, net of allowance	0	0	21,245	21,245
Interfund receivables	78,165	29,022	122,000	229,187
Prepaid expenses	166,526	0	0	166,526
Inventory	5,396	0	0	5,396
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	\$ 678,221	\$ 784,729	\$ 306,859	\$ 1,769,809
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 101,387	\$ 494,241	\$ 5,432	\$ 601,060
Accrued expenses	74,807	0	0	74,807
Deferred revenue	106,046	6,884	26,130	139,060
Developers fee escrow	5,757	0	0	5,757
Interfund payables	444,215	61,220	45,967	551,402
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	732,212	562,345	77,529	1,372,086
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balances				
Reserved for				
Inventory	5,396	0	0	5,396
Prepaid expenses	166,526	0	0	166,526
Unreserved - designated for self insurance	17,000	0	0	17,000
Unreserved	(242,913)	222,384	229,330	208,801
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	(53,991)	222,384	229,330	397,723
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	\$ 678,221	\$ 784,729	\$ 306,859	\$ 1,769,809
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The Notes to Financial Statements are an integral part of this statement.

BOROUGH OF GETTYSBURG
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS - TO THE
STATEMENT OF NET ASSETS
December 31, 2005

Total fund balances - governmental funds			\$ 397,723
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets consist of:			
	Property and equipment	14,686,824	
	Accumulated depreciation	(5,881,495)	
			8,805,329
Bond issue costs are recorded as expenditures in the governmental funds when the debt is first issued. On the government-wide statements, this is shown as an asset and amortized over the life of the related debt.			
			48,529
Taxes receivable and accrued interest receivable are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the fund financial statements. However, these are recorded as revenue and receivable when earned for the government-wide statements.			
			129,697
Long term liabilities are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:			
	Bond, notes, and loans payable	(2,186,319)	
	Accrued interest	(14,380)	
	Compensated absences/vision benefit	(344,111)	
			(2,544,810)
Total net assets - governmental activities			<u>\$ 6,836,468</u>

The Notes to Financial Statements are an integral part of this statement.

BOROUGH OF GETTYSBURG
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2005

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 2,264,324	\$ 0	\$ 0	\$ 2,264,324
Licenses and permits	122,159	0	0	122,159
Fines and forfeits	284,536	0	0	284,536
Investment income	23,702	5,510	2,723	31,935
Rents	27,090	0	0	27,090
Intergovernmental	398,043	972,599	236,758	1,607,400
Charges for services	687,378	0	0	687,378
Donations	40,822	2,000	0	42,822
Miscellaneous revenue	42,064	0	150	42,214
Total revenue	<u>3,890,118</u>	<u>980,109</u>	<u>239,631</u>	<u>5,109,858</u>
Expenditures				
General government	599,315	0	18,190	617,505
Public safety	1,483,857	0	10,000	1,493,857
Health and welfare	17,558	0	0	17,558
Highways	653,234	75,110	146,979	875,323
Parking	414,691	0	0	414,691
Culture and recreation	372,342	0	0	372,342
Community development	157,752	1,633,803	72,285	1,863,840
Debt service	435,513	0	0	435,513
Miscellaneous	261	0	11,131	11,392
Total expenditures	<u>4,134,523</u>	<u>1,708,913</u>	<u>258,585</u>	<u>6,102,021</u>
Excess (deficiency) of revenue over expenditures	(244,405)	(728,804)	(18,954)	(992,163)
Other financing sources (uses)				
Operating transfers - in	116,423	0	0	116,423
Operating transfers - out	0	0	(58,501)	(58,501)
Other financing sources (uses)	<u>116,423</u>	<u>0</u>	<u>(58,501)</u>	<u>57,922</u>
Net change in fund balances	(127,982)	(728,804)	(77,455)	(934,241)
Fund balance at January 1, 2005, as restated	<u>73,991</u>	<u>951,188</u>	<u>306,785</u>	<u>1,331,964</u>
Fund balance (deficit) at December 31, 2005	<u>(\$ 53,991)</u>	<u>\$ 222,384</u>	<u>\$ 229,330</u>	<u>\$ 397,723</u>

The Notes to Financial Statements are an integral part of this statement.

BOROUGH OF GETTYSBURG
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended December, 31 2005

Total net change in fund balances - governmental funds (\$ 934,241)

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense differs from capital outlays in the period.

Capital outlays	1,869,424	
Depreciation expense	(433,555)	
		1,435,869

Because some taxes will not be collected for several months after the Borough's fiscal year ends, they are not considered as "available" revenues in the governmental funds. The difference in tax revenues is: 13,637

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 363,624

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. This would include accumulated interest accreted on capital appreciation bonds. The difference in interest accrued in the statement of activities compared to the amount due is shown here. 1,450

The amortization of bond issue costs, bond loss and bond discount do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (9,989)

In the statement of activities, compensated absences and vision benefits are measured by the amounts *earned* during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the net amount earned or (used) was: (11,852)

Change in net assets of governmental activities \$ 858,498

The Notes to Financial Statements are an integral part of this statement.

BOROUGH OF GETTYSBURG

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2005**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 1,510,978	\$ 1,825,318	\$ 3,336,296
Accounts receivable (net of allowance for doubtful accounts of \$ 1,492 water and \$ 2,020 sewer)	222,491	234,670	457,161
Interfund receivables	548,189	169,756	717,945
Unbilled revenue	138,397	152,113	290,510
Inventory	50,796	4,081	54,877
Prepaid expenses	<u>19,279</u>	<u>19,279</u>	<u>38,558</u>
Total current assets	<u>2,490,130</u>	<u>2,405,217</u>	<u>4,895,347</u>
NON CURRENT ASSETS			
Restricted investments	843,446	626,684	1,470,130
Interest receivable - restricted investments	3,755	3,414	7,169
Bond issue costs (net of accumulated amortization of \$ 19,136 water and \$ 36,546 sewer)	22,075	42,158	64,233
Capital assets, net of accumulated depreciation	<u>12,643,351</u>	<u>18,247,270</u>	<u>30,890,621</u>
Total non current assets	<u>13,512,627</u>	<u>18,919,526</u>	<u>32,432,153</u>
Total assets	<u>\$ 16,002,757</u>	<u>\$ 21,324,743</u>	<u>\$ 37,327,500</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	\$ 24,944	\$ 38,730	\$ 63,674
Accrued interest	8,595	16,601	25,196
Accrued payroll and related liabilities	5,558	8,076	13,634
Unearned revenue	7,346	0	7,346
Consumer deposits	46,790	0	46,790
Interfund payables	0	395,729	395,729
Current portion of bonds payable	<u>420,500</u>	<u>461,228</u>	<u>881,728</u>
Total current liabilities	<u>513,733</u>	<u>920,364</u>	<u>1,434,097</u>
NONCURRENT LIABILITIES			
Bonds payable (net of unamortized deferred amount on refunding)	<u>5,373,246</u>	<u>3,201,373</u>	<u>8,574,619</u>
Total noncurrent liabilities	<u>5,373,246</u>	<u>3,201,373</u>	<u>8,574,619</u>
Total liabilities	<u>5,886,979</u>	<u>4,121,737</u>	<u>10,008,716</u>
NET ASSETS			
Invested in capital assets, net of related debt	6,871,680	14,626,827	21,498,507
Restricted	847,201	630,098	1,477,299
Unrestricted	<u>2,396,897</u>	<u>1,946,081</u>	<u>4,342,978</u>
Total net assets	<u>10,115,778</u>	<u>17,203,006</u>	<u>27,318,784</u>
Total liabilities and net assets	<u>\$ 16,002,757</u>	<u>\$ 21,324,743</u>	<u>\$ 37,327,500</u>

The Notes to Financial Statements are an integral part of this statement.

BOROUGH OF GETTYSBURG

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS**

Year Ended December 31, 2005

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
Operating Revenues			
Service fees	\$ 1,488,633	\$ 1,540,693	\$ 3,029,326
Connection and reserve capacity fees	45,354	7,000	52,354
Miscellaneous income	10,607	103,265	113,872
Penalties	<u>12,994</u>	<u>13,530</u>	<u>26,524</u>
Total operating revenues	<u>1,557,588</u>	<u>1,664,488</u>	<u>3,222,076</u>
Operating Expenses			
Collection system	0	88,250	88,250
Purification system	375,841	0	375,841
Pumping station	0	79,203	79,203
Distribution system	150,294	0	150,294
Disposal system	0	483,682	483,682
General operating	398,046	428,911	826,957
Professional fees	125,217	94,571	219,788
Officers' and board members' compensation	1,125	1,125	2,250
Depreciation	<u>619,145</u>	<u>961,978</u>	<u>1,581,123</u>
Total operating expenses	<u>1,669,668</u>	<u>2,137,720</u>	<u>3,807,388</u>
Operating income (loss)	<u>(112,080)</u>	<u>(473,232)</u>	<u>(585,312)</u>
Non-Operating Revenues (Expenses)			
Tapping fees	315,364	310,197	625,561
Interest income	70,191	68,553	138,744
Rental income	23,792	0	23,792
Realized and unrealized gains (losses) on investments	(5,206)	(16,806)	(22,012)
Interest expense	(232,801)	(152,376)	(385,177)
Trustee fees	<u>(5,003)</u>	<u>(6,134)</u>	<u>(11,137)</u>
Total non-operating revenues (expenses)	<u>166,337</u>	<u>203,434</u>	<u>369,771</u>
Income (loss) before interfund transfers and capital contributions	<u>54,257</u>	<u>(269,798)</u>	<u>(215,541)</u>
Transfers			
Interfund transfers in (out)	<u>31,160</u>	<u>(31,160)</u>	<u>0</u>
Capital Contributions			
Contributed costs of water system additions	<u>96,500</u>	<u>0</u>	<u>96,500</u>
Change in Net Assets	181,917	(300,958)	(119,041)
Total net assets - beginning	<u>9,933,861</u>	<u>17,503,964</u>	<u>27,437,825</u>
Total net assets - ending	<u>\$ 10,115,778</u>	<u>\$ 17,203,006</u>	<u>\$ 27,318,784</u>

The Notes to Financial Statements are an integral part of this statement.

BOROUGH OF GETTYSBURG
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended December 31, 2005

	Water Fund	Sewer Fund	Total Proprietary Funds
Cash flows from operating activities:			
Receipts from customers	\$ 1,515,928	\$ 1,627,541	\$ 3,143,469
Payments to suppliers	(605,471)	(605,023)	(1,210,494)
Payments to and on behalf of employees	(505,676)	(631,088)	(1,136,764)
Net cash provided by operating activities	<u>404,781</u>	<u>391,430</u>	<u>796,211</u>
Cash flows from capital financing activities:			
Purchase of capital assets	(77,745)	(774,482)	(852,227)
Proceeds from tap fees	281,703	257,876	539,579
Principal paid on borrowings	(380,000)	(450,000)	(830,000)
Interest and fiscal charges paid on borrowings	(220,920)	(139,398)	(360,318)
Net cash provided (used) by capital financing activities	<u>(396,962)</u>	<u>(1,106,004)</u>	<u>(1,502,966)</u>
Cash flows from non-capital financing activities:			
Water fund payments on behalf of sewer fund	(735,373)	735,373	0
Other nonoperating revenue (expenses)	<u>18,790</u>	<u>(6,134)</u>	<u>12,656</u>
Net cash provided by non-capital financing activities	<u>(716,583)</u>	<u>729,239</u>	<u>12,656</u>
Cash flows from investing activities:			
Proceeds from sales and redemptions	622,570	2,120,888	2,743,458
Purchase of investment securities	(320,612)	(1,169,071)	(1,489,683)
Interfund loan	(152,460)	(169,755)	(322,215)
Investment income	<u>72,590</u>	<u>69,443</u>	<u>142,033</u>
Net cash provided by investing activities	<u>222,088</u>	<u>851,505</u>	<u>1,073,593</u>
Net increase in cash and cash equivalents	<u>(486,676)</u>	<u>866,170</u>	<u>379,494</u>
Balances - beginning of the year	<u>1,997,654</u>	<u>959,148</u>	<u>2,956,802</u>
Balances - end of the year	<u>\$ 1,510,978</u>	<u>\$ 1,825,318</u>	<u>\$ 3,336,296</u>
Reconciliation of income from operations to net cash provided by operating activities			
Operating income (loss)	(\$ 112,080)	(\$ 473,232)	(\$ 585,312)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	619,145	961,978	1,581,123
Change in assets and liabilities			
Accounts and other receivables	(24,167)	(36,946)	(61,113)
Inventories	14,000	401	14,401
Prepaid expenses	1,680	30	1,710
Accounts and other payables	(36,541)	(18,933)	(55,474)
Accrued payroll and other expenses	(39,763)	(41,868)	(81,631)
Deferred revenue and deposits	<u>(17,493)</u>	<u>0</u>	<u>(17,493)</u>
Net cash provided by operating activities	<u>\$ 404,781</u>	<u>\$ 391,430</u>	<u>\$ 796,211</u>
Non-cash investing, capital and non-capital financing activities			
Donated assets from developers	<u>\$ 96,500</u>	<u>\$ 0</u>	<u>\$ 96,500</u>

The Notes to Financial Statements are an integral part of this statement.

BOROUGH OF GETTYSBURG

STATEMENT OF FIDUCIARY NET ASSETS

December 31, 2005

	Pension Trust Funds	Private Purpose Trust Fund
ASSETS		
Cash and cash equivalents	\$ 154,636	\$ 8,576
Investments	4,702,452	0
Accrued income	<u>3,611</u>	<u>0</u>
Total assets	<u>\$ 4,860,699</u>	<u>\$ 8,576</u>
NET ASSETS		
Held in trust for:		
Employees' pension benefits	\$ 4,860,699	\$ 0
Other purposes	<u>0</u>	<u>8,576</u>
Total net assets	<u>\$ 4,860,699</u>	<u>\$ 8,576</u>

The Notes to Financial Statements are an integral part of this statement.

BOROUGH OF GETTYSBURG

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Year Ended December 31, 2005

	Pension Trust Funds	Private Purpose Trust Fund
Additions		
Contributions		
Employer	\$ 74,334	\$ 0
Employer - state	119,788	0
Plan members	3,932	0
Total contributions	<u>198,054</u>	<u>0</u>
Investment income		
Net appreciation (depreciation) in fair value of investments and gain (loss) on sale of investments	115,652	0
Interest, dividends, and other	<u>99,799</u>	<u>173</u>
Total investment income	215,451	173
 Less investment expenses:		
Fiduciary fees	(24,998)	0
Total net investment income	<u>190,453</u>	<u>173</u>
 Total additions	<u>388,507</u>	<u>173</u>
 Deductions		
Benefit payments	167,195	0
Administrative expense	46,860	0
Other services	<u>0</u>	<u>173</u>
 Total deductions	<u>214,055</u>	<u>173</u>
 Change in net assets held in trust for:		
Employees' pension benefits	174,452	0
Other purposes	0	0
Net Assets		
January 1, 2005	<u>4,686,247</u>	<u>8,576</u>
December 31, 2005	<u>\$ 4,860,699</u>	<u>\$ 8,576</u>

The Notes to Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Nature of Operations

The Borough of Gettysburg, Pennsylvania, operates under a council-manager form of government and provides the following services as authorized by the Borough Code: Public Safety – Police and Fire, Highways and Streets, Sanitation, Public Service, Health and Social Services, Culture – Recreation, Public Improvements, Planning and Zoning, and General Administrative Services.

The financial statements of the Borough of Gettysburg, Gettysburg, Pennsylvania, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Borough also applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, to its government-wide and proprietary fund financial statements provided they do not conflict with or contradict GASB pronouncements. The government's more significant accounting policies are described below.

Reporting Entity

The GASB defines the criteria used to determine the composition of the reporting entity. It requires that the reporting entity include (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the primary government. A primary government may also be financially accountable for the governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation in some manner for the debt of the organization; or (c) is obligated in some manner for the debt of the organization.

Some organizations are included as component units because of their fiscal dependency on the primary government. An organization is fiscally dependent on the primary government if it is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the primary government.

Based upon the application of these criteria, the following is a brief review of the potential component unit addressed in defining the government's reporting entity.

Note 1. Summary of Significant Accounting Policies (Continued)

The following component unit meets the criteria for blending and is included within the reporting entity:

- The Gettysburg Municipal Authority (the "Authority") is governed by a board appointed by Borough Council. This board is substantially the same as the governing board of the Borough. The Authority owns the water and sewer plant which services almost entirely the Borough of Gettysburg.

In addition, on December 20, 2004, a management agreement between the Authority and the Borough was signed, effective November 1, 2004 through December 31, 2005. The agreement provides for the Borough to manage and operate the Utility System and shall renew annually unless either party requests in writing to terminate the agreement on or before October 1 of each year. As a result of the blended presentation of this component unit, the Authority's water and sewer activities are shown as activities of the Borough for financial reporting purposes.

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 that comprise its assets, liabilities, fund balance/retained earnings/(deficit), revenue, and expenditures/expenses. The various funds of the primary government (including the blended component unit) are segregated into the categories of governmental, proprietary, and fiduciary.

Governmental Funds

Governmental Funds are those through which most governmental functions of the Borough are financed. The measurement focus is on the flow of expendable resources, rather than on net earnings determination.

The Borough reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the Borough. This fund is used to account for all financial transactions except those required to be accounted for in another fund. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use.

Capital Projects Fund - This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by enterprise funds).

Currently the Borough is involved in the following capital projects:

1. The restoration of the Lincoln Train Station.
2. The construction of the skateboard park.
3. The renovation of the 117 Breckenridge House.
4. The restoration of Baltimore/Railroad Streets.
5. The construction of a fitness trail.

Debt Service Fund - This fund is to be used to account for the payment of fiduciary fees on the general obligation bonds.

Note 1. Summary of Significant Accounting Policies (Continued)

Fund Accounting (Continued)

The Borough reports the following non-major governmental funds:

Capital Reserve Fund – This fund is used to set monies aside for future capital improvements.

Special Revenue Funds - These funds are used to account for proceeds of specific revenue sources used to finance specific activities as required by law or administrative regulation. The Borough has the following Special Revenue Funds:

- Small Communities Program Fund – The Small Communities Program Fund accounts for various federal and state grants used to provide funding for community development projects.
- Highway Aid Fund is used to account for state liquid fuels tax revenue used primarily for building, improving, and maintaining local roads and bridges.
- Company K Fund is used to account for financial resources to be used for the perpetual care and maintenance of the Company K Memorial Monument.

Proprietary Funds

The Borough has two enterprise funds consisting of the Water and Sewer Funds. These are the funds of the Gettysburg Municipal Authority, which is shown as a blended component unit. These funds are used to account for the financing of services to the general public where all or most of the costs involved are paid in the form of charges to the users of such services. The focus of proprietary funds is on the determination of net earnings and capital maintenance. An allowance for bad debts is deemed necessary by management for receivables of the proprietary funds, based on past experience, and a review of current receivables. The Water and Sewer Funds are major funds.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Borough under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Borough's own programs. The Borough has no investment trust funds or agency funds. Fiduciary Funds are not included in the government-wide financial statements.

The Borough maintains pension trust funds for the police and non-uniformed personnel. The Borough also maintains a private purpose trust fund - the Stahle Trust Fund, which accounts for a charity fund in which yearly proceeds are to be distributed to the deserving poor of the Borough. The Gettysburg Municipal Authority maintains a defined benefit pension plan for the employees working for the water and sewer department. However, this pension trust fund is not included in these financial statements.

Note 1. Summary of Significant Accounting Policies (Continued)

Basis of Presentation

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the Borough as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The Borough's public safety, health and welfare, highways, parking facilities, culture and recreation, community development, and general administrative services are classified as governmental activities. The Borough does not have any primary government activities, which should be classified as business-type activities. The statements distinguish between these activities of the Borough that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financials but differs from the manner in which governmental fund financials are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Borough, and 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 for the goods or services offered by the program and grants and contributions that are restricted to meeting the operation 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 and program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Borough.

Fund Financial Statements – Fund financial statements report detailed information about the Borough. The focus of the governmental and proprietary fund financial statements is on major funds rather than reporting fund by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The major fund concept does not apply to fiduciary funds and they are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenue, expenses, and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Borough finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds are reported using the economic resources measurement focus.

Note 1. Summary of Significant Accounting Policies (Continued)

Basis of Accounting

Accrual

Government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Net assets (total assets less total liabilities) are used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased net assets. Depreciation is charged as expense against current operations and accumulated depreciation is reported on the statement of net assets.

Modified Accrual

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers tax revenue to be available if collected within 60 days of the end of the fiscal period. In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement No. 33, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and as deferred revenue by the recipient.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Cash and Cash Equivalents

Cash and cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and include investments with original maturities of three months or less.

Investments

Investments and investment pools are reported at fair value, which is determined as follows:

Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Managed funds related to the retirement systems and investments in external investment pools not listed on an established market are reported at estimated fair value as determined by the respective fund managers based on quoted sales prices of the underlying securities. Unrealized appreciation or depreciation due to changes in fair values of such investments is recognized annually.

Note 1. Summary of Significant Accounting Policies (Continued)

Statement of Cash Flows

For purposes of the statement of cash flows presented for proprietary funds, the Borough considers all highly-liquid debt investments, including restricted assets, with maturities of three months or less when purchased, to be cash equivalents.

Accounts Receivable and Concentration of Credit Risk

The Borough provides water and sewer service to customers within the Gettysburg area. Receivables are recorded at face amount. A minimal allowance for doubtful accounts has been recorded.

Unbilled Revenue

During the year, customer water meters are read quarterly and water/sewer bills rendered throughout quarterly periods. Because not every meter is read on the same date, revenue for services rendered but not yet billed is accrued at year-end to match revenues with related expenses.

Inventories

Inventory of fuel is maintained in the General Fund. It is carried at cost using the first-in, first-out method and are subsequently charged to expenditure when consumed.

All other governmental fund types expense inventorable items when purchased.

Inventory in the proprietary funds is valued at the lower of cost, using the first-in, first-out method, or market. The cost of inventory is recorded as an expense when consumed rather than when purchased.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds and generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets utilized by the proprietary fund are reported both in the business-type column of the government-wide statement of net assets and in the respective fund.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Capital assets with a value of \$ 1,000 or more are capitalized by the Borough. Infrastructure acquired after January 1, 2003 (in accordance with GASB provisions) is capitalized and depreciated over its estimated useful life. When an asset is disposed of, cost and related accumulated depreciation is removed, and any gain or loss arising from its disposal is credited or charged to operations.

Note 1. Summary of Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

Capital Assets (Continued)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Land improvements	20	Water and sewer buildings and plants	25-40
Buildings	40	Office equipment	10
Maintenance buildings	20	Transportation equipment	6
Equipment	10-15	Mains, collecting stations	25-50
Vehicles	5-10	Distribution	75
Computer equipment	5	Wells, springs, pump stations, services	25
Furnishings and fixtures	5	Meters	15
Infrastructure	20	Pumping and treatment	10-25
		General property and equipment	10-15

Collections include historical treasures that are not depreciated. The collection is being held for public exhibition, protected, kept unencumbered, cared for, and preserved, and therefore, is not depreciated.

Net Assets

In the government-wide financial statements and proprietary fund financial statements, net assets are classified in the following categories:

Investment in Capital Assets, Net of Related Debt: This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

Restricted Net Assets: This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Assets: This category represents the net assets of the Borough, which are not restricted for any project or other purpose. However, these funds may be internally designated for specific projects or purposes in the fund financial statements.

Note 1. Summary of Significant Accounting Policies (Continued)

In the governmental fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. As of December 31, 2005, reservations of fund balance are described below:

Reserved for Inventory/Prepaid Expenses. These designations reflect non-current resources so that they will not be considered as current available funds.

When both restricted and unrestricted resources are available for use, it is the Borough's policy to use restricted resources first, then unrestricted resources as they are needed.

Interfund Activity

Advances between funds are accounted for in the appropriate interfund receivable and payable accounts. Advances between funds which are not expected to be repaid are accounted for as transfers. Interfund balances and transactions are eliminated in the government-wide financial statements.

Exchange transactions, if any, 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 are shown separately as transfers in proprietary funds.

Budgets and Budgetary Accounting

Annual budgets are adopted for the General Fund, Capital Projects Fund, Highway Aid Fund, Capital Reserve Fund, Small Communities Fund, and the Water and Sewer Funds. The budgets are prepared on a basis consistent with accounting principles generally accepted in the United States of America. All appropriations lapse at year-end. There were no budget revisions during the year ended December 31, 2005.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities, if any, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activity columns in the statement of net assets. The same treatment also applies to proprietary fund financial statements. Bond premium and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount and loss on refinancing. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Note 1. Summary of Significant Accounting Policies (Continued)

Classification of Revenues

For proprietary funds, the Borough has classified its revenues as either operating or nonoperating revenues according to the following criteria:

- *Operating Revenues* – Operating revenues include activities that have the characteristics of exchange transactions, such as utility billings and penalties and late charges.
- *Nonoperating Revenues* – Nonoperating revenues include activities that have the characteristics of non-exchange transactions (in which the Borough receives value without directly giving equal value in return), such as contributions and grants and other revenues that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB No. 34, such as investment earnings. In addition, tap fees are considering non-operating because they are based on future capacity needs of the utility system.

Pension Plans

The Borough offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Borough employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in trust for the exclusive benefit of participants and their beneficiaries. The assets will not be diverted to any other purpose. The Borough has a duty of due care that would be required of an ordinary prudent investor.

See Note 9 for details of the Borough's police and non-uniform defined benefit pension plans, and Note 10 for the Authority's defined benefit pension plan.

Compensated Absences/Vision Benefits

Liability for compensated absences is accounted for in accordance with the provisions of the GASB, which require entities to accrue for employees' rights to receive compensation for vacation leave, or payments in lieu of accrued vacation or sick leave, as such benefits are earned and payment becomes probable.

Under terms of the Borough's employment agreements, employees are granted vacation, personal, and sick leave in varying amounts. Vacation and personal time must be used during the calendar year for all employees and cannot be carried over. Upon retirement from the Borough, non-uniformed employees and police are reimbursed for accumulated sick leave in accordance with personnel policies. Under terms of the Borough's employment agreements, employees are granted vision benefits in varying amounts. Upon retirement from the Borough, all employees are reimbursed for accumulated vision benefits in accordance with personnel policies.

Under the terms of the Authority's employment agreements, full-time employees are granted vacation leave after completing twelve months of employment. The amount of vacation days awarded is based on the number of continuous service years. Vacation is awarded to employees on their anniversary dates, rather than the year-end of the Authority. With few exceptions, employees may not accumulate any unused vacation leave.

Note 1. Summary of Significant Accounting Policies (Continued)

The vesting method is used to account for sick leave and vision liabilities. In accordance with GASB standards, no liability is recorded in the governmental fund financial statements and an expenditure is recorded as payments are made. In the government-wide and proprietary fund statements, the liability and expenses are recorded as earned.

Note 2. Cash and Investments***Custodial Credit Risk – Deposits***

Custodial credit risk is the risk that in the event of a bank failure, the Borough's deposits may not be returned to it. The Borough does not have a written policy for custodial credit risk. As of December 31, 2005, \$ 3,445,584 of the Borough's bank balance of \$ 3,781,284 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$	0
Collateralized with securities held by the pledging financial institution		0
Uninsured and collateral held by the pledging bank's trust department but not in the College's name		<u>3,445,584</u>
		<u>\$ 3,445,584</u>

Included in investments on the statement of net assets is a certificate of deposit at Adams County National Bank of \$ 5,983, with a maturity of less than one year. This is considered a deposit for purposes of this disclosure.

Investments

As of December 31, 2005, the Borough had the following business-type investments:

	<u>Maturities</u>	<u>Fair Value</u>	<u>Credit Quality Rating (Standard and Poor's)</u>
Blackrock Provident T-Fund (mutual fund)	N/A	\$ 775,477	AAAm
U. S. Treasury Note	3 years	643,071	N/A
GNMA I Pool	4 years	<u>51,582</u>	N/A
		<u>\$ 1,470,130</u>	

Interest Rate Risk

In accordance with the Trust Indenture, the Borough manages its exposure to decline in fair values by limiting the maturity of individual investments to less than five years.

Note 2. Cash and Investments (Continued)***Municipal Pension Plans***

Investments held by the trustees of the Borough's pension plans are as follows:

	Total Fair Value
Money Market Funds	\$ 154,636
Mutual Funds	<u>4,702,452</u>
	<u>\$ 4,857,088</u>

These funds have no defined maturity dates, and can be liquidated on a daily basis.

Credit Risk

The Borough does not have a policy which limits investment in fixed income securities to a particular credit quality rating. Approximately 37% of total mutual fund investments are fixed income investments and of this amount, only a small portion of these funds are invested in bonds that are given a credit quality rating. However, where the ratings apply, most have received a rating of AAA or better.

Note 3. Taxes Receivable and Deferred Revenues

Property taxes are levied on March 1 for the tax year. Taxes are payable at a 2% discount if paid before May 1 and at a 10% penalty if paid after the due date of June 30. Outstanding real estate taxes are turned over to Adams County, which handles collections and placement of liens, if necessary. Taxes are recorded as revenue by the Borough when received from the tax collector, and accruals are recorded at year-end for taxes expected to be received within 60 days of December 31 in accordance with the modified accrual basis of accounting. The Borough has established an allowance for uncollectible taxes based on the evaluation of historical collections. The total assessed valuation as of December 31, 2005 is \$ 115,781,305.

Taxes receivable in the fund financial statements consists of the following as of December 31, 2005:

Real Estate and RE transfer	\$ 58,428
Per Capita	8,003
Earned Income	62,357
Occupational	9,520
Allowance for uncollectible accounts	(8,312)
Total taxes receivable	<u>\$ 129,996</u>

Note 4. Interfund Receivables and Payables and Transfers

Due from/to other funds consist of the following as of December 31, 2005:

<u>Due To</u>	<u>Due From</u>					<u>Total</u>
	<u>General Fund</u>	<u>Small Communities Fund</u>	<u>Capital Projects Fund</u>	<u>Capital Reserve Fund</u>	<u>Highway Aid Fund</u>	
General Fund	\$ 0	\$ 13,501	\$ 61,220	\$ 0	\$ 3,443	\$ 78,164
Capital Projects Fund	0	0	0	20,398	8,624	29,022
Capital Reserve Fund	122,000	0	0	0	0	122,000
Water Fund	152,459	0	0	0	0	152,459
Sewer Fund	169,756	0	0	0	0	169,756
Total	<u>\$ 444,215</u>	<u>\$ 13,501</u>	<u>\$ 61,220</u>	<u>\$ 20,398</u>	<u>\$ 12,067</u>	<u>\$ 551,401</u>

At December 31, 2005, the General Fund owed the Capital Reserve Fund \$ 122,000, including \$ 100,000 to pay back money borrowed to cover operating expenses. The General Fund also owed the Water Fund \$ 152,459 and the Sewer Fund \$ 169,756 for advances of funds. The Highway Aid Fund owed the General Fund \$ 3,443 for expense for fixing a creek wall in town. The Highway Aid Fund also owed the Capital Projects Fund \$ 8,624 for bridge replacement work. The Capital Projects Fund owed the General Fund \$ 61,220 for money borrowed to cover operating expenses. The Small Communities Fund owed the General Fund \$ 13,501 for salary reimbursement.

Interfund operating transfers were as follows in 2005:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
General Fund	Small Communities Fund	\$ 58,501
General Fund	Water Fund	29,607
General Fund	Sewer Fund	28,315
Water Fund	Sewer Fund	31,160

In 2005, the Small Communities Fund transferred \$ 58,501 to the General Fund for approved expense reimbursements (administrative costs) from CDBG grant funds. The Water and Sewer Funds transferred \$ 29,607 and \$ 28,315, respectively, to the General Fund for administrative costs. Also, the Sewer Fund transferred \$ 31,160 to the Water Fund to share the cost of the new computer system.

Note 5. Capital Assets

Capital asset activity for the Borough consists of the following as of and for the year ended December 31, 2005:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities:				
Cost:				
Land and improvements	\$ 23,081	\$ 0	\$ 0	\$ 23,081
Infrastructure	4,533,772	0	0	4,533,772
Buildings and improvements	5,956,631	0	0	5,956,631
Machinery and equipment	1,433,994	52,054	0	1,486,048
Furniture and fixtures	84,900	0	0	84,900
Collections	7,150	7,000	0	14,150
Construction-in-progress	<u>777,872</u>	<u>1,810,370</u>	<u>0</u>	<u>2,588,242</u>
Total cost	<u>12,817,400</u>	<u>1,869,424</u>	<u>0</u>	<u>14,686,824</u>
Less accumulated depreciation:				
Land and improvements	(9,115)	(1,133)	0	(10,248)
Infrastructure	(3,149,985)	(187,827)	0	(3,337,812)
Buildings and improvements	(1,157,104)	(151,987)	0	(1,309,091)
Machinery and equipment	(1,059,786)	(87,000)	0	(1,146,786)
Furniture and fixtures	(71,950)	(5,608)	0	(77,558)
Total accumulated depreciation	<u>(5,447,940)</u>	<u>(433,555)</u>	<u>0</u>	<u>(5,881,495)</u>
Capital assets, net	<u>\$ 7,369,460</u>	<u>\$ 1,435,869</u>	<u>\$ 0</u>	<u>\$ 8,805,329</u>
Business-Type Activities:				
Cost:				
Land	\$ 103,782	\$ 0	\$ 0	\$ 103,782
Building and plant	20,436,521	0	0	20,436,521
Wells	1,413,162	1,576	0	1,414,738
Lift stations	775,711	0	0	775,711
Utility and general equipment	27,979,000	332,900	(2,698)	28,309,202
Construction-in-progress	<u>248,200</u>	<u>812,490</u>	<u>(198,239)</u>	<u>862,451</u>
Total cost	<u>50,956,376</u>	<u>1,146,966</u>	<u>(200,937)</u>	<u>51,902,405</u>
Less accumulated depreciation:				
Building and plant	(8,406,941)	(793,902)	0	(9,200,843)
Lift stations	(858,326)	(87,088)	0	(945,414)
Utility and general equipment	(10,198,873)	(669,352)	2,698	(10,865,527)
Total accumulated depreciation	<u>(19,464,140)</u>	<u>(1,550,342)</u>	<u>2,698</u>	<u>(21,011,784)</u>
Capital assets, net	<u>\$ 31,492,236</u>	<u>(\$ 403,376)</u>	<u>(\$ 198,239)</u>	<u>\$ 30,890,621</u>

Note 5. Capital Assets (Continued)

Accumulated costs attributable to projects included in "Construction-in-Progress" at December 31, 2005 are as follows:

	Governmental Activities	Business-Type Activities
Train Station	\$ 2,296,605	\$ 0
117 Breckenridge	53,793	0
Skate Park	81,112	0
Baltimore/Railroad Street Bricks	133,478	0
Baltimore/Railroad Street Meters	23,013	0
Fitness Trail	241	0
Sanitary sewer maintenance	0	677,922
Act 537 Plan	0	120,412
Carlisle Street Water Main Replacement	0	47,052
Water meters	0	17,065
	<u>\$ 2,588,242</u>	<u>\$ 862,451</u>

Depreciation expense for the year ended December 31, 2005 was charged as follows:

	Governmental Activities	Business-Type Activities
General Government	\$ 46,182	\$ 0
Public Safety	16,592	0
Highways	242,069	0
Parking	105,561	0
Culture and Recreation	23,151	0
Sewer	0	619,148
Water	0	961,978
	<u>\$ 433,555</u>	<u>\$ 1,581,126</u>
Total		

Note 6. Mortgages Receivable

The following is a summary of changes in mortgages receivable for the year ended December 31, 2005:

	Beginning Balance	Additions	Reductions	Ending Balance	Accrued Interest	Current Portion	Long-term Portion
Mortgages receivable							
(A) Fahnestock	\$ 96,000	\$ 0	\$ 0	\$ 96,000	\$ 21,245	\$ 0	\$ 96,000
(B) Scattered Sites 3rd Mortgage	59,718	0	0	59,718	3,832	0	59,718
(C) Scattered Sites 4th Mortgage	150,000	0	0	150,000	9,000	0	150,000
(D) Scattered Sites 5th Mortgage	40,000	0	0	40,000	2,400	0	40,000
Subtotal	345,718	0	0	345,718	36,477	0	345,718
Allowance for uncollectible accounts	(249,718)	0	0	(249,718)	(15,232)	0	(249,718)
Net mortgages receivable	\$ 96,000	\$ 0	\$ 0	\$ 96,000	\$ 21,245	\$ 0	\$ 96,000

(A) Fahnestock - On December 31, 1985, the Fahnestock Associates L.P. signed a promissory note to pay the Borough principal of \$ 96,000 with an interest rate of 1% per annum accruing and payable on December 31, 2010.

(B) Scattered Sites 3rd Mortgage - On January 6, 1993 Gettysburg Scattered Sites Associates entered into a mortgage with the Borough. The principal amount of \$ 44,235 was raised to \$ 59,718 on July 28, 1999 and accrues interest at a rate of 1% per annum. All payments of principal and interest are deferred until the low-income housing project is sold and to the extent that funds are available after repayment of prior liens.

(C) Scattered Sites 4th Mortgage - On January 6, 1993 Gettysburg Scattered Sites Associates entered into a mortgage with the Borough. The principal amount of \$ 150,000 accrues interest at a rate of 1% per annum. All payments of principal and interest are deferred until the low-income housing project is sold and to the extent that funds are available after repayment of prior liens. Accrued interest as of December 31, 2005 totaled \$ 19,500 with interest through December 31, 1999 totaling \$ 10,500 being forgiven.

(D) Scattered Sites 5th Mortgage - On January 6, 1993 Gettysburg Scattered Sites Associates entered into a mortgage with the Borough. The principal amount of \$ 40,000 accrues interest at a rate of 1% per annum. All payments of principal and interest are deferred until the low-income housing project is sold and to the extent that funds are available after repayment of prior liens. Accrued interest as of December 31, 2005 totaled \$ 2,400 after the accrued interest was rolled into principal during 1999.

For the 3rd, 4th, and 5th Scattered Sites Mortgages, an allowance for uncollectible accounts has been established for the entire amount of the mortgage and interest receivable because it is probable that the Borough will not receive these funds.

The following shows the future receivable payments for the Fahnestock mortgage:

Year	Fahnestock	
	Principal	Interest
2010	\$ 96,000	\$ 27,254

Note 7. Long-term Liabilities

The changes in long-term liabilities during the year ended December 31, 2005 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Long-term Portion
Governmental Activities:						
Bonds and notes payable						
(A) 2000 GO Note	\$ 89,895	\$ 0	(\$ 28,022)	\$ 61,873	\$ 29,465	\$ 32,408
(B) 2004 GO Bond	2,240,000	0	(300,000)	1,940,000	255,000	1,685,000
(C) 2004 GO Note	192,000	0	(35,602)	156,398	36,917	119,481
Bond Discount	(24,831)	0	2,879	(21,952)	(2,879)	(19,073)
Subtotal - bonds and notes	<u>2,497,064</u>	<u>0</u>	<u>(360,745)</u>	<u>2,136,319</u>	<u>318,503</u>	<u>1,817,816</u>
(D) Breckenridge Loan payable	50,000	0	0	50,000	50,000	0
Compensated absences/vision benefit	<u>332,261</u>	<u>89,156</u>	<u>(77,306)</u>	<u>344,111</u>	<u>55,097</u>	<u>289,014</u>
Total long-term liabilities	<u>\$ 2,879,325</u>	<u>\$ 89,156</u>	<u>(\$ 438,051)</u>	<u>\$ 2,530,430</u>	<u>\$ 423,600</u>	<u>\$ 2,106,830</u>
Business-Type Activities:						
Bonds and notes payable						
(E) 2002 Water revenue bonds	\$ 1,200,000	\$ 0	(\$ 225,000)	\$ 975,000	\$ 230,000	\$ 745,000
Unamortized bond discount	(22,406)	0	6,930	(15,476)	(5,841)	(9,635)
	<u>1,177,594</u>	<u>0</u>	<u>(218,070)</u>	<u>959,524</u>	<u>224,159</u>	<u>735,365</u>
(F) 2002 Sewer revenue bonds	2,315,000	0	(430,000)	1,885,000	450,000	1,435,000
Unamortized bond discounts	(43,659)	0	13,532	(30,127)	(11,427)	(18,700)
	<u>2,271,341</u>	<u>0</u>	<u>(416,468)</u>	<u>1,854,873</u>	<u>438,573</u>	<u>1,416,300</u>
(G) 2004 A GO Bonds - Sewer	1,870,000	0	(20,000)	1,850,000	15,000	1,835,000
Other bond related costs	(49,426)	0	7,154	(42,272)	7,655	(49,927)
	<u>1,820,574</u>	<u>0</u>	<u>(12,846)</u>	<u>1,807,728</u>	<u>22,655</u>	<u>1,785,073</u>
(H) 2004 B GO Bonds - Water	5,105,000	0	(155,000)	4,950,000	165,000	4,785,000
Other bond related costs	(127,142)	0	11,364	(115,778)	31,341	(147,119)
	<u>4,977,858</u>	<u>0</u>	<u>(143,636)</u>	<u>4,834,222</u>	<u>196,341</u>	<u>4,637,881</u>
Total long-term liabilities	<u>10,247,367</u>	<u>0</u>	<u>(791,020)</u>	<u>9,456,347</u>	<u>881,728</u>	<u>8,574,619</u>

Bond, Notes, and Loans Payable

- (A) General Obligation Note - 2000 - On December 15, 2000, the Borough issued a General Obligation Note in the principal amount of \$ 250,000 to fund the construction of a community building. Semiannual installments of \$ 16,173 are due April 1 and October 1 through October 1, 2011; the interest rate is fixed at 5.25%.
- (B) General Obligation Bond - Series of 2004 - On March 15, 2004, the Borough issued General Obligation Bonds in the principal amount of \$ 2,485,000 to currently refund the General Obligation Bonds - Series of 1999. Annual installments varying from \$ 245,000 to \$ 300,000 are due through October 1, 2012; fixed interest rates vary from 1.00% to 3.20%.

Note 7. Long-term Liabilities (Continued)

- (C) General Obligation Note – 2004 – On September 15, 2004, the Borough issued a General Obligation Note in the principal amount of \$ 192,000 to fund the purchase of parking meters and a street sweeper. Semiannual installments of \$ 21,413 are due April 1 and October 1 through October 1, 2009; interest rates are variable – 70% of prime, but not greater than 4%.
- (D) Breckenridge Loan – On August 29, 2003, the Borough received a Mortgage Note from Adams County in the principal amount of \$ 50,000 to provide funds for the purchase of property at 117 Breckenridge Street, Gettysburg, Pennsylvania. The purpose of the purchase was to refurbish the house and sell it to a qualified buyer. The mortgage is due in full the earlier of when the house is sold, or on August 20, 2005, and is non-interest bearing.
- (E) Guaranteed Water Revenue Bonds – Series 2002 – In 2002, the Authority issued water revenue bonds in the principal amount of \$ 1,780,000. Annual installments varying from \$ 145,000 to \$ 260,000 are due through October 2009, interest ranging from 1.75% to 3.90%.
- (F) Guaranteed Sewer Revenue Bonds – Series 2002 – In 2002, the Authority issued sewer revenue bonds in the principal amount of \$ 3,445,000. Annual installments varying from \$ 295,000 to \$ 490,000 are due through October 2009, interest ranging from 1.75% to 3.90%.
- (G) General Obligation Bond - Series of 2004A - On May 15, 2004, the Borough issued General Obligation Bonds in the principal amount of \$ 1,880,000 to currently refund the Guaranteed Sewer Revenue Bonds - Series of 1998 of The Gettysburg Municipal Authority. Annual installments varying from \$ 10,000 to \$ 565,000 are due through October 1, 2013; fixed interest rates vary from 2.40% to 3.60%.
- (H) General Obligation Bond – Series of 2004B – On May 15, 2004, the Borough issued General Obligation Bonds in the principal amount of \$ 5,250,000 to advance refund the Guaranteed Water Revenue Bonds – Series of 1999 of The Gettysburg Municipal Authority. Annual installments varying from \$ 145,000 to \$ 575,000 are due through October 1, 2018; fixed interest rates vary from 2.40% to 4.10%.

The following is a schedule by years and in the aggregate of future minimum debt principal and interest payments required at December 31, 2005:

Governmental Activities:

Year	2000 GO Note		2004 GO Bond		2004 GO Note		Breckenridge Loan		Governmental Activities Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 29,465	\$ 2,881	\$ 255,000	\$ 47,978	\$ 36,917	\$ 5,909	\$ 50,000	\$ 0	\$ 371,382	\$ 56,768
2007	32,408	1,296	265,000	42,878	38,408	4,417	0	0	335,816	48,591
2008	0	0	275,000	38,240	39,960	2,866	0	0	314,960	41,106
2009	0	0	270,000	32,466	41,113	1,251	0	0	311,113	33,717
2010	0	0	285,000	25,986	0	0	0	0	285,000	25,986
2011-2015	0	0	590,000	27,730	0	0	0	0	590,000	27,730
	<u>\$ 61,873</u>	<u>\$ 4,177</u>	<u>\$ 1,940,000</u>	<u>\$ 215,278</u>	<u>\$ 156,398</u>	<u>\$ 14,443</u>	<u>\$ 50,000</u>	<u>\$ 0</u>	<u>\$ 2,208,271</u>	<u>\$ 233,898</u>

Note 7. Long-term Liabilities (Continued)

Business-type Activities:

Year	2002 Water Bond		2002 Sewer Bond		2004A GO Bond		2004B GO Bond		Business-type Activities Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 230,000	\$ 34,380	\$ 450,000	\$ 66,406	\$ 15,000	\$ 60,238	\$ 165,000	\$ 175,478	\$ 860,000	\$ 336,502
2007	240,000	27,366	465,000	52,680	15,000	59,788	165,000	170,528	885,000	310,362
2008	245,000	19,206	480,000	36,870	15,000	59,338	175,000	165,578	915,000	280,992
2009	260,000	10,140	490,000	19,110	20,000	58,978	180,000	161,378	950,000	249,606
2010	0	0	0	0	535,000	58,278	450,000	155,078	985,000	213,356
2011-2015	0	0	0	0	1,250,000	71,440	2,475,000	543,612	3,725,000	615,052
2016-2018	0	0	0	0	0	0	1,340,000	77,671	1,340,000	77,671
	<u>\$ 975,000</u>	<u>\$ 91,092</u>	<u>\$ 1,885,000</u>	<u>\$ 175,066</u>	<u>\$ 1,850,000</u>	<u>\$ 368,060</u>	<u>\$ 4,950,000</u>	<u>\$ 1,449,323</u>	<u>\$ 9,660,000</u>	<u>\$ 2,083,541</u>

Note 8. Operating Leases

There are three operating leases associated with the Borough. The Borough is the lessee for land with PNC bank and is the lessor for property it owns at 34 East Middle Street and for property the Authority owns at the communication towers.

Lease Expense

The Borough entered into a long-term land lease with PNC Bank, N.A. Beginning on November 1, 1990, the Borough began paying a monthly rental payment of \$ 1,200 for ten years. For years eleven through twenty-five, the Borough pays \$ 1,700 per month. Subsequently, the lease is renewable for an additional fifteen years at \$ 2,250 per month through October 31, 2030.

The scheduled lease commitments are as follows:

2006	\$ 20,400
2007	20,400
2008	20,400
2009	20,400
2010	20,400
2011-2015	102,000
	<u>\$ 204,000</u>

Lease Revenue

The Borough entered into a one-year lease agreement with Adams County on June 28, 2000. Under the terms of the agreement, the Borough will rent the old Borough office building, known as 34 East Middle Street, to Adams County. Monthly rentals of \$ 2,250 are due from Adams County. The lease is renewable annually.

Note 8. Operating Leases (Continued)

The Authority leases space at AT&T Wireless for a communications tower. The lease began in 2002 for a five year term, automatically renewing for five additional five year terms unless AT&T notifies the Authority in writing of their intent not to renew at least ninety days prior to the expiration date of the existing lease. Rental income totaled \$ 22,292 for this lease in 2005. Beginning in year two, and each year thereafter, the annual rental payment increases by three percent over the previous year's rent. Minimum rental income for this lease for the next five years is as follows:

2006	\$ 22,965
2007	23,654
2008	24,364
2009	<u>25,095</u>
	<u>\$ 96,078</u>

Note 9. Employee Retirement Systems

The Borough of Gettysburg contributes to two single-employer defined benefit pension plans: Police Pension Plan and Non-Uniformed Pension Plan.

A. Summary of Significant Accounting Policies

Basis of Accounting – The Borough of Gettysburg's financial statements, in connection with its pension plans, are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Method Used to Value Investments – Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value.

B. Annual Pension Cost and Net Pension Obligation

The Borough's annual pension cost and net pension obligation to the police pension plan and the non-uniformed pension plan were as follows as of and for the year ended December 31, 2005:

	<u>Police</u>	<u>Non-Uniformed</u>
Annual required contribution	\$ 53,058	\$ 141,064
Interest on net pension obligation	0	0
Adjustment to annual required contribution	<u>0</u>	<u>0</u>
Annual pension cost	53,058	141,064
Contributions made	<u>53,058</u>	<u>141,064</u>
Increase in net pension obligation	0	0
Net pension obligation beginning of year	<u>0</u>	<u>0</u>
Net pension obligation end of year	<u>\$ 0</u>	<u>\$ 0</u>

Note 9. Employee Retirement Systems (Continued)

Trend Information

Year Ended December 31,	Police Pension Plan			Non-Uniformed Pension Plan		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
1998	\$ 10,068	100%	\$ 0	\$ 53,651	100%	\$ 0
1999	15,105	100%	0	56,345	100%	0
2000	0	100%	0	61,756	100%	0
2001	0	100%	0	77,277	100%	0
2002	0	100%	0	91,121	100%	0
2003	0	100%	0	92,579	100%	0
2004	15,918	100%	0	123,411	100%	0
2005	53,058	100%	0	141,064	100%	0

The information presented was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

	Police Pension Plan	Non-Uniformed Pension Plan
Valuation Date:	01/01/05	01/01/05
Actuarial Cost Method:	Entry age normal	Entry age normal
Amortization Method	N/A - No Unfunded Actuarial Accrued Liability	Level Dollar
Remaining Amortization Period	N/A	Equivalent Single Amortization Period
Asset Valuation Method	Market Value	Market Value
Actuarial Assumptions:		
Investment rate of return *	7.5%	7.5%
Projected salary increases *	5.0%	5.0%
* Included Inflation at Cost-of-Living Adjustments	3.0%	None

C. Plan Descriptions and Funding Policies

Membership of the plans consisted of the following at January 1, 2005, the date of the latest actuarial valuation:

	Police	Non-Uniformed
Retirees and beneficiaries receiving benefits	6	7
Terminated plan members entitled to but not yet receiving benefits	2	5
Active plan members	<u>13</u>	<u>28</u>
Totals	<u>21</u>	<u>40</u>

Note 9. Employee Retirement Systems (Continued)

Police Pension Plan

Plan Description – The Plan is a single-employer defined benefit pension plan that covers all full-time members of the police force. The plan provides retirement benefits as well as death benefits. If a participant is eligible for retirement, a death benefit is payable. Employees are entitled to an annual cost-of-living increase not to exceed 4% per year. The plan is established and administered by the Borough through trust agents (local banks).

Funding Policy – Plan members are not required to contribute to the plan. The State is required to contribute at an actuarially determined rate. The Borough is responsible for contributing funds after accounting for the state contribution in order to meet the minimum municipal obligation for each year. The contribution requirements of the plan members and the State are established and may be amended by the Borough and State legislature, respectively. Administrative costs of the Police Pension Plan are financed through investment earnings.

Non-Uniformed Pension Plan

Plan Description – The Plan is a single-employer defined benefit pension plan that covers all full-time non-uniformed employees as of the first day of a participant's employment. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. The plan is established and administered by the Borough through trust agents (local banks).

Funding Policy – Plan members are not required to contribute to the plan. The State is required to contribute at an actuarially determined rate. The Borough is responsible for contributing funds after accounting for the state contribution in order to meet the minimum municipal obligation for each year. The contribution requirements of the plan members and the State are established and may be amended by the Borough and State legislature, respectively. Administrative costs of the Non-Uniformed Pension Plan are financed through investment earnings.

Financial Statements

The following are financial statements as of December 31, 2005 for the individual pension plans maintained by the Borough:

	Police	Non Uniformed	Total
STATEMENT OF FIDUCIARY NET ASSETS			
PENSION TRUST FUNDS			
ASSETS			
Cash and cash equivalents	\$ 120,816	\$ 33,820	\$ 154,636
Investments	3,534,004	1,168,448	4,702,452
Accrued income	2,273	1,338	3,611
Total assets	<u>\$ 3,657,093</u>	<u>\$ 1,203,606</u>	<u>\$ 4,860,699</u>
NET ASSETS			
Held in trust for:			
Employees' pension benefits	\$ 3,657,093	\$ 1,203,606	\$ 4,860,699
Total net assets	<u>\$ 3,657,093</u>	<u>\$ 1,203,606</u>	<u>\$ 4,860,699</u>

Note 9. Employee Retirement Systems (Continued)STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION TRUST FUNDS

	Police	Non Uniformed	Total
ADDITIONS			
Contributions			
Employer	\$ 0	\$ 74,334	\$ 74,334
Employer - state funded	53,058	66,730	119,788
Plan members	<u>3,932</u>	<u>0</u>	<u>3,932</u>
Total contributions	<u>56,990</u>	<u>141,064</u>	<u>198,054</u>
Investment income			
Net appreciation (depreciation) in fair value of investments and gain (loss) on sale of investments	84,327	31,325	115,652
Interest, dividends, and other	<u>77,019</u>	<u>22,780</u>	<u>99,799</u>
Total investment income	161,346	54,105	215,451
Less investment expenses:			
Fiduciary fees	(19,051)	(5,947)	(24,998)
Total net investment income	<u>142,295</u>	<u>48,158</u>	<u>190,453</u>
 Total additions	 <u>199,285</u>	 <u>189,222</u>	 <u>388,507</u>
DEDUCTIONS			
Benefit payments	138,840	28,355	167,195
Administrative expense	<u>13,074</u>	<u>33,786</u>	<u>46,860</u>
 Total deductions	 <u>151,914</u>	 <u>62,141</u>	 <u>214,055</u>
 Change in net assets	 47,371	 127,081	 174,452
NET ASSETS			
Beginning	<u>3,609,722</u>	<u>1,076,525</u>	<u>4,686,247</u>
Ending	<u>\$ 3,657,093</u>	<u>\$ 1,203,606</u>	<u>\$ 4,860,699</u>

Note 10. Authority Pension Plan

All full-time employees of the Authority who have completed three years of service at any March 1st are eligible to participate in the plan. Participants are eligible for retirement benefits at age 62. Accrued benefits are 100% vested after ten full years of service. The pension will be 38% of the participant's final compensation with the amount being reduced by 1/26th for each year of service at age 62 less than 26 years.

The single-employer defined pension benefit trust fund, administered by PNC Advisors, is not included in these financial statements. The Authority's policy is to fund normal service cost currently. Prior service costs are being amortized and funded through 2018. For December 31 2005 the normal service cost, based on 6.53 8% of payroll, and the amortized prior service cost amounted to a required minimum contribution of \$ 87,009. A total of \$ 87,009 was contributed to the plan for 2005.

The entry age normal cost is the actuarial method being used. An assumed annual rate of return of 6.5% and annual salary increases of 3.5% are used to determine the actuarial value of the accrued liability and assets available in the plan.

A summary of the plan's accumulated benefits and assets as of June 1, 2005 (the most recent actuarial valuation) are as follows:

Actuarial accrued liability	\$ 917,330
Actuarial value of assets fair market value	(<u>616,229</u>)
Unfunded actuarial accrued liability	<u>\$ 301,101</u>

The following table provides an analysis of funding progress for the last three years:

Plan Year Ended	Annual Required Contribution	Actual Contribution	Percentage Contribution
2003	\$ 51,666	\$ 51,666	100%
2004	67,374	67,374	100%
2005	87,009	87,009	100%

Note 11. Risk Management

The Borough is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Borough purchases commercial insurance coverage through the Capital Region Insurance Trust for these types of losses, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. In addition, the Borough provides unemployment compensation coverage through a risk pool sponsored by the Pennsylvania Association of Boroughs (PSAB).

Note 12. Commitments and Contingent Liabilities

At December 31, 2005, the Borough had commitments for the renovation of the train station. The Borough has a total commitment with a general contractor in the amount of approximately \$ 2.0 million. Approximately \$ 1.3 million of these expenses were paid as of December 31, 2005 on this project.

In 1998 the Borough entered into a trust indenture to issue \$ 55,030,000 of Gettysburg College Revenue Bonds Series 1 998A and 1 998B. The Borough and the College then entered into a loan and security agreement whereby the College agrees to pay the principal and interest on the bonds. As security for the loans, a lien and security interest in the College's unrestricted revenues has been provided to the Borough. As of December 31, 2005, the remaining balance on these bonds is \$ 47,585,000. The liability and offsetting asset have not been reflected in the financial statements.

During 2002 a suit was filed against the Borough which demands a refund for alleged overcharging of tapping fees in the amount of \$ 150,800 which were paid in a prior year. The Borough has filed an analogous action against this party seeking \$ 260,000 in invoiced but unpaid tapping fees. Pleadings have been completed by the plaintiff, but no further action has been taken by either party. The potential receivable for \$ 260,000 and liability for \$ 150,800 have not been included in the financial statements.

On February 16, 2005, the Borough entered into an option agreement to purchase tracts of land in the Borough. This option agreement shall continue for a period of two years and six months. The purchase price of the land is \$ 1,800,000 with an option fee of \$ 100,000 paid at the time of execution and delivery of the agreement. As of December 31, 2005, this option has not been exercised.

Note 13. Concentrations

The Borough receives real estate, per capita, and occupation taxes from residents within the Borough limits. The Borough uses a tax collector to collect all current real estate, per capita and occupation taxes. The Borough may lien any property associated with the real estate assessment.

The Borough is located in Adams County within South Central Pennsylvania.

Note 14. Subsequent Events

On January 5, 2006 the Borough issued a tax revenue anticipation note (TRAN) in the amount of \$ 350,000 in order to fund current operations.

On March 10, 2006 the Borough entered into a Line of Credit that can be drawn for up to \$ 1,000,000. This money will be used as interim financing for future capital projects.

Note 15. Restatements of Net Assets and Fund Balance

During the year ended December 31, 2005, the following changes were made to correct errors in the December 31, 2004 net assets and fund balances:

	<u>Governmental Activities</u>	<u>Capital Projects Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Pension Trust Funds</u>
Net Assets and Fund Balance as of December 31, 2004 - originally reported	\$ 5,842,482	\$ 819,603	\$ 10,554,180	\$ 18,067,786	\$ 4,642,099
Add: Correction of accrued income	0	0	0	0	44,148
Recognition of revenue that should have been recorded as grants receivable	131,585	131,585	0	0	0
Donated lines, net of accumulated depreciation	0	0	2,211,542	7,938,236	0
Correct deferred revenue	0	0	77,944	38,920	0
Correct compensated absences	2,482	0	0	0	0
Less: Additional depreciation due to correction of estimated lives	0	0	(2,782,056)	(8,493,554)	0
Delete previously disposed assets	<u>0</u>	<u>0</u>	<u>(127,749)</u>	<u>(47,424)</u>	<u>0</u>
Net Assets and Fund Balances as of December 31, 2004 - restated	<u>\$ 5,976,549</u>	<u>\$ 951,188</u>	<u>\$ 9,933,861</u>	<u>\$ 17,503,964</u>	<u>\$ 4,686,247</u>
2004 change in net assets/fund balance - originally reported	(\$ 472,744)	\$ 819,603	N/A	N/A	\$ 366,594
Restatements as detailed above	<u>134,067</u>	<u>131,585</u>	<u>N/A</u>	<u>N/A</u>	<u>44,148</u>
2004 change in net assets/fund balance - restated	<u>(\$ 338,677)</u>	<u>\$ 951,188</u>	<u>N/A</u>	<u>N/A</u>	<u>\$ 410,742</u>

BOROUGH OF GETTYSBURG
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
Year Ended December 31, 2005

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded Actuarial Liability AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
Borough of Gettysburg Police Pension Plan						
01/01/98	-	-	-	-	-	-
01/01/99	\$ 2,942,516	\$ 2,058,580	(\$ 883,936)	142.9%	\$ 501,583	(176.2%)
01/01/00	-	-	-	-	-	-
01/01/01	3,609,145	2,317,121	(1,292,024)	155.7%	538,564	(239.9%)
01/01/02	-	-	-	-	-	-
01/01/03	3,467,472	2,825,713	(641,759)	122.7%	586,942	(109.3%)
01/01/04	-	-	-	-	-	-
01/01/05	3,593,049	3,182,611	(410,438)	112.9%	647,172	(63.4%)

Borough of Gettysburg Non-Uniformed Pension Plan

01/01/98	-	-	-	-	-	-
01/01/99	\$ 590,359	\$ 731,473	\$ 141,114	80.7%	\$ 650,045	21.7%
01/01/00	-	-	-	-	-	-
01/01/01	736,507	905,708	169,201	81.3%	697,720	24.3%
01/01/02	-	-	-	-	-	-
01/01/03	727,685	1,102,272	374,587	66.0%	763,902	49.0%
01/01/04	-	-	-	-	-	-
01/01/05	1,073,123	1,339,689	266,566	80.1%	1,083,910	24.6%

BOROUGH OF GETTYSBURG
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended December 31, 2005

	Original and Final Budget	Actual	Variance
Revenue			
Taxes	\$ 2,098,100	\$ 2,264,324	\$ 166,224
Licenses and permits	110,250	122,159	11,909
Fines and forfeits	315,500	284,536	(30,964)
Interest, rents and royalties	49,000	50,792	1,792
Intergovernmental	304,700	398,043	93,343
Charges for services	782,700	687,378	(95,322)
Donations from private sources	34,500	40,822	6,322
Miscellaneous revenue	17,050	42,064	25,014
Total revenue	<u>3,711,800</u>	<u>3,890,118</u>	<u>178,318</u>
Expenditures			
Current			
General government	532,500	599,315	66,815
Public safety	1,425,150	1,483,857	58,707
Health and welfare	18,250	17,558	(692)
Highways	755,600	653,234	(102,366)
Parking	518,100	414,691	(103,409)
Culture and recreation	337,000	372,342	35,342
Community development	53,160	157,752	104,592
Debt service	426,200	435,513	9,313
Miscellaneous	0	261	261
Total expenditures	<u>4,065,960</u>	<u>4,134,523</u>	<u>68,563</u>
Excess (deficiency) of revenue over expenditures	(354,160)	(244,405)	109,755
Other financing sources (uses)			
Proceeds from the sale of property	2,000	0	(2,000)
Operating transfers - in	530,600	116,423	(414,177)
Operating transfers - out	(213,000)	0	213,000
Other financing sources (uses) - net	<u>319,600</u>	<u>116,423</u>	<u>(203,177)</u>
Net change in fund balance	<u>(\$ 34,560)</u>	<u>(\$ 127,982)</u>	<u>(\$ 93,422)</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Borough Council
Borough of Gettysburg
Gettysburg, Pennsylvania

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Gettysburg, as of and for the year ended December 31, 2005, which collectively comprise the Borough of Gettysburg's basic financial statements and have issued our report thereon dated March 17, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Borough of Gettysburg's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Borough of Gettysburg's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2005-1, 2005-2 and 2005-3.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.



To the Borough Council
Borough of Gettysburg

Compliance and Other Matters

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

However, we noted certain matters that we reported to management of the Borough of Gettysburg in a separate letter dated March 17, 2006.

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

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
March 17, 2006

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Borough Council
Borough of Gettysburg
Gettysburg, Pennsylvania

Compliance

We have audited the compliance of the Borough of Gettysburg with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended December 31, 2005. The Borough of Gettysburg's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Borough of Gettysburg's management. Our responsibility is to express an opinion on the Borough of Gettysburg's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Borough of Gettysburg's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Borough of Gettysburg's compliance with those requirements.

In our opinion, the Borough of Gettysburg complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2005.

Internal Control Over Compliance

The management of the Borough of Gettysburg is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Borough of Gettysburg's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

To the Borough Council
Borough of Gettysburg
March 17, 2006

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
March 17, 2006

BOROUGH OF GETTYSBURG

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2005

Federal Grantor/Pass-through Grantor	Federal CFDA Number	Applicant Identifier Contract	Receipts	Expenditures
U.S. Department of Housing and Urban Development Program: Passed-through the PA Department of Community and Economic Development				
Community Development Block Grant	14.228	22-762-0072	\$ 12,539	\$ 15,920
Community Development Block Grant	14.228	C000003219	52,939	48,052
Community Development Block Grant	14.228	C000007586	0	1,479
Community Development Block Grant	14.228	C0000014505	<u>58,501</u>	<u>59,173</u>
Total passed through the PA Department of Community and Economic Development			<u>123,979</u>	<u>124,624</u>
U.S. Department of Transportation: Passed-through the PA Department of Transportation				
Highway Planning and Construction	20.205	088164	0	14,948
Highway Planning and Construction	20.205	087474	0	45,117
Surface Transportation Program	20.205	087242	<u>202,787</u>	<u>293,761</u>
Total passed through the PA Department of Transportation			<u>202,787</u>	<u>353,826</u>
U.S. Department of Interior/National Park Service:				
Save America's Treasures	15.929	42-02-ML-1285	113,247	125,000
Technical Assistance Grants	15.904	G4400-4-0001	25,000	25,000
Technical Assistance Grants	15.904	G4400-4-0002	50,000	50,000
Technical Assistance Grants	15.904	G4400-5-0002	<u>25,000</u>	<u>25,000</u>
Subtotal - Technical Assistance Grants			<u>100,000</u>	<u>100,000</u>
Total U.S. Department of Interior/ National Park Services			<u>213,247</u>	<u>225,000</u>
Total Federal Awards Received/Expended			<u><u>\$ 540,013</u></u>	<u><u>\$ 703,450</u></u>

BOROUGH OF GETTYSBURG

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2005

Note 1. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of the Federal awards program of the Borough of Gettysburg, Pennsylvania. The reporting entity is defined in Note 1 to the Borough's financial statements.

Note 2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the Borough's financial statements.

Note 3. Relationship to Financial Statements

Expenditures of Federal Awards are reported in the Borough's financial statements as follows:

	Expenditures
Capital Projects Fund	
Highway Planning and Construction Grant	\$ 60,065
Surface Transportation Program	293,761
Save America's Treasures Grant	125,000
Small Communities Fund	
Community Development Block Grant	124,624
General Fund	
Technical Assistance Grants	100,000
Total	<u>\$ 703,450</u>

Note 4. Determination of Major Programs

Program	CFDA No.	Amount	
Surface Transportation Program/Highway Planning and Construction	20.205	\$ 353,826	*
Community Development Block Grant	14.228	124,624	
Save America's Treasures Grant	15.929	125,000	
Technical Assistance Grants	15.929	100,000	
Total federal expenditures		<u>\$ 703,450</u>	

* Selected for testing as a major program - represents 50.3% of total federal expenditures.

**BOROUGH OF GETTYSBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2005**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified: ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weakness(es)? ☒ Yes ☐ None Reported

Noncompliance material to financial statements noted?

☐ Yes ☒ No

Federal Awards

Internal control over major program:

- Material weakness identified? ☐ Yes ☒ No
- Reportable condition(s) identified that is not Considered to be a material weakness(es)? ☐ Yes ☒ None Reported

Type of auditor's report issued on compliance for the major program: Unqualified

- Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133? ☐ Yes ☒ No

Identification of the major programs:

CFDA Number(s)	Name of Federal Program
20.205	Surface Transportation Program/Highway Planning and Construction

Dollar threshold used to distinguish between type A and type B programs

\$ 300,000

Auditee qualified as low-risk auditee?

☐ Yes ☒ No

BOROUGH OF GETTYSBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
DECEMBER 31, 2005

Section II - Financial Statement Findings

A. Reportable Conditions in Internal Control

Reference Number

Finding

2005-1 – Segregation of Duties

Condition:	The finance director is currently posting all journal entries with no approval. Bank reconciliations are not approved by an individual independent of preparing the reconciliations.
Criteria:	Journal entries and bank statements should be reviewed and approved by an individual independent of the preparer.
Cause:	Limited number of staff which decreases internal controls.
Effect:	Journal entries could be made erroneously and bank statements may not be reconciled accurately. Fraudulent activity could be easily covered up.
Recommendation:	All journal entries and bank reconciliations should be approved by a responsible individual. This review should be evidenced by the reviewer's initials and should include reconciliations and comparisons to prior periods.

2005-2 – Small Communities – Administrative Allocation

Condition:	There is no calculation or time study to support the actual administrative salaries that are applicable to the CDBG program.
Criteria:	Grant expenditures for salaries and wages should be supported by actual time and effort records.
Cause:	Misunderstanding of the application of the grant guidelines.
Effect:	Budgeted amounts of administration payroll expenditures were charged to the grant rather than the actual salary expenditures that were applicable to the grant. Unsupported grant expenditures could result in penalties assessed from grant providers or future reductions of grant funding.
Recommendation:	Analysis of the grant manager's time actually spent on the CDBG program should be performed to determine how much time is actually spent on the CDBG program. The most accurate way to accomplish this is to keep time cards.

BOROUGH OF GETTYSBURG
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
DECEMBER 31, 2005

2005-3 – Parking Department Cash Receipts

Condition:	Currently the parking department manager totals the meter monies and prepares the bank deposits.
Criteria:	A proper segregation of duties would require a second person to oversee the counting of meter monies and review of the bank deposit.
Cause:	Limited number of staff which decreases internal controls.
Effect:	Potential misappropriation of cash receipts.
Recommendation:	A second person should be involved in the functions of totaling the meter monies and preparing the deposits. A log could be used to verify the recording process.

B. Compliance Findings

There were no compliance findings relating to the financial statement audit required to be reported.

Section III - Federal Award Findings and Questioned Costs

A. Reportable Conditions in Internal Control

There were no findings relating to the major federal awards as required to be reported in accordance with Section .510(a) of OMB Circular A-133.

B. Compliance Findings

There were no findings relating to the major federal awards as required to be reported in accordance with Section .510(a) of OMB Circular A-133.

**BOROUGH OF GETTYSBURG
REPORT ON STATUS OF PRIOR YEAR'S COMPLIANCE
FINDINGS AND INTERNAL CONTROL WEAKNESSES
DECEMBER 31, 2005**

2004-1 – Bank Reconciliation

Condition: The finance director is currently filling the role of almost all accounting functions, including cash disbursements, payroll, all journal entries, and financial reporting. Also, bank reconciliations are not approved by an individual independent of preparing the reconciliations.

This has been partially resolved by adding staff and segregating some duties; however, certain internal controls still have not been fully implemented. See finding 2005-1.

2004-2 – Netting of revenues and expenses

Condition: There is no calculation for the actual administrative salaries that are applicable to the CDBG program.

This item has not been resolved in 2005. See Finding 2005-2.

2004-3 – Accounts Payable

Condition: Currently the parking department manager totals the meter monies and prepares the bank deposits.

This item has not been resolved in 2005. See Finding 2005-3.