

**BOROUGH OF GETTYSBURG**

**FINANCIAL  
REPORT**

---

DECEMBER 31, 2011

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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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the Borough of Gettysburg, Pennsylvania, as of and for the year ended December 31, 2011, which collectively comprise the Borough's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Borough's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Borough of Gettysburg, Pennsylvania, as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Borough has implemented the new fund balance reporting model as required by the provisions of the Governmental Accounting Standards Board (GASB) Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of January 1, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2012 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 considered in assessing the results of our audit.



To the Borough Council  
Borough of Gettysburg

Accounting principles generally accepted in the United States of America require that the managements' discussion and analysis on pages 3 through 11, the schedule of pension plan funding progress and employer contributions on page 45, and the general fund budgetary comparison schedule on page 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough of Gettysburg's financial statements as a whole. The combining nonmajor fund financial statements on pages 48 and 49 are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Smith Elliott Kearns & Company, LLC*

Chambersburg, Pennsylvania  
May 11, 2012

**BOROUGH OF GETTYSBURG**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**DECEMBER 31, 2011**  
**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, 2011. 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, 2011 by \$ 11,616,169. Of this amount \$ 1,504,890 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The total net assets increased by \$ 2,195,842.
- At December 31, 2011, the governmental funds reported combined fund balances of \$ 3,276,426 of which \$ 296,494 is designated nonspendable because funds were used to purchase inventory that was still held at the close of the year, to prepay various expenses and reserved for long-term receivables, \$ 1,657,742 is restricted to a particular use; and \$ 1,272,223 is unassigned and available for spending at the Borough of Gettysburg's discretion. The fund balance also includes an assigned amount of \$ 49,967 which represents the deficit portion of the adopted 2012 budget. A portion of the current year's reserves must be set aside to balance the budget in the year 2012.
- Governmental fund balances decreased \$ 1,338,602 during the year. This is mainly due to the spending of bond proceeds received in 2010 towards capital expenditures occurring in 2011.

**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.

*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 government-wide financial statements can be found on pages 12 and 13 of this report.

- 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 period.

**BOROUGH OF GETTYSBURG**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**DECEMBER 31, 2011**  
**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-like activities). The Borough of Gettysburg's governmental activities include Public Safety, Health and Human Services, Community Development, Public Works, General Government, Culture and Recreation and Debt Service. These financial statements do not present any business-like activities. The government-wide financial statements do present information of the discretely presented component unit which is the water and sewer transactions of Gettysburg Municipal Authority.

*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 component units.

- 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 available resources, as well as on balances of available 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 six 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, Capital Projects Fund and Capital Reserve Fund all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. A schedule in the Other Supplemental Section of the financial statements details the funds that make up the other governmental funds.
- The Borough of Gettysburg adopts an annual appropriated budget for all of the governmental funds except for the debt service fund.
- The basic governmental fund financial statements can be found on pages 14 - 17 of the report.

*Component Unit.* A component unit is a legally separate organization that a primary government must include as part of its financial reporting entity for fair presentation in conformity with Generally Accepted Accounting Practices (GAAP). It is important to underscore that components units, by definition, must be legally separate entities.

**BOROUGH OF GETTYSBURG**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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**Overview of the Financial Statements (Continued)**

There are three specific tests for determining whether a particular legally separate entity is a component unit of a primary government's financial reporting entity. Those tests involve 1) appointment of the unit's governing board 2) fiscal dependence on the primary government and 3) the potential that exclusion would result in misleading financial reporting.

Gettysburg Municipal Authority (GMA) financial information is presented as a discretely presented component unit in the financial statements that follow. The most important criteria used to come to this conclusion is that the Borough of Gettysburg council appoints the governing board of GMA. The notes to the financial statements address this issue and provide additional information in Note 1, "Summary of Significant Accounting Policies". Separate financial statements, which includes a Management Discussion and Analysis of the Authority, are available at the Authority's administrative office located at 59 East High Street, Gettysburg, PA 17325.

*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. The basic fiduciary fund financial statements can be found on pages 18 - 19 of this report.

*Notes to the financial statements.* The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 - 43 of this report.

*Required supplementary 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 and a general fund budgetary comparison. Required supplementary information can be found on page 45 - 46 of this report.

**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 \$ 11,616,169 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 debt used to acquire those assets that are still outstanding.

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.

**BOROUGH OF GETTYSBURG**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**DECEMBER 31, 2011**  
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BOROUGH OF GETTYSBURG'S NET ASSETS

	Governmental Activities	
	<u>2011</u>	<u>2010</u>
Current assets	\$ 3,784,672	\$ 5,344,960
Capital assets and other assets	<u>13,312,121</u>	<u>10,188,459</u>
<b>TOTAL ASSETS</b>	<b>17,096,793</b>	<b>15,533,419</b>
Current liabilities	856,580	1,138,916
Noncurrent liabilities	<u>4,624,044</u>	<u>4,974,176</u>
<b>TOTAL LIABILITIES</b>	<b>5,480,624</b>	<b>6,113,092</b>
Net assets:		
Invested in capital assets, net of related debt	9,162,341	7,098,009
Restricted	948,938	313,310
Unrestricted	<u>1,504,890</u>	<u>2,009,008</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$ 11,616,169</u></b>	<b><u>\$ 9,420,327</u></b>

**BOROUGH OF GETTYSBURG**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**DECEMBER 31, 2011**  
**UNAUDITED**

**Changes in Net Assets**

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

	Governmental Activities	
	<u>2011</u>	<u>2010</u>
Revenues:		
Program Revenues:		
Charges for Services	\$ 1,402,906	\$ 1,428,456
Operating Grants and Contributions	662,824	465,011
Capital Grants and Contributions	2,324,725	407,281
General Revenues:		
Taxes:		
Property	1,758,085	1,808,233
Earned income tax	438,175	488,919
Real Estate Transfer	55,026	68,307
Local services tax	305,226	306,743
Admission	160,390	144,488
Occupational and Per Capita	38,111	33,358
Unrestricted investment earnings	6,081	26,025
Miscellaneous	<u>0</u>	<u>910</u>
	7,151,549	5,177,731
Expenses:		
General Government	1,117,246	1,169,103
Public Safety	2,219,478	1,810,347
Health and Human Services	20,631	20,036
Public Works	978,502	1,077,014
Culture and Recreation	233,200	269,324
Community Development	201,911	253,075
Interest and Amortization	<u>184,739</u>	<u>149,131</u>
Total Expenses	4,955,707	4,748,030
Increase (Decrease) in Net Assets	2,195,842	429,701
Net Assets – Beginning	<u>9,420,327</u>	<u>8,990,626</u>
Net Assets – Ending	<u>\$ 11,616,169</u>	<u>\$ 9,420,327</u>

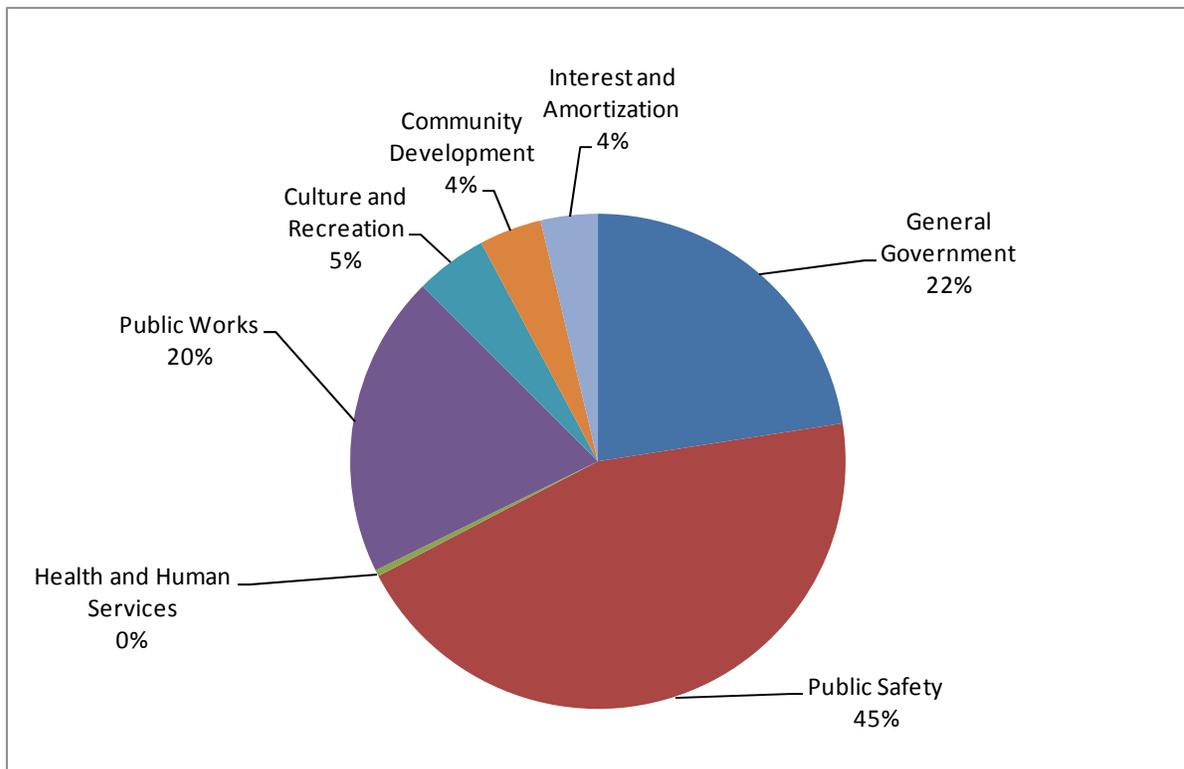
**BOROUGH OF GETTYSBURG**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**DECEMBER 31, 2011**  
**UNAUDITED**

**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 available resources. Such information is useful in assessing financing requirements. Unassigned 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 \$ 3,276,426. Approximately 39% of this total amount (\$ 1,272,223) constitutes unassigned fund balance which is available for spending at the government's discretion. The remainder of the fund balance (\$ 2,004,203) is shown as nonspendable, restricted and assigned to indicate that it is not available for new spending because it has already been set aside for prepaid expenses, long-term receivables, funds to be used solely for law enforcement purposes and fuel inventory, capital projects and a budget deficit next year.

The general fund is the primary operating fund of the Borough. During the year, revenues exceeded expenditures and other financing sources and uses (transfers in) in the general fund by \$ 105,221.

The chart below illustrates the breakdown of governmental funds costs:



**BOROUGH OF GETTYSBURG**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**DECEMBER 31, 2011**  
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**Budgetary Highlights**

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

During the year, actual general fund revenues were more than budgeted revenues by about \$ 472,000 and actual general fund expenditures were higher than budgeted expenditures by about \$ 104,000. The favorable budget variance for revenues resulted mostly due to a one time distribution of Act 205 pension funds from the Commonwealth. The unfavorable budget variances for expenditures were generated by the General Government and Public Safety Departments.

**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, 2011 was \$ 13,225,862 for governmental activities (net of accumulated depreciation). Major capital asset events during the year were:

- Additions of \$ 5,240,455 and retirements of \$ 1,593,238 in capital assets of governmental activities. Government activities added assets that include the completion of Steinwehr Avenue Safety Project Phase I, the completion of the Borough Building Renovations Project and the purchase of parking equipment for the Race Horse Alley Parking Plaza.

Comparative Capital Assets at December 31:

	Governmental Activities	
	<u>2011</u>	<u>2010</u>
Land and Improvements	\$ 297,282	\$ 327,307
Building and Improvements	8,657,547	6,853,490
Machinery and Equipment	758,062	639,116
Collections	14,150	14,150
Construction in Progress	64,991	1,523,842
Infrastructure	<u>3,433,830</u>	<u>670,069</u>
Total Capital Assets	<u>\$ 13,225,862</u>	<u>\$ 10,027,974</u>

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

**BOROUGH OF GETTYSBURG**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**DECEMBER 31, 2011**  
**UNAUDITED**

**Debt Administration**

The Borough of Gettysburg had total outstanding bonded debt of \$ 4,758,175 at December 31, 2011. The governmental activity amounts are backed by the full faith and credit of the Borough of Gettysburg. The following is a comparative statement of outstanding debt:

	Governmental Activities	
	<u>2011</u>	<u>2010</u>
General Obligation Bond	\$ 4,758,175	\$ 5,095,849
Capital Lease Payable	\$ 0	\$ 9,521
Termination Benefit Payable	17,724	21,665
Compensated Absences	<u>245,456</u>	<u>232,878</u>
Total Debt	<u>\$ 5,021,355</u>	<u>\$ 5,359,913</u>

During the year \$ 328,714 of bonded debt and \$ 29,160 of a Pennsylvania Infrastructure Bank Loan were retired. A net increase of \$ 12,577 in accrued compensated absences, capital lease payable and termination benefits payable were recorded.

The Borough of Gettysburg received a rating of A+, and stable outlook from Standard & Poors for the series 2010 general obligation bond issue. The rating reflects Standard & Poors assessment of the Borough:

- Stable local economy, anchored by higher education and a tourism component;
- Adequate wealth and income indicators;
- Financial position that has strengthened considerably recently, characterized now by very strong reserves; and
- Moderately low debt profile.

As a borough, there are legal limitations on the amount of debt that can be outstanding. The recent borrowing base calculation put the limit of non-electoral debt at \$ 10,516,502. At the current debt level of \$ 4,758,175 the Borough is indebted at 45% of the amount the allowable non-electoral debt. Additional information on the Borough of Gettysburg's long term debt can be found in Note 7 in the Notes to Financial Statements.

**Economic Factors and Next Year's Budget**

Assessed valuation has averaged .5% annual growth over the period 2006 to 2010 with an average assessed value during the same period of \$ 118,000,000. During 2011 a county wide reassessment was conducted and finalized and the assessed value was adjusted to \$ 514,884,800. The assessment has decreased by .3% for the year 2012. The general fund budget for 2012 reflects a 1% percent decrease in total revenues and a 1% increase in expenses over the 2011 budget.

**BOROUGH OF GETTYSBURG**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**DECEMBER 31, 2011**  
**UNAUDITED**

**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 Florence A. Ford, Borough Manager, 59 East High Street, Gettysburg, PA 17325.

**BOROUGH OF GETTYSBURG**

**STATEMENT OF NET ASSETS**  
December 31, 2011

	<b>Governmental Activities</b>	<b>Component Unit Authority</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 2,936,624	\$ 8,587,257
Investments	0	1,557,733
Taxes receivable, net	243,938	0
Accounts receivable - billed	307,616	605,837
Accounts receivable - unbilled	0	492,659
Loan receivable - current portion	63,034	0
Intergovernmental receivable	0	686,661
Accrued interest receivables	0	2,010
Inventories	13,607	57,728
Prepaid expenses	219,853	8,442
Total current assets	<u>3,784,672</u>	<u>11,998,327</u>
<b>Noncurrent assets</b>		
Restricted investments	6,877	3,550,050
Bond issue costs	79,382	154,135
Capital assets not being depreciated:		
Collections	14,150	0
Construction in progress	64,991	11,499,099
Capital assets net of accumulated depreciation:		
Land and land improvements	297,282	250,360
Buildings and improvements	8,657,547	7,695,228
Machinery, equipment and furniture	758,062	29,819,476
Infrastructure	3,433,830	0
Total noncurrent assets	<u>13,312,121</u>	<u>52,968,348</u>
Total assets	<u>\$ 17,096,793</u>	<u>\$ 64,966,675</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 185,236	\$ 2,104,908
Accrued wages and withholdings	105,982	37,355
Accrued interest	30,568	32,064
Unearned revenues	137,483	0
Consumer deposits	0	45,012
Long-term liabilities: Due within one year		
Bonds and notes payable	360,864	1,174,196
Compensated absences	32,149	0
Termination benefit payable	4,298	0
Total current liabilities	<u>856,580</u>	<u>3,393,535</u>
<b>Noncurrent liabilities</b>		
Long-term liabilities: Due in more than one year		
Bonds and notes payable	4,397,311	16,756,779
Compensated absences	213,307	0
Termination benefit payable	13,426	0
Total noncurrent liabilities	<u>4,624,044</u>	<u>16,756,779</u>
Total liabilities	<u>5,480,624</u>	<u>20,150,314</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	9,162,341	32,897,639
Restricted	948,938	0
Unrestricted	1,504,890	11,918,722
Total net assets	<u>11,616,169</u>	<u>44,816,361</u>
Total liabilities net assets	<u>\$ 17,096,793</u>	<u>\$ 64,966,675</u>

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



**BOROUGH OF GETTYSBURG**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2011**

	General Fund	Capital Projects Fund	Capital Reserve Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,294,942	\$ 1,242,977	\$ 256,243	\$ 142,462	\$ 2,936,624
Investments	0	0	0	6,877	6,877
Accounts and grants receivable	148,683	153,401	0	5,532	307,616
Taxes receivable, net	243,938	0	0	0	243,938
Due from other funds	0	0	27,000	0	27,000
Loans receivable	0	63,034	0	0	63,034
Inventories	13,607	0	0	0	13,607
Prepaid expenses	157,472	0	62,381	0	219,853
Total assets	<u>\$ 1,858,642</u>	<u>\$ 1,459,412</u>	<u>\$ 345,624</u>	<u>\$ 154,871</u>	<u>\$ 3,818,549</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable	\$ 162,969	20,896	\$ 0	\$ 1,371	\$ 185,236
Due to other funds	0	27,000	0	0	27,000
Deferred revenue	96,422	122,597	0	4,886	223,905
Accrued wages, benefits and withholdings	105,982	0	0	0	105,982
Total liabilities	<u>365,373</u>	<u>170,493</u>	<u>0</u>	<u>6,257</u>	<u>542,123</u>
<b>Fund balances</b>					
Nonspendable	171,079	63,034	62,381	0	296,494
Restricted	0	1,225,885	283,243	148,614	1,657,742
Assigned	49,967	0	0	0	49,967
Unassigned	1,272,223	0	0	0	1,272,223
Total fund balances	<u>1,493,269</u>	<u>1,288,919</u>	<u>345,624</u>	<u>148,614</u>	<u>3,276,426</u>
Total liabilities and fund balances	<u>\$ 1,858,642</u>	<u>\$ 1,459,412</u>	<u>\$ 345,624</u>	<u>\$ 154,871</u>	<u>\$ 3,818,549</u>

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

**BOROUGH OF GETTYSBURG**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
December 31, 2011**

**Total fund balance - governmental funds** \$ 3,276,426

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund balance sheet, but are reported in the governmental activities of the Statement of Net Assets.

Cost of assets	\$ 22,157,385	
Accumulated depreciation	( 8,931,523)	13,225,862

Bond issue costs are not available to pay current period expenditures and therefore are not reported in the fund balance sheet, but are reported in the government activities of the Statement of Net Assets. 79,382

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 balance sheet. However, these are recorded as revenue and receivable when earned for the government-wide statements. 86,422

Some liabilities are not due and payable in the current period and are not included in the fund balance sheet, but are included in governmental activities in the Statement of Net Assets.

Bonds and notes payable, net	( 4,758,175)	
Accrued interest	( 30,568)	
Compensated absences	( 245,456)	
Termination benefits	( 17,724)	
		( 5,051,923)

**Total net assets - governmental activities** \$ 11,616,169

**BOROUGH OF GETTYSBURG**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2011**

	General Fund	Capital Projects Fund	Capital Reserve Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Taxes	\$ 2,749,058	\$ 0	\$ 0	\$ 0	\$ 2,749,058
Licenses and permits	111,490	0	0	0	111,490
Fines and forfeits	234,108	0	2,028	0	236,136
Investment earnings	1,647	3,551	582	301	6,081
Rents	26,871	0	0	0	26,871
Intergovernmental	492,646	2,284,629	0	213,364	2,990,639
Charges for services	952,592	0	0	0	952,592
Donations	12,904	0	0	0	12,904
Miscellaneous	59,823	0	0	0	59,823
Total revenues	<u>4,641,139</u>	<u>2,288,180</u>	<u>2,610</u>	<u>213,665</u>	<u>7,145,594</u>
<b>EXPENDITURES</b>					
General government	941,721	1,002,043	0	0	1,943,764
Public safety	2,026,707	0	4,579	0	2,031,286
Health and human services	20,631	0	0	0	20,631
Public works	736,605	2,692,117	0	136,126	3,564,848
Culture and recreation	197,789	0	0	0	197,789
Community development	39,450	90,075	0	72,377	201,902
Debt service	510,342	0	0	33,834	544,176
Total expenditures	<u>4,473,245</u>	<u>3,784,235</u>	<u>4,579</u>	<u>242,337</u>	<u>8,504,396</u>
Excess (deficiency) of revenues over expenditures	<u>167,894</u>	<u>( 1,496,055)</u>	<u>( 1,969)</u>	<u>( 28,672)</u>	<u>( 1,358,802)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Issuance of long term financing	0	20,200	0	0	20,200
Transfers in (out)	<u>( 62,673)</u>	<u>22,014</u>	<u>0</u>	<u>40,659</u>	<u>0</u>
Total other financing sources and uses	<u>( 62,673)</u>	<u>42,214</u>	<u>0</u>	<u>40,659</u>	<u>20,200</u>
Net change in fund balances	105,221	<u>( 1,453,841)</u>	<u>( 1,969)</u>	11,987	<u>( 1,338,602)</u>
Fund balances - beginning	<u>1,388,048</u>	<u>2,742,760</u>	<u>347,593</u>	<u>136,627</u>	<u>4,615,028</u>
Fund balances - ending	<u>\$ 1,493,269</u>	<u>\$ 1,288,919</u>	<u>\$ 345,624</u>	<u>\$ 148,614</u>	<u>\$ 3,276,426</u>

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

**BOROUGH OF GETTYSBURG**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2011**

**Net change in fund balances - total governmental funds** ( \$ 1,338,602)

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 capital 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.

Depreciation expense	( \$ 563,075)	
Capital outlays, net of retirements	<u>3,760,963</u>	3,197,888

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 revenue is:

5,955

Governmental funds report bond and capital lease proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond and capital lease principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the difference between proceeds and repayments.

350,987

Governmental funds report bond issue costs, bond loss and discounts as expenditures. However, in the statement of activities, these costs are amortized over the life of the related bond. This is the amount of bond issue costs, bond loss and bond discounts recorded as assets and liabilities in the Statement of Net Assets net of amortization expense for the current year.

( 15,080)

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds. This is the difference between the amount (incurred) and the amount paid for:

Accrued interest expense	3,330	
Compensated absences	( 3,178)	
Termination benefits	3,941	
Vision benefits	<u>( 9,399)</u>	<u>( 5,306)</u>

**Change in net assets - governmental activities** \$ 2,195,842

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

**BOROUGH OF GETTYSBURG**

**STATEMENT OF FIDUCIARY NET ASSETS**

*December 31, 2011*

	<u>Pension Trust Funds</u>	<u>Private Purpose Trust Fund</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 68,415	\$ 0
Investments	5,688,656	8,576
Total assets	<u>\$ 5,757,071</u>	<u>\$ 8,576</u>
 <b>NET ASSETS</b>		
Held in trust for:		
Employees' pension benefits	\$ 5,757,071	\$ 0
Other purposes	<u>0</u>	<u>8,576</u>
Total net assets	<u>\$ 5,757,071</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**

*For the Year Ended December 31, 2011*

	<b>Pension Trust</b>	<b>Private Purpose</b>
	<b>Funds</b>	<b>Trust Funds</b>
	<hr/>	<hr/>
<b>Additions</b>		
Contributions		
Employer	\$ 30,119	\$ 0
Employer - state funded	263,032	0
Total contributions	<hr/> 293,151	<hr/> 0
<b>Investment earnings</b>		
Net appreciation (depreciation) in fair value of investments and gain (loss) on sale of investments	( 80,592)	0
Interest, dividends and other	145,621	39
Total investment income	<hr/> 65,029	<hr/> 39
Less investment expenses:		
Fiduciary fees	( 30,795)	0
Net investment earnings	<hr/> 34,234	<hr/> 39
Total additions	<hr/> 327,385	<hr/> 39
<b>Deductions</b>		
Benefit payments	254,256	0
Administrative expense	11,017	0
Other services	0	39
Total deductions	<hr/> 265,273	<hr/> 39
Change in net assets held in trust for:		
Employees' pension benefits	62,112	0
Other purposes	0	0
Net assets - beginning	<hr/> 5,694,959	<hr/> 8,576
Net assets - ending	<hr/> <u>\$ 5,757,071</u>	<hr/> <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 strong council-weak mayor-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, Pennsylvania, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Government 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 business-type activities 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 discrete presentation and is included within the reporting entity:

- The Gettysburg Municipal Authority (the “Authority”) is governed by a board appointed by Borough Council of which one member serves on both Boards. The Authority owns the water and sewer plant which services the Borough of Gettysburg entirely and neighboring Townships, Cumberland and Straban. The Borough has also issued general obligation bonds on behalf of the Authority and guaranteed certain bond issues. The debt service for these bond issues is paid entirely by the Authority. See Note 7 for additional information.

In addition, a management agreement between the Authority and the Borough 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. The Authority and the Borough are currently negotiating a new service agreement that will detail duties to be handled by the Authority and the Borough. Separate financial statements of the Authority are available at the Authority’s Administrative office located at 59 East High Street, Gettysburg, Pennsylvania 17325.

### **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/net assets/(deficit), revenue, and expenditures/expenses. The various funds of the primary government are segregated into the categories of governmental 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 unreserved-undesignated 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).

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

The Borough reports the following non-major governmental funds:

Special Revenue Funds - Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term *proceeds of specific revenue sources* establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund. The Borough has the following Special Revenue Funds:

- Small Communities Program Fund – is used to account for the proceeds and disposition of various federal and state grants that are restricted by grant agreements to expenditures for community development projects.

## Note 1. Summary of Significant Accounting Policies (Continued)

### Fund Accounting (Continued)

- Highway Aid Fund - is used to account for the proceeds and disposition of state liquid fuels entitlements that are legally restricted to expenditures for specific purposes, primarily building and maintaining local roads and bridges.
- Company K Fund – is used to account for the proceeds and disposition of funds donated to the Borough that are restricted for the perpetual care and maintenance of the Company K Memorial Monument.

### **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 Eichelberger-Stahle Trust Fund, which accounts for a charity fund in which yearly proceeds are to be distributed to the deserving poor of the Borough.

### Basis of Presentation

*Government-wide Financial Statements* – The statements of net assets and 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 statements distinguish between these activities of the Borough that are governmental and the discretely presented component unit.

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 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 governmental function is self-financing or draws from the general revenues of the Borough.

## **Note 1. Summary of Significant Accounting Policies (Continued)**

### **Basis of Presentation (Continued)**

*Fund Financial Statements* – Fund financial statements report detailed information about the Borough. The focus of the governmental fund financial statements is on major funds rather than reporting funds 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.

Fiduciary funds are reported using the economic resources measurement focus.

### **Basis of Accounting**

#### **Accrual**

Government-wide 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 standards, 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.

## **Note 1. Summary of Significant Accounting Policies (Continued)**

### **Basis of Accounting (Continued)**

#### **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.

#### **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.

#### **Inventories**

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

All other governmental funds expense inventoriable items when purchased, which are insignificant at year end.

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

#### **Capital Assets**

General capital assets are those assets that 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.

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)

### 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
Infrastructure	20
Buildings and improvements	20 - 40
Machinery and equipment	5 - 15
Furnishings and fixtures	5

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

### Net Assets

In the government-wide 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. The following details restricted net assets.

Restricted for USS Gettysburg	\$ 2,023
Restricted for future capital improvements	779,716
Restricted for community development	8,673
Restricted for Company K monument	6,877
Restricted for public safety	18,585
Restricted for Highway Department	<u>133,064</u>
	<u>\$ 948,938</u>

*Unrestricted Net 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.

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.

## Note 1. Summary of Significant Accounting Policies (Continued)

### Fund Balance – Governmental Funds

In July 2010, the GASB issued Statement No.54, *Fund Balance and Governmental Fund Type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The financial statements incorporate the changes required by Statement No. 54 as detailed below.

Governmental funds classify fund balance based on the relative strength of the spending constraints placed on the purpose for which resources can be used. The classifications are as follows:

*Nonspendable*: This classification includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact. This classification includes items such as prepaid amounts, inventories, and the long term portion of loans and notes receivable. This also includes the corpus (or principal) of permanent funds.

*Restricted*: This classification includes amounts where the constraints placed on the use of resources are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, change or mandate payment and includes a legally enforceable requirement on the use of these funds.

*Committed*: This classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Borough's highest level of decision-making authority. This formal action is in the form of a resolution which is made by the Borough Council. Once an amount is committed, it cannot be used for any other purpose unless changed by the same type of formal action used to initially constrain the funds.

*Assigned*: This classification includes spendable amounts that are reported in governmental funds *other than in the General Fund*, that are neither restricted nor committed, and amounts in the General Fund that are intended to be used for a specific purpose. The intent of an assigned fund balance should be expressed by either the Borough Council, or a subordinate high-level body, such as the finance committee, borough manager, or finance director that is authorized to assign amounts to be used for specific purposes. The assignment of fund balance cannot result in a negative unassigned fund balance.

*Unassigned*: This classification represents the portion of a spendable fund balance that has not been categorized as restricted, committed, or assigned. The general fund is the only fund which would include a positive unassigned fund balance as all other fund types must categorize amounts within the other classifications. A negative unassigned fund balance may occur in any fund when there is an over expenditure of restricted or committed fund balance. In this case, any assigned fund balance (and unassigned fund balance in the general fund) would be eliminated prior to reporting a negative unassigned fund balance.

### Order of spending policy

The Borough does not have a spending order policy when fund balance resources are available for a specific purpose in multiple classifications. Therefore, the default spending order is to use restricted resources first and then apply unrestricted resources in the following order: committed, assigned and unassigned.

## **Note 1. Summary of Significant Accounting Policies (Continued)**

### **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.

### **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, 2011.

### **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 columns in the statement of net assets. 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 (if resulting from a disparity in interest rates) or as debt service expenditures (if resulting from underwriter's fees). Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### **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.

## **Note 1. Summary of Significant Accounting Policies (Continued)**

### **Pension Plans (Continued)**

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.

### **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.

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 statements, the liability and expenses are recorded as earned.

### **Discretely Presented Municipal Authority:**

#### ***Accounts Receivable and Concentration of Credit Risk***

The Authority 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.

#### ***Capital Assets***

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 Authority. 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)**

**Discretely Presented Municipal Authority:**

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:

Buildings and plant	25-40 years
Wells	25 years
Lift stations	25 years
Utility and general	10-15 years

***Compensated Absences/Vision Benefits***

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 2. Cash and Investments**

**Borough:**

The Borough is authorized to invest in the following:

- U.S. Treasury Bills.
- Short-term obligations of the U.S. Government or its agencies.
- Deposits in savings accounts or certificates of deposit insured by the FDIC or NCUSIF to the extent that such accounts are so insured and for any amounts above the insured maximum, provided that approved collateral as provided by law shall be pledged by the depository.
- Obligations of the U.S. Government, Commonwealth of Pennsylvania, or any agency, instrumentality, or political subdivision thereof, backed by the full faith and credit of the applicable government.
- Shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933.

***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, 2011, \$ 1,506,132 of the Borough's bank balance of \$ 2,944,317 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 Borough's name		<u>1,506,132</u>
	\$	<u>1,506,132</u>

**Note 2. Cash and Investments (Continued)**

Included in the Governmental Activities investments on the statement of net assets is a certificate of deposit of \$ 6,877, with a maturity of less than one year. Included in the Fiduciary investments on the statement of fiduciary net assets is a certificate of deposit of \$ 8,576, with a maturity of less than one year. All are considered deposits for purposes of this disclosure.

***Municipal Pension Plans***

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

	<b>Value</b>
Money Market Funds	\$ 68,415
Mutual Funds	<u>5,688,656</u>
	<u>\$ 5,757,071</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 to limit investment in fixed income securities to a particular credit quality rating. Approximately 33% of total mutual fund investments are fixed income investments that include an investment in bonds that are given a credit quality rating. For these rated bonds, approximately 53% received a credit quality rating of AAA or better.

**Discretely Presented Municipal Authority:**

The Authority is authorized to invest funds as detailed above for the Borough.

***Custodial Credit Risk - Deposits***

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a written policy for custodial credit risk. As of December 31, 2011, \$ 11,940,534 of the Authority's bank balance of \$ 12,227,769 is exposed to credit risk. Included in this amount is \$ 1,607,733 of certificates of deposit, which are classified as investments on the statement of net assets. Deposits of \$ 8,390,484 were uninsured and collateralized with securities held by the pledging bank's trust department, but not in the Authority's name, and money market deposits of \$ 3,550,050 which were collateralized with securities held by the pledging institution in the Authority's name.

***Credit Risk***

The Authority does not have a formal policy pertaining to credit risk.

**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, 2011 is \$ 513,283,100.

**Note 3. Taxes Receivable and Deferred Revenues (Continued)**

Taxes receivable in the fund financial statements consists of the following as of December 31, 2011:

Real Estate and Real Estate transfer	\$ 99,064
Per Capita	10,811
Earned Income	64,189
Occupational	21,970
Local Services Tax	54,747
Admission	13,640
Allowance for uncollectible accounts	( 20,483)
Total taxes receivable	243,938
Taxes collected within sixty days, recorded as revenues in governmental funds	( 157,516)
Taxes estimated to be collected after sixty days, recorded as deferred revenue in governmental funds	86,422
Deferred grant revenue	10,000
Total deferred revenue	\$ 96,422

**Note 4. Interfund Receivables and Payables and Transfers**

**Borough:**

Due from/to other funds consist of the following as of December 31, 2011:

<u>Due To</u>	<u>Due From</u>				
	<u>General</u>	<u>Small</u>	<u>Capital</u>	<u>Capital</u>	
	<u>Fund</u>	<u>Communities</u>	<u>Projects</u>	<u>Reserve</u>	<u>Total</u>
		<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	
Capital Projects Fund	\$ 0	\$ 0	\$ 0	(\$ 27,000)	(\$ 27,000)
Capital Reserve Fund	0	0	27,000	0	27,000
Total	\$ 0	\$ 0	\$ 27,000	(\$ 27,000)	\$ 0

At December 31, 2011, the Capital Projects owed the Capital Reserve Fund \$ 27,000 for miscellaneous expenses paid by the Capital Reserve Fund on behalf of the Capital Projects Fund.

Interfund operating transfers were as follows in 2011:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
Capital Projects Fund	General Fund	\$ 22,014
Highway Aid Fund	General Fund	\$ 40,659

**Note 4. Interfund Receivables and Payables and Transfers (Continued)**

In 2011 the General Fund recorded a transfer of \$ 17,463 to the Capital Projects Fund to fund additional expenses related to the West Middle Street Bricks project and \$4,551 to satisfy a 2010 interfund due to/due from balance related to recording of interest expense incurred during the issuance of the 2010 bonds.

In 2011 the General Fund recorded a transfer of \$40,659 to the Highway Aid Fund to cover prior years expenses determined to be allowable by the Pennsylvania Department of Transportation.

**Note 5. Capital Assets**

**Borough:**

Capital asset activity for the Borough consists of the following as of and for the year ended December 31, 2011:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Cost:				
Land improvements	\$ 455,753	\$ 0	\$ 0	\$ 455,753
Infrastructure	4,976,594	2,889,203	0	7,865,797
Buildings and improvements	9,218,844	2,072,354	0	11,291,198
Machinery and equipment	2,236,085	258,257	( 113,746)	2,380,596
Furniture and fixtures	84,900	0	0	84,900
Collections	14,150	0	0	14,150
Construction in progress	1,523,842	20,641	( 1,479,492)	64,991
Total cost	<u>18,510,168</u>	<u>5,240,455</u>	<u>( 1,593,238)</u>	<u>22,157,385</u>
Less accumulated depreciation:				
Land improvements	( 128,446)	( 30,025)	0	( 158,471)
Infrastructure	( 4,306,526)	( 125,442)	0	( 4,431,968)
Buildings and improvements	( 2,365,354)	( 268,297)	0	( 2,633,651)
Machinery and equipment	( 1,596,969)	( 139,311)	113,746	( 1,622,534)
Furniture and fixtures	( 84,900)	0	0	( 84,900)
Total accumulated depreciation	<u>( 8,482,194)</u>	<u>( 563,075)</u>	<u>113,746</u>	<u>( 8,931,523)</u>
<b>Capital assets, net</b>	<u>\$ 10,027,974</u>	<u>\$ 4,677,380</u>	<u>(\$ 1,479,492)</u>	<u>\$ 13,225,862</u>

Accumulated costs attributable to projects included in "Construction in Progress" at December 31, 2011 are as follows:

West Middle Street Bricks	<u>\$ 64,991</u>
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Depreciation expense for the year ended December 31, 2011 was charged as follows:

General Government	\$ 175,504
Public Safety	35,316
Highways	205,122
Parking	107,108
Culture and Recreation	40,025
	<u>\$ 563,075</u>

**Note 5. Capital Assets (Continued)**

**Discretely Presented Municipal Authority:**

Capital asset activity for the Authority consists of the following as of and for the year ended December 31, 2011:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Cost:				
Land	\$ 154,839	\$ 95,521	\$ 0	\$ 250,360
Building and plant	21,807,612	0	0	21,807,612
Wells	2,296,255	0	0	2,296,255
Lift stations	775,711	0	0	775,711
Utility and general equipment	42,622,868	1,669,480	0	44,292,348
Construction in progress	2,001,784	11,166,795	( 1,669,480)	11,499,099
Total cost	<u>69,659,069</u>	<u>12,931,796</u>	<u>( 1,669,480)</u>	<u>80,921,385</u>
Less accumulated depreciation:				
Building and plant	( 13,284,333)	( 828,051)	0	( 14,112,384)
Wells	( 975,789)	( 87,346)	0	( 1,063,135)
Lift stations	( 407,546)	( 30,498)	0	( 438,044)
Utility and general equipment	( 15,055,076)	( 988,583)	0	( 16,043,659)
Total accumulated depreciation	<u>( 29,722,744)</u>	<u>( 1,934,478)</u>	<u>0</u>	<u>( 31,657,222)</u>
<b>Capital assets, net</b>	<u>\$ 39,936,325</u>	<u>\$ 10,997,318</u>	<u>(\$ 1,669,480)</u>	<u>\$ 49,264,163</u>

Accumulated costs attributable to projects included in "Construction-in-Progress" at December 31, 2011 are as follows:

York Water Pipeline	\$ 84,320
Future water	236,924
Water meters	17,819
Interceptor	174,392
Wastewater plant upgrade	10,985,644
	<u>\$ 11,499,099</u>

## Note 6. Mortgages and Notes Receivable

The following is a summary of changes in mortgages receivable for the year ended December 31, 2011:

	Beginning Balance	Additions	Reductions	Ending Balance	Accrued Interest	Current Portion	Long-term Portion
Mortgages receivable							
(A) Scattered Sites 3rd Mortgage	59,718	0	0	59,718	7,415	0	59,718
(B) Scattered Sites 4th Mortgage	150,000	0	0	150,000	18,000	0	150,000
(C) Scattered Sites 5th Mortgage	40,000	0	0	40,000	4,800	0	40,000
Subtotal - mortgages	249,718	0	0	249,718	30,215	0	249,718
Allowance for uncollectible accounts	( 249,718)	0	0	( 249,718)	( 30,215)	0	( 249,718)
<b>Net mortgages receivable</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

- (A) 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.
- (B) 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, 2011 totaled \$ 28,500 with interest through December 31, 1999 totaling \$ 10,500 being forgiven.
- (C) 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, 2011 totaled \$ 4,800 after the accrued interest was rolled into principal during 1999.

For the 3<sup>rd</sup>, 4<sup>th</sup>, and 5<sup>th</sup> 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.

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Long-term Portion
Notes Receivable						
(A) Kennies Market	\$ 124,513	\$ 0	(\$ 61,479)	\$ 63,034	\$ 63,034	\$ 0
<b>Total Notes Receivable</b>	<u>\$ 124,513</u>	<u>\$ 0</u>	<u>(\$ 61,479)</u>	<u>\$ 63,034</u>	<u>\$ 63,034</u>	<u>\$ 0</u>

- (A) On August 8, 2007, Kennie's Market, Inc. signed a promissory note to pay the Borough principal of \$ 300,000 plus interest at a rate of 2.5% per annum. Monthly principal and interest payments of \$ 5,324 will be made through January 1, 2013.

## Note 7. Long-term Liabilities

### Borough:

The changes in long-term liabilities during the year ended December 31, 2011 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Long-term Portion
Bonds and notes payable						
(A) 2004 GO Bond	\$ 590,000	\$ 0	(\$ 295,000)	\$ 295,000	\$ 295,000	\$ 0
(B) 2008 GO Bond	391,243	0	( 32,506)	358,737	34,493	324,244
(C) 2010 GO Bond	3,860,000	0	( 5,000)	3,855,000	5,000	3,850,000
(D) 2009 PIB Loan	286,565	20,200	( 29,160)	277,605	30,664	246,941
Bond Discount	( 31,959)	0	3,792	( 28,167)	( 4,293)	( 23,874)
Subtotal - bonds and notes	5,095,849	20,200	( 357,874)	4,758,175	360,864	4,397,311
Capital lease payable	9,521	0	( 9,521)	0	0	0
Compensated absences/vision benefit	232,879	43,169	( 30,592)	245,456	32,149	213,307
Termination benefit payable	21,665	0	( 3,941)	17,724	4,298	13,426
<b>Total long-term liabilities</b>	<b>\$ 5,359,914</b>	<b>\$ 63,369</b>	<b>(\$ 401,928)</b>	<b>\$ 5,021,355</b>	<b>\$ 397,311</b>	<b>\$ 4,624,044</b>

### Bond, Notes, and Loans Payable

- (A) 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%.
- (B) General Obligation Bond – Series of 2008 – On January 31, 2008, the Borough issued General Obligation Bonds in the principal amount of \$ 435,000 to currently refund the General Obligation Note – 2006. Interest only shall be paid on February 1, 2009, thereafter semiannual installments of \$ 29,945 are due February 1 and August 1 through August 1, 2019; the interest rate is fixed at 7.25%.
- (C) General Obligation Bond – Series of 2010 – On May 15<sup>th</sup>, 2010, the Borough issued \$10,045,000 of General Obligation Bonds, Series of 2010. The purpose of the issuances is to (1) refinance the 2004A and 2004B General Obligation Bonds of the Borough (issued on behalf of the Authority), and (2) finance numerous capital projects of the Borough. The portion of the bonds used to refinance the 2004A and 2004B bonds was \$6,185,000. These bonds were issued to finance the Municipal Authority operations and, therefore, this portion will be repaid by the Authority. The portion of the bonds issued by the Borough for future projects was \$3,860,000. For the Borough’s portion, annual principal installments varying from \$5,000 to \$495,000 are due through November 14, 2023 and fixed interest rates vary from 2.00% to 3.85%.
- (D) Pennsylvania Infrastructure Bank Loan of 2009 - On December 30, 2009, the Borough signed a note in the principal amount of \$300,000 to fund various infrastructure improvements within the Borough. This note was drawn down during 2009 and the final draw was received in February 2011. Semiannual installments of \$16,312 are due February 8<sup>th</sup> and August 8<sup>th</sup> through February 8, 2020 with an interest rate of 1.625%.

The Borough has a signed agreement with the Steinwehr Avenue, Heart of Gettysburg Battlefield Neighborhood Improvement District (“District”)(an unrelated third party) in which the Borough is to be reimbursed for 30% of the loan obligation by the District. The total amount to be reimbursed by the District is \$104,405. Per the agreement the District is make biannual payments to the Borough of \$5,600 beginning in 2010 through 2019. As of December 31, 2011 the total amount reimbursed by the District was \$10,815.

**Note 7. Long-term Liabilities (Continued)**

**Bond, Notes, and Loans Payable (Continued)**

The following is a schedule by years and in the aggregate of future minimum debt principal and interest payments.

	2004 GO Bond		2008 GO Bond		PIB Loan		2010 GO Bond (Borough Portion)		Governmental Activities Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 295,000	\$ 9,440	\$ 34,493	\$ 25,398	\$ 30,664	\$ 4,380	\$ 5,000	\$ 122,263	\$ 365,157	\$ 161,481
2013	0	0	37,039	22,852	31,164	3,880	305,000	122,163	373,203	148,895
2014	0	0	39,773	20,118	31,672	3,371	310,000	116,063	381,445	139,552
2015	0	0	42,709	17,183	32,189	2,854	315,000	108,313	389,898	128,350
2016	0	0	45,861	14,030	32,714	2,329	325,000	101,068	403,575	117,427
2017-2021	0	0	158,862	20,759	119,202	3,891	1,970,000	343,089	2,248,064	367,739
2022-2026	0	0	0	0	0	0	625,000	28,820	625,000	28,820
	<u>\$ 295,000</u>	<u>\$ 9,440</u>	<u>\$ 358,737</u>	<u>\$ 120,340</u>	<u>\$ 277,605</u>	<u>\$ 20,705</u>	<u>\$ 3,855,000</u>	<u>\$ 941,779</u>	<u>\$ 4,786,342</u>	<u>\$ 1,092,264</u>

**Termination Benefit Payable**

The Borough offered termination benefits to an employee to cover health care costs. The following details the future estimated payments, which are based on expected increases in health care costs, for the fiscal years ended December 31:

2012	\$ 4,298
2013	4,386
2014	4,475
2015	4,565
	<u>\$ 17,724</u>

The estimated liability shown above is discounted at a rate of 1.0%.

**Discretely Presented Municipal Authority**

The changes in long-term liabilities during the year ended December 31, 2011 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Long-term Portion
Bonds and notes payable						
(D) 2010 Sewer revenue bonds	\$ 6,355,000	\$ 0	(\$ 25,000)	6,330,000	\$ 15,000	6,315,000
Unamortized bond discount/loss	(\$ 58,228)	\$ 0	\$ 3,089	(\$ 55,139)	(\$ 3,089)	(\$ 52,050)
	<u>6,296,772</u>	<u>0</u>	<u>(\$ 21,911)</u>	<u>6,274,861</u>	<u>11,911</u>	<u>6,262,950</u>
(A) 2007 GO Bonds - Sewer	7,805,000	0	( 5,000)	7,800,000	5,000	7,795,000
(B) 2010 GO Bonds - Sewer	1,270,000	0	( 565,000)	705,000	570,000	135,000
Other bond related costs	( 144,663)	0	26,410	( 118,253)	95,059	( 213,312)
	<u>8,930,337</u>	<u>0</u>	<u>( 543,590)</u>	<u>8,386,747</u>	<u>670,059</u>	<u>7,716,688</u>
(C) 2010 GO Bonds - Water	3,905,000	0	( 500,000)	3,405,000	505,000	2,900,000
Other bond related costs	( 158,020)	0	22,387	( 135,633)	( 12,774)	( 122,859)
	<u>3,746,980</u>	<u>0</u>	<u>( 477,613)</u>	<u>3,269,367</u>	<u>492,226</u>	<u>2,777,141</u>
<b>Total long-term liabilities</b>	<u>\$ 18,974,089</u>	<u>\$ 0</u>	<u>(\$ 1,043,114)</u>	<u>\$ 17,930,975</u>	<u>\$ 1,174,196</u>	<u>\$ 16,756,779</u>

**Note 7. Long-term Liabilities (Continued)**

**Discretely Presented Municipal Authority (Continued)**

The general obligation bonds listed below are issued by the Borough on behalf of the Authority. All proceeds are utilized by the Authority and the related debt service is paid by the Authority. Therefore, this debt and unspent bond proceeds at year end is only shown within the discretely presented component unit column on the government-wide statements.

- (A) General Obligation Bond – Series of 2007 – In 2007, the Borough issued General Obligation Bonds in the principal amount of \$8,285,000 to be used for future Authority projects. Annual installments varying from \$ 185,000 to \$ 840,000 are due through August 15, 2023; interest varying from 4.00% to 4.25%.
- (B) General Obligation Bond Sewer– Series of 2010 – On May 15, 2010, the Borough issued General Obligation Bonds in the principal amount of \$ 1,815,000 to currently refund the General Obligation Bonds – Series of 2004A and 2004B and fund various capital projects of the Borough. Annual principal installments varying from \$135,000 to \$570,000 are due through November 15, 2013; fixed interest rates vary from 1.00% to 2.00%.
- (C) General Obligation Bond Water– Series of 2010 – On May 15, 2010, the Borough issued General Obligation Bonds in the principal amount of \$ 4,370,000 to currently refund the General Obligation Bonds – Series of 2004A and 2004B and fund various capital projects of the Borough. Annual principal installments varying from \$200,000 to \$570,000 are due through November 15, 2018; fixed interest rates vary from 1.00% to 3.30%.
- (D) Sewer Revenue Bonds – Series of 2010 – On December 1, 2010, the Authority issued Revenue Bonds in the principal amount of \$6,355,000 to fund capital construction improvements to the Authority’s public sewer system and to pay the costs and expenses related to the issuance of the Bonds. The Borough has guaranteed the payment of the bonds by pledging its full faith, credit and taxing power. Annual principal installments range from \$10,000 to \$1,130,000 through November 15, 2029 with interest ranging from 3% to 4%.

The following is a schedule by years and in the aggregate of future minimum debt principal and interest payments required at December 31, 2011.

	2007 GO Bond - Sewer		2010 GO Bond - Sewer		2010 GO Bond - Water		2010 Revenue Bond - Sewer		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 5,000	\$ 316,162	\$ 570,000	\$ 14,100	\$ 505,000	\$ 85,656	\$ 15,000	\$ 252,324	\$ 1,095,000	\$ 668,242
2013	455,000	315,962	135,000	2,700	510,000	75,554	10,000	251,876	1,110,000	646,092
2014	615,000	297,762	0	0	525,000	65,354	10,000	251,474	1,150,000	614,590
2015	640,000	273,162	0	0	540,000	52,230	10,000	251,076	1,190,000	576,468
2016	665,000	247,564	0	0	555,000	39,810	10,000	250,674	1,230,000	538,048
2017-2021	3,740,000	817,414	0	0	770,000	30,870	60,000	1,247,700	4,570,000	2,095,984
2022-2026	1,680,000	106,050	0	0	0	0	2,955,000	1,121,426	4,635,000	1,227,476
2027-2030	0	0	0	0	0	0	3,260,000	264,200	3,260,000	264,200
	<u>\$ 7,800,000</u>	<u>\$ 2,374,076</u>	<u>\$ 705,000</u>	<u>\$ 16,800</u>	<u>\$ 3,405,000</u>	<u>\$ 349,474</u>	<u>\$ 6,330,000</u>	<u>\$ 3,890,750</u>	<u>\$ 18,240,000</u>	<u>\$ 6,631,100</u>

## Note 8. Operating Leases

### Borough:

#### 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 for the next five years are as follows:

2012	\$ 20,400
2013	20,400
2014	20,400
2015	20,400
2016	20,400
	<u>\$ 102,000</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. Plan Descriptions and Contributions

#### 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).

Contributions – 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.

**Note 9. Employee Retirement Systems (Continued)**

*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).

*Contributions* – 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.

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

	<b>Police</b>	<b>Non-Uniformed</b>
Retirees and beneficiaries receiving benefits	8	11
Terminated plan members entitled to but not yet receiving benefits	3	9
Active plan members	<u>13</u>	<u>23</u>
Totals	<u>24</u>	<u>43</u>

*C. 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, 2011:

	<b>Police</b>	<b>Non-Uniformed</b>
Annual required contribution	\$ 169,042	\$ 124,109
Interest on net pension obligation	0	0
Adjustment to annual required contribution	0	0
Annual pension cost	169,042	124,109
Contributions made	169,042	124,109
Increase in net pension obligation	0	0
Net pension obligation beginning of year	0	0
Net pension obligation end of year	<u>\$ 0</u>	<u>\$ 0</u>

**Three-Year 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
2011	\$ 169,042	100%	\$ 0	\$ 124,109	100%	\$ 0
2010	\$ 109,453	100%	\$ 0	\$ 123,907	100%	\$ 0
2009	\$ 123,062	100%	\$ 0	\$ 122,320	100%	\$ 0

**Note 9. Employee Retirement Systems (Continued)**

*D. Funded Status and Funding Progress*

The funded status of each plan as of January 1, 2011, the most recent actuarial valuation date, is as follows:

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
Police Pension Plan	\$ 3,926,514	\$ 4,003,774	\$ 77,260	98.1%	\$ 740,093	10.4%
Non-Uniformed Pension Plan	1,891,984	2,065,235	173,251	91.6%	941,363	18.4%

*E. Actuarial Methods and Assumptions*

The information presented was determined as part of the actuarial valuations at the dates indicated.

	<b>Police Pension Plan</b>	<b>Non-Uniformed Pension Plan</b>
Valuation Date:	1/1/2011	1/1/2011
Actuarial Cost Method:	Entry age normal	Entry age normal
Amortization Method	Level Dollar	Level Dollar
Remaining Amortization Period	15 years	13 years
Asset Valuation Method	Smoothed Asset Valuation Method	Smoothed Asset Valuation Method
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%	3.0%

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**Note 9. Employee Retirement Systems (Continued)**

*F. Financial Statements*

The following are financial statements as of December 31, 2011 for the individual pension plans maintained by the Borough:

**STATEMENT OF FIDUCIARY NET ASSETS  
PENSION TRUST FUNDS**

	<b>Police</b>	<b>Non Uniformed</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 46,677	\$ 21,738	\$ 68,415
Investments	<u>3,720,775</u>	<u>1,967,881</u>	<u>5,688,656</u>
Total assets	<u>\$ 3,767,452</u>	<u>\$ 1,989,619</u>	<u>\$ 5,757,071</u>
<b>NET ASSETS</b>			
Held in trust for:			
Employees' pension benefits	\$ 3,767,452	\$ 1,989,619	\$ 5,757,071
Total net assets	<u>\$ 3,767,452</u>	<u>\$ 1,989,619</u>	<u>\$ 5,757,071</u>

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
PENSION TRUST FUNDS**

	<b>Police</b>	<b>Non Uniformed</b>	<b>Total</b>
<b>ADDITIONS</b>			
<b>Contributions</b>			
Employer	\$ 0	\$ 30,119	\$ 30,119
Employer - state funded	<u>169,042</u>	<u>93,990</u>	<u>263,032</u>
Total contributions	<u>169,042</u>	<u>124,109</u>	<u>293,151</u>
Investment income			
Net appreciation (depreciation) in fair value of investments and gains (loss) on sale of investments	( 74,327)	( 6,265)	( 80,592)
Interest, dividends, and other	<u>98,945</u>	<u>46,676</u>	<u>145,621</u>
Total investment income	24,618	40,411	65,029
Less investment expenses:			
Fiduciary fees	( 20,375)	( 10,420)	( 30,795)
Total net investment income	<u>4,243</u>	<u>29,991</u>	<u>34,234</u>
Total additions	<u>173,285</u>	<u>154,100</u>	<u>327,385</u>
<b>DEDUCTIONS</b>			
Benefit payments	183,054	71,202	254,256
Administrative expense	<u>5,996</u>	<u>5,021</u>	<u>11,017</u>
Total deductions	<u>189,050</u>	<u>76,223</u>	<u>265,273</u>
Change in net assets	( 15,765)	77,877	62,112
<b>NET ASSETS</b>			
Beginning	<u>3,783,217</u>	<u>1,911,742</u>	<u>5,694,959</u>
Ending	<u>\$ 3,767,452</u>	<u>\$ 1,989,619</u>	<u>\$ 5,757,071</u>

## **Note 10. Risk Management**

### **Borough:**

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 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).

### **Discretely Presented Municipal Authority:**

The Authority 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 Authority purchases commercial insurance coverage for these types of losses, including workers' compensation and employee health and accident insurance. Settlement amounts resulting from these risks have not exceeded coverage in the current year or the three prior years.

During 2011, the Authority was a member of the Capital Region Insurance Trust (CRIT). This trust consists of a group of municipalities that have pooled their interests together in order to establish a self funded insurance plan in order to better control insurance rates. The Authority pays a premium to CRIT that consists of a portion for actual claim expenses, administrative costs, reinsurance costs and a reserve account. At year end, the actual claims of the Authority are reviewed and the reserve account is used to fund any excess claims for the Authority over the premiums paid during the year. If any funds remain in the reserve account, 30% of the total reserve balance could possibly be used to fund claim overages of the other municipalities. After these reconciliations are performed for all municipalities, if there are any remaining claim overages for the trust, the reinsurance policy that is purchased through the Pennsylvania Municipal Health Insurance Cooperative is used to pay the claims. Therefore, the expense of the Authority is limited to the premiums paid during the year. Any potential refund of the reserve account is calculated and received by the Authority several months after year end. Total payments by the Authority to CRIT during the year were \$ 333,830.

## **Note 11. Commitments and Contingencies**

The Borough is subject to real estate tax assessment appeals on an ongoing basis. If tax appeals are successful, the result is a loss of tax revenue to the Borough. It is anticipated that any material loss of tax revenue on individual tax appeals will be offset with additional revenues from other properties or other sources of revenue and would not create a financial hardship to the Borough.

The Borough is involved with various lawsuits in the normal course of operations. Management cannot predict the outcome of the lawsuits or estimate the amount of any loss that may result. Accordingly, no provision for any contingent liabilities that may result have been made in the financial statements. Management believes that losses resulting from these matters, if any, would be substantially covered under the Borough's professional liability insurance policy and would not have a material effect on the financial position of the Borough.

**Note 12. Transactions Between the Primary Government and Component Unit**

The Authority utilizes the administrative services of the Borough of Gettysburg. The Authority reimburses the Borough for the costs and time associated with the assistance of the Authority. This reimbursement was \$ 63,814 in 2011 and \$ 51,280 in 2010.

Also, see Note 7 for an explanation of the general obligation bonds issued by the Borough on behalf of the Authority.

**Note 13. Governmental Funds – Fund Balance**

The following table provides details of the fund balance classifications which are aggregated on the governmental funds balance sheet:

	General Fund	Capital Projects Fund	Capital Reserve Fund	Other Governmental Funds	Total Governmental Funds
FUND BALANCES					
Nonspendable					
Prepays	\$ 157,472	\$ 0	\$ 62,381	\$ 0	\$ 219,853
Inventory	13,607	0	0	0	13,607
Loans receivable - long term portion	0	63,034	0	0	63,034
Restricted for:					
USS Gettysburg	0	0	2,023	0	2,023
Future capital expenditures	0	1,225,885	262,635	0	1,488,520
Public safety	0	0	18,585	0	18,585
Company K maintenance	0	0	0	6,877	6,877
Highway Department	0	0	0	133,064	133,064
Community development				8,673	8,673
Assigned for:					
Subsequent year budget deficit	49,967	0	0	0	49,967
Unassigned	1,272,223	0	0	0	1,272,223
Total fund balances	<u>\$ 1,493,269</u>	<u>\$ 1,288,919</u>	<u>\$ 345,624</u>	<u>\$ 148,614</u>	<u>\$ 3,276,426</u>

***REQUIRED SUPPLEMENTARY INFORMATION***

**BOROUGH OF GETTYSBURG**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF PENSION PLAN FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS  
Year Ended December 31, 2011**

**Schedule of Funding Progress**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Entry Age (b)</b>	<b>Unfunded Actuarial Liability AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll [(b-a)/c]</b>
<b>Borough of Gettysburg Police Pension Plan</b>						
01/01/11	\$ 3,926,514	\$ 4,003,774	\$ 77,260	98.1%	\$ 740,093	10.4%
01/01/10	-	-	-	-	-	-
01/01/09	3,414,872	3,776,553	361,681	90.4%	592,136	61.1%
01/01/08	-	-	-	-	-	-
01/01/07	3,818,358	3,656,719	(161,639)	104.7%	725,697	( 22.3%)
<b>Borough of Gettysburg Non-Uniformed Pension Plan</b>						
01/01/11	\$ 1,891,984	\$ 2,065,235	\$ 173,251	91.6%	\$ 941,363	18.4%
01/01/10	-	-	-	-	-	-
01/01/09	1,485,730	1,790,858	305,128	83.0%	897,677	34.0%
01/01/08	-	-	-	-	-	-
01/01/07	1,406,480	1,642,462	235,982	85.6%	1,038,137	22.7%

<b>Year Ended December 31,</b>	<b>Police Pension Plan</b>		<b>Non-Uniformed Pension Plan</b>	
	<b>Annual Required Contribution</b>	<b>Percentage of APC Contributed</b>	<b>Annual Required Contribution</b>	<b>Percentage of APC Contributed</b>
2011	\$ 169,042	100%	\$ 124,109	100%
2010	\$ 109,453	100%	\$ 123,907	100%
2009	\$ 123,062	100%	\$ 122,320	100%
2008	\$ 118,582	100%	\$ 136,798	100%
2007	\$ 106,244	100%	\$ 135,636	100%
2006	\$ 89,675	100%	\$ 135,097	100%

**BOROUGH OF GETTYSBURG**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
For the year ended December 31, 2011**

	Budgeted Amounts		Actual	Variance
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 2,741,000	\$ 2,741,000	\$ 2,749,058	\$ 8,058
Licenses and permits	70,000	70,000	111,490	41,490
Fines and forfeits	275,000	275,000	234,108	( 40,892)
Interest earnings	5,500	5,500	1,647	( 3,853)
Rents	0	0	26,871	26,871
Intergovernmental	227,500	227,500	492,646	265,146
Charges for services	841,400	841,400	952,592	111,192
Donations	8,200	8,200	12,904	4,704
Miscellaneous	0	0	59,823	59,823
Total revenues	<u>4,168,600</u>	<u>4,168,600</u>	<u>4,641,139</u>	<u>472,539</u>
<b>EXPENDITURES</b>				
General government	868,773	868,773	941,721	( 72,948)
Public safety	1,926,934	1,926,934	2,026,707	( 99,773)
Health and welfare	22,000	22,000	20,631	1,369
Public works	776,479	776,479	736,605	39,874
Culture and recreation	198,129	198,129	197,789	340
Community development	40,000	40,000	39,450	550
Debt service	536,717	536,717	510,342	26,375
Total expenditures	<u>4,369,032</u>	<u>4,369,032</u>	<u>4,473,245</u>	<u>( 104,213)</u>
Excess (deficiency) of revenues over expenditures	( 200,432)	( 200,432)	167,894	368,326
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in (out)	<u>244,000</u>	<u>244,000</u>	( 62,673)	( 306,673)
Total other financing sources and uses	<u>244,000</u>	<u>244,000</u>	( 62,673)	( 306,673)
Net change in fund balances	<u>\$ 43,568</u>	<u>\$ 43,568</u>	<u>\$ 105,221</u>	<u>\$ 61,653</u>
Fund balances - beginning	<u>1,388,048</u>	<u>1,388,048</u>	<u>1,388,048</u>	<u>0</u>
Fund balances - ending	<u>\$ 1,431,616</u>	<u>\$ 1,431,616</u>	<u>\$ 1,493,269</u>	<u>\$ 61,653</u>

***OTHER SUPPLEMENTARY INFORMATION***

**BOROUGH OF GETTYSBURG**  
**COMBINING BALANCE SHEET**  
**OTHER GOVERNMENTAL FUNDS (NONMAJOR)**  
**December 31, 2011**

	<b>Highway Aid Fund</b>	<b>Company K Fund</b>	<b>Small Communities Program Fund</b>	<b>Total Other Governmental Funds</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 134,435	\$ 0	\$ 8,027	\$ 142,462
Investments	0	6,877	0	6,877
Accounts and grants receivable	0	0	5,532	5,532
Total assets	<u>134,435</u>	<u>6,877</u>	<u>13,559</u>	<u>154,871</u>
 <b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	1,371	0	0	1,371
Deferred revenue	0	0	4,886	4,886
Total liabilities	<u>1,371</u>	<u>0</u>	<u>4,886</u>	<u>6,257</u>
 <b>Fund balances</b>				
Restricted	<u>133,064</u>	<u>6,877</u>	<u>8,673</u>	<u>148,614</u>
Total fund balances	<u>133,064</u>	<u>6,877</u>	<u>8,673</u>	<u>148,614</u>
Total liabilities and fund balances	<u>\$ 134,435</u>	<u>\$ 6,877</u>	<u>\$ 13,559</u>	<u>\$ 154,871</u>

**BOROUGH OF GETTYSBURG**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
OTHER GOVERNMENTAL FUNDS (NONMAJOR)  
For the Year Ended December 31, 2011**

	<b>Highway Aid Fund</b>	<b>Company K Fund</b>	<b>Small Communities Program Fund</b>	<b>Total Other Governmental Funds</b>
<b>REVENUES</b>				
Investment earnings	\$ 257	\$ 31	\$ 13	\$ 301
Intergovernmental	140,987	0	72,377	213,364
Total revenues	<u>141,244</u>	<u>31</u>	<u>72,390</u>	<u>213,665</u>
<b>EXPENDITURES</b>				
Public Works	136,126	0	0	136,126
Community development	0	0	72,377	72,377
Debt Service	33,834	0	0	33,834
Total expenditures	<u>169,960</u>	<u>0</u>	<u>72,377</u>	<u>242,337</u>
Excess (deficiency) of revenues over expenditures	<u>( 28,716)</u>	<u>31</u>	<u>13</u>	<u>( 28,672)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	40,659	0	0	40,659
Total other financing sources and uses	<u>40,659</u>	<u>0</u>	<u>0</u>	<u>40,659</u>
Net change in fund balances	11,943	31	13	11,987
Fund balances - beginning	<u>121,121</u>	<u>6,846</u>	<u>8,660</u>	<u>136,627</u>
Fund balances - ending	<u>\$ 133,064</u>	<u>\$ 6,877</u>	<u>\$ 8,673</u>	<u>\$ 148,614</u>

**BOROUGH OF GETTYSBURG**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2011**

<b>Grantor Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass Through Grantor's Number</b>	<b>Total Receipts</b>	<b>Accrual Basis Expenditures/ Revenues</b>
<b>U.S. Department of Transportation</b>				
Passed through the Pennsylvania Department of Transportation National Highway System Grant	20.205	87044	<u>\$ 2,116,976</u>	<u>\$ 2,139,156</u>
<b>U.S. Department of Energy - Federal American Recovery and Reinvestment Act</b>				
Passed through the Pennsylvania Department of Environmental Protection 2009 Conservation Works - ARRA	81.128	4100051228	<u>125,000</u>	<u>55,397</u>
<b>U.S. Department of Housing and Urban Development</b>				
Passed through the Pennsylvania Dept. of Community & Economic Development Community Development Block Grant	14.218	N/A	<u>72,377</u>	<u>72,377</u>
<b>U.S. Department of Justice</b>				
Bulletproof Vest Partnership	16.607	N/A	<u>380</u>	<u>380</u>
<b>Totals</b>			<u><b>\$ 2,314,733</b></u>	<u><b>\$ 2,267,310</b></u>

**BOROUGH OF GETTYSBURG**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**December 31, 2011**

**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:

General Fund	
Bulletproof Vest Partnership	\$ <u>380</u>
Capital Projects Fund	
National Highway Systems Grant	2,139,156
2009 Conservation Works - ARRA	<u>55,397</u>
	<u>2,194,553</u>
Special Revenue Funds	
Community Development Block Grant	<u>72,377</u>
Total	<u>\$ 2,267,310</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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the Borough of Gettysburg, as of and for the year ended December 31, 2011, which collectively comprise the Borough of Gettysburg's basic financial statements and have issued our report thereon dated May 11, 2012. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Borough of Gettysburg's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Borough of Gettysburg's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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



Borough Council  
Borough of Gettysburg  
Gettysburg, Pennsylvania

### **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*.

We noted certain matters that we reported to management of the Borough of Gettysburg in a separate letter dated May 11, 2012.

This report is intended solely for the information and use of the Borough Council, management, 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  
May 11, 2012



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD  
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the 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 each of its major federal programs for the year ended December 31, 2011. 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 referred to above 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 could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

**Internal Control Over Compliance**

Management of the Borough of Gettysburg is responsible for establishing and maintaining effective internal control over compliance with requirements referred to above. 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Borough of Gettysburg's internal control over compliance.



Borough Council  
Borough of Gettysburg  
Gettysburg, Pennsylvania

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

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

This report is intended solely for the information and use of the Borough Council, management, 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  
May 11, 2012

**BOROUGH OF GETTYSBURG**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended December 31, 2011**

**A. Summary of Auditor's Results**

1. The auditor's report expresses an unqualified opinion on the financial statements of the Borough of Gettysburg.
2. No significant deficiencies relating to the audit of the financial statements are reported.
3. No instances of noncompliance material to the financial statements of the Borough of Gettysburg were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the "Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect On Each Major Program and Internal Control Over Compliance In Accordance With OMB Circular A-133".
5. The auditor's report on compliance for the major federal award programs for the Borough of Gettysburg expresses an unqualified opinion.
6. There were no audit findings that were required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs include:

National Highway Systems Grant	CFDA #20.205
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8. The threshold for distinguishing Types A and B programs was \$ 300,000.
9. The Borough of Gettysburg did not qualify as a low risk auditee.

**B. Findings - Financial Statement Audit**

None

**C. Findings and Questioned Costs - Major Federal Award Programs Audit**

None

**BOROUGH OF GETTYSBURG**  
**REPORT ON STATUS OF PRIOR YEAR'S COMPLIANCE**  
**FINDINGS**  
**Year Ended December 31, 2011**

There were no prior year compliance findings.