

*Borough of Chambersburg  
Pennsylvania*



*Comprehensive Annual  
Financial Report*

Borough of Chambersburg  
Pennsylvania

Comprehensive Annual  
Financial Report

For the Year Ended  
December 31, 2012

Prepared By the Department of Finance

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Borough of Chambersburg  
Pennsylvania

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
December 31, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Christopher P. Moivell*

President

*Jeffrey R. Emer*

Executive Director

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# Introductory Section



# ***Borough of Chambersburg***

*Celebrating 50 years of consumer owned gas service  
and over 100 years of consumer owned electric service*

## **Letter of Transmittal for 2012 Comprehensive Annual Financial Report**

June 21, 2013

To the Honorable Mayor, Town Council and the Citizens of the Borough of Chambersburg, Pennsylvania.

The Comprehensive Annual Financial Report of the Borough of Chambersburg for the year ended December 31, 2012, is hereby submitted for your review. This report represents the commitment of the Borough of Chambersburg to adhere to nationally recognized standards of excellence in financial reporting.

Borough of Chambersburg staff prepared all statements, schedules, and other presentations in this report. Management is responsible for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures. We believe that the data presented in this report is accurate in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the Borough. Further, we believe that all disclosures necessary to enable the reader to gain an understanding of the Borough of Chambersburg's activities have been included.

The Comprehensive Annual Financial Report (CAFR) incorporates financial reporting standards established by Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Statement No. 34 was developed to make annual financial reports of governments more comprehensive and easier to understand and use. All required elements of Statement No. 34, including retroactive restatement of general infrastructure assets are now required in this report and are included in this report as they were in the previous years' reports.

Please review the Management's Discussion and Analysis (MD&A) which is also located in the Financial Section of the CAFR. The MD&A is management's analysis of the municipality's financial position based on currently known facts as of the date of the auditor's report. It is required to precede the financial statements and provide the following analysis:

- Management's analysis of the organization's financial position and results of operations
- Comparison of current year assets, liabilities, revenues and expenses to the prior year
- Explanation of significant changes in fund based financial results and budgetary information
- Description of capital asset and long term debt activity during the year
- Description of currently known facts, decisions or circumstances expected to have a significant effect on the future overall financial activities of the municipality



## **THE BOROUGH OF CHAMBERSBURG**

### **General Information**

The Borough of Chambersburg, one of the earliest permanent settlements west of the Susquehanna River, was founded in 1764 by Benjamin Chambers on land granted to him by the Penn Proprietors. Chambersburg was incorporated as a Borough by an Act of the State Legislators on March 21, 1803. It is located on Interstate 81 in the south-central region of Pennsylvania and is the county seat of Franklin County. The Borough covers an area of 6.58 square miles and lies approximately 50 miles southwest of Harrisburg, 25 miles west of Gettysburg, and 22 miles north of Hagerstown, Maryland. It is the historic and commercial center of the region characterized by varied small and medium industrial enterprises, a rich agricultural area, and residential growth.

According to the U.S. Bureau of the Census, the Borough's population increased from 17,862 to 20,425 between 2000 and 2011, an increase of 14.4 percent during the period.

### **Municipal Services and Facilities**

The Borough is a total service community providing a broad range of services for the citizens of Chambersburg, including the following general government functions: police and fire protection, emergency medical services, street construction and maintenance, storm water management, parks and recreation facilities and code enforcement.

The Borough is unique in Pennsylvania in that it owns and operates electric, gas, water, sewer, sanitation and parking facilities. The Borough is the largest and only electricity producing consumer-owned municipal electric system in the Commonwealth of Pennsylvania. The Chambersburg Electric Department is in its twelfth year of its second century of service to the citizens of Chambersburg, and the Borough's Gas Department has been providing municipal gas for over 50 years. The citizens of Chambersburg voted on August 20, 1875 in favor of a bond issue to construct a water system. The sewer service was initiated on August 1, 1912.

### **Governmental Organization**

The Act of Incorporation in 1803 provided for "the Burgess and Town Council of the Borough of Chambersburg as the one body politic and corporate in law". The title Burgess was changed to Mayor in 1961. The Mayor is elected at large every four years. His duties are outlined in the Borough Code and include the oversight of the Police Department. The Mayor votes on actions being considered by Town Council only to break tie votes.

The legislative and executive authority of the Borough is vested in a ten-member Council. Two councilmen are elected from each of the five wards, one councilman from each ward being elected at each biennial election. Council members are elected to overlapping four-year terms. The council enacts legislation to provide for Borough services, adopts budgets, levies taxes, borrows money, licenses and regulates businesses and trades and performs such other duties consistent with the Borough Code. The presiding officer of the Council is the President of Council who is a member of Council and elected to that position by a vote of Council members.

By an ordinance approved in December of 1975, Town Council created the office of the Borough Manager. The Borough Manager is the chief administrative officer of the Borough and is responsible to the Town Council as a whole for the proper and efficient administration of the affairs of the Borough. The manager is appointed for an indefinite term and serves at the pleasure of Council.

The Director of Finance, who is appointed by the Borough Manager, is the chief financial officer of the Borough. The Director of Finance exercises the powers otherwise granted to the Borough Treasurer position under the laws of the Commonwealth of Pennsylvania. As such, the Director of Finance is charged with the responsibility of receiving, disbursing, and maintaining custody of all funds of the Borough and serves as Pension Funds Chief Administrative Officer. The Director of Finance advises the Borough Manager and Town Council concerning financial matters and assists the Borough Manager in the preparation of the annual budget.

## **Departmental Highlight – Chambersburg Gas Department**

Each year we spotlight one of the Borough's many departments by reviewing the history, activities and accomplishments of the selected department. Last year's report focused on the Sewer Department. This year's report highlights our Gas Department.

Chambersburg Gas Company began operations in 1856 as a private entity, delivering gas manufactured in the Borough from coal. The gas consisted of a toxic mixture of hydrogen and carbon monoxide, and had a much lower BTU content than today's natural gas. Initially, the gas was used for street lighting. At the end of the 19<sup>th</sup> Century, customers began using the gas for cooking, water heating, and refrigeration and later for space heating.

The burning of Chambersburg in 1864 caused the only interruption of gas service in history of the Borough to occur. Fortunately, the gas plant wasn't damaged by the burning, however there were no homes and businesses remaining to supply with gas.

In 1946, the Borough had the foresight to purchase the Chambersburg Gas Company, making Chambersburg only the second municipal gas supplier in Pennsylvania (Philadelphia being the other). Today, Chambersburg and Philadelphia remain the only municipal gas suppliers in Pennsylvania.

In 1953, the Borough gas system connected with the new Texas Eastern pipeline, which began the Borough's conversion to non-toxic, higher BTU natural gas. The introduction of natural gas to Borough residents resulted in dramatic growth of the Borough system. Residents then and today enjoy the comfort, cleanliness and cost savings from natural gas service.

In 1961, Chambersburg was one of the 19 founding members of the American Public Gas Association (APGA). Today, 700 of the 1,000 public gas systems in the US are members of APGA. Over the past 50+ years APGA has been active in providing a public gas voice to Congress and Federal regulators, ensuring safe and reliable gas service to the nation. Chambersburg remains an active member of APGA, helping ensure the Borough is well represented in National natural gas legislation and rulemaking.

Today, Chambersburg residents continue to enjoy the lowest priced gas rates in Pennsylvania. Low gas prices are due to a number of factors. Those factors include cost sharing of facilities and support services with the Borough's other utilities (which also reduces their overhead), non-profit operations, pooling of gas supplies through our membership in the Municipal Gas Authority of Georgia (MGAG), and utilization of financial markets to hedge gas supply costs.

More than anything, the Chambersburg gas system is committed to safety. We are proud of the fact that no gas system in Pennsylvania is safer. In the past 20 years, Chambersburg has had zero reportable gas safety incidents. While this record is remarkable, the Borough insists on continuing to aggressively upgrade older pipe and proactively find ways to improve safety measures.

With US gas supply rising substantially due to the bonanza of shale gas fields, including the Marcellus Shale, our customers are currently paying less for gas than they have in over 10 years. Natural gas now costs about ¼ the price per BTU of home heating oil.

Since 2011, over 145 households have taken advantage of a new gas conversion financing program. Over \$600,000 in 0% interest loans have been issued. The Borough of Chambersburg's Main Street Energy Efficiency Financing Program is an on-bill financing program. The goal is to improve energy efficiency for customers by providing low cost financing to residential homeowners for the purchase and installation of natural gas Energy Star rated appliances to replace non-gas units.

Funds are available to Borough residential homeowners to take advantage of low gas prices where natural gas service is available for the purchase and installation of natural gas ENERGY STAR residential appliances – natural gas furnaces, natural gas tank-less water heaters, and certain tank water heaters.

The Main Street Energy Efficiency Financing Program is a municipal service for citizens and customers located within the natural gas service areas of the Borough-owned natural gas distribution system.

The following is the Structure & Requirements for Chambersburg Loans:

- Maximum loan amount - \$5,000
- Maximum loan term – 60 months
- Loans will carry a 0% interest rate
- Each loan will carry a \$3.00 per month administrative fee
- Loans require 24 month good utility bill payment history
- Loan repayments will be added to customer's monthly utility bill

Residents tell us they are saving several thousand dollars per year in lower heating costs, even after taking into account the loan repayment. The program is also providing substantial work to local plumbers and heating contractors, helping to generate economic growth in the Borough.

A very exciting new venture for the Gas Department is the sale of Compressed Natural Gas (CNG) as a vehicle fuel. CNG vehicles emit substantially less carbon monoxide (70%), nitrous oxides (87%), carbon dioxide (20%) and particulates (90%) than gasoline or diesel vehicles. CNG comes from gas produced in the US, helping to decrease our dependence on foreign oil. CNG also costs about 40% less than the current price for diesel fuel.

The Borough intends to build a CNG station that will serve municipal and county fleets, private fleets and Borough vehicles. By partnering with external customers, the Borough will be able to justify the expense of the new station, while helping these entities save on fuel costs with clean natural gas.

The goal is to complete initial customer fleet fueling agreements in 2013, with station operation slated to begin in the first quarter of 2014. The station is expected to generate additional revenue for the Borough, increase gas sales and reduce Borough fuel costs. All three of the benefits will have a positive impact on Borough operations, while helping us to clean up the environment.

### **Economic Environment - Historical**

Chambersburg's history as a strong commercial center is rooted in its strategic location. It was a crossroads of commerce almost from its founding. Situated in the center of the Cumberland Valley, it became the county seat of the newly created Franklin County in 1784. Scotch-Irish and German settlers predominated the early migration into the county. The Scotch-Irish began as farmers from the sheer necessity of survival, but many drifted into political and military occupations. The methodical and industrious Germans quickly and successfully assumed the development of agriculture in the community.

By congressional resolution in 1788, Chambersburg was placed on the post route between Philadelphia and Pittsburgh. The country's post-Revolutionary War expansion to the new western frontiers was beneficial to Chambersburg. At first, pack trains, and then the stagecoach and Conestoga wagons were common vehicles of traffic through the town. The demands for the movement of goods manufactured in the East to the West and the products from the frontier were beneficial to Chambersburg. It was reported of every tenth house being used as a hostelry, with the yards being filled nightly to overflowing with wagons.

As wagon traffic increased in volume, the demand for better roads arose. Many of the state's earliest roads were undertaken by the private sector. Acceding to public demands, the State Legislature made large appropriations available for highway construction between 1814 and 1821. \$275,000 was available for improvements of sections of the Carlisle to Chambersburg and the Chambersburg to Bedford sections of the turnpikes. In 1877, thirty-nine of the eighty-eight miles of turnpike in Franklin County were on roads converging on Chambersburg. By 1944, there were 228 miles of main highways and 338 miles of improved secondary roads in Franklin County.

In 1837, the Cumberland Valley Railroad was extended from Harrisburg to Chambersburg where it joined the turnpike to Pittsburgh. The railroad extended down the Cumberland Valley and crossed the Potomac River in 1870 and eventually was extended to Winchester, Virginia in 1889.

The Pennsylvania Turnpike was completed through the County in 1940. The county had two interchanges located within the general area of Chambersburg. The development of the largest U. S. Army Ordnance distribution facility of its kind in 1942 illustrated the possibilities of the area developing as a center of distribution. Chambersburg's location in relation to seaports, metropolitan markets and industrial areas was evident from the beginning.

**Economic Environment - Today**

The construction of the interstate highway system in the 1960's resulted in Interstate 81 being on the eastern edge of the Borough. Chambersburg has become a magnet for distribution warehouses to facilitate the flow of goods on the East Coast. Authorities are examining their options on how Interstate 81 can be improved to handle the abundant truck traffic that transverses the highway daily. This access to major highways and railroads coupled with Chambersburg's location has created opportunities for our continued prosperity. Other factors that make the Borough a good place to do business are competitively low utility rates, good municipal services, ample power supplies, affordable housing, a skilled and diversified workforce, a low crime rate and a progressive school district.

The 10 largest employers operating in the Borough in 2012 were:

<b><u>EMPLOYER</u></b>	<b><u>PRIMARY BUSINESS</u></b>	<b><u>AVERAGE NUMBER OF EMPLOYEES</u></b>
Summit Health Services	Health Care	2,964
Chambersburg Area School District	Public Education	1,053
County of Franklin	Government	1,044
Menno Haven, Inc.	Retirement Community	593
Ventura Foods	Food Packaging	415
Staples	Retailing	310
T B Woods, Inc.	Power Transmission Equipment	305
F & M Trust Company	Financial Services	285
Borough of Chambersburg	Municipal Government	193
K-Mart Regional Specialty Center	Distribution Warehousing	192

The Borough of Chambersburg is considered the employment center for the region. Between 16,000 and 20,000 people work in the Borough on a daily basis.

However, within just five miles of Chambersburg there are a number of significant employers that add to the vitality of the community. Those employers are as follows:

<b><u>EMPLOYER</u></b>	<b><u>PRIMARY BUSINESS</u></b>	<b><u>AVERAGE NUMBER OF EMPLOYEES</u></b>
Letterkenny Army Depot/Tenants	Repair Military Vehicles and Missiles/Misc.	3,880
Target Distribution Center	Distribution Warehousing	600
Martins Famous Pastry Shop	Potato Bread and Rolls	480
Ingram Book Group Inc.	Book Distribution	350
Walmart	Retailing	320
Valley Quarries	Stone and Asphalt Products	285

## FINANCIAL INFORMATION

Borough management has taken the initiative to prepare a Comprehensive Annual Financial Report (CAFR) starting with fiscal year ending 12/31/2004 and thereafter. The CAFR provides readers of our financial statements with much additional information relating to the financial condition of the Borough of Chambersburg. Among these include information regarding our local taxpayers, employers and a plethora of similar information encompassing the past ten years. We are honored and pleased that our efforts have resulted in our receiving the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA) for every year a CAFR has been prepared. We are again cognizant of the implications of our continuing to strive for such a prestigious award and will continue to pursue it. With this award, we have been designated as having attained the "highest standards in governmental accounting and financial reporting".

### **Accounting/Budgetary Control System**

*Internal Controls.* To provide reasonable assurance of the reliability of the information underlying the Borough of Chambersburg's financial statements, management of the Borough is responsible for the establishment and maintenance of an internal control system that provides reasonable, but not absolute, assurance that:

1. The Borough's assets are protected against loss and unauthorized use or disposition: and
2. Adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America

The concept of reasonable assurance recognizes that:

1. The cost of control should not exceed the benefits likely to be derived; and
2. The valuation of costs and benefits requires estimates and judgments by management

As a recipient of federal and state financial assistance, the Borough is responsible for ensuring that adequate controls are in place to ensure and document compliance with applicable laws and regulations related to these programs.

*Budgetary Controls.* Town Council approves an annual budget for all funds and approves subsequent adjustments to that budget as needed. The "legal level of control" is the level of detail as approved by Council in its appropriation actions and ordinances. Total expenditures and encumbrances cannot exceed the amount approved by Council at the legal level of control. Legal level of control for the Borough is based on departmental level.

A purchasing control system is maintained which generally requires that an applicable appropriation be controlled through the issuance of encumbrances, authorized purchase orders and work orders before a purchase may be made or a contract executed.

### **Long Term Financial Planning**

The Borough of Chambersburg Capital Improvements Plan is a five-year plan reflecting the programming and prioritization of capital improvement needs beginning in year 2011. The plan is not a budget but rather a multi-year approach to capital improvements planning and analysis. The plan incorporates projects and proposals that may, in final analysis, not receive funding or that may be programmed for a future year.

The plan defines capital projects accordingly:

- A project related to a fixed asset according to the Fixed Asset Policy adopted by Town Council.
- A project that adds value or useful life to a fixed asset.

- A project involving buildings, facilities, land or easements as long as title does not expire in less than twenty-one years.
- A project involving buildings, facilities, land or easements as long as the useful life of such is twenty years or greater and the fair market value is greater than \$5,000.
- A project involving technology, vehicles or equipment as long as the useful life of such is two years or greater and the fair market value is greater than \$5,000.

Capital improvement needs for a particular fiscal year are budgeted in a variety of accounts due to the complexity of the Borough budget. Regardless of their placement in the budget, projects require the approval of Town Council in scheduling and appropriation. Should the project be approved in a future budget, the recommended funding source will be set. As such, the plan is subject to change as Town Council adjusts spending limits going forward.

### **INDEPENDENT AUDIT**

The independent accounting firm, Smith Elliott Kearns & Company, LLC, audited the basic financial statements of the Borough of Chambersburg for fiscal year 2012. The financial statements have received an unmodified opinion indicating that, in all material respects, the Borough's basic financial statements are presented fairly and in conformity with accounting principles generally accepted in the United States of America. Auditing standards generally accepted in the United States of America and the standards set forth in the General Accounting Office's Government Auditing Standards were used by the auditors in conducting the engagement. The auditors' report on internal controls and compliance with applicable laws and regulations can be found in the report.

### **ACKNOWLEDGMENTS**

The preparation of the CAFR would not have been possible without the meticulous hard work of every member of the Finance Department. This effort requires a significant investment of time and resources. I also want to express my appreciation to the employees of the various departments of the Borough for their dedicated efforts in assisting me in the preparation of this report.

I would like to extend a special thanks to our Director of Finance, Mr. Casimir L. Rzomp, Jr., who retired just before the end of 2012. I will miss his encouragement and his wisdom. I came to value both those things over the years. Gratitude is also expressed to our Borough Manager, Jeffrey Stonehill, who has shown confidence and consistent support to the Finance Department.

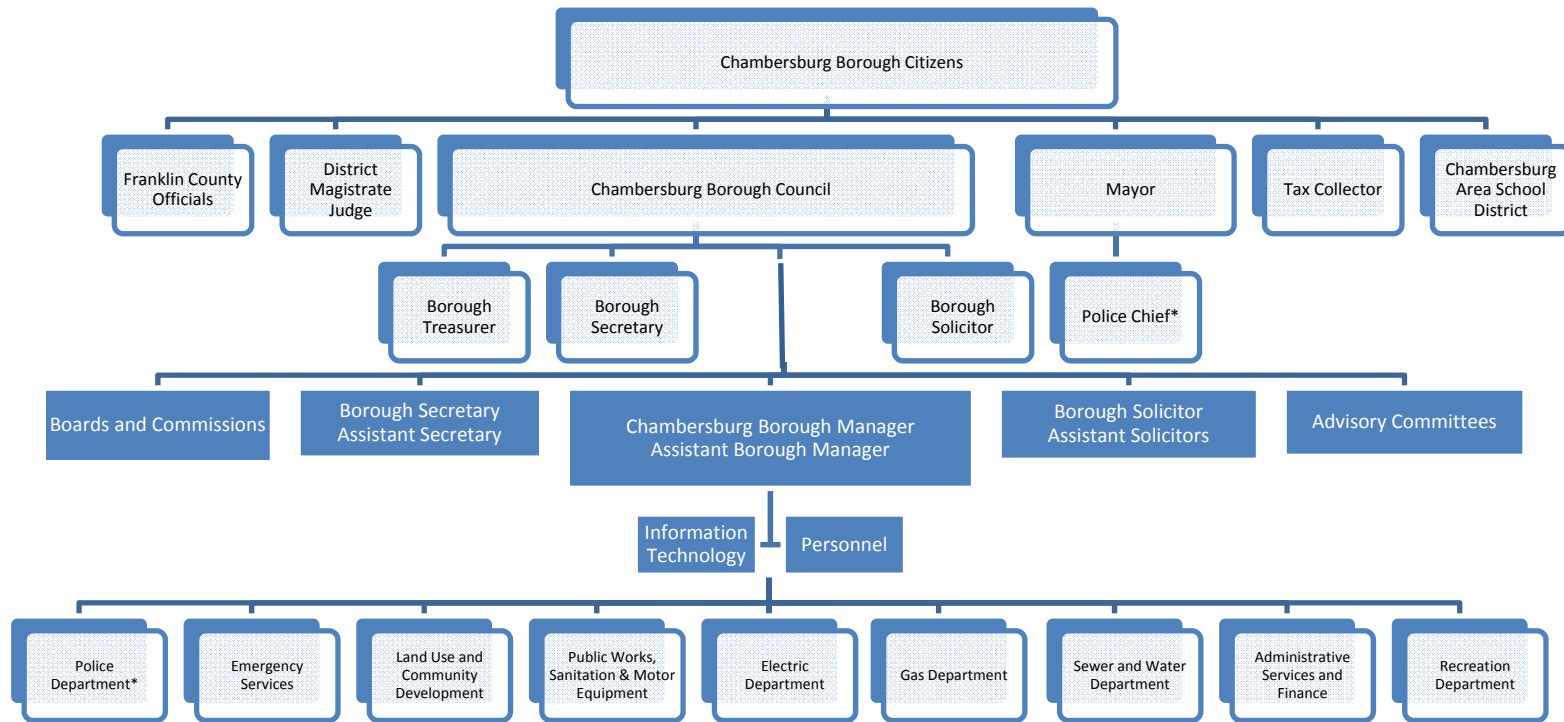
In closing, without the leadership and support of the Mayor and members of Town Council, preparation of this report would not have been possible.

Respectfully submitted,



Rachel Krum  
Acting Finance Director

## Chambersburg Borough Organization



- Per the Borough Code, the Chambersburg Police Department is supervised by the Mayor for day-to-day operation and the Borough Manager for administrative and financial management

June 2013

**2012 - 2013 ROSTER  
MAYOR AND MEMBERS OF TOWN COUNCIL  
OF THE BOROUGH OF CHAMBERSBURG, PENNSYLVANIA**

**MAYOR**

Peter Lagiovane  
610 Wallace Avenue  
Chambersburg, PA 17201  
2010 - 2013  
(r) 264-8231; Mayors Office 261-3243

**COUNCILMEN**

William F. McLaughlin  
1306 Edgar Avenue  
President of Council  
First Ward - 2012-2015  
(c) 860-7779

Allen B. Coffman  
112 Pennsylvania Avenue  
Vice-President of Council  
First Ward - 2010-2013  
(r) 267-2739

Thomas L. Newcomer  
129 Highfield Lane South  
Finance Chairman  
Second Ward - 2012-2015  
(r) 267-0430

John N. Huber  
234 S. Coldbrook Avenue  
Second Ward - 2010-2013  
(r) 264-6635

Elaine M. Swartz  
326 Cosell Drive  
Third Ward - 2012-2015  
(r) 267-2120

Andrew C. Paszkowski  
169 Lantern Lane  
Third Ward - 2010-2013  
(r) 496-8543

Sharon A. Bigler  
359 High Street  
Assistant Finance Chairman  
Fourth Ward - 2012-2015  
(r) 263-5524

Margret A. (Peggy) Shank  
357 Glen Street  
Fourth Ward - 2010-2013  
(r) 264-1147

Bradley J. Elter  
1042 Greystone Circle  
Fifth Ward - 2012-2015  
(r) 264-5112

Heath E. Talhelm  
840 Brandon Drive  
Fifth Ward - 2010-2013  
(r) 263-1108

Council Meetings - 7:00 P.M.  
Regular Public: 2nd and 4th Mondays - Council Chambers



## **BOROUGH OFFICERS AND OFFICIALS**

Jeffrey Stonehill  
Borough Manager  
Director of Utilities  
(b) 261-3245

David C. Finch  
Assistant Borough Manager  
Public Works Director  
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Jamia L. Wright  
Borough Secretary  
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Kristine M. Baker  
Assistant Borough Secretary  
(b) 261-3201

G. Bryan Salzmann  
Borough Solicitor  
(b) 263-2121

Welton J. Fischer  
Assistant Borough Solicitor  
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Suzanne Miller-Trinh  
Assistant Borough Solicitor  
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Ron Pezon  
Electric Superintendent  
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Jeff Heverly  
Assistant to the Electric Superintendent  
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John Leary  
Gas Superintendent  
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Assistant Gas Superintendent  
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Lance Anderson  
Water and Sewer Superintendent  
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Elwood Sord  
Assistant Public Works Director  
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William FitzGerald  
Emergency Services Chief  
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David J. Arnold  
Police Chief  
(b) 264-4131

Guy Shaul  
Recreation Superintendent  
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Julie Redding  
Assistant Recreation Superintendent  
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Phil Wolgemuth  
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(b) 261-3232

William F. Dubbs, Jr.  
Property Maintenance Code Officer  
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Kathy Newcomer  
Community Development Specialist  
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Paul Cullinane  
Economic Development Specialist  
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Rachel Krum  
Acting Borough Finance Director  
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Nancy Foster  
Acting Borough Treasurer  
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James S. Clapper  
Wage Tax Collector  
(b) 263-5141

William H. "Buzz" Shank III  
Borough Tax Collector  
(b) 263-6565



# Financial Section



## ***INDEPENDENT AUDITOR'S REPORT***

To the Mayor and Borough Council  
Borough of Chambersburg  
Chambersburg, Pennsylvania

### **Report on the Financial Statements**

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

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

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

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

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

#### ***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 business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Chambersburg, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



To the Mayor and Borough Council  
Borough of Chambersburg

***Emphasis-of-Matter***

As described in Note 1, the Borough has implemented a reporting model to account for deferred inflows, deferred outflows, net position and items previously recorded as assets and liabilities required by the provisions of the Government Accounting Standards Board (“GASB”) Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement 65, *Items Previously Recognized as Assets and Liabilities*, as of January 1, 2012. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 4 through 16, the schedules of historical pension information on pages 55 through 56, the OPEB schedule of funding progress on page 57, and budgetary comparison information on pages 58 through 59 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.

***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough of Chambersburg’s basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly



To the Mayor and Borough Council  
Borough of Chambersburg

to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2013, on our consideration of the Borough of Chambersburg's internal control over financial reporting and on 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* in considering the Borough of Chambersburg's internal control over financial reporting and compliance.

*Smith Elliott Kearns & Company, LLC*

Chambersburg, Pennsylvania  
June 21, 2013

# **BOROUGH OF CHAMBERSBURG, PENNSYLVANIA**

## *Management's Discussion and Analysis for the Year Ended December 31, 2012 Unaudited*

The management of the Borough of Chambersburg provides the following information as an introduction, overview, and analysis of the Borough's financial statements for the year ended December 31, 2012. Readers should also review the basic financial statements and related footnotes on pages 17 - 54 to further enhance their understanding of the Borough's financial performance.

The Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

### **Using this Annual Financial Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can first understand the Borough of Chambersburg as a financial whole. The statements then proceed to provide an increasingly detailed look at specific financial conditions.

The Statement of Net Position and Statement of Activities (referred to collectively as the government-wide statements) provide information about the activities as an entire operating entity, presenting both an aggregate view of the Borough's finances and a longer-term view of those assets and liabilities. Major fund statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending. The proprietary funds' statements are prepared on the same basis as the government-wide statements.

### **Reporting on the Borough of Chambersburg as a Whole**

#### ***Statement of Net Position and Statement of Activities***

These government-wide statements answer the question "How did the Borough as a whole do financially during 2012?" They are prepared on the accrual basis of accounting, much the same way as for a private enterprise. This basis of accounting includes all assets and liabilities and takes into account all of the reporting year's revenues and expenses regardless of when the cash was received or paid.

- *The Statement of Net Position.* This statement (page 17) reports all assets and liabilities of the Borough as of December 31, 2012. The difference between total assets plus deferred outflows of resources and total liabilities plus deferred inflows of resources is reported as "net position". Increases in net position generally indicate an improvement in financial standing while decreases may indicate a deterioration of financial position.
- *The Statement of Activities.* This statement (page 18) serves the purpose of the traditional income statement. It provides consolidated reporting of the results of all activities of the Borough for the year ended December 31, 2012. Changes in net position are recorded in the period in which the underlying event takes place, which may differ from the period in which cash is received or disbursed. The Statement of Activities displays the expense of the Borough's various programs net of related revenues, as well as a separate presentation of revenues available for general purposes.

A more detailed explanation of these statements is found in note 1 on pages 28 - 39 in the Notes to the Financial Statements.

# BOROUGH OF CHAMBERSBURG, PENNSYLVANIA

## *Management's Discussion and Analysis*

*for the Year Ended December 31, 2012*

*Unaudited*

### **Reporting on the Borough of Chambersburg's Most Significant Funds**

#### ***Fund financial statements***

These statements provide financial position and results of operations of the Borough's major funds. A fund is an accounting entity created to account for a specific activity or purpose. Major funds of the Borough of Chambersburg are the General Fund, Special Revenue Fund – Grant Program, Electric Fund, Gas Fund, Water Fund, and Sewer Fund. The creation of some funds is mandated by law and others are created by management to demonstrate financial compliance with budgetary or legal requirements. Funds are classified into three broad categories: governmental funds, proprietary funds, and fiduciary funds.

- ***Governmental funds.*** Governmental funds are used to account for “governmental-type” activities. Unlike the government-wide financial statements, governmental fund statements use a “flow of financial resources” measurement focus. That is to say, the operating statement of a governmental fund attempts to answer the question “Are there more or less resources that can be spent in the near future as a result of events and transactions of the reporting period?” Increases in spendable resources are reported in the operating statement as “revenues” or “other financing sources.” Decreases in spendable resources are reported as “expenditures” or “other financing uses.” We describe the differences between governmental funds and governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) in reconciliations presented on pages 20 and 22.

The Borough of Chambersburg maintains separate governmental funds. The governmental fund financial statements on pages 19 through 22 separately display the governmental funds considered to be major funds. All other governmental funds - the “non-major” funds - are combined into a single column. Detailed financial data for each of the non-major governmental funds is provided in combining statements in the supplementary information section of this report.

- ***Proprietary funds.*** There are two types of proprietary funds: enterprise funds and internal service funds.

**Enterprise funds** - These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises for which either 1) the intent is that the costs (expenses, including depreciation) be recovered primarily through user charges, or 2) determination of net income is appropriate for management control, accountability or other purposes.

The Borough of Chambersburg's Electric, Gas, Water, and Sewer Funds are all considered to be major funds and are displayed separately in the proprietary fund statements on pages 23 through 25. The Borough has two other proprietary funds, Sanitation and Parking, Traffic & St. Lights, the activities of which are combined into one column for non-major funds.

**Internal Service funds** - Often, governments wish to allocate the cost of providing certain centralized services (e.g., motor pools, data processing, warehouses) to the other departments of the government entity that uses the services. An internal service fund is the appropriate accounting mechanism when it is the intent of the government to recover the full cost of providing the service through user charges to other departments.

The Borough of Chambersburg's six internal service funds are combined into a single column in the proprietary fund financial statements. Detailed financial data for those funds can be found in the combining statements in the supplementary information section of this report.

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

Fiduciary fund statements are on pages 26 - 27 of this report.

**BOROUGH OF CHAMBERSBURG, PENNSYLVANIA**

*Management's Discussion and Analysis*

*for the Year Ended December 31, 2012*

*Unaudited*

**Other Information**

***Notes to the basic financial statements***

The notes provide additional and explanatory data. They are an integral part of the basic financial statements.

***Required supplementary information***

In addition to the basic financial statements and notes, this report also contains required supplementary information (RSI). RSI includes schedules of historical pension information, OPEB required schedule of funding progress and budgetary schedules for the general fund and grant programs fund. This data is on pages 55 through 59 of this report.

**The Borough of Chambersburg as a Whole**

The following table presents condensed information on net position as of December 31, 2012 and 2011.

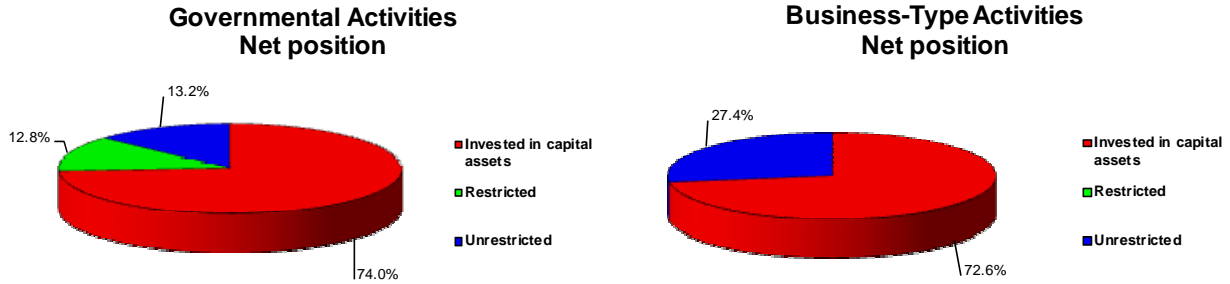
	<b><u>Net Position</u></b>					
	<b><u>December 31, 2012 and 2011</u></b>					
	2012	2011	2012	2011	2012	2011
	<u>Governmental</u>	<u>Governmental</u>	<u>Business-Type</u>	<u>Business-Type</u>	<u>Total</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>		
<b><u>Assets:</u></b>						
Current and other assets	\$ 10,098,721	\$ 10,404,655	\$ 36,714,105	\$ 36,248,779	\$ 46,812,826	\$ 46,653,434
Capital assets	<u>22,218,240</u>	<u>25,294,014</u>	<u>101,677,089</u>	<u>96,037,222</u>	<u>123,895,329</u>	<u>121,331,236</u>
Total assets	<u>32,316,961</u>	<u>35,698,669</u>	<u>138,391,194</u>	<u>132,286,001</u>	<u>170,708,155</u>	<u>167,984,670</u>
<b><u>Deferred Outflows of Resources</u></b>						
Deferred charge on bond refinancing	<u>0</u>	<u>0</u>	<u>363,467</u>	<u>364,504</u>	<u>363,467</u>	<u>364,504</u>
Total deferred outflows of resources	<u>0</u>	<u>0</u>	<u>363,467</u>	<u>364,504</u>	<u>363,467</u>	<u>364,504</u>
<b><u>Liabilities:</u></b>						
Current liabilities	813,351	1,014,634	8,640,895	6,953,870	9,454,246	7,968,504
Other liabilities	<u>1,375,546</u>	<u>1,005,224</u>	<u>17,303,657</u>	<u>18,317,059</u>	<u>18,679,203</u>	<u>19,322,283</u>
Total liabilities	<u>2,188,897</u>	<u>2,019,858</u>	<u>25,944,552</u>	<u>25,270,929</u>	<u>28,133,449</u>	<u>27,290,787</u>
<b><u>Deferred Inflows of Resources</u></b>						
Deferred revenues	<u>105,740</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>105,740</u>	<u>0</u>
Total deferred inflows of resources	<u>105,740</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>105,740</u>	<u>0</u>
<b><u>Net Position:</u></b>						
Net investment in capital assets	22,217,709	25,275,852	81,864,727	76,493,701	104,082,436	101,769,553
Restricted	3,852,332	3,769,761	0	0	3,852,332	3,769,761
Unrestricted	<u>3,952,283</u>	<u>4,633,198</u>	<u>30,945,382</u>	<u>30,885,875</u>	<u>34,897,665</u>	<u>35,519,073</u>
Total net position	<u>\$ 30,022,324</u>	<u>\$ 33,678,811</u>	<u>\$ 112,810,109</u>	<u>\$ 107,379,576</u>	<u>\$ 142,832,433</u>	<u>\$ 141,058,387</u>



**BOROUGH OF CHAMBERSBURG, PENNSYLVANIA**

*Management's Discussion and Analysis  
for the Year Ended December 31, 2012  
Unaudited*

The breakdown of net position is as follows at December 31, 2012:



In total, combined net position were at \$142.8 million at December 31, 2012.

The following tables present condensed information on the changes in net position for the years ended December 31, 2012 and 2011.

**Changes in Net Position**  
**For the Year Ended December 31, 2012**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Activities</u>
<b><u>Revenues</u></b>			
Program revenues:			
Charges for services	\$ 2,466,746	\$ 50,135,224	\$ 52,601,970
Operating grants and contributions	2,089,208	139,192	2,228,400
Capital grants and contributions	171,505	3,643,331	3,814,836
General revenues:			
Property taxes	3,860,019	0	3,860,019
Real estate transfer tax	296,618	0	296,618
Earned income tax	1,753,574	0	1,753,574
Local services tax	747,799	0	747,799
Other taxes	14,803	0	14,803
Unrestricted investment earnings	19,745	60,705	80,450
Miscellaneous income	10,557	42,013	52,570
<b>Total revenues</b>	<b>\$ 11,430,574</b>	<b>\$ 54,020,465</b>	<b>\$ 65,451,039</b>

**BOROUGH OF CHAMBERSBURG, PENNSYLVANIA**

*Management's Discussion and Analysis*

*for the Year Ended December 31, 2012*

*Unaudited*

**Changes in Net Position (Continued)**  
**For the Year Ended December 31, 2012**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Activities</u>
<b><u>Expenses</u></b>			
General government	\$ 1,696,708	\$ 0	\$ 1,696,708
Public safety	7,697,570	0	7,697,570
Public works	1,655,579	0	1,655,579
Community development	539,858	0	539,858
Culture and recreation	1,353,831	0	1,353,831
Electric	0	32,925,694	32,925,694
Gas	0	6,531,657	6,531,657
Water	0	2,950,841	2,950,841
Sewer	0	5,260,073	5,260,073
Other business-type activities	0	2,965,698	2,965,698
Total expenses	<u>12,943,546</u>	<u>50,633,963</u>	<u>63,577,509</u>
Excess before transfers	( 1,512,972)	3,386,502	1,873,530
Transfers	( 2,143,515)	2,143,515	0
<b>Change in net position</b>	<b><u>(\$ 3,656,487)</u></b>	<b><u>\$ 5,530,017</u></b>	<b><u>\$ 1,873,530</u></b>

**BOROUGH OF CHAMBERSBURG, PENNSYLVANIA**

*Management's Discussion and Analysis*

*for the Year Ended December 31, 2012*

*Unaudited*

**Changes in Net Position**

**For the Year Ended December 31, 2011**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Activities</u>
<b><u>Revenues</u></b>			
Program revenues:			
Charges for services	\$ 2,213,717	\$ 50,432,160	\$ 52,645,877
Operating grants and contributions	2,189,108	518,395	2,707,503
Capital grants and contributions	511,286	1,195,252	1,706,538
General revenues:			
Property taxes	3,797,204	0	3,797,204
Real estate transfer tax	265,172	0	265,172
Earned income tax	1,561,233	0	1,561,233
Local services tax	744,131	0	744,131
Other taxes	14,213	0	14,213
Unrestricted investment earnings	40,144	125,701	165,845
Miscellaneous income	51,117	103,241	154,358
Total revenues	<u>11,387,325</u>	<u>52,374,749</u>	<u>63,762,074</u>
<b><u>Expenses</u></b>			
General government	1,460,984	0	1,460,984
Public safety	8,274,656	0	8,274,656
Public works	2,315,450	0	2,315,450
Community development	776,979	0	776,979
Culture and recreation	1,442,428	0	1,442,428
Electric	0	33,550,331	33,550,331
Gas	0	7,136,724	7,136,724
Water	0	2,898,515	2,898,515
Sewer	0	5,283,679	5,283,679
Other business-type activities	0	2,448,553	2,448,553
Total expenses	<u>14,270,497</u>	<u>51,317,802</u>	<u>65,588,299</u>
Excess before transfers	<u>( 2,883,172)</u>	<u>1,056,947</u>	<u>( 1,826,225)</u>
Transfers	<u>1,997,019</u>	<u>( 1,997,019)</u>	<u>0</u>
<b>Change in net position</b>	<u><u>(\$ 886,153)</u></u>	<u><u>(\$ 940,072)</u></u>	<u><u>(\$ 1,826,225)</u></u>

Net position increased by \$1.87M in 2012 for “total activities” compared to a decrease of \$1.83M in 2011 for the same “total activities”. This is a \$3.70M increase in overall performance for 2012 compared to 2011 and is the result of an increase in revenues of \$1.69M with a corresponding decrease in expenses of \$2.01M. In the governmental activities line item transfers there were \$2.14M of transfers to other funds. This was a result of a significant organizational structural changes made in 2012 for budgeting purposes. The parking, traffic & street lights department was formed by transferring traffic and street lights functions from the general fund which is included in the governmental activities. As a result, this fund is much larger and much more significant. Corresponding to part of the decrease in the governmental activities there was an increase of \$2.45M in the capital grants and contributions in the business-type activities revenue.

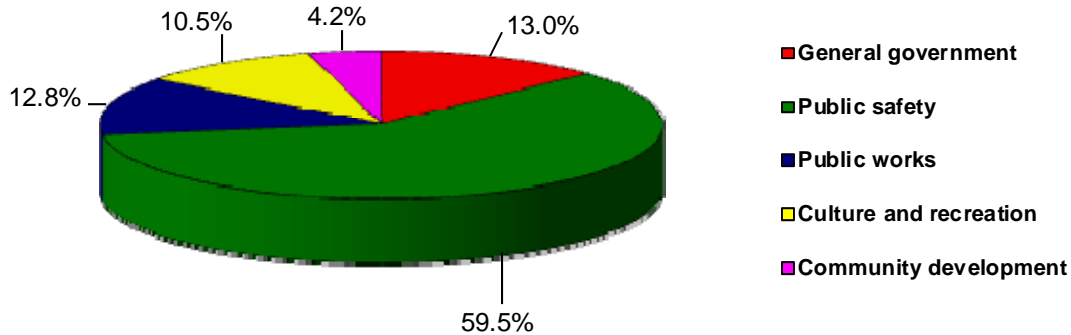
## BOROUGH OF CHAMBERSBURG, PENNSYLVANIA

### *Management's Discussion and Analysis for the Year Ended December 31, 2012 Unaudited*

The Borough's governmental activities' largest revenue source, real estate taxes, increased by \$62,815 or 1.65% in 2012. This was a slightly smaller increase than the 1.72% increase for the year ended December 31, 2011. The increase in real estate revenues was mainly due to an increase in the taxable assessed value of 0.95% for year ended 2012. There was no increase in the mill rate for 2012. The earned income tax receipts increased \$192,341 or 12.32% in 2012 while the real estate transfer tax increased by \$31,446 or 11.86% in 2012.

Expenses of governmental activities break down as follows:

### **Governmental Expenses by Program 2012**



Total governmental expenses for 2012 were \$12.9 million. Public safety, which consisted primarily of police, fire and ambulance services, comprised 59.5% of the total governmental expenses. Public works expenses, which include streets overlaying and repairs, were 12.8%. Leisure time activities represented by the culture and recreation portion of expenses were 10.5% of the total. General government expenses were 13%. Community development comprised 4.2% of total expenses.

The Statement of Activities reports expenses of each of the governmental activities programs and the related program revenue that offsets the cost of each program. The amount by which the cost of a particular program exceeds its program revenue represents the extent to which that program must be subsidized by general revenues, such as property taxes, earned income taxes, local services taxes, deed transfer taxes and others.

**BOROUGH OF CHAMBERSBURG, PENNSYLVANIA**

*Management's Discussion and Analysis  
for the Year Ended December 31, 2012  
Unaudited*

The following table and graph summarize the net cost of each program:

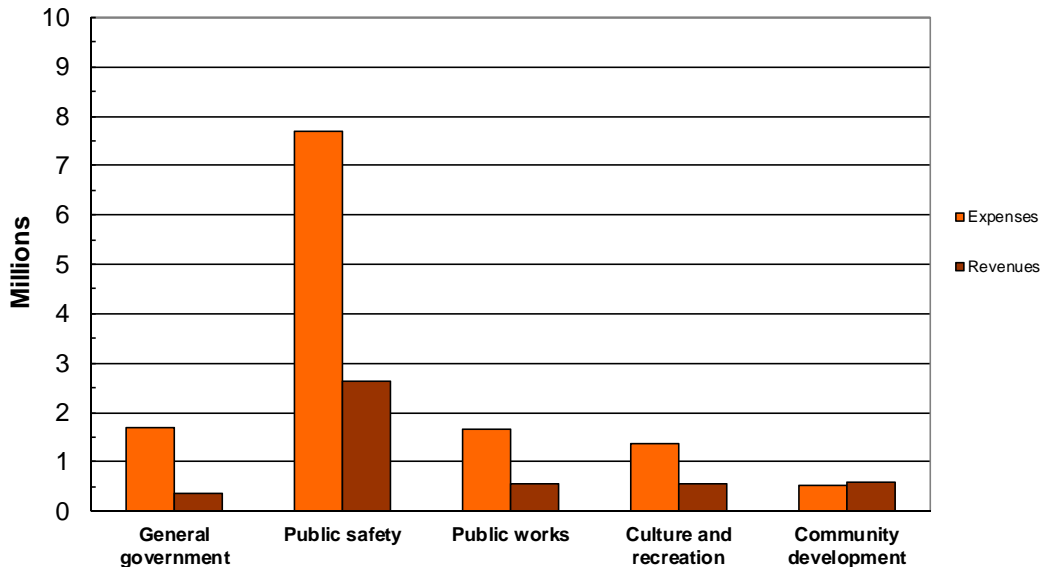
**Expenses and Program Revenue - Governmental Activities  
Year Ended December 31, 2012**

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Governmental activities					
General government	\$ 1,696,708	\$ 334,574	\$ 31,617	\$ 0	(\$ 1,330,517)
Public safety	7,697,570	1,692,575	902,580	44,290	( 5,058,125)
Public works	1,655,579	806	438,845	124,660	( 1,091,268)
Culture and recreation	1,353,831	438,791	109,226	2,555	( 803,259)
Community development	539,858	0	606,940	0	67,082
<b>Total Governmental Activities</b>	<b>\$ 12,943,546</b>	<b>\$ 2,466,746</b>	<b>\$ 2,089,208</b>	<b>\$ 171,505</b>	<b>(\$ 8,216,087)</b>

**Expenses and Program Revenue - Governmental Activities  
Year Ended December 31, 2011**

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Governmental activities					
General government	\$ 1,460,984	\$ 404,010	\$ 658,538	\$ 234,832	(\$ 163,604)
Public safety	8,274,656	1,394,915	692,585	7,569	( 6,179,587)
Public works	2,315,450	2,391	2,469	0	( 2,310,590)
Culture and recreation	1,442,428	412,401	0	263,245	( 766,782)
Community development	776,979	0	835,516	5,640	64,177
<b>Total Governmental Activities</b>	<b>\$ 14,270,497</b>	<b>\$ 2,213,717</b>	<b>\$ 2,189,108</b>	<b>\$ 511,286</b>	<b>(\$ 9,356,386)</b>

**Expenses and Program Revenue - Governmental Activities  
2012**



The above chart and graph illustrates the priority that Chambersburg places on the safety of its citizens.

**BOROUGH OF CHAMBERSBURG, PENNSYLVANIA**

*Management's Discussion and Analysis*

*for the Year Ended December 31, 2012*

*Unaudited*

*Business-type activities*

Business-type net position increased \$5,530,017 in 2012. Each business-type activity, except for gas, sanitation and parking, traffic & street lights had an increase in revenues. Electric revenues increased 0.74%, gas revenues decreased 5.08%, water revenues increased 9.69%, sewer revenues increased 27.22%, sanitation revenues decreased 3.86% and parking, traffic and street lights revenues decreased 7.12%. The total increase in revenues was \$1,771,940 or 3.39%.

The following table and graph summarize the expenses and program revenues for business-type activities:

**Expenses and Program Revenue - Business-Type Activities  
For Year Ended December 31, 2012**

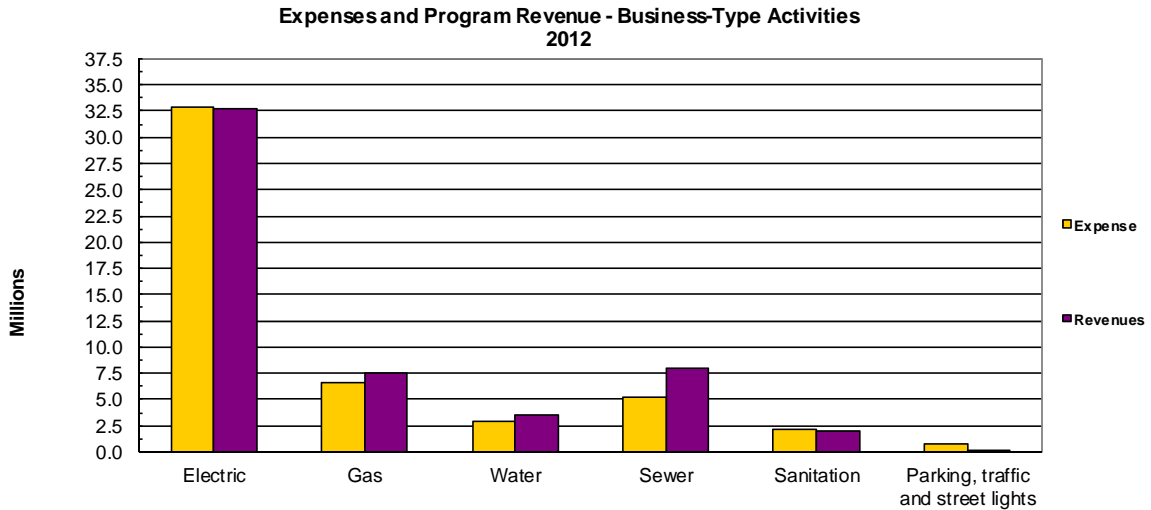
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Electric	\$32,925,694	\$31,823,441	\$ 36,096	\$ 900,000	(\$ 166,157)
Gas	6,531,657	7,368,579	18,056	143,775	998,753
Water	2,950,841	3,460,555	21,304	0	531,018
Sewer	5,260,073	5,317,072	22,927	2,593,657	2,673,583
Sanitation	2,205,691	1,997,409	37,042	0	( 171,240)
Parking, traffic and street lights	760,007	168,168	3,767	5,899	( 582,173)
Total business-type activities	<u>\$50,633,963</u>	<u>\$50,135,224</u>	<u>\$ 139,192</u>	<u>\$ 3,643,331</u>	<u>\$ 3,283,784</u>

**Expenses and Program Revenue - Business-Type Activities  
For Year Ended December 31, 2011**

	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Electric	\$33,550,331	\$32,243,631	\$ 174,312	\$ 100,000	(\$ 1,032,388)
Gas	7,136,724	7,812,764	76,220	24,100	776,360
Water	2,898,515	3,075,317	99,055	0	275,857
Sewer	5,283,679	5,084,952	79,886	1,071,152	952,311
Sanitation	2,274,672	2,032,789	80,156	0	( 161,727)
Parking, traffic and street lights	173,881	182,707	8,766	0	17,592
Total business-type activities	<u>\$51,317,802</u>	<u>\$50,432,160</u>	<u>\$ 518,395</u>	<u>\$ 1,195,252</u>	<u>\$ 828,005</u>

# BOROUGH OF CHAMBERSBURG, PENNSYLVANIA

## Management's Discussion and Analysis for the Year Ended December 31, 2012 Unaudited



### Individual funds summary and analysis

Governmental funds focus on spendable resources and near-term inflows and outflows of those resources. As such, fund balance is generally a good indicator of net resources available for spending at the end of the fiscal year, subject to any stated restrictions on its use.

The combined fund balances of the Borough's governmental funds at December 31, 2012 were \$5.3 million as compared to \$5.0 million at December 31, 2011.

The General Fund is the primary operating fund of the Borough of Chambersburg, accounting for such activities as police and fire protection, ambulance services, highways, parks and recreation, and general governmental services. The General Fund balance increased from \$1,259,687 to \$1,450,260.

### Budget variations

Operations for the Borough's general fund resulted in an overall favorable net budget variance of \$151,990 for the year ended December 31, 2012. That means that we had \$151,990 more in net cash inflows than we budgeted. The budget had a net excess of revenues over net expenditures of \$38,583 but finished the year with a net excess of revenues over expenditures of \$190,573. Total expenditures exceeded total revenues by \$1,030,406 and net interfund transfers from other Borough funds amounted to \$1,220,979 creating the overall positive results of \$190,573 for net receipts or "net change in fund balance".

We had a favorable budget variance of \$100,101 or .93% of total budgeted expenditures (\$10,767,192). We also had a favorable budget variance of \$379,285 or 4.10% of total budgeted revenues (\$9,257,400). Also, we did not transfer \$327,396 out of the general fund that was budgeted.

Of the favorable revenue variance (\$379,285), the lion's share or \$309,196 (about 81.52%) was due to an underestimate in the budgeted amount of charges for services to other Borough departments. In addition to, we underestimated tax revenues by \$111,941 whereas we budgeted receipts of taxes at \$6,260,500 and had actual receipts of \$6,372,441 resulting in the favorable variance in tax revenues. Unfortunately, activity in the local economy is still at a low level.

On the expenditure side, the favorable variance (\$100,101) can be mostly attributed to the stellar performance of the recreation department. We overestimated expenditures by \$208,203 whereby we budgeted \$1,314,750 and actually spent \$1,106,547.

## BOROUGH OF CHAMBERSBURG, PENNSYLVANIA

*Management's Discussion and Analysis  
for the Year Ended December 31, 2012  
Unaudited*

### Changes in revenue and expenditure levels

In looking at the performance of the general fund for 2012, we had an overall improvement of \$305,920 in 2012 as compared to 2011 for the change in fund balance. This can be seen as an improvement in the “**net change in fund balance**” (*ncfb*) between the two years. In 2012, we finished the year with a *ncfb* of \$190,573 (positive) compared to (\$115,347) (negative) for 2011. Most of this improvement can be attributed to the decrease in the amount of expenditures in the general fund.

Without changes in transfers to and from other departments, we would have ended the year with a *ncfb* of (\$1,030,406) (negative) for 2012 for the general fund. Compared to 2011 of (\$2,383,075) (negative), 2012 is \$1,352,669 less. In 2012 there was budgeted a net \$1,548,375 transfer into the general fund, whereas in 2011 budgeted net was \$2,279,000. The major basis for this decrease of \$730,625 in transfers is due to the significant organizational structural changes in 2012 in the general fund.

### Changes in fund balance

The fund balance in the general fund increased by \$190,573 in 2012. This was because total expenditures (\$1,667,091) exceeded total revenues (\$9,636,685) by \$1,030,406. Net transfers (\$1,220,979) from other departments offset the deficiency leaving \$190,573 as the net increase in fund balance for the general fund. The primary reason for the decrease in resources available to the general fund is the large excess of expenditures over revenues. Since the net reduction in fund balance for 2011 was a discouraging \$115,347, a comparison of performance for the general fund between 2011 and 2012 can be contributed to the organizational structural changes that occurred in 2012.

The fund balance in the grant programs fund increased by \$38,438 in 2012. Revenues decreased by \$203,177 to \$931,509 in 2012 while expenditures decreased by \$311,872 to \$789,697. This increase in resources of \$141,812 less a decrease in transfers out (\$103,374) in 2012 created the increase in the fund balance by \$38,438. This is in comparison to an increase in fund balance of \$57,007 for 2011.

The net position in the enterprise funds increased by \$4,397,829 or 4.48% in 2012 compared to an decrease of \$337,611 or .34% in 2011. Operating revenues in the enterprise funds decreased by \$684,777 or 1.37%. Most of the decrease in operating revenues for 2012 can be attributed to a decrease of \$412,164 or 1.3% in operating revenues in the electric department. Additionally, operating expenditures decreased by \$707,054 or 1.42%. Net position of the electric department decreased by \$1,889,337 or 5.69% in 2012. Additionally, our production costs increased due to the Borough's inability to “self-generate” electricity due to low demand in 2011 and 2012. The electric purchase costs are still significantly high due to our supply agreement, which expired December 31, 2012. This resulted in a substantial cost increase in electricity that we were unable to pass on to our customers.

Net position of the gas department increased by \$564,269 or 4.76% while that of the water department increased by \$530,447 or 1.92%; and sewer \$2,708,730 or 12.29% due to capital contributions and grants. Additionally, the net position of the other enterprise funds (sanitation and parking, traffic & st. lights) increased by \$2,483,720 due to the organizational structural changes.

Also, the net position in the internal service funds decreased by \$30,802 or .22% compared to a decrease of \$179,662 or 1.26% in 2011. Revenues increased by \$1,236,605 or 24.91 % while expenses also increased by \$1,297,867 or 24.08%. The increase in expenses and revenues was due to the organization structural changes.



# BOROUGH OF CHAMBERSBURG, PENNSYLVANIA

## Management's Discussion and Analysis

for the Year Ended December 31, 2012

Unaudited

### Capital asset and debt administration

#### Capital asset activity

In 2012, Chambersburg Borough continued our ambitious multiyear plan to provide significant infrastructure upgrades using accumulated reserves in utility funds and special accounts. The year saw many new street improvement projects. Several Borough streets including Woodstock Road were reconstructed and our first experience with cold in place recycling was completed on Limekiln Drive. Despite the expenditures, the Borough finished 2012 with significant Liquid Fuels Tax revenue remaining in the Special Revenue Fund. More street projects will be done in 2013. The Borough's utilities continued significant infrastructure improvements. These include an ambitious program to replace natural gas mains and sewer infrastructure to prevent inflow and infiltration. Water treatment control system improvements were completed at the Julio D. Lecuona Water Treatment Plant and water infrastructure improvements were made at the Long Pine Run Dam in Caledonia. The Borough also conducted traffic signal upgrades at several intersections and work was completed on the construction of the Electric Generation Feeder project to connect the new PPL-RE generation station at the Blue Ridge Landfill with the Borough's Cree Substation. This will allow the Borough to acquire power supply from the generating station. The Electric and the Gas Departments provide upgrades along the Wayne Avenue SR316 Norfolk and Southern Railroad Bridge project. These costs are being shared between the Borough and PennDOT.

It is anticipated that in 2013 the Borough will undertake the largest public works project in Borough history when construction will begin on renovations to the J Haste Mowrey Regional Waste Water Treatment Plant. It is also possible, that the Borough's Gas Department may undertake development of a Compressed Natural Gas (CNG) Fueling Station. As a result, in 2012, the Borough undertook a new debt offering. In August 2012, the Borough approved an Ordinance Incurring Debt in the Form of Bank Loan Financing Issued by the Farmers and Merchants Trust Company Bank of Chambersburg. The loan was a construction line of credit up to \$8 million for use by the various utilities on an as needed basis for these construction projects as well as the aforementioned Electric Generation Feeder project. This new loan was secured through a Request for Proposal system and proper filing with the Pennsylvania Department of Community and Economic Development.

In addition, in April 2012, the Borough arranged for the refinancing of existing debt service which was acquired to pay for utility related upgrades. Town Council worked with The PFM Group (Public Financial Management) as Financial Advisor and Eckert, Seamans, Cherin & Mellott, LLC as Bond Counsel, relative to the refunding of the Borough's 2007 bond issues. This authorization allowed the PFM Group to proceed with the refinancing of the 2007 General Obligation Bond Issues (Electric Generation Facilities). PFM held an on-line auction for the refunding of the 2007 bonds on Monday, April 23, 2012. The Borough's net savings was \$1,339,444.

Additional detail on the capital asset activity for the year ended December 31, 2012 is presented in the Notes to the Basic Financial Statements in note 4.

#### Debt

A summary of outstanding debt at December 31, 2012 and 2011 is as follows:

	<u>General Obligation Bonds/Notes</u>	
	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Governmental activities	\$ 0	\$ 0
Business-type activities	15,189,551	16,460,000
	<u>Pennsylvania ("Pennvest" Water Projects)</u>	
Governmental activities	0	0
Business-type activities	<u>2,649,126</u>	<u>2,640,542</u>
Total outstanding debt	<u>\$ 17,838,677</u>	<u>\$ 19,100,542</u>

**BOROUGH OF CHAMBERSBURG, PENNSYLVANIA**

*Management's Discussion and Analysis*

*for the Year Ended December 31, 2012*

*Unaudited*

Additional detailed data for all debt of the Borough of Chambersburg is presented in the Notes to the Basic Financial Statements in note 5.

**Contacting the Borough's management**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with an overview of the Borough's finances. If you have questions or need additional financial information, please contact the Acting Finance Director, Borough of Chambersburg, 100 South Second Street, Chambersburg, PA 17201.

**BOROUGH OF CHAMBERSBURG**

**STATEMENT OF NET POSITION**  
December 31, 2012

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and equity in pooled cash and investments	\$ 7,681,248	\$ 25,961,379	\$ 33,642,627
Taxes receivable, net of allowance	446,490	0	446,490
Accounts receivable, net of allowance	353,284	7,666,989	8,020,273
Due from other governments	889,765	0	889,765
Other receivables	106,120	28,711	134,831
Inventories	382,257	2,891,833	3,274,090
Prepaid expenses	2,371	151,095	153,466
Total current assets	<u>9,861,535</u>	<u>36,700,007</u>	<u>46,561,542</u>
<b>Noncurrent assets</b>			
Noncurrent receivables	237,186	0	237,186
Prepaid bond insurance	0	14,098	14,098
Capital assets not being depreciated:			
Land	402,195	836,853	1,239,048
Construction in progress	207,141	8,170,046	8,377,187
Capital assets net of accumulated depreciation:			
Utility plant in service	0	88,169,092	88,169,092
Land improvements	2,374,992	32,717	2,407,709
Buildings and improvements	1,403,867	229,483	1,633,350
Machinery, equipment and furniture	1,534,667	4,238,898	5,773,565
Infrastructure	16,295,378	0	16,295,378
Total noncurrent assets	<u>22,455,426</u>	<u>101,691,187</u>	<u>124,146,613</u>
Total assets	<u>32,316,961</u>	<u>138,391,194</u>	<u>170,708,155</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charge on bond refunding	0	363,467	363,467
Total assets and deferred outflow of resources	<u>\$ 32,316,961</u>	<u>\$ 138,754,661</u>	<u>\$ 171,071,622</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable	\$ 257,703	\$ 5,875,294	\$ 6,132,997
Accrued wages and withholdings	107,816	107,175	214,991
Accrued interest expense	0	153,338	153,338
Unearned revenues	0	56,362	56,362
Long-term liabilities: Due within one year			
Bonds and notes payable	0	1,734,215	1,734,215
Compensated absences	328,963	404,870	733,833
Liability for self-insured losses	118,869	309,641	428,510
Total current liabilities	<u>813,351</u>	<u>8,640,895</u>	<u>9,454,246</u>
<b>Noncurrent liabilities</b>			
Long-term liabilities: Due in more than one year			
Bonds and notes payable	0	16,240,655	16,240,655
Compensated absences	289,415	435,082	724,497
Net OPEB obligation	905,275	156,808	1,062,083
Liability for self-insured losses	180,856	471,112	651,968
Total noncurrent liabilities	<u>1,375,546</u>	<u>17,303,657</u>	<u>18,679,203</u>
Total liabilities	<u>2,188,897</u>	<u>25,944,552</u>	<u>28,133,449</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred revenues	105,740	0	105,740
<b>NET POSITION</b>			
Net investment in capital assets	22,217,709	81,864,727	104,082,436
Restricted			
Future highway projects	516,410	0	516,410
Future capital improvements	2,854,869	0	2,854,869
Future grants	481,053	0	481,053
Unrestricted	3,952,283	30,945,382	34,897,665
Total net position	<u>30,022,324</u>	<u>112,810,109</u>	<u>142,832,433</u>
Total liabilities, deferred inflow of resources, and net position	<u>\$ 32,316,961</u>	<u>\$ 138,754,661</u>	<u>\$ 171,071,622</u>

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

**BOROUGH OF CHAMBERSBURG**

**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2012

Functions/Programs					Net (Expense) Revenue and Changes in Net Position		
	Expenses	Program Revenues			Primary Government		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary government</b>							
Governmental activities							
General government	\$ 1,696,708	\$ 334,574	\$ 31,617	\$ 0	(\$ 1,330,517)	\$ 0	(\$ 1,330,517)
Public safety	7,697,570	1,692,575	902,580	44,290	( 5,058,125)	0	( 5,058,125)
Public works	1,655,579	806	438,845	124,660	( 1,091,268)	0	( 1,091,268)
Culture and recreation	1,353,831	438,791	109,226	2,555	( 803,259)	0	( 803,259)
Community development	539,858	0	606,940	0	67,082	0	67,082
Total governmental activities	<u>12,943,546</u>	<u>2,466,746</u>	<u>2,089,208</u>	<u>171,505</u>	<u>( 8,216,087)</u>	<u>0</u>	<u>( 8,216,087)</u>
Business-type activities							
Electric	32,925,694	31,823,441	36,096	900,000	0	( 166,157)	( 166,157)
Gas	6,531,657	7,368,579	18,056	143,775	0	998,753	998,753
Water	2,950,841	3,460,555	21,304	0	0	531,018	531,018
Sewer	5,260,073	5,317,072	22,927	2,593,657	0	2,673,583	2,673,583
Sanitation	2,205,691	1,997,409	37,042	0	0	( 171,240)	( 171,240)
Parking, traffic and street lights	760,007	168,168	3,767	5,899	0	( 582,173)	( 582,173)
Total business-type activities	<u>50,633,963</u>	<u>50,135,224</u>	<u>139,192</u>	<u>3,643,331</u>	<u>0</u>	<u>3,283,784</u>	<u>3,283,784</u>
Total primary government	<u>\$ 63,577,509</u>	<u>\$ 52,601,970</u>	<u>\$ 2,228,400</u>	<u>\$ 3,814,836</u>	<u>(\$ 8,216,087)</u>	<u>\$ 3,283,784</u>	<u>(\$ 4,932,303)</u>
<b>General revenues and transfers:</b>							
Taxes:							
Property taxes, levied for general purposes					\$ 3,860,019	\$ 0	\$ 3,860,019
Real estate transfer tax					296,618	0	296,618
Earned income tax					1,753,574	0	1,753,574
Local services tax					747,799	0	747,799
Other taxes					14,803	0	14,803
Unrestricted investment earnings					19,745	60,705	80,450
Miscellaneous income					10,557	42,013	52,570
Transfers					( 2,143,515)	2,143,515	0
Total general revenues and transfers					<u>4,559,600</u>	<u>2,246,233</u>	<u>6,805,833</u>
Change in net position					( 3,656,487)	5,530,017	1,873,530
Net position - beginning - as restated					<u>33,678,811</u>	<u>107,280,092</u>	<u>140,958,903</u>
Net position - ending					<u>\$ 30,022,324</u>	<u>\$ 112,810,109</u>	<u>\$ 142,832,433</u>

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

**BOROUGH OF CHAMBERSBURG**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2012**

	General Fund	Special Revenue Fund - Grant Programs	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and equity in pooled cash and investments	\$ 1,001,209	\$ 183,064	\$ 3,179,854	\$ 4,364,127
Taxes receivable, net	446,490	0	0	446,490
Receivable from other governments	375,185	225,558	0	600,743
Due from other funds	0	0	129,315	129,315
Other receivables, net	306,355	178,238	191,956	676,549
Total assets	<u>\$ 2,129,239</u>	<u>\$ 586,860</u>	<u>\$ 3,501,125</u>	<u>\$ 6,217,224</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 117,199	\$ 105,220	\$ 531	\$ 222,950
Due to other funds	0	0	129,315	129,315
Accrued wages, benefits and withholdings	96,083	587	0	96,670
Total liabilities	<u>213,282</u>	<u>105,807</u>	<u>129,846</u>	<u>448,935</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred tax revenue	359,957	0	0	359,957
Deferred ambulance revenues	105,740	0	0	105,740
Total deferred inflows of resources	<u>465,697</u>	<u>0</u>	<u>0</u>	<u>465,697</u>
<b>Fund balances</b>				
Nonspendable for long term receivables	0	54,558	182,628	237,186
Restricted	0	426,495	3,188,651	3,615,146
Unassigned	1,450,260	0	0	1,450,260
Total fund balances	<u>1,450,260</u>	<u>481,053</u>	<u>3,371,279</u>	<u>5,302,592</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,129,239</u>	<u>\$ 586,860</u>	<u>\$ 3,501,125</u>	<u>\$ 6,217,224</u>

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

**BOROUGH OF CHAMBERSBURG**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
December 31, 2012**

**Total fund balance - governmental funds** \$ 5,302,592

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

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.

Cost of assets	\$ 34,275,033	
Accumulated depreciation	( 12,756,965)	
		21,518,068

Taxes receivable are not available soon enough to pay for the current period's expenditures, and therefore are offset by unearned revenue in the fund financial statements. 660,116

Net Other Post Employment Benefits (OPEB) obligation does not require the use of current financial resources and, therefore, is not reported as a liability in the governmental funds. ( 892,823)

Internal service funds are used by management to charge the costs of certain activities, such as insurance, motor equipment, engineering, and others, to individual funds. A portion of these assets and liabilities of the internal service funds are included in the governmental activities and are allocated based on the usage of those funds by the governmental funds. 3,940,195

Long-term liabilities are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of compensated absences. ( 505,824)

Total net position - governmental activities \$ 30,022,324

**BOROUGH OF CHAMBERSBURG**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS**

**For the Year Ended December 31, 2012**

	General Fund	Special Revenue Fund - Grant Programs	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 6,372,441	\$ 0	\$ 0	\$ 6,372,441
Licenses and permits	349,126	0	0	349,126
Fines and forfeits	147,438	0	0	147,438
Investment earnings	4,923	59	7,835	12,817
Intergovernmental	780,001	862,118	413,753	2,055,872
Charges for services	1,840,196	0	0	1,840,196
Contributions and donations	0	0	124,660	124,660
Miscellaneous	142,560	69,332	8,632	220,524
Total revenues	<u>9,636,685</u>	<u>931,509</u>	<u>554,880</u>	<u>11,123,074</u>
<b>EXPENDITURES</b>				
General government	997,301	57,527	617	1,055,445
Public Safety				
Police department	4,012,384	22,772	30,173	4,065,329
Emergency services	3,177,737	32,881	0	3,210,618
Planning and zoning	329,461	0	0	329,461
Public works				
Highways	1,000,230	142,760	299,813	1,442,803
Culture and recreation	1,106,547	37,248	20,465	1,164,260
Community development	0	496,509	25,000	521,509
Miscellaneous expenditures	43,431	0	0	43,431
Total expenditures	<u>10,667,091</u>	<u>789,697</u>	<u>376,068</u>	<u>11,832,856</u>
Excess (deficiency) of revenues over expenditures	<u>( 1,030,406)</u>	<u>141,812</u>	<u>178,812</u>	<u>( 709,782)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,644,298	30,638	217,236	1,892,172
Transfers out	<u>( 423,319)</u>	<u>( 134,012)</u>	<u>( 351,915)</u>	<u>( 909,246)</u>
Total other financing sources and uses	<u>1,220,979</u>	<u>( 103,374)</u>	<u>( 134,679)</u>	<u>982,926</u>
Net change in fund balances	190,573	38,438	44,133	273,144
Fund balances - beginning	<u>1,259,687</u>	<u>442,615</u>	<u>3,327,146</u>	<u>5,029,448</u>
Fund balances - ending	<u>\$ 1,450,260</u>	<u>\$ 481,053</u>	<u>\$ 3,371,279</u>	<u>\$ 5,302,592</u>

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

**BOROUGH OF CHAMBERSBURG**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2012**

**Net change in fund balances - total governmental funds:** \$ 273,144

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	(\$	1,209,968)	
Capital outlays		506,335	
			( 703,633)

In the current year, the governmental activities transferred capital assets to an enterprise fund. Due to the fact these assets were only reported in the government-wide statement of net position, a transfer was required for the net value of the assets, which was not reported in the governmental funds.

( 2,026,527)

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.

300,372

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

( 13,665)

Net Other Post Employment Benefits (OPEB) obligation does not require the use of current financial resources and, therefore, is not reported as an expense in the governmental funds.

( 323,188)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.

( 1,162,990)

**Change in net position - governmental activities** **( \$ 3,656,487)**



**BOROUGH OF CHAMBERSBURG**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
December 31, 2012**

	Enterprise Funds		
	Electric Fund	Gas Fund	Water Fund
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and equity in pooled cash and investments	\$ 0	\$ 2,461,118	\$ 10,799,148
Accounts receivable, net	4,356,838	1,355,868	349,787
Due from other funds	0	0	102,958
Receivables from other governments	0	0	0
Other receivables	0	1,585	7,005
Inventories	974,531	752,706	69,282
Prepaid expenses	69,590	18,902	17,810
Total current assets	5,400,959	4,590,179	11,345,990
<b>Noncurrent assets</b>			
Prepaid bond insurance	9,047	0	0
Capital assets not being depreciated:			
Land	447,512	37,716	206,068
Construction in progress	3,067,475	1,156,345	507,571
Capital assets being depreciated:			
Buildings and system	69,116,982	12,670,089	30,610,163
Improvements other than buildings	99,951	0	0
Machinery and equipment	535,081	232,292	304,634
Less accumulated depreciation	( 27,354,908)	( 5,270,437)	( 11,824,404)
Total capital assets	45,912,093	8,826,005	19,804,032
Total noncurrent assets	45,921,140	8,826,005	19,804,032
Total assets	51,322,099	13,416,184	31,150,022
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charge on bond refunding	213,067	0	0
Total assets and deferred outflows of resources	\$ 51,535,166	\$ 13,416,184	\$ 31,150,022
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable	\$ 4,421,977	\$ 811,396	\$ 187,838
Accrued wages payable	25,174	11,314	13,021
Accrued interest payable	129,254	0	7,116
Due to other funds	102,958	0	0
Unearned revenue	14,890	41,472	0
Compensated absences - current	96,612	45,021	45,270
Liability for self insured losses - current	0	0	0
Bonds, notes and loans payable - current	1,013,292	0	185,765
Total current liabilities	5,804,157	909,203	439,010
<b>Noncurrent liabilities</b>			
Compensated absences	101,511	24,643	44,517
Liability for self insured losses	0	0	0
Net OPEB obligation	43,109	19,322	24,656
Bonds, notes and loans payable	12,353,817	38,417	2,463,361
Total noncurrent liabilities	12,498,437	82,382	2,532,534
Total liabilities	18,302,594	991,585	2,971,544
<b>NET POSITION</b>			
Net investment in capital assets	30,869,793	8,719,992	17,050,283
Unrestricted	2,362,779	3,704,607	11,128,195
Total net position	33,232,572	12,424,599	28,178,478
Total liabilities and net position	\$ 51,535,166	\$ 13,416,184	\$ 31,150,022

<b>Enterprise Funds</b>				<b>Internal Service Funds</b>
<b>Sewer Fund</b>	<b>Other Enterprise Funds</b>	<b>Total</b>		
\$ 2,289,160	\$ 1,771,174	\$ 17,320,600	\$ 11,957,900	
1,387,318	211,487	7,661,298	24,403	
0	0	102,958	6,665	
0	0	0	0	
1,472	1,143	11,205	7,702	
99,572	0	1,896,091	1,377,999	
25,318	13,298	144,918	8,548	
<u>3,802,840</u>	<u>1,997,102</u>	<u>27,137,070</u>	<u>13,383,217</u>	
5,051	0	14,098	0	
24,299	111,153	826,748	13,984	
3,430,555	8,100	8,170,046	0	
43,173,812	75,529	155,646,575	159,551	
0	452,928	552,879	0	
399,465	3,418,676	4,890,148	7,173,566	
( 23,867,442)	( 1,915,998)	( 70,233,189)	( 4,823,047)	
<u>23,160,689</u>	<u>2,150,388</u>	<u>99,853,207</u>	<u>2,524,054</u>	
<u>23,165,740</u>	<u>2,150,388</u>	<u>99,867,305</u>	<u>2,524,054</u>	
<u>26,968,580</u>	<u>4,147,490</u>	<u>127,004,375</u>	<u>15,907,271</u>	
150,400	0	363,467	0	
<u>\$ 27,118,980</u>	<u>\$ 4,147,490</u>	<u>\$ 127,367,842</u>	<u>\$ 15,907,271</u>	
\$ 295,844	\$ 67,851	\$ 5,784,906	\$ 125,284	
14,962	13,529	78,000	40,182	
16,968	0	153,338	0	
0	0	102,958	6,665	
0	0	56,362	0	
50,325	37,420	274,648	180,213	
0	0	0	428,510	
535,158	0	1,734,215	0	
<u>913,257</u>	<u>118,800</u>	<u>8,184,427</u>	<u>780,854</u>	
55,858	45,581	272,110	225,535	
0	0	0	651,968	
21,090	16,194	124,371	44,889	
<u>1,385,060</u>	<u>0</u>	<u>16,240,655</u>	<u>0</u>	
<u>1,462,008</u>	<u>61,775</u>	<u>16,637,136</u>	<u>922,392</u>	
<u>2,375,265</u>	<u>180,575</u>	<u>24,821,563</u>	<u>1,703,246</u>	
21,250,689	2,150,088	80,040,845	2,524,054	
3,493,026	1,816,827	22,505,434	11,679,971	
<u>24,743,715</u>	<u>3,966,915</u>	<u>102,546,279</u>	<u>14,204,025</u>	
<u>\$ 27,118,980</u>	<u>\$ 4,147,490</u>	<u>127,367,842</u>	<u>\$ 15,907,271</u>	

Some amounts reported for business-type activities in the statement of net position are different because certain internal service funds' assets and liabilities are included with business-type activities

10,263,830

Net position of business-type activities

\$ 112,810,109

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

**BOROUGH OF CHAMBERSBURG**

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

**For the Year Ended December 31, 2012**

	<b>Enterprise Funds</b>		
	<b>Electric Fund</b>	<b>Gas Fund</b>	<b>Water Fund</b>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 31,275,348	\$ 7,322,611	\$ 2,874,572
Miscellaneous	467,264	45,343	137,584
Total operating revenues	<u>31,742,612</u>	<u>7,367,954</u>	<u>3,012,156</u>
<b>OPERATING EXPENSES</b>			
Production, gathering, treatment and transmission	1,626,671	550,014	1,385,461
Operation and maintenance	0	0	0
Collection and disposal	0	0	0
Purchase of energy for sale	26,464,022	4,632,302	0
Customer accounting and administrative	2,329,147	1,019,443	903,373
Claim payments and special services	0	0	0
Increase (decrease) in expected unpaid losses	0	0	0
Depreciation and amortization	1,927,753	297,504	545,161
Total operating expenses	<u>32,347,593</u>	<u>6,499,263</u>	<u>2,833,995</u>
Operating income (loss)	<u>( 604,981)</u>	<u>868,691</u>	<u>178,161</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Connection fees	0	0	428,565
Interest and investment revenue	1,812	9,764	23,714
Gain (loss) on sale of assets	( 1,746)	( 249)	( 997)
Reimbursement of prior year expense	0	0	0
Other nonoperating revenues	83,899	201	36,043
Intergovernmental revenues	36,096	18,056	21,304
Interest expense and debt issuance costs	<u>( 499,225)</u>	<u>( 150)</u>	<u>( 85,112)</u>
Total nonoperating revenues (expenses)	<u>( 379,164)</u>	<u>27,622</u>	<u>423,517</u>
Income (loss) before contributions and transfers	<u>( 984,145)</u>	<u>896,313</u>	<u>601,678</u>
Capital contributions and grants	900,000	143,775	0
Transfers in	4,908	981	769
Transfers out	<u>( 1,810,100)</u>	<u>( 476,800)</u>	<u>( 72,000)</u>
Change in net position	<u>( 1,889,337)</u>	<u>564,269</u>	<u>530,447</u>
Total net position - beginning - as restated	<u>35,121,909</u>	<u>11,860,330</u>	<u>27,648,031</u>
Total net position - ending	<u>\$ 33,232,572</u>	<u>\$ 12,424,599</u>	<u>\$ 28,178,478</u>

<b>Enterprise Funds</b>			<b>Internal Service Funds</b>
<b>Sewer Fund</b>	<b>Other Enterprise Funds</b>	<b>Total</b>	
\$ 5,087,715	\$ 2,056,570	\$ 48,616,816	\$ 6,195,559
79,931	98,511	828,633	4,882
<u>5,167,646</u>	<u>2,155,081</u>	<u>49,445,449</u>	<u>6,200,441</u>
2,293,611	0	5,855,757	0
0	588,317	588,317	4,921,804
937,657	1,989,939	2,927,596	0
0	0	31,096,324	0
510,582	224,486	4,987,031	583,952
0	0	0	622,782
0	0	0	54,742
<u>1,410,521</u>	<u>118,313</u>	<u>4,299,252</u>	<u>505,225</u>
<u>5,152,371</u>	<u>2,921,055</u>	<u>49,754,277</u>	<u>6,688,505</u>
<u>15,275</u>	<u>( 765,974)</u>	<u>( 308,828)</u>	<u>( 488,064)</u>
146,968	0	575,533	0
5,663	4,067	45,020	24,976
0	0	( 2,992)	12,092
0	0	0	143,906
13,864	0	134,007	728
22,927	40,809	139,192	78,980
<u>( 89,968)</u>	<u>0</u>	<u>( 674,455)</u>	<u>0</u>
<u>99,454</u>	<u>44,876</u>	<u>216,305</u>	<u>260,682</u>
114,729	( 721,098)	( 92,523)	( 227,382)
2,593,657	2,032,426	5,669,858	0
344	1,173,177	1,180,179	367,834
<u>0</u>	<u>( 785)</u>	<u>( 2,359,685)</u>	<u>( 171,254)</u>
2,708,730	2,483,720	4,397,829	( 30,802)
<u>22,034,985</u>	<u>1,483,195</u>	<u>98,148,450</u>	<u>14,234,827</u>
<u>\$ 24,743,715</u>	<u>\$ 3,966,915</u>	<u>102,546,279</u>	<u>\$ 14,204,025</u>

Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities

1,132,188

Change in net position of business-type activities

\$ 5,530,017

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

**BOROUGH OF CHAMBERSBURG**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the Year Ended December 31, 2012**

	<b>Enterprise Funds</b>		
	<b>Electric Fund</b>	<b>Gas Fund</b>	<b>Water Fund</b>
<b>Cash flows from operating activities:</b>			
Receipts from customers/interfund services provided	\$ 31,149,802	\$ 7,175,093	\$ 3,009,000
Payments to suppliers	( 28,607,993)	( 4,906,447)	( 1,362,392)
Payments to and on behalf of employees	( 2,044,996)	( 787,287)	( 1,011,283)
Net cash provided (used) by operating activities	496,813	1,481,359	635,325
<b>Cash flows from capital and related financing activities:</b>			
Grants and reimbursements received	500,000	0	59,171
Proceeds from capital debt	9,812,467	38,417	220,000
Purchase of capital assets	( 1,372,338)	( 999,020)	( 490,450)
Proceeds from sale of assets	0	0	0
Proceeds from tap fees	0	0	428,565
Principal paid on capital debt	( 10,662,300)	0	( 211,416)
Interest and fiscal charges paid on capital debt	( 415,779)	( 150)	( 85,089)
Net cash provided (used) by capital and related financing activities	( 2,137,950)	( 960,753)	( 79,219)
<b>Cash flows from non-capital financing activities:</b>			
Transfer from other funds	4,908	981	769
Transfer to other funds	( 1,810,100)	( 476,800)	( 72,000)
Refund received for health insurance	0	0	0
Grants received	36,096	18,056	21,304
Net cash provided (used) by non-capital financing activities	( 1,769,096)	( 457,763)	( 49,927)
<b>Cash flows from investing activities:</b>			
Interest and dividends received	1,812	13,021	37,471
Net cash provided (used) by investing activities	1,812	13,021	37,471
Net increase (decrease) in cash and cash equivalents	( 3,408,421)	75,864	543,650
Cash and cash equivalents - beginning of the year	3,408,421	2,385,254	10,255,498
Cash and cash equivalents - end of the year	\$ 0	\$ 2,461,118	\$ 10,799,148
<b>Reconciliation of income from operations to net cash provided (used) by operating activities</b>			
Operating income (loss)	(\$ 604,981)	\$ 868,691	\$ 178,161
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization expense	1,927,753	297,504	545,161
Miscellaneous nonoperating income	83,899	201	36,043
(Increase) decrease in:			
Accounts receivable	( 657,079)	( 165,569)	( 39,199)
Due from other funds	0	0	( 102,958)
Inventories	( 235,817)	344,436	( 22,294)
Prepaid expenses	( 36,915)	( 16,593)	( 15,204)
Increase (decrease) in:			
Accounts payable and accrued expenses	( 70,811)	180,182	55,615
Due to other funds	102,958	0	0
Unearned revenue	( 12,194)	( 27,493)	0
Net cash provided (used) by operating activities	\$ 496,813	\$ 1,481,359	\$ 635,325
Non-cash investing, capital and non-capital financing activities			
Donated assets from developers	\$ 0	\$ 143,775	\$ 0

<b>Enterprise Funds</b>				<b>Internal Service Funds</b>
<b>Sewer Fund</b>	<b>Other Enterprise Funds</b>	<b>Total</b>		
\$ 4,893,632	\$ 2,114,979	\$ 48,342,506	\$ 6,241,573	
( 2,377,187)	( 1,687,586)	( 38,941,605)	( 2,647,449)	
( 1,374,184)	( 1,050,174)	( 6,267,924)	( 3,365,432)	
<u>1,142,261</u>	<u>( 622,781)</u>	<u>3,132,977</u>	<u>228,692</u>	
2,848,470	0	3,407,641	0	
58,667	0	10,129,551	0	
( 3,457,229)	( 55,924)	( 6,374,961)	( 114,468)	
0	0	0	14,400	
146,968	0	575,533	0	
( 517,700)	0	( 11,391,416)	0	
( 66,558)	0	( 567,576)	0	
<u>( 987,382)</u>	<u>( 55,924)</u>	<u>( 4,221,228)</u>	<u>( 100,068)</u>	
344	1,173,177	1,180,179	367,834	
0	( 785)	( 2,359,685)	( 171,254)	
0	0	0	143,906	
<u>22,927</u>	<u>40,809</u>	<u>139,192</u>	<u>78,980</u>	
<u>23,271</u>	<u>1,213,201</u>	<u>( 1,040,314)</u>	<u>419,466</u>	
<u>8,455</u>	<u>5,423</u>	<u>66,182</u>	<u>40,293</u>	
<u>8,455</u>	<u>5,423</u>	<u>66,182</u>	<u>40,293</u>	
<u>186,605</u>	<u>539,919</u>	<u>( 2,062,383)</u>	<u>588,383</u>	
<u>2,102,555</u>	<u>1,231,255</u>	<u>19,382,983</u>	<u>11,369,517</u>	
<u>\$ 2,289,160</u>	<u>\$ 1,771,174</u>	<u>\$ 17,320,600</u>	<u>\$ 11,957,900</u>	
\$ 15,275	(\$ 765,974)	(\$ 308,828)	(\$ 488,064)	
1,410,521	118,313	4,299,252	505,225	
13,864	0	134,007	728	
( 287,878)	( 40,102)	( 1,189,827)	40,404	
0	0	( 102,958)	( 6,665)	
( 6,525)	0	79,800	34,268	
( 21,437)	( 12,263)	( 102,412)	( 6,071)	
18,441	77,245	260,672	142,202	
0	0	102,958	6,665	
0	0	( 39,687)	0	
<u>\$ 1,142,261</u>	<u>(\$ 622,781)</u>	<u>\$ 3,132,977</u>	<u>\$ 228,692</u>	
<u>\$ 46,434</u>	<u>\$ 0</u>	<u>\$ 190,209</u>	<u>\$ 0</u>	

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

**BOROUGH OF CHAMBERSBURG**

**STATEMENT OF FIDUCIARY NET POSITION**

**December 31, 2012**

	<b>Pension Trust Funds</b>	<b>Private Purpose Trust Funds</b>	<b>Agency Funds</b>
<b>ASSETS</b>			
Cash and equity in pooled cash and investments	\$ 1,345,548	\$ 32,822	\$ 852,026
Mutual funds - U.S. Securities	8,532,585	0	0
Mutual funds - Stocks	18,574,672	0	0
Mutual funds - Real estate securities	983,001	0	0
Other receivables	0	7	548
Total assets	<u>\$ 29,435,806</u>	<u>\$ 32,829</u>	<u>\$ 852,574</u>
<b>LIABILITIES</b>			
Consumer deposits	<u>0</u>	<u>0</u>	<u>852,574</u>
Total liabilities	<u>0</u>	<u>0</u>	<u>852,574</u>
<b>NET POSITION</b>			
Held in trust for benefits and other purposes	<u>29,435,806</u>	<u>32,829</u>	<u>0</u>
Total liabilities and net position	<u>\$ 29,435,806</u>	<u>\$ 32,829</u>	<u>\$ 852,574</u>

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

**BOROUGH OF CHAMBERSBURG**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**For the Year Ended December 31, 2012**

	<b>Pension Trust Funds</b>	<b>Private Purpose Trust Funds</b>
<b>ADDITIONS</b>		
Contributions		
Employer	\$ 1,315,104	\$ 0
Plan member	101,650	0
Public contributions and other revenue	0	8,217
Total contributions	<u>1,416,754</u>	<u>8,217</u>
Investment income		
Net appreciation (depreciation) in fair value of investments and gain (loss) on sale of investments	2,627,313	0
Interest, dividends, and other	636,489	33
Total net investment earnings	<u>3,263,802</u>	<u>33</u>
 Total additions	 <u>4,680,556</u>	 <u>8,250</u>
<b>DEDUCTIONS</b>		
Benefits	2,158,002	0
Administrative expenses	9,704	17,700
Miscellaneous expenses	0	193
Total deductions	<u>2,167,706</u>	<u>17,893</u>
 Change in net position	 2,512,850	 ( 9,643)
Net position - beginning	<u>26,922,956</u>	<u>42,472</u>
Net position - ending	<u>\$ 29,435,806</u>	<u>\$ 32,829</u>

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



## **NOTES TO THE FINANCIAL STATEMENTS**

### **Note 1. Summary of Significant Accounting Policies**

#### **Nature of Operations**

The financial statements of the Borough of Chambersburg have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

#### **Reporting Entity**

The GASB defines the criteria used to determine the composition of the reporting entity. These standards require 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 with 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 component unit meets the criteria for blending and is included within the reporting entity:

The Municipal Authority of the Borough of Chambersburg (the "Authority") is governed by a Board appointed by Borough Council. The Authority had no financial activity during 2012. See Note 11 for additional information.

#### **Fund Accounting**

The Borough uses 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 position/(deficit), revenue, and expenditures/expenses. The various funds of the primary government are grouped into the categories of governmental, proprietary, and fiduciary.

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

### Fund Accounting (Continued)

#### **Governmental Funds**

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

The Borough reports the following major governmental funds:

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

Special Revenue Fund - Grant Programs is used to account for the proceeds of a majority specific revenue sources from grants used to finance specific activities as required by law or administrative regulation obtained by the Borough for the governmental activities.

Additionally, the Borough reports the following non-major governmental funds:

Special Revenue Funds – These funds are used to account for proceeds of specific revenue sources used to finance specific activities as required by law or administrative regulation. The Borough has two Special Revenue Funds, the Grant Program Fund above and the following:

Liquid Fuels Fund is used to account for state liquid fuels tax revenue used primarily for building, improving, and maintaining local roads and bridges.

Capital Reserve 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).

#### **Proprietary Funds**

Proprietary funds are used to account for activities similar to those found in the private sector, where the focus of proprietary funds is on the determination of net earnings and capital maintenance. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the government (internal service funds).

The Borough reports the following major enterprise funds:

***Electric Department*** – Provides electric power and related services to the Borough of Chambersburg and all customers, both residential and commercial, throughout the Borough.

***Gas Department*** – Provides natural gas and related services to the Borough of Chambersburg in addition to its residential and commercial customers throughout the Borough and within its proximity.

***Water Department*** – Provides water and related services, including laboratory analyses, to the Borough of Chambersburg, its residents, business establishments and various customers within the proximity of the Borough.

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

### **Proprietary Funds (Continued)**

**Sewer Department** – Provides wastewater treatment services for the Borough of Chambersburg, its residents, commercial establishments and various customers located within the neighboring areas of Greene Township, Guilford Township, Hamilton Township and Letterkenny Township.

The Borough reports the following non-major enterprise funds:

**Sanitation Department** – Provides trash and garbage removal for the Borough of Chambersburg, its residents and commercial establishments throughout the Borough.

**Parking, Traffic and Street Lights Department** – Regulates and controls vehicle parking, traffic and street lights throughout the Borough of Chambersburg.

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

- **Operating Revenues** - Operating revenues include activities that have the characteristics of exchange transactions, such as (1) utility billings; (2) penalties and late charges; and (3) other miscellaneous sales.
- **Nonoperating Revenues** - Nonoperating revenues include activities that have the characteristics of non-exchange transactions (in which the Borough receives value without directly giving equal value in return), such as contributions and grants, and other revenues that are defined as nonoperating revenues by GASB pronouncements, such as investment earnings. Tap fees are also considered nonoperating since they are charged based on future capacity needs of the system and are not based on an exchange-type transaction.

Internal service funds of a government (which traditionally provide services primarily to other funds of the government) are presented, in summary form, as part of the proprietary fund financial statements. Since the principal users of the internal services are a combination of the Borough's governmental and enterprise funds, financial statements of internal service funds are allocated based on the usage of those funds and included in the governmental and business-type column when presented at the government-wide level. The costs of these services are allocated to the appropriate functional activity.

The Borough's internal service funds consist of:

**Stores Fund** – The Stores Department is responsible for the purchase, storage, and disbursal of inventory which is used to support the construction and maintenance functions of the Borough utilities.

**Administrative Services Fund** – Administrative Services is synonymous with the Finance Department which is responsible for the complete financial reporting and utility meter reading, as well as the operation and maintenance of Borough Hall.

**Motor Equipment Fund** – This fund supports the activities of the Motor Equipment Department which manages a rolling stock of more than 120 vehicles.

**Self-insurance Fund** – This fund is used for the purpose of funding risk which the Borough does not transfer to commercial insurance carriers or insurance pools.

**Engineering Fund** – This fund supports the activities of the Engineering Department which is responsible for furnishing engineering, surveying, drafting, and utility location information to other departments. The department also designs and inspects public works projects.

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

### **Proprietary Funds (Continued)**

***Worker's Compensation*** – This fund underwrites the risks to the Borough resulting from job-related injury or illness to its employees.

The major fund concept does not apply to internal service funds.

### **Fiduciary Fund Types**

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds (Firemen's, Police, and Bargaining and Administrative Employees), investment trust funds, private-purpose trust funds (Citizen's Reward, Sister City and Project Heat), and agency funds (Payroll Clearing, Consumer Deposit).

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 program. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The Borough's fiduciary funds consist of:

***Police Pension Fund*** - This fund is used to account for the accumulation of resources for pension benefit payments to qualified public safety (police) employees.

***Bargaining and Administrative Employees Pension Fund*** - This fund is used to account for the accumulation of resources for pension benefit payments to qualified employees of the Borough other than police or fire department employees.

***Firemen's Pension Fund*** - This fund is used to account for the accumulation of resources for pension benefit payments to qualified Fire Department employees.

***Citizen's Reward Fund*** - Trust fund used to hold contributions from private citizens for the purpose of rewarding police informants for their assistance in solving crime.

***Sister City Fund*** - Trust fund used to hold money that accumulates for the specific purpose of "sister city" activities. Our sister city is Gotemba, Japan.

***Project HEAT Fund*** - Trust fund to hold contributions from citizens for the purpose of assisting others pay their utility bills.

***Payroll Clearing Fund*** - An account to temporarily hold every dollar expended through the payroll system. This includes net payroll, all taxes withheld, miscellaneous deductions and employers' share of Social Security/Medicare expense. Theoretically, every dollar contained within the account will eventually be paid out in net pay, taxes or other deductions.

***Consumer Deposits Fund*** - Agency fund used to hold deposits on behalf of utility customers. Interest is earned and "tracked" for individual customers at the Borough's composite interest rate. These funds can be used to settle an outstanding account or returned to the customer whenever a "good credit history" record is attained. These funds are also returned to the customer whenever they move outside the Borough. Occasionally, some deposits and or down payments from other individuals and organizations for other purposes are deposited in this account and held until final resolution has occurred.

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

### **Basis of Presentation**

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

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

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

*Fund Financial Statements* – Fund financial statements report detailed information about the Borough. The focus of the governmental and proprietary fund financial statements is on major funds rather than reporting 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 internal service funds which are considered proprietary funds and are presented with enterprise funds. Fiduciary funds are reported by fund type.

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

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

Fiduciary funds are reported using the economic resources measurement focus. However, agency funds have no measurement focus.

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

### **Basis of Accounting**

The government-wide, proprietary, and fiduciary fund (except agency 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 position (total assets plus deferred outflows of resources 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 position. Depreciation is charged as expense against current operations and accumulated depreciation is reported on the statement of net position. 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. Revenue from federal, state, and other grants designated for payment of specific Borough expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recorded as unearned revenues until earned. 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.

### **Budgets**

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general fund, liquid fuels fund, capital projects, grant program, and proprietary funds. All annual appropriations lapse at year end and must be reappropriated. Budgets are not revised during the year. Encumbrance accounting is utilized for internal management purposes, but not for financial reporting. The budget is prepared and approved at the departmental level. The departments presented in the Budgetary Comparison Schedules included as required supplementary information represent the legal level of budgetary control.

### **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.

### **Cash, Cash Equivalents and Investments**

Cash and cash equivalents include cash on hand, demand deposits, and in accordance with GASB pronouncements, each fund's equity in the Borough's investment pool since each fund can deposit or effectively withdraw cash at any time without prior written notice or penalty. Cash and cash equivalents on the Proprietary Funds' cash flow statements are in agreement with the amounts listed on the related statement of net position as "cash and equity in pooled cash and investments".

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

**Cash, Cash Equivalents and Investments (Continued)**

Investments are reported at fair value based on quoted values from established markets. Managed funds related to the retirement systems 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. Income, including the change in fair value, from investments held by the individual funds is recorded in the respective fund as it is earned. All other investments owned by the Borough are accounted for in pooled cash and temporary investment accounts. Income earned from this pooling of investments is allocated monthly to the respective funds based upon month end balances.

**Inventories**

Inventories held by the Electric, Gas, Water, Sewer, and Stores Funds, as well as fuel in the Motor Equipment Fund are priced using the moving weighted-average method. Inventories of parts held by the Motor Equipment Fund are stated at the lower of cost or market, cost being determined using the first-in/first-out (FIFO) method.

**Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair values as of the date received. The Borough maintains a capitalization threshold of \$ 2,500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed. Interest costs incurred during the construction of capital assets is capitalized for business-type activities and enterprise funds and expensed for governmental activities.

Infrastructure assets that have been acquired since 1980 have been recorded in accordance with GASB requirements. These consist mainly of highway improvements.

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:

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>
Land improvements	10-20 years	10-20 years
Buildings	40-50 years	40-50 years
Machinery and equipment	8-40 years	8-40 years
Utility plant in service	20-50 years	20-50 years
Infrastructure - railroads	25 years	N/A
Infrastructure - highways	25 years	N/A
Infrastructure - other	5-50 years	N/A

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

### **Deferred Outflows and Inflows of Resources**

In March 2012, the GASB issued Statement No. 65, *Items Previously Recognized as Assets and Liabilities*. The objective of this statement is to enhance the guidance to determine which balances being report as assets and liabilities should be reported as deferred outflows of resources or deferred inflows of resources. The financial statements incorporate the changes required by Statement No. 65. A restatement was required to properly incorporate these changes (see Note 13).

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Borough only has one item that qualifies for reporting in this category, which is the deferred charge on bond refunding reported in the statement of net position. A deferred charge on bond refunding results from the difference in the carrying value of refunding debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Borough has deferred tax revenue and deferred revenue related to ambulance club memberships that are reported as deferred inflows of resources.

### **Interfund Transactions**

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

Exchange transactions, if any, between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and are shown separately in proprietary funds.

### **Allowance for Uncollectible Accounts**

The Borough provides credit to its customers in the normal course of business. Receivables are generally due thirty days after billed. The Borough provides an allowance for uncollectible accounts equal to the estimated losses based on historical collection experience that will be incurred in the collection of all receivables.

### **Loans Receivable**

Loans receivable on the statement of net position (classified in “other receivables”) represent loans made to low income residents under a revolving loan program funded by the Pennsylvania Department of Community and Economic Development (DCED) and the Federal HOME Program, as well as a loan agreement with the Chambersburg Area Development Corporation for the renovation of the Heritage Center funded by DCED.



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

### **Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activity columns in the statement of net position. This same treatment also applies to proprietary fund financial statements.

Bond premium and discounts, deferred charge on bond refunding, as well as prepaid bond insurance 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. The deferred charge on bond refunding is reported as deferred outflows of resources and amortized over the term of the related debt. Prepaid bond insurance costs are reported as an asset and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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 (including prepaid bond insurance), whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### **Net Position**

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this statement is to enhance the usefulness of reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of net position. This standard establishes a framework detailing how these elements should be reported, which will result in standardizing the presentation of deferred balances and their effects on a government's net position. This reporting of deferred inflows and outflows also applies to the fund financial statements. The financial statements incorporate the changes required by Statement No. 63.

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

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

*Net Investment in Capital Assets:* This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt and accounts payable and retainage payable that are attributable to the acquisition, construction or improvement of these assets reduce this category. *Net Investment in Capital Assets* consists of the following at December 31, 2012:

**Government-Wide Activity**

	<b>Governmental Activities</b>	<b>Business- Type Activities</b>
Capital assets	\$ 22,218,240	\$ 101,677,089
Bonds and notes payable	0	( 17,761,818)
Deferred charge on bond refunding	0	150,415
Accounts and retainage payable related to capital assets	( 531)	( 2,200,959)
Net investment in capital assets	<u>\$ 22,217,709</u>	<u>\$ 81,864,727</u>

**Proprietary Funds**

	<b>Electric Fund</b>	<b>Gas Fund</b>	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Sanitation Fund</b>	<b>Parking Fund</b>
Capital assets	\$ 45,912,093	\$ 8,826,005	\$ 19,804,032	\$ 23,160,689	\$ 39,751	\$ 2,110,637
Bonds and notes payable	( 13,367,109)	( 38,417)	( 2,649,126)	( 1,920,218)	0	0
Deferred charge on bond refunding	213,067	0	0	150,400		
Accounts and retainage payable related to capital assets	( 1,888,258)	( 67,596)	( 104,623)	( 140,182)	0	( 300)
Net investment in capital assets	<u>\$ 30,869,793</u>	<u>\$ 8,719,992</u>	<u>\$ 17,050,283</u>	<u>\$ 21,250,689</u>	<u>\$ 39,751</u>	<u>\$ 2,110,337</u>

**Internal Service Funds**

	<b>Stores Fund</b>	<b>Motor Equipment Fund</b>	<b>Engineering Fund</b>
Capital assets	\$ 2,547	\$ 2,518,382	\$ 3,125
Bonds and notes payable	0	0	0
Deferred charge on bond refunding	0	0	0
Accounts and retainage payable related to capital assets	0	0	0
Net investment in capital assets	<u>\$ 2,547</u>	<u>\$ 2,518,382</u>	<u>\$ 3,125</u>

*Restricted:* 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 position:

Restricted for future capital improvements by borough code	\$ 2,854,869
Restricted for future grant expenditures	481,053
Restricted for future highway improvements/projects	<u>516,410</u>
	<u>\$ 3,852,332</u>

*Unrestricted:* This category of net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

*Net Position Flow Assumption:* Sometimes the government will fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted net position, a flow assumption must be made about the order in which the resources are considered to be applied. 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

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. The following details restricted fund balance:

Restricted for future capital improvements by borough code	\$ 2,672,241
Restricted for future grant expenditures	426,495
Restricted for future highway improvements/projects	<u>516,410</u>
	<u>\$ 3,615,146</u>

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 the Borough Council. 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.

### Minimum Fund Balance

The Borough's policy is to maintain a minimum of 5% of the total budgeted expenditures (including interfund transfers out) as the residual unassigned fund balance at year end. Three methods that can be employed in increasing fund balance if it were to fall below the minimum threshold are: 1) increase general fund revenues via tax or other revenue increase (charges for service), 2) decreasing general fund expenditures, or 3) increasing transfers from other Borough funds.

### Order of Spending Policy

The Borough's policy for spending order when fund balance resources are available for a specific purpose in multiple classifications is to use restricted resources first and then apply unrestricted resources in the following order: unassigned, assigned, and committed.

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

### **Pension Trust Funds**

The GASB requires a statement of plan net assets and a statement of changes in plan net assets. These are shown as part of the fiduciary statements. It also requires plan investments to be recorded at their fair value and establishes standards for the measurement, recognition, and display of pension expense and related liabilities, assets, and note disclosures.

### **Deferred Compensation Plan**

The Borough has established a deferred compensation plan under Internal Revenue Code Section 457 which covers all employees. All assets and income of the plan are held for the exclusive benefit of the plan's participants and their beneficiaries. In accordance with the provisions of the GASB, the assets and liabilities of the plan are not reported on the financial statements of the Borough.

### **Compensated Absences**

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 and sick leave in varying amounts. Vacation days not used by December 31 are lost unless otherwise approved, or are retained if employed for at least 20 years by the Borough. All employees (including uniformed police) are permitted to accumulate unlimited sick days. Upon retirement from the Borough, employees with a certain number of years of continuous service are reimbursed as follows for their accumulated sick leave:

- ⇒ **Administrative and Bargaining Unit** - 1% per year of service of unused sick leave up to a maximum of 90 days pay for employees with at least five (5) years of continuous employment.
- ⇒ **Police** - any sick leave accumulated in excess of 100 days at \$ 30-\$ 40 per day.
- ⇒ **Fire** - 15% to 27.5% of accumulated sick leave, up to a maximum of 1,012.8 hours.

### **Other Postemployment Benefits Other Than Pension**

The Borough provides postemployment benefits by permitting retired employees the ability to participate in the employee health plan. Even though the retirees pay 102% of the Borough's blended premium rate, the Borough is still providing an implicit rate subsidy to its retirees. These benefits are financed on a pay-as-you-go basis. The Borough provides no other postemployment benefits for Borough employees.

### **Statement of Cash Flows - Proprietary Funds**

Because the Borough accounts for all deposits and investments through a Central Treasury function, all investments are considered to be cash equivalents for purposes of the statement of cash flows.

### **Deficit Net Position**

The Administrative Services Fund and Worker's Compensation Fund (internal service funds) have deficit net position balances of \$ 460,214 and \$ 980,830, respectively, at December 31, 2012.

## Note 2. Cash and Cash Equivalents

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.

### Deposits

#### **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, 2012, the Borough has a bank balance of \$ 3,500,602. Of this balance, \$ 887,691 is covered by FDIC insurance and the remaining balance of \$ 2,612,911 is collateralized by securities held by the pledging financial institution.

#### **Investments**

As of December 31, 2012, the Borough's investments were as follows:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Credit Quality Rating</b>
PLGIT/PLGIT PLUS	\$ 19,724,727	AAAm
PLGIT - CD's and Term CD's	10,967,666	AAAm

The certificates of deposit held at PLGIT were all covered by FDIC insurance.

#### **Credit Risk – Investments**

The Borough has no investment policy that would limit its investment choices to certain credit ratings.

Included in cash and cash equivalents on the statement of net assets are pooled investments in the Pennsylvania Local Government (PLGIT) of \$ 19,724,727. These funds are basically mutual funds that consist of short-term money market instruments and seek to maintain a constant net asset value of \$ 1 per share.

#### **Interest Rate Risk – Investments**

The following investments are subject to interest rate risk:

	<b>Total Fair Value</b>	<b>Investment Maturities (in Years)</b>	
		<b>Less Than 1</b>	<b>1-5</b>
PLGIT - CD's and Term CD's	\$ 10,967,666	\$ 10,967,666	\$ 0

The Borough does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

**Municipal Pension Plans**

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

	<b>Total Fair Value</b>	<b>Investment Maturities</b>
Investment		
Money Market Funds	\$ 1,345,548	N/A
Open End Mutual Funds	<u>28,090,258</u>	N/A
Total	<u>\$ 29,435,806</u>	

***Credit Risk***

The Borough does not have a formal policy pertaining to credit risk. None of the investments have a credit quality rating.

***Foreign Securities and Currencies Risk***

Foreign securities prices may decline or fluctuate because of economic or political actions of foreign governments or the possibility that foreign currency will fluctuate in value against the U. S. dollar. Included in the \$ 28,090,258 of Open End Mutual Funds shown above are International Mutual Funds with a fair value of \$ 4,310,670. The International Mutual Funds may be subject to foreign securities and currencies risk.

**Note 3. Taxes and Other Receivables**

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 a delinquent tax collector on January 15 of each year. After proper notification is made to a property owner, a lien is filed on or about May 1 and must remain in effect for a period of two years before a tax sale may occur.

Taxes are recorded in the funds 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 not established an allowance for uncollectible taxes since experience has demonstrated that substantially all taxes are ultimately collectible.

Receivables as of December 31, 2012 for the Borough's governmental activities, including the applicable allowances for uncollectible accounts are as follows:

Real estate	\$ 446,490
Earned income tax	558,129
Real estate transfer tax	16,028
Ambulance billings	333,320
Loans receivable	379,699
Grants receivable	214,421
Other	233,097
Allowance for uncollectible accounts	<u>( 148,339)</u>
Receivables - full accrual basis	2,032,845
Taxes not receivable within 60 days and allocation of internal service funds not recorded in fund financial statements	<u>( 309,063)</u>
Receivables - modified accrual basis	<u>\$ 1,723,782</u>

#### Note 4. Capital Assets

Capital asset activity for the Borough consists of the following as of and for the year ended December 31, 2012:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
<b>Governmental Activities:</b>				
Cost:				
Capital assets not being depreciated				
Land	\$ 402,195	\$ 0	\$ 0	\$ 402,195
Construction-in-progress	238,366	104,633	( 135,858)	207,141
Capital assets				
Land improvements	3,421,708	391,423	( 396,574)	3,416,557
Buildings	4,741,075	0	( 677)	4,740,398
Machinery and equipment	4,770,754	162,890	( 118,279)	4,815,365
Infrastructure - roads	16,546,652	15,000	( 2,721,273)	13,840,379
Infrastructure - railroads	2,676,132	0	0	2,676,132
Infrastructure - other	6,214,950	0	0	6,214,950
Total cost	<u>39,011,832</u>	<u>673,946</u>	<u>( 3,372,661)</u>	<u>36,313,117</u>
Less accumulated depreciation:				
Land improvements	( 1,269,356)	( 168,783)	396,574	( 1,041,565)
Buildings	( 3,224,902)	( 112,026)	397	( 3,336,531)
Machinery and equipment	( 3,065,062)	( 298,899)	83,263	( 3,280,698)
Infrastructure - railroads	( 1,437,646)	( 99,148)	0	( 1,536,794)
Infrastructure - highways	( 3,659,619)	( 495,645)	729,401	( 3,425,863)
Infrastructure - other	( 1,297,810)	( 175,616)	0	( 1,473,426)
Total accumulated depreciation	<u>( 13,954,395)</u>	<u>( 1,350,117)</u>	<u>1,209,635</u>	<u>( 14,094,877)</u>
<b>Capital assets, net</b>	<u>\$ 25,057,437</u>	<u>( \$ 676,171)</u>	<u>( \$ 2,163,026)</u>	<u>\$ 22,218,240</u>
<b>Business-Type Activities:</b>				
Cost:				
Capital assets not being depreciated				
Land	\$ 836,853	\$ 0	\$ 0	\$ 836,853
Construction-in-progress	5,447,613	5,886,302	( 3,163,869)	8,170,046
Capital assets				
Utility plant in service	150,109,463	5,122,821	( 63,943)	155,168,341
Land improvements	81,939	404,941	0	486,880
Buildings	591,548	1,979	0	593,527
Machinery and equipment	7,266,305	2,985,017	( 111,693)	10,139,629
Total cost	<u>164,333,721</u>	<u>14,401,060</u>	<u>( 3,339,505)</u>	<u>175,395,276</u>
Less accumulated depreciation:				
Utility plant in service	( 62,994,636)	( 4,066,195)	61,582	( 66,999,249)
Land improvements	( 55,869)	( 398,294)	0	( 454,163)
Buildings	( 353,753)	( 10,291)	0	( 364,044)
Machinery and equipment	( 4,655,664)	( 1,355,000)	109,933	( 5,900,731)
Total accumulated depreciation	<u>( 68,059,922)</u>	<u>( 5,829,780)</u>	<u>171,515</u>	<u>( 73,718,187)</u>
<b>Capital assets, net</b>	<u>\$ 96,273,799</u>	<u>\$ 8,571,280</u>	<u>( \$ 3,167,990)</u>	<u>\$ 101,677,089</u>

#### Note 4. Capital Assets (Continued)

See Note 10 for project commitments.

Depreciation expense for the year ended December 31, 2012 was charged to expense functions, including the internal service fund allocations, as follows:

	Governmental Activities	Business-Type Activities
General government	\$ 312,063	\$ 0
Public Safety	201,999	0
Public Services	638,868	0
Parks and recreation	197,187	0
Electric	0	2,081,715
Gas	0	361,377
Water	0	606,521
Sewer	0	1,444,857
Sanitation	0	55,304
Parking, traffic and street lights	0	1,280,006
	<u>\$ 1,350,117</u>	<u>\$ 5,829,780</u>

#### Internal Service Fund Allocation

The capital asset information shown above for governmental activities and business-type activities includes the allocation of capital assets, accumulated depreciation and current year depreciation expense of internal services funds. This allocation is based on the applicable usage of each internal service fund by the governmental activities (28%) and the business-type activities (72%). These allocations were changed in 2012, compared to 2011, thus the beginning balances do not match the previous year financial statements due to reallocating the beginning balance of the internal service funds using the new allocations.

#### Note 5. Long-term Liabilities

The changes in long-term liabilities during the year ended December 31, 2012 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Unamortized Bond Premium and Discount	Current Portion	Long-term Portion
<b>Governmental Activities:</b>							
Liability for self-insured losses	\$ 367,726	\$ 39,882	(\$ 107,883)	\$ 299,725	\$ 0	\$ 118,869	\$ 180,856
Compensated Absences	605,411	396,628	( 383,661)	618,378	0	328,963	289,415
<b>Total long-term liabilities</b>	<u>\$ 973,137</u>	<u>\$ 436,510</u>	<u>(\$ 491,544)</u>	<u>\$ 918,103</u>	<u>\$ 0</u>	<u>\$ 447,832</u>	<u>\$ 470,271</u>
<b>Business-Type Activities</b>							
Bonds and notes payable							
(C) Sewer 2009 GO Bond	\$ 2,364,800	\$ 0	(\$ 517,700)	\$ 1,847,100	\$ 14,484	\$ 535,158	\$ 1,326,426
(E) Sewer 2012 GO Note	0	58,667	0	58,667	0	0	58,667
(B) Electric 2007 GO Bond	9,860,000	0	( 9,735,000)	125,000	( 680)	39,745	84,575
(C) Electric 2009 GO Bond	4,235,200	0	( 927,300)	3,307,900	25,940	958,377	2,375,463
(D) Electric 2012 GO Bond	0	9,785,000	0	9,785,000	96,449	15,170	9,866,279
(E) Electric 2012 GO Note	0	27,467	0	27,467	0	0	27,467
(E) Gas 2012 GO Note	0	38,417	0	38,417	0	0	38,417
(A) Water PennVest Loan	2,640,542	220,000	( 211,416)	2,649,126	0	185,765	2,463,361
Subtotal - bonds and notes	<u>19,100,542</u>	<u>10,129,551</u>	<u>( 11,391,416)</u>	<u>17,838,677</u>	<u>136,193</u>	<u>1,734,215</u>	<u>16,240,655</u>
Liability for self-insured losses	658,010	403,767	( 281,024)	780,753	0	309,641	471,112
Compensated absences	769,846	484,816	( 414,710)	839,952	0	404,870	435,082
<b>Total long-term liabilities</b>	<u>\$ 20,528,398</u>	<u>\$ 11,018,134</u>	<u>(\$ 12,087,150)</u>	<u>\$ 19,459,382</u>	<u>\$ 136,193</u>	<u>\$ 2,448,726</u>	<u>\$ 17,146,849</u>



## Note 5. Long-term Liabilities (Continued)

The General Fund and Internal Service Funds have been used in prior years to liquidate the liability for compensated absences in the Governmental Activities. In addition to the long-term liabilities listed above, the Borough has a net OPEB obligation. See Note 8 for additional details. The General Fund and the Internal Service Fund have been used in prior years to liquidate the net other postemployment benefit obligation in the Governmental Activities.

### *Internal Service Fund Allocation*

The liability for self-insured losses and compensated absences information shown above for governmental activities and business-type activities includes the allocation of self-insured losses and use of compensated absences of internal service funds. This allocation is based on the applicable usage of each internal service fund by the governmental activities (28%) and the business-type activities (72%). These allocations were changed in 2012, compared to 2011, thus the beginning balances do not match the previous year financial statements due to reallocating the beginning balance of the internal service funds using the new allocations.

- (A) Pennvest Loan – On July 27, 2001, the Borough entered into a loan agreement with the Pennsylvania Infrastructure Investment Authority for \$ 4,400,000 to be used to partially finance the construction of a water system in the Borough, and Greene and Guilford Townships. Interest rates range from 2.501% to 3.331%. Principal and interest payments are payable monthly, are based on the full amount of the loan and are due through October 2024. The future principal and interest payments shown below are based on this amount. The Pennvest loan is secured by the full faith, credit and taxing power of the Borough, and a security interest on gross revenues and receipts generated from operations of the system and accounts receivable.
- (B) General Obligation Bonds – Series of 2007 – On June 1, 2007, the Borough issued General Obligation Bonds in the principal amount of \$ 10,000,000 to be used for a partial refunding of the General Obligation Bonds, Series of 2002 and 2003 and the costs of issuing the Bonds. Annual installments of the debt are to be paid from the Electric Fund vary from \$ 30,000 to \$ 1,475,000 and are due through September 1, 2022. Interest rates vary from 3.60% to 4.00%. Interest is payable every March 1 and September 1.
- (C) General Obligation Bonds – Series of 2009 – On March 1, 2009, the Borough issued General Obligation Bonds in the principal amount of \$ 10,000,000 to be used for a full refunding of the General Obligation Bonds, Series of 2002 and 2003, a partial refunding of the General Obligation Bonds, Series of 2004 and the costs of issuing the Bonds. Annual installments of the debt are to be paid from the Electric and Sewer Funds, which vary from \$ 510,000 to \$ 1,530,000 and are due through September 1, 2017. Interest rates vary from 2.50% to 3.00%. Interest is payable every March 1 and September 1.
- (D) General Obligation Bonds – Series of 2012 – On May 29, 2012, the Borough issued General Obligation Bonds in the principal amount of \$ 9,785,000 to be used for a partial refunding of the General Obligation Bonds, Series of 2007 and the costs of issuing the bonds. Annual installments of debt are to be paid from the Electric Funds, which vary in amounts from \$ 5,000 to \$ 1,500,000 and are due through July 1, 2022. Interest rates for the bonds are 2.00%. Interest is payable every January 1 and July 1.

**Note 5. Long-term Liabilities (Continued)**

As a result of the refunding, the Borough had the following benefits:

(1) Cash flow gain	\$ 1,339,444
(2) Economic gain	1,259,842

(1) Represents the differences between the cash flows required to service the old debt and the new debt, less bond issue costs.

(2) Represents the difference in present values of the old debt and the new debt, less bond issue costs.

(E) General Obligation Notes – Series of 2012 – On October 5, 2012, the Borough issued a General Obligation Note in the total of \$ 8,000,000 to be used for various projects. The drawdown period on the note is through April 31, 2014. The funds will be utilized by the Sewer, Electric and Gas Funds. Principal is due monthly beginning on May 1, 2014. Interest rates for the note is 2.46% for the first eight years, followed by 66% of U.S. prime rate, less 0.25% with a floor of 1.98% and a ceiling of 2.51% for the next 3.5 years and 66% of the U.S. prime rate less 0.25% with a floor of 1.98% and a ceiling of 5.3% for the remaining 15 years. The maturity date of the principal is April 1, 2039.

The general obligation bonds and general obligation notes are secured by the full faith, credit, and taxing power of the Borough. The principal and interest payments of the 2007 and 2009 General Obligation bonds are also guaranteed under financial guarantee insurance policies.

The following is a schedule by years and in the aggregate of future minimum bond and note principal and interest payments required at December 31, 2012:

Electric									
	Series of 2007 Bonds		Series of 2009 Bonds		Series of 2012 Bonds		Series of 2012 Note		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2013	\$ 40,000	\$ 4,605	\$ 952,900	\$ 90,940	\$ 5,000	\$ 195,700	\$ 0	\$ 676	
2014	45,000	3,145	981,800	62,340	5,000	195,600	602	671	
2015	40,000	1,480	731,500	37,800	55,000	195,500	820	652	
2016	0	0	314,400	18,780	1,110,000	194,400	841	631	
2017	0	0	327,300	9,820	1,365,000	172,200	862	610	
2018 - 2022	0	0	0	0	7,245,000	440,100	4,641	2,719	
2023 - 2027	0	0	0	0	0	0	5,248	2,113	
2028 - 2032	0	0	0	0	0	0	5,933	1,427	
2033 - 2037	0	0	0	0	0	0	6,710	650	
2038 - 2039	0	0	0	0	0	0	1,810	30	
	<u>\$ 125,000</u>	<u>\$ 9,230</u>	<u>\$ 3,307,900</u>	<u>\$ 219,680</u>	<u>\$ 9,785,000</u>	<u>\$ 1,393,500</u>	<u>\$ 27,467</u>	<u>\$ 10,179</u>	

Sewer									
	Series of 2009 Bonds		Series of 2012 Note		Pennvest Loan		Series of 2012 Note		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2013	\$ 532,100	\$ 50,765	\$ 0	\$ 1,443	\$ 185,765	\$ 85,423	\$ 0	\$ 945	\$ 2,146,262
2014	548,200	34,815	1,286	1,433	192,049	79,140	842	938	2,152,861
2015	408,500	21,105	1,752	1,392	198,544	72,644	1,147	911	1,768,747
2016	175,600	10,485	1,796	1,348	205,260	65,929	1,176	883	2,101,529
2017	182,700	5,480	1,840	1,304	212,202	58,986	1,205	854	2,340,363
2018 - 2022	0	0	9,912	5,809	1,173,652	182,291	6,491	3,803	9,074,418
2023 - 2027	0	0	11,208	4,512	481,654	15,525	7,340	2,954	530,554
2028 - 2032	0	0	12,674	3,046	0	0	8,299	1,996	33,375
2033 - 2037	0	0	14,332	1,389	0	0	9,384	910	33,375
2038 - 2039	0	0	3,867	64	0	0	2,533	41	8,345
	<u>\$ 1,847,100</u>	<u>\$ 122,650</u>	<u>\$ 58,667</u>	<u>\$ 21,740</u>	<u>\$ 2,649,126</u>	<u>\$ 559,938</u>	<u>\$ 38,417</u>	<u>\$ 14,235</u>	<u>\$ 20,189,829</u>

**Note 6. Interfund Activity**

Due from/to other funds consist of the following as of December 31, 2012:

	<b>Due From</b>	<b>Due To</b>
Nonmajor Governmental Funds:		
Special Revenue Liquid Fuels	\$ 0	\$ 129,315
Capital Reserve	129,315	0
Major Proprietary Funds:		
Electric	0	102,958
Water	102,958	0
Internal Service Funds:		
Self Insurance	0	6,665
Worker's Compensation	6,665	0
	<u>\$ 238,938</u>	<u>\$ 238,938</u>

The due to/due from amounts resulted from amounts of liquid fuels funding that was disallowed by the stated that will be reimbursed by the capital reserve fund and to reclassify negative cash balances from in the electric and worker's compensation funds to the water and self insurance funds, respectively.

Interfund transfers consisted of the following during 2012:

	<b>Transfers In</b>	<b>Transfers Out</b>
Major Governmental Funds:		
General Fund	\$ 1,644,298	\$ 423,319
Special Revenue Grant Programs	30,638	134,012
Nonmajor Governmental Funds:		
Special Revenue Liquid Fuels	0	129,315
Capital Reserve	217,236	222,600
Major Proprietary Funds:		
Electric	4,908	1,810,100
Gas	981	476,800
Water	769	72,000
Sewer	344	0
Nonmajor Proprietary Funds:		
Sanitation	0	106
Parking, traffic and street lights	1,173,177	679
Internal Service Funds:		
Stores	209	0
Motor Equipment	0	60,254
Self Insurance	18,625	0
Engineering	0	25,489
Worker's Compensation	349,000	0
Administrative services	0	85,511
	<u>\$ 3,440,185</u>	<u>\$ 3,440,185</u>

Transfers were made to help finance operations of the general or other funds. Transfers were also made during the current year to establish reserves for various future capital improvements. All transfers are considered routine, except for transfers made to move assets from various funds to the parking, traffic and street lights fund. Due to the fact assets are not reported on in the general fund, this is recorded as a capital contribution in the parking, traffic and street light fund. However, in the government-wide statements, this is reported as a transfer between the governmental activities and the business-type activities due to the fact the assets that were transferred were reported as assets in the governmental activities.

**Note 7. Pension Plans**

***Plan Description***

The Borough sponsors three single-employer defined benefit retirement plans which cover Bargaining and Administrative Employees, Police Officers and Paid Firemen. Plan provisions are established by municipal ordinance with the authority for municipal contributions required by Act 205 of the Commonwealth.

All regular full-time and certain part-time employees are eligible to participate in the plans. Benefits vest after twelve years of service for Bargaining and Administrative Employees, Paid Firemen and Police Officers. Bargaining and Administrative Employees are eligible for normal retirement after attaining age sixty-five. Eligibility for normal retirement under the Police Officers' and Paid Firemen's plans is attained at age fifty and completion of twenty-five years of service. Benefits under the Bargaining and Administrative plan are based on 1.5% of average monthly pay times the number of years of service not to exceed thirty-five years. Average monthly pay is based on the three years of highest pay out of the last five years of employment. Benefits under the Police Officers' and Paid Firemen's pensions are based on 50% of average monthly pay during the last thirty-six months and the average monthly pay of the three highest years of compensation, respectively. The Bargaining and Administrative Plan and the Police Officers' Plan also include a disability benefit and survivor benefits for 2012. Effective January 1, 2013, administrative employees contribute 2% of compensation.

The Bargaining and Administrative Employees' plan is noncontributory. The Police Officers' plan requires employee contributions of 2% as of January 1, 2012. The Paid Fireman's plan requires employee contributions of 5% as of January 1, 2011. The Borough is required to contribute the remaining amounts necessary to fund the plans, using the actuarial basis specified by the plan.

At January 1, 2013, the date of the most recent actuarial valuation, the participation in each plan is as follows:

	<b>General Employees</b>	<b>Police</b>	<b>Firemen</b>
<b>Participants:</b>			
Retirees and beneficiaries	96	18	17
Vested former members	12	1	0
Active employees	136	32	23

***Summary of Significant Accounting Policies***

The plans' financial statements are prepared using the accrual basis of accounting. Employer contributions to each plan are recognized when due as required by Act 205 of the Commonwealth. Benefits and refunds are recognized when due and payable in accordance with the terms of the appropriate plan.

Investments are reported at fair value. Short term investments are reported at cost, which approximates fair value. Fair value is determined by quoted market price.

At December 31, 2012, there were no individual investments in excess of 5% of plan net assets. In addition, the plans did not have any investment transactions with related parties during the year.

There is no separate, audited GAAP-basis postemployment benefit plan report for the defined benefit plans.

**Note 7. Pension Plans (Continued)**

***Contributions and Funding Policy***

Act 205 of the Commonwealth requires that annual contributions be based upon the calculation of the Minimum Municipal Obligation (MMO). The MMO calculation is based upon the biennial actuarial valuation also required by Act 205. Employees are not required to contribute under Act 205; such contributions are subject to collective bargaining. The Commonwealth allocates foreign fire and casualty premiums to assist in pension funding. Any financial requirement above the Commonwealth allocation must be funded by the Borough.

Administrative costs, including investment services, custodial trustee and actuarial services are charged to the appropriate plan and funded from investment earnings.

***Annual Pension Cost and Net Pension Obligations***

The Municipality's annual pension cost and related information for each plan follows:

**Three Year Trend Information**

<b>Year Ended</b>	<b>Annual Pension Cost (APC)</b>	<b>% of APC Contributed</b>	<b>Net Pension Obligation</b>
<u>General</u>			
12/31/12	650,683	100%	0
12/31/11	648,162	100%	0
12/31/10	472,936	100%	0
<u>Police</u>			
12/31/12	454,682	100%	0
12/31/11	474,748	100%	0
12/31/10	490,641	100%	0
<u>Firemen</u>			
12/31/12	209,739	100%	0
12/31/11	204,343	100%	0
12/31/10	116,340	100%	0

***Actuarial Methods and Assumptions***

	<b>General Employees</b>	<b>Police</b>	<b>Firemen</b>
Actuarial valuation date	01/01/13	01/01/13	01/01/13
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar Closed	Level Dollar Closed	Level Dollar Closed
Remaining amortization period	16 years	13 years	14 years
Asset valuation method	Artificial Investment Return of 7%	Artificial Investment Return of 7%	Artificial Investment Return of 7%
Actuarial assumptions:			
Investment rate of return	8%	8%	8%
Projected salary increases	5%	5%	5%
Cost-of-living adjustments	N/A	4%	4%
Inflation Rate	4%	4%	4%

**Note 7. Pension Plans (Continued)**

**Funded Status and Funding Progress**

The following is funded status information for each plan as of January 1, 2013, the most recent actuarial valuation date:

	Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	(Overfunded) Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
<b>General</b>	01/01/13	18,369,432	22,248,614	3,879,182	82.56%	7,504,401	51.69%
<b>Police</b>	01/01/13	10,328,269	12,181,761	1,853,492	84.78%	1,936,497	95.71%
<b>Firemen</b>	01/01/13	4,542,705	5,905,610	1,362,905	76.92%	1,414,222	96.37%

The schedules of funding progress presented as required supplementary information (RSI) following the notes to the financial statements present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL's for benefits.

**Financial Statements**

The following are financial statements as of December 31, 2012 for the individual pension plans maintained by the Borough:

	Firemen's Pension Fund	Police Pension Fund	Bargaining and Administrative Employees Pension Fund	Total Pension Trust Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 178,711	\$ 442,203	\$ 724,634	\$ 1,345,548
Mutual funds - U.S. Government and Agency Securities	1,193,034	2,633,473	4,706,078	8,532,585
Mutual funds - Stocks	2,504,543	5,865,123	10,205,006	18,574,672
Mutual funds - Real estate securities	133,442	327,038	522,521	983,001
Total assets	<u>\$ 4,009,730</u>	<u>\$ 9,267,837</u>	<u>\$ 16,158,239</u>	<u>\$ 29,435,806</u>
<b>NET POSITION</b>				
Held in trust for benefits and other purposes	<u>\$ 4,009,730</u>	<u>\$ 9,267,837</u>	<u>\$ 16,158,239</u>	<u>\$ 29,435,806</u>

**Note 7. Pension Plans (Continued)**

*Financial Statements (Continued)*

	Firemen's Pension Fund	Police Pension Fund	Bargaining and Administrative Employees Pension Fund	Total Pension Trust Funds
<b>ADDITIONS</b>				
Contributions				
Employer	\$ 209,739	\$ 454,682	\$ 650,683	\$ 1,315,104
Plan member	64,390	37,260	0	101,650
Total contributions	<u>274,129</u>	<u>491,942</u>	<u>650,683</u>	<u>1,416,754</u>
Investment income:				
Net appreciation (depreciation) in fair value of investments and gains (loss) on sale of investments	339,773	836,984	1,450,556	2,627,313
Interest, dividends and other	<u>84,632</u>	<u>199,602</u>	<u>352,255</u>	<u>636,489</u>
Total net investment earnings	<u>424,405</u>	<u>1,036,586</u>	<u>1,802,811</u>	<u>3,263,802</u>
Total additions	<u>698,534</u>	<u>1,528,528</u>	<u>2,453,494</u>	<u>4,680,556</u>
<b>DEDUCTIONS</b>				
Benefits	275,690	533,832	1,348,480	2,158,002
Administrative expenses	<u>1,491</u>	<u>1,830</u>	<u>6,383</u>	<u>9,704</u>
Total deductions	<u>277,181</u>	<u>535,662</u>	<u>1,354,863</u>	<u>2,167,706</u>
Change in net position	421,353	992,866	1,098,631	2,512,850
Net position - beginning	<u>3,588,377</u>	<u>8,274,971</u>	<u>15,059,608</u>	<u>26,922,956</u>
Net position - ending	<u>\$ 4,009,730</u>	<u>\$ 9,267,837</u>	<u>\$ 16,158,239</u>	<u>\$ 29,435,806</u>

**Note 8. Postemployment Healthcare Plan**

*Plan Description*

The Borough has a healthcare plan for retired employees, which is a single employer defined benefit healthcare plan administered by the Borough. The plan provides medical, prescription drug, and vision coverage for both the retiree and spouse. Retirees opting to participate are asked to pay a premium that is less than the Borough's actual cost to provide health care coverage to retirees. The premium amount retirees pay is a blended rate for covering both active and retired Plan members and amounts to 102% of the Borough's current blended premium rate. The fact that the blended rate that the retirees pay is less than the actual cost of covering retired members and their beneficiaries results in what is known as an "implicit rate subsidy" by the Borough, which gives rise to the other postemployment benefit (OPEB).

Because the Plan consists solely of the Borough's decision to provide OPEB through the payment of the implied subsidy by extending medical benefits to retirees at the above mentioned blended rate, no stand-alone financial report is available. The Plan is not included in the financial report of another entity. The coverage shall discontinue if the retiree obtains employment where medical coverage is provided, the retiree's spouse insurance coverage covers the retiree, or the retiree qualifies for Medicare coverage.

*Funding Policy*

The Borough funds Plan liabilities on a "pay-as-you-go" basis, and has not established an OPEB trust fund to accumulate assets to fund Plan obligations. The Borough has no statutory or contractual obligation to fund the Plan and only does so at the Borough's discretion. The Borough funds the implicit rate subsidy through the payment of health insurance premiums. For fiscal year 2012, the Borough contributed an estimated \$ 43,515 in the form of additional premiums for active employees based on implicit rates for retired employees to the plan. Plan members receiving benefits also contributed \$ 56,687, or approximately 102% of the total premiums.

**Note 8. Postemployment Healthcare Plan (Continued)**

*Annual OPEB Cost and Net OPEB Obligation*

The Borough's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Borough's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Borough's net OPEB obligation to the plan:

Annual required contribution (ARC)	\$ 419,131
Estimated interest on Net OPEB obligation	31,401
Estimated adjustment to ARC	( 42,839)
Annual OPEB Cost	407,693
Estimated employer contributions made	( 43,415)
Increase in net OPEB obligation	364,278
Net OPEB obligation – beginning of the year	<u>697,805</u>
Net OPEB obligation – end of the year	<u>\$ 1,062,083</u>

The Borough's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and the preceding two years are as follows:

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
12/31/12	\$ 407,693	11%	\$ 1,062,083
12/31/11	\$ 219,156	15%	\$ 697,806
12/31/10	\$ 221,816	27%	\$ 511,611

*Funded Status and Funding Progress*

As of January 1, 2012, the most recent actuarial valuation date, the plan had the following funding status and progress:

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
01/01/12	\$ 0	\$ 1,538,475	\$ 1,538,475	0.00%	\$ 10,572,905	14.55%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present multiyear trend information in the future, about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.



**Note 8. Postemployment Healthcare Plan (Continued)***Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2012 actuarial valuation, the entry age normal cost method was used. The actuarial assumption included a 4.5 percent investment rate of return (net of administrative expenses), a 4.0 percent inflation rate, annual salary increases of 5% and an annual healthcare cost trend rate of 7.5 percent in 2012, decreasing by .5 percent to an ultimate rate of 5.5% in 2016 with rates gradually decreasing from 5.3% in 2017 to 4.2% in 2089 and later. The actuarial value of assets is equal to the market value of the assets. The UAAL is being amortized based on a level dollar 30 year open period.

**Note 9. Risk Management**

The Borough is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Borough has established a Self-Insurance Fund and a Workmen's Compensation Fund (internal service funds), respectively, to account for and finance its uninsured risks of loss. The Self-Insurance Fund services all general liability, medical, directors' and officers' liability, and unemployment compensation claims for risk of loss. The Workmen's Compensation Fund provides coverage up to a maximum of \$ 500,000 for each worker's compensation claim. The Borough has purchased workmen's compensation insurance for claims in excess of coverage provided by the Fund, and also has purchased vehicle insurance and employee bonding coverage. Settlements have not exceeded insurance coverage for each of the past three years.

The general fund, all enterprise funds, and all internal service funds (except the Insurance Funds) participate in the program and make payments to the Self Insurance and Workmen's Compensation Funds (Insurance Funds) based on estimates of the amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses.

Insurance Fund liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities are computed under actuarial formulas and include an amount for claims that have been incurred but not reported.

Changes in the general and workers' compensation claims liability amounts for the prior two years were:

	<b>Liability Beginning</b>	<b>Current Year Claims and Changes in Estimates</b>	<b>Claim Payments</b>	<b>Liability Ending</b>
<b>2012</b>				
Self-insurance fund	\$ 108,703	\$ 22,187	(\$ 9,026)	\$ 121,864
Workers' compensation fund	917,033	363,269	( 321,688)	958,614
<b>2011</b>				
Self-insurance fund	\$ 101,519	\$ 15,378	(\$ 8,194)	\$ 108,703
Workers' compensation fund	514,578	892,204	( 489,749)	917,033

**Note 9. Risk Management (Continued)**

The Borough is part 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 medical insurance plan in order to better control insurance rates. The Borough 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 Borough are reviewed and the reserve account is used to fund any excess claims for the Borough over premiums paid during the year. If any funds remain in the reserve account, 15% of the total reserve balance could possibly be used to fund 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 recognized by the Borough is limited to the premiums paid during the year. Any potential refund of the reserve account is calculated and received by the Borough several months after year end. Total payments by the Borough to CRIT during the year were \$ 3,230,729. During 2012, the Borough received \$ 200,279 from CRIT as a refund for prior premiums paid.

**Note 10. Commitments**

The Borough has the following projects open at December 31, 2012:

Project Description	Electric	Gas	Total estimated costs			General	Costs paid as of 12/31/12	Costs to complete
			Water	Sewer				
Upgrade feeder #163	\$ 150,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 124,295	\$ 25,705
Upgrade feeder #964	200,000	0	0	0	0	0	176,355	23,645
Additions on Orchard Drive	250,000	0	0	0	0	0	192,260	57,740
Extension of feeders #242 and #251	150,000	0	0	0	0	0	147,241	2,759
Upgrades at Lincoln Way East and Coldbrook Avenue	800,000	0	0	0	0	0	134,638	665,362
Wayne Avenue Bridge project	100,000	0	0	0	0	0	53,370	46,630
Express Generator Feeder	2,408,912	0	0	0	0	0	2,408,912	0
Upgrade gas mains	0	1,534,000	0	0	0	0	986,594	547,406
CNG Station Design and Construction	0	2,500,000	0	0	0	0	250,759	2,249,241
Upgrade at Long Pine Dam	0	0	500,000	0	0	0	407,975	92,025
Wastewater treatment plant upgrade (*)	0	0	0	40,611,000	0	0	3,343,912	37,267,088
Garage at wastewater treatment plant	0	0	0	1,500,000	0	0	0	1,500,000
Act 537 sewage plan	0	0	0	100,000	0	0	65,720	34,280
Nutrient Credit plan	0	0	0	600,000	0	0	31,339	568,661
Project at Norland Avenue and Walker Road intersection	0	0	0	0	800,000	0	4,696	795,304
Recreation for Chambersburg Family Townhomes	0	0	0	0	123,000	0	98,147	24,853
Various	200,000	50,000	176,000	93,000	350,239	0	403,485	465,754
<b>Totals</b>	<u>\$ 4,258,912</u>	<u>\$4,084,000</u>	<u>\$ 676,000</u>	<u>\$42,904,000</u>	<u>\$ 1,273,239</u>	<u>\$ 8,829,698</u>	<u>\$ 44,366,453</u>	

(\*) The Borough has a signed agreement with the local Townships related to the wastewater treatment plant upgrades. The majority of the project is for the additional capacity of the Townships and therefore will be paid for by the Townships. Of this total cost, approximately 85% will be reimbursed by the Townships

**Note 11. Conduit Debt Obligations**

From time to time, the Municipal Authority of the Borough of Chambersburg has issued Revenue Notes to provide financial assistance to local not-for-profit organizations. Banks agree to loan the funds (via purchasing the Revenue Notes) to the entities, and the Municipal Authority assigns all rights, title, and interest in, and all sums payable by the entities to the banks. The notes are fully secured by the properties financed and are payable solely from resources of the entities that ultimately receive the financing. The Municipal Authority is not obligated in any manner for repayment of the debt. Consequently, this debt and the corresponding mortgages receivable are not reflected in these financial statements.

As of December 31, 2012 outstanding note balances under conduit debt arrangements were as follows:

Wilson College	\$ 26,680,000
Lutheran Homes	2,421,056
Children's Aid Society	1,434,271
Franklin County Library	407,500

**Note 12. 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. In most cases, management cannot predict the outcome of the lawsuits or estimate the amount of any loss that may result. 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 13. Restatement**

A restatement was necessary in the current year to implement GASB No. 65, *Items Previously Recognized as Assets and Liabilities*. Previously, all bond issue costs were amortized over the life of the bonds; however, only the insurance premium portion of these costs is to be amortized as a prepaid expense in accordance with GASB 65. Therefore a restatement was required.

	<b>Electric Fund</b>	<b>Sewer Fund</b>	<b>Business-Type Activities</b>
Net Position, as originally stated - December 31, 2011	\$ 35,202,764	\$ 22,053,614	\$ 107,379,576
Restatement	( 80,855)	( 18,629)	( 99,484)
Net Position, as restated - December 31, 2011	<u>\$ 35,121,909</u>	<u>\$ 22,034,985</u>	<u>\$ 107,280,092</u>
Change in Net Position, as originally stated	( \$ 1,892,289)	\$ 983,096	( \$ 940,072)
Restatement	<u>10,225</u>	<u>3,242</u>	<u>13,467</u>
Change in Net Position, as restated	<u>( \$ 1,882,064)</u>	<u>\$ 986,338</u>	<u>( \$ 926,605)</u>

***REQUIRED SUPPLEMENTARY INFORMATION***

**BOROUGH OF CHAMBERSBURG  
PENSION TRUST FUNDS**

**UNAUDITED REQUIRED SCHEDULE OF FUNDING PROGRESS**

	Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	(Overfunded) Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
<b>General:</b>							
	01/01/05	14,503,660	13,918,831 (	584,829)	104.20%	5,708,522 (	10.20%)
	01/01/07	16,163,230	15,456,281 (	706,949)	104.60%	6,172,381 (	11.50%)
	01/01/09	15,984,144	17,342,609	1,358,465	92.17%	6,873,071	19.77%
	01/01/11	17,085,584	20,391,819	3,306,235	83.79%	7,587,865	43.57%
	01/01/13	18,369,432	22,248,614	3,879,182	82.56%	7,504,401	51.69%
<b>Police:</b>							
	01/01/05	6,240,158	7,671,322	1,431,164	81.30%	1,431,559	100.00%
	01/01/07	7,351,019	8,637,360	1,286,341	85.10%	1,558,754	82.50%
	01/01/09	7,840,209	9,833,514	1,993,305	79.73%	1,824,708	109.24%
	01/01/11	9,081,804	10,583,842	1,502,038	85.81%	1,918,058	78.31%
	01/01/13	10,328,269	12,181,761	1,853,492	84.78%	1,936,497	95.71%
<b>Firemen:</b>							
	01/01/05	3,209,245	3,382,444	173,199	94.90%	925,075	18.70%
	01/01/07	3,546,426	3,672,003	125,577	96.60%	867,312	14.50%
	01/01/09	3,584,099	4,619,052	1,034,953	77.59%	1,231,786	84.02%
	01/01/11	3,946,197	5,221,325	1,275,128	75.58%	1,330,676	95.83%
	01/01/13	4,542,705	5,905,610	1,362,905	76.92%	1,414,222	96.37%

**BOROUGH OF CHAMBERSBURG  
PENSION TRUST FUNDS**

**UNAUDITED REQUIRED SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Calendar Year	----- General -----			----- Police -----			----- Firemen -----		
	Annual Required Contribution	Contributions From Employer	Percentage Contributed	Annual Required Contribution	Contributions From Employer	Percentage Contributed	Annual Required Contribution	Contributions From Employer	Percentage Contributed
2007	438,129	438,129	100.0%	454,641	454,641	100.0%	131,129	131,129	100.0%
2008	418,654	418,654	100.0%	453,071	453,071	100.0%	112,021	112,021	100.0%
2009	454,028	454,028	100.0%	466,941	466,941	100.0%	124,682	124,682	100.0%
2010	472,936	472,936	100.0%	490,641	490,641	100.0%	116,340	116,340	100.0%
2011	648,162	759,192	100%+	474,748	474,748	100.0%	204,343	204,343	100.0%
2012	650,683	650,683	100.0%	454,682	454,682	100.0%	209,739	209,739	100.0%

**BOROUGH OF CHAMBERSBURG**  
**OPEB (Other Postemployment Benefit Plan)**

**UNAUDITED REQUIRED SCHEDULE OF FUNDING PROGRESS**

Valuation Date	Actuarial Value of Assets	Actuarial Liability (AAL) - Entry Age	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
01/01/08	\$ 0	\$ 812,880	\$ 812,880	\$ 812,880	0.00%	\$ 9,425,804	8.62%
01/01/10	\$ 0	\$ 674,215	\$ 674,215	\$ 674,215	0.00%	\$ 10,934,753	6.17%
01/01/12	\$ 0	\$ 1,538,475	\$ 1,538,475	\$ 1,538,475	0.00%	\$ 10,572,905	14.55%

**BOROUGH OF CHAMBERSBURG**  
**UNAUDITED REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**For the year ended December 31, 2012**

	Original/Final Budget	Actual (Budgetary/GAAP Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Taxes	\$ 6,260,500	\$ 6,372,441	\$ 111,941
Licenses and permits	333,500	349,126	15,626
Fines and forfeits	124,000	147,438	23,438
Investment earnings	18,000	4,923	( 13,077)
Intergovernmental	826,400	780,001	( 46,399)
Departmental charges for services	1,531,000	1,840,196	309,196
Miscellaneous	<u>164,000</u>	<u>142,560</u>	<u>( 21,440)</u>
Total revenues	<u>9,257,400</u>	<u>9,636,685</u>	<u>379,285</u>
<b>EXPENDITURES</b>			
General government	1,009,732	997,301	12,431
Police department	4,133,410	4,012,384	121,026
Emergency services	2,891,350	3,177,737	( 286,387)
Planning and zoning	327,300	329,461	( 2,161)
Highways	971,150	1,000,230	( 29,080)
Culture and recreation	1,314,750	1,106,547	208,203
Miscellaneous expense	<u>119,500</u>	<u>43,431</u>	<u>76,069</u>
Total expenditures	<u>10,767,192</u>	<u>10,667,091</u>	<u>100,101</u>
Excess (deficiency) of revenues over expenditures	<u>( 1,509,792)</u>	<u>( 1,030,406)</u>	<u>479,386</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	1,897,000	1,644,298	( 252,702)
Transfers out	<u>( 348,625)</u>	<u>( 423,319)</u>	<u>( 74,694)</u>
Total other financing sources and uses	<u>1,548,375</u>	<u>1,220,979</u>	<u>( 327,396)</u>
Net change in fund balance	<u>\$ 38,583</u>	190,573	<u>\$ 151,990</u>
Fund balance - beginning		<u>1,259,687</u>	
Fund balance - ending		<u>\$ 1,450,260</u>	



**BOROUGH OF CHAMBERSBURG**  
**UNAUDITED REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**SPECIAL REVENUE FUND - GRANT PROGRAMS**  
*For the year ended December 31, 2012*

	Original/Final Budget	Actual (Budgetary/GAAP Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Investment earnings	\$ 50	\$ 59	\$ 9
Intergovernmental	939,199	862,118	( 77,081)
Miscellaneous	58,100	69,332	11,232
Total revenues	<u>997,349</u>	<u>931,509</u>	<u>( 65,840)</u>
<b>EXPENDITURES (by department)</b>			
General government	0	57,527	57,527
Public Safety			
Police department	6,000	22,772	16,772
Fire department	0	32,881	32,881
Public works			
Highways	0	142,760	142,760
Culture and recreation	411,270	37,248	( 374,022)
Community development	883,668	496,509	( 387,159)
Total expenditures	<u>1,300,938</u>	<u>789,697</u>	<u>( 511,241)</u>
Excess (deficiency) of revenues over expenditures	<u>( 303,589)</u>	<u>141,812</u>	<u>445,401</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	6,000	30,638	24,638
Transfers out	<u>0</u>	<u>( 134,012)</u>	<u>( 134,012)</u>
Total other financing sources and uses	<u>6,000</u>	<u>( 103,374)</u>	<u>( 109,374)</u>
Net change in fund balance	<u>( \$ 297,589)</u>	38,438	<u>\$ 336,027</u>
Fund balance - beginning		<u>442,615</u>	
Fund balance - ending		<u><u>\$ 481,053</u></u>	

***OTHER SUPPLEMENTARY INFORMATION***

## ***OTHER GOVERNMENTAL FUNDS***

**Liquid Fuels Fund** – This fund (special revenue fund) is used to account for the Borough’s share of Liquid Fuels funds disbursed by the Commonwealth of Pennsylvania. The funds are legally restricted to the construction and maintenance of Borough streets and bridges.

**Capital Reserve 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).

**BOROUGH OF CHAMBERSBURG**

**COMBINING BALANCE SHEET  
OTHER GOVERNMENTAL FUNDS  
December 31, 2012**

	<b>Special Revenue Liquid Fuels Fund</b>	<b>Capital Reserve Fund</b>	<b>Total - Other Governmental Funds</b>
<b>ASSETS</b>			
Cash and equity in pooled cash and investments	\$ 645,725	\$ 2,534,129	\$ 3,179,854
Due from other funds	0	129,315	129,315
Other receivables	0	191,956	191,956
Total assets	<u>\$ 645,725</u>	<u>\$ 2,855,400</u>	<u>\$ 3,501,125</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 0	\$ 531	\$ 531
Due to other funds	129,315	0	129,315
Total liabilities	<u>129,315</u>	<u>531</u>	<u>129,846</u>
<b>Fund balances</b>			
Nonspendable for long term receivables	0	182,628	182,628
Restricted	516,410	2,672,241	3,188,651
Total fund balances	<u>516,410</u>	<u>2,854,869</u>	<u>3,371,279</u>
Total liabilities and fund balances	<u>\$ 645,725</u>	<u>\$ 2,855,400</u>	<u>\$ 3,501,125</u>

**BOROUGH OF CHAMBERSBURG**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
OTHER GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2012**

	<b>Special Revenue Liquid Fuels Fund</b>	<b>Capital Reserve Fund</b>	<b>Total - Other Governmental Funds</b>
<b>REVENUES</b>			
Investment earnings	\$ 242	\$ 7,593	\$ 7,835
Intergovernmental	413,753	0	413,753
Contributions and donations	0	124,660	124,660
Miscellaneous	0	8,632	8,632
Total revenues	<u>413,995</u>	<u>140,885</u>	<u>554,880</u>
<b>EXPENDITURES</b>			
General government	0	617	617
Public Safety			
Police department	0	30,173	30,173
Public works			
Highways	0	299,813	299,813
Culture and recreation	0	20,465	20,465
Community development	0	25,000	25,000
Total expenditures	<u>0</u>	<u>376,068</u>	<u>376,068</u>
Excess (deficiency) of revenues over expenditures	<u>413,995</u>	<u>( 235,183)</u>	<u>178,812</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	0	217,236	217,236
Transfers out	<u>( 129,315)</u>	<u>( 222,600)</u>	<u>( 351,915)</u>
Total other financing sources and uses	<u>( 129,315)</u>	<u>( 5,364)</u>	<u>( 134,679)</u>
Net change in fund balances	284,680	( 240,547)	44,133
Fund balances - beginning	<u>231,730</u>	<u>3,095,416</u>	<u>3,327,146</u>
Fund balances - ending	<u>\$ 516,410</u>	<u>\$ 2,854,869</u>	<u>\$ 3,371,279</u>

**BOROUGH OF CHAMBERSBURG**

**BUDGETARY COMPARISON SCHEDULE  
SPECIAL REVENUE FUND - LIQUID FUELS  
For the year ended December 31, 2012**

	<b>Original/Final Budget</b>	<b>Actual (Budgetary/GAAP Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>REVENUES</b>			
Investment earnings	\$ 0	\$ 242	\$ 242
Intergovernmental	383,777	413,753	29,976
Total revenues	<u>\$ 383,777</u>	<u>\$ 413,995</u>	<u>\$ 30,218</u>
<b>EXPENDITURES</b>			
	<u>0</u>	<u>0</u>	<u>0</u>
Excess (deficiency) of revenues over expenditures	<u>383,777</u>	<u>413,995</u>	<u>30,218</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	0	0	0
Transfers out	( 400,000)	( 129,315)	270,685
Total other financing sources and uses	<u>( 400,000)</u>	<u>( 129,315)</u>	<u>270,685</u>
Net change in fund balance	<u>( \$ 16,223)</u>	284,680	<u>\$ 300,903</u>
Fund balance - beginning		<u>231,730</u>	
Fund balance - ending		<u>\$ 516,410</u>	

**BOROUGH OF CHAMBERSBURG**  
**BUDGETARY COMPARISON SCHEDULE**  
**CAPITAL RESERVE FUND**  
**For the year ended December 31, 2012**

	Original/Final Budget	Actual (Budgetary/GAAP Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Investment earnings	\$ 10,000	\$ 7,593	(\$ 2,407)
Licenses and permits	0	0	0
Contributions and donations	0	124,660	124,660
Miscellaneous	16,140	8,632	( 7,508)
Total revenues	<u>26,140</u>	<u>140,885</u>	<u>114,745</u>
<b>EXPENDITURES</b>			
General government	167,500	617	166,883
Police department	20,000	30,173	( 10,173)
Fire department	119,000	0	119,000
Ambulance	0	0	0
Highways	10,000	299,813	( 289,813)
Other public works	0	0	0
Culture and recreation	106,358	20,465	85,893
Miscellaneous expense	107,232	25,000	82,232
Total expenditures	<u>530,090</u>	<u>376,068</u>	<u>154,022</u>
Excess (deficiency) of revenues over expenditures	( <u>503,950</u> )	( <u>235,183</u> )	<u>268,767</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	142,000	217,236	75,236
Transfers out	( <u>1,000</u> )	( <u>222,600</u> )	( <u>221,600</u> )
Total other financing sources and uses	<u>141,000</u>	( <u>5,364</u> )	( <u>146,364</u> )
Net change in fund balance	( <u>\$ 362,950</u> )	( 240,547)	<u>\$ 122,403</u>
Fund balance - beginning		<u>3,095,416</u>	
Fund balance - ending		<u>\$ 2,854,869</u>	

***OTHER ENTERPRISE FUNDS***



**BOROUGH OF CHAMBERSBURG**

**COMBINING STATEMENT OF NET POSITION  
OTHER ENTERPRISE FUNDS  
December 31, 2012**

	Sanitation Fund	Parking, Traffic and Street Lights Fund	Total Other Enterprise Funds
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and equity in pooled cash and investments	\$ 922,652	\$ 848,522	\$ 1,771,174
Accounts receivable, net	162,074	49,413	211,487
Other receivables	595	548	1,143
Prepaid expenses	13,298	0	13,298
Total current assets	<u>1,098,619</u>	<u>898,483</u>	<u>1,997,102</u>
<b>Noncurrent assets</b>			
Capital assets not being depreciated:			
Land	0	111,153	111,153
Construction in progress	0	8,100	8,100
Capital assets being depreciated:			
Buildings and system	75,529	0	75,529
Improvements other than buildings	11,356	441,572	452,928
Machinery and equipment	441,665	2,977,011	3,418,676
Less accumulated depreciation	(488,799)	(1,427,199)	(1,915,998)
Total capital assets	<u>39,751</u>	<u>2,110,637</u>	<u>2,150,388</u>
Total noncurrent assets	<u>39,751</u>	<u>2,110,637</u>	<u>2,150,388</u>
Total assets	<u>\$ 1,138,370</u>	<u>\$ 3,009,120</u>	<u>\$ 4,147,490</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable	\$ 29,410	\$ 38,441	\$ 67,851
Accrued wages payable	10,853	2,676	13,529
Compensated absences - current	25,848	11,572	37,420
Total current liabilities	<u>66,111</u>	<u>52,689</u>	<u>118,800</u>
<b>Noncurrent liabilities</b>			
Compensated absences	20,381	25,200	45,581
Net OPEB obligation	13,636	2,558	16,194
Total non-current liabilities	<u>34,017</u>	<u>27,758</u>	<u>61,775</u>
Total liabilities	<u>100,128</u>	<u>80,447</u>	<u>180,575</u>
<b>NET POSITION</b>			
Net investment in capital assets	39,751	2,110,337	2,150,088
Unrestricted	998,491	818,336	1,816,827
Total net position	<u>1,038,242</u>	<u>2,928,673</u>	<u>3,966,915</u>
Total liabilities and net position	<u>\$ 1,138,370</u>	<u>\$ 3,009,120</u>	<u>\$ 4,147,490</u>

**BOROUGH OF CHAMBERSBURG**

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
OTHER ENTERPRISE FUNDS**

*For the Year Ended December 31, 2012*

	Sanitation Fund	Parking, Traffic and Street Lights Fund	Total Other Enterprise Funds
<b>REVENUES</b>			
Charges for services	\$ 1,948,786	\$ 107,784	\$ 2,056,570
Miscellaneous	56,446	42,065	98,511
Total operating revenues	<u>2,005,232</u>	<u>149,849</u>	<u>2,155,081</u>
<b>OPERATING EXPENSES</b>			
Operation and maintenance	0	588,317	588,317
Collection and disposal	1,989,939	0	1,989,939
Customer accounting and administrative	183,234	41,252	224,486
Depreciation	9,647	108,666	118,313
Total operating expenses	<u>2,182,820</u>	<u>738,235</u>	<u>2,921,055</u>
Operating income (loss)	<u>( 177,588)</u>	<u>( 588,386)</u>	<u>( 765,974)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest and investment revenue	2,516	1,551	4,067
Intergovernmental revenues	37,042	3,767	40,809
Total nonoperating revenue (expenses)	<u>39,558</u>	<u>5,318</u>	<u>44,876</u>
Income (loss) before transfers	<u>( 138,030)</u>	<u>( 583,068)</u>	<u>( 721,098)</u>
Capital contributions and grants	0	2,032,426	2,032,426
Transfers in	0	1,173,177	1,173,177
Transfers out	<u>( 106)</u>	<u>( 679)</u>	<u>( 785)</u>
Change in net position	<u>( 138,136)</u>	<u>2,621,856</u>	<u>2,483,720</u>
Total net position - beginning	<u>1,176,378</u>	<u>306,817</u>	<u>1,483,195</u>
Total net position - ending	<u>\$ 1,038,242</u>	<u>\$ 2,928,673</u>	<u>\$ 3,966,915</u>

**BOROUGH OF CHAMBERSBURG**  
**COMBINING STATEMENT OF CASH FLOWS**  
**OTHER ENTERPRISE FUNDS**  
**For the Year Ended December 31, 2012**

	Sanitation Fund	Parking, Traffic and Street Lights Fund	Total Other Enterprise Funds
<b>Cash flows from operating activities:</b>			
Receipts from customers	\$ 1,982,650	\$ 132,329	\$ 2,114,979
Payments to suppliers	( 1,285,823)	( 401,763)	( 1,687,586)
Payments to and on behalf of employees	( 891,955)	( 158,219)	( 1,050,174)
Net cash provided (used) by operating activities	<u>( 195,128)</u>	<u>( 427,653)</u>	<u>( 622,781)</u>
<b>Cash flows from capital and related financing activities:</b>			
Purchase of capital assets	( 618)	( 55,306)	( 55,924)
Net cash provided (used) by capital and related financing activities	<u>( 618)</u>	<u>( 55,306)</u>	<u>( 55,924)</u>
<b>Cash flows from non-capital financing activities:</b>			
Transfers from other funds	0	1,173,177	1,173,177
Transfers to other funds	( 106)	( 679)	( 785)
Grants received	<u>37,042</u>	<u>3,767</u>	<u>40,809</u>
Net cash provided (used) by non-capital financing activities	<u>36,936</u>	<u>1,176,265</u>	<u>1,213,201</u>
<b>Cash flows from investing activities:</b>			
Interest and dividends received	<u>4,106</u>	<u>1,317</u>	<u>5,423</u>
Net cash provided (used) by investing activities	<u>4,106</u>	<u>1,317</u>	<u>5,423</u>
Net increase (decrease) in cash and cash equivalents	<u>( 154,704)</u>	<u>694,623</u>	<u>539,919</u>
Cash and cash equivalents - beginning of the year	<u>1,077,356</u>	<u>153,899</u>	<u>1,231,255</u>
Cash and cash equivalents - end of the year	<u>\$ 922,652</u>	<u>\$ 848,522</u>	<u>\$ 1,771,174</u>
<b>Reconciliation of income from operations to net cash provided (used) by operating activities</b>			
Operating income (loss)	( \$ 177,588)	( \$ 588,386)	( \$ 765,974)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization expense	9,647	108,666	118,313
(Increase) decrease in:			
Accounts receivable	( 22,582)	( 17,520)	( 40,102)
Prepaid expenses	( 12,263)	0	( 12,263)
Increase (decrease) in:			
Accounts payable	<u>7,658</u>	<u>69,587</u>	<u>77,245</u>
Net cash provided (used) by operating activities	<u>( \$ 195,128)</u>	<u>( \$ 427,653)</u>	<u>( \$ 622,781)</u>

## ***INTERNAL SERVICE FUNDS***

**Stores Fund** – The Stores Department is responsible for the purchase, storage, and disbursal of inventory which is used to support the construction and maintenance functions of the Borough utilities.

**Administrative Services Fund** – Administrative Services is synonymous with the Finance Department which is responsible for the complete financial, and utility meter reading, as well as the operation and maintenance of Borough Hall.

**Motor Equipment Fund** – This fund supports the activities of the Motor Equipment Department which manages a rolling stock of more than 120 vehicles.

**Self-Insurance Fund** – This fund is used for the purpose of funding risk which the Borough does not transfer to commercial insurance carriers or insurance pools.

**Engineering Fund** – This fund supports the activities of the Engineering Department which is responsible for furnishing engineering, surveying, drafting, and utility location information to other departments. The department also designs and inspects public works projects.

**Worker's Compensation** – This fund underwrites the risks to the Borough resulting from job-related injury or illness to its employees.

**BOROUGH OF CHAMBERSBURG****COMBINING STATEMENT OF NET POSITION  
INTERNAL SERVICE FUNDS  
December 31, 2012**

	Stores Fund	Motor Equipment Fund	Self Insurance Fund
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and equity in pooled cash and investments	\$ 303,386	\$ 5,888,314	\$ 5,634,457
Accounts receivable, net	0	24,403	0
Other receivables	195	3,791	3,631
Due from other funds	0	0	6,665
Receivables from other governments	0	0	0
Inventories	1,294,019	83,980	0
Prepaid expenses	1,204	7,344	0
Total current assets	<u>1,598,804</u>	<u>6,007,832</u>	<u>5,644,753</u>
<b>Noncurrent assets</b>			
Capital Assets			
Land	0	13,984	0
Buildings and system	5,823	153,728	0
Machinery and equipment	5,287	7,124,640	0
Less accumulated depreciation	( 8,563)	( 4,773,970)	0
Total capital assets	<u>2,547</u>	<u>2,518,382</u>	<u>0</u>
Total assets	<u>\$ 1,601,351</u>	<u>\$ 8,526,214</u>	<u>\$ 5,644,753</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable	\$ 28,974	\$ 16,449	\$ 618
Salaries payable	1,384	3,514	0
Due to other funds	0	0	0
Compensated absences - current	5,075	14,566	0
Liability for self insured losses - current	0	0	48,330
Total current liabilities	<u>35,433</u>	<u>34,529</u>	<u>48,948</u>
<b>Noncurrent liabilities</b>			
Compensated absences	3,355	16,023	0
Liability for self insured losses	0	0	73,534
Net OPEB obligation	2,955	5,570	0
Total noncurrent liabilities	<u>6,310</u>	<u>21,593</u>	<u>73,534</u>
Total liabilities	<u>41,743</u>	<u>56,122</u>	<u>122,482</u>
<b>NET POSITION</b>			
Net investment in capital assets	2,547	2,518,382	0
Unrestricted	1,557,061	5,951,710	5,522,271
Total net position	<u>1,559,608</u>	<u>8,470,092</u>	<u>5,522,271</u>
Total liabilities and net position	<u>\$ 1,601,351</u>	<u>\$ 8,526,214</u>	<u>\$ 5,644,753</u>

Engineering Fund	Worker's Compensation Fund	Administrative Services Fund	Total Internal Service Funds
\$ 131,743	\$ 0	\$ 0	\$ 11,957,900
0	0	0	24,403
85	0	0	7,702
0	0	0	6,665
0	0	0	0
0	0	0	1,377,999
0	0	0	8,548
<u>131,828</u>	<u>0</u>	<u>0</u>	<u>13,383,217</u>
0	0	0	13,984
0	0	0	159,551
43,639	0	0	7,173,566
(40,514)	0	0	(4,823,047)
<u>3,125</u>	<u>0</u>	<u>0</u>	<u>2,524,054</u>
<u>\$ 134,953</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 15,907,271</u>
\$ 1,170	\$ 14,578	\$ 63,495	\$ 125,284
2,820	973	31,491	40,182
0	6,665	0	6,665
19,408	0	141,164	180,213
0	380,180	0	428,510
<u>23,398</u>	<u>402,396</u>	<u>236,150</u>	<u>780,854</u>
15,715	0	190,442	225,535
0	578,434	0	651,968
2,742	0	33,622	44,889
<u>18,457</u>	<u>578,434</u>	<u>224,064</u>	<u>922,392</u>
<u>41,855</u>	<u>980,830</u>	<u>460,214</u>	<u>1,703,246</u>
3,125	0	0	2,524,054
<u>89,973</u>	<u>(980,830)</u>	<u>(460,214)</u>	<u>11,679,971</u>
<u>93,098</u>	<u>(980,830)</u>	<u>(460,214)</u>	<u>14,204,025</u>
<u>\$ 134,953</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 15,907,271</u>

**BOROUGH OF CHAMBERSBURG**

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
INTERNAL SERVICE FUNDS  
For the Year Ended December 31, 2012**

	Stores Fund	Motor Equipment Fund	Self Insurance Fund
<b>OPERATING REVENUES</b>			
Charges for services	\$ 119,141	\$ 2,000,330	\$ 113,761
Miscellaneous	1	0	0
Total operating revenues	<u>119,142</u>	<u>2,000,330</u>	<u>113,761</u>
<b>OPERATING EXPENSES</b>			
Operation and maintenance	90,705	867,049	0
General and administrative	57,195	230,906	10,368
Claim payments and special services	0	0	292,993
Increase (decrease) in expected unpaid losses	0	0	13,161
Depreciation and amortization	146	503,596	0
Total operating expenses	<u>148,046</u>	<u>1,601,551</u>	<u>316,522</u>
Operating income (loss)	( 28,904)	398,779	( 202,761)
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest and investment revenue	398	11,734	12,185
Gain (loss) on sale of assets	0	12,092	0
Other nonoperating revenues	564	164	0
Reimbursement of prior year expense	0	0	143,906
Intergovernmental revenue	<u>2,728</u>	<u>8,314</u>	<u>0</u>
Total non-operating revenue (expenses)	<u>3,690</u>	<u>32,304</u>	<u>156,091</u>
Income (loss) before transfers	( 25,214)	431,083	( 46,670)
Transfers in	209	0	18,625
Transfers out	<u>0</u>	( 60,254)	<u>0</u>
Change in net position	( 25,005)	370,829	( 28,045)
Total net position - beginning	<u>1,584,613</u>	<u>8,099,263</u>	<u>5,550,316</u>
Total net position - ending	<u>\$ 1,559,608</u>	<u>\$ 8,470,092</u>	<u>\$ 5,522,271</u>

<b>Engineering Fund</b>	<b>Worker's Compensation Fund</b>	<b>Administrative Services Fund</b>	<b>Total Internal Service Funds</b>
\$ 177,717	\$ 0	\$ 3,784,610	\$ 6,195,559
1,928	0	2,953	4,882
<u>179,645</u>	<u>0</u>	<u>3,787,563</u>	<u>6,200,441</u>
47,889	0	3,916,161	4,921,804
194,188	91,295	0	583,952
0	329,789	0	622,782
0	41,581	0	54,742
1,483	0	0	505,225
<u>243,560</u>	<u>462,665</u>	<u>3,916,161</u>	<u>6,688,505</u>
( 63,915)	( 462,665)	( 128,598)	( 488,064)
359	300	0	24,976
0	0	0	12,092
0	0	0	728
0	0	0	143,906
7,956	0	59,982	78,980
<u>8,315</u>	<u>300</u>	<u>59,982</u>	<u>260,682</u>
( 55,600)	( 462,365)	( 68,616)	( 227,382)
0	349,000	0	367,834
( 25,489)	0	( 85,511)	( 171,254)
( 81,089)	( 113,365)	( 154,127)	( 30,802)
<u>174,187</u>	<u>( 867,465)</u>	<u>( 306,087)</u>	<u>14,234,827</u>
<u>\$ 93,098</u>	<u>(\$ 980,830)</u>	<u>(\$ 460,214)</u>	<u>\$ 14,204,025</u>



**BOROUGH OF CHAMBERSBURG**  
**COMBINING STATEMENT OF CASH FLOWS**  
**INTERNAL SERVICE FUNDS**  
**For the Year Ended December 31, 2012**

	Stores Fund	Motor Equipment Fund	Self Insurance Fund
<b>Cash flows from operating activities:</b>			
Interfund services provided	\$ 119,901	\$ 1,998,211	\$ 113,761
Payments to suppliers	( 98,571)	( 794,243)	( 309,408)
Payments to and on behalf of employees	( 105,506)	( 290,563)	0
Net cash provided (used) by operating activities	<u>( 84,176)</u>	<u>913,405</u>	<u>( 195,647)</u>
<b>Cash flows from capital and related financing activities:</b>			
Purchase of capital assets	0	( 114,468)	0
Proceeds from sale of capital assets	<u>0</u>	<u>14,400</u>	<u>0</u>
Net cash provided (used) by capital and related financing activities	<u>0</u>	<u>( 100,068)</u>	<u>0</u>
<b>Cash flows from non-capital financing activities:</b>			
Transfer from other funds	209	0	18,625
Transfer to other funds	0	( 60,254)	0
Refund received for health insurance	0	0	143,906
Grants received	<u>2,728</u>	<u>8,314</u>	<u>0</u>
Net cash provided (used) by non-capital financing activities	<u>2,937</u>	<u>( 51,940)</u>	<u>162,531</u>
<b>Cash flows from investing activities:</b>			
Interest and dividends received	<u>981</u>	<u>18,314</u>	<u>20,017</u>
Net cash provided (used) by investing activities	<u>981</u>	<u>18,314</u>	<u>20,017</u>
Net increase (decrease) in cash and cash equivalents	<u>( 80,258)</u>	<u>779,711</u>	<u>( 13,099)</u>
Cash and cash equivalents - beginning of the year	<u>383,644</u>	<u>5,108,603</u>	<u>5,647,556</u>
Cash and cash equivalents - end of the year	<u>\$ 303,386</u>	<u>\$ 5,888,314</u>	<u>\$ 5,634,457</u>
<b>Reconciliation of income from operations to net cash provided (used) by operating activities</b>			
Operating income (loss)	( \$ 28,904)	\$ 398,779	( \$ 202,761)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization expense	146	503,596	0
Miscellaneous nonoperating income	564	164	0
(Increase) decrease in:			
Accounts receivable	195	( 2,283)	0
Due from other funds	0	0	( 6,665)
Inventories	34,415	( 147)	0
Prepaid expenses	( 1,073)	( 4,998)	0
Increase (decrease) in:			
Accounts payable and accrued expenses	( 89,519)	18,294	13,779
Due to other funds	<u>0</u>	<u>0</u>	<u>0</u>
Net cash provided (used) by operating activities	<u>( \$ 84,176)</u>	<u>\$ 913,405</u>	<u>( \$ 195,647)</u>

Engineering Fund	Worker's Compensation Fund	Administrative Services Fund	Total
\$ 179,645	\$ 40,000	\$ 3,790,055	\$ 6,241,573
( 28,907)	( 399,953)	( 1,016,367)	( 2,647,449)
( 203,089)	( 18,115)	( 2,748,159)	( 3,365,432)
( 52,351)	( 378,068)	25,529	228,692
0	0	0	( 114,468)
0	0	0	14,400
0	0	0	( 100,068)
0	349,000	0	367,834
( 25,489)	0	( 85,511)	( 171,254)
0	0	0	143,906
7,956	0	59,982	78,980
( 17,533)	349,000	( 25,529)	419,466
681	300	0	40,293
681	300	0	40,293
( 69,203)	( 28,768)	0	588,383
200,946	28,768	0	11,369,517
<u>\$ 131,743</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 11,957,900</u>
( \$ 63,915)	( \$ 462,665)	( \$ 128,598)	( \$ 488,064)
1,483	0	0	505,225
0	0	0	728
0	40,000	2,492	40,404
0	0	0	( 6,665)
0	0	0	34,268
0	0	0	( 6,071)
10,081	37,932	151,635	142,202
0	6,665	0	6,665
<u>( \$ 52,351)</u>	<u>( \$ 378,068)</u>	<u>\$ 25,529</u>	<u>\$ 228,692</u>

## **TRUST AND AGENCY FUNDS**

Trust Funds are used to account for assets held by the Borough in a trustee capacity. Agency Funds are used to account for assets held by the Borough as an agent for individuals, private organizations, other governments and/or other funds.

**Police Pension Fund** – This fund is used to account for the accumulation of resources for pension benefit payments to qualified public safety (police) employees.

**Bargaining and Administrative Employees Pension Fund** – This fund is used to account for the accumulation of resources for pension benefit payments to qualified employees of the Borough other than police or fire department employees.

**Firemen’s Pension Fund** – This fund is used to account for the accumulation of resources for pension benefit payments to qualified Fire Department employees.

**Citizen’s Reward Fund** – Trust fund used to hold contributions from private citizens for the purpose of rewarding police informants for their assistance in solving crime.

**Sister City Fund** – Trust fund used to hold money that accumulates for the specific purpose of “sister city” activities. Our sister city is Gotemba, Japan.

**Project HEAT Fund** – Trust fund to hold contributions from citizens for the purpose of assisting others pay their utility bills.

**Payroll Clearing Fund** – An account to temporarily hold every dollar expended through the payroll system. This includes net payroll, all taxes withheld, miscellaneous deductions and employers’ share of Social Security/Medicare expense. Theoretically, every dollar contained within the account will eventually be paid out in net pay, taxes or other deductions.

**Consumer Deposits Fund** – Agency fund used to hold deposits on behalf of utility customers. Interest is earned and “tracked” for individual customers at the Borough’s composite interest rate. These funds can be used to settle an outstanding account or returned to the customer whenever a “good credit history” record is attained. These funds are also returned to the customer whenever they move outside the Borough. Occasionally, some deposits and or down payments from other individuals and organizations for other purposes are deposited in this account and held until final resolution has occurred.

**BOROUGH OF CHAMBERSBURG**

**COMBINING STATEMENT OF FIDUCIARY NET POSITION  
PENSION TRUST FUNDS  
December 31, 2012**

	<b>Firemen's Pension Fund</b>	<b>Police Pension Fund</b>	<b>Bargaining and Administrative Employees Pension Fund</b>	<b>Total Pension Trust Funds</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 178,711	\$ 442,203	\$ 724,634	\$ 1,345,548
Mutual funds - U.S. Government and Agency Securities	1,193,034	2,633,473	4,706,078	8,532,585
Mutual funds - Stocks	2,504,543	5,865,123	10,205,006	18,574,672
Mutual funds - Real estate securities	133,442	327,038	522,521	983,001
Total assets	<u>\$ 4,009,730</u>	<u>\$ 9,267,837</u>	<u>\$ 16,158,239</u>	<u>\$ 29,435,806</u>
<b>NET POSITION</b>				
Held in trust for benefits and other purposes	<u>\$ 4,009,730</u>	<u>\$ 9,267,837</u>	<u>\$ 16,158,239</u>	<u>\$ 29,435,806</u>

**BOROUGH OF CHAMBERSBURG**

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
PENSION TRUST FUNDS**

*For the Year Ended December 31, 2012*

	<b>Firemen's Pension Fund</b>	<b>Police Pension Fund</b>	<b>Bargaining and Administrative Employees Pension Fund</b>	<b>Total Pension Trust Funds</b>
<b>ADDITIONS</b>				
Contributions				
Employer	\$ 209,739	\$ 454,682	\$ 650,683	\$ 1,315,104
Plan member	64,390	37,260	0	101,650
Total contributions	<u>274,129</u>	<u>491,942</u>	<u>650,683</u>	<u>1,416,754</u>
Investment income:				
Net appreciation (depreciation) in fair value of investments and gains (loss) on sale of investments	339,773	836,984	1,450,556	2,627,313
Interest, dividends and other	84,632	199,602	352,255	636,489
Total net investment earnings	<u>424,405</u>	<u>1,036,586</u>	<u>1,802,811</u>	<u>3,263,802</u>
Total additions	<u>698,534</u>	<u>1,528,528</u>	<u>2,453,494</u>	<u>4,680,556</u>
<b>DEDUCTIONS</b>				
Benefits	275,690	533,832	1,348,480	2,158,002
Administrative expenses	1,491	1,830	6,383	9,704
Total deductions	<u>277,181</u>	<u>535,662</u>	<u>1,354,863</u>	<u>2,167,706</u>
Change in net position	421,353	992,866	1,098,631	2,512,850
Net position - beginning	<u>3,588,377</u>	<u>8,274,971</u>	<u>15,059,608</u>	<u>26,922,956</u>
Net position - ending	<u>\$ 4,009,730</u>	<u>\$ 9,267,837</u>	<u>\$ 16,158,239</u>	<u>\$ 29,435,806</u>

**BOROUGH OF CHAMBERSBURG**

**COMBINING STATEMENT OF FIDUCIARY NET POSITION  
PRIVATE PURPOSE TRUST FUNDS**

**December 31, 2012**

	<b>Citizen's Reward Fund</b>	<b>Sister City Fund</b>	<b>Project Heat Fund</b>	<b>Total Private Purpose Trust Funds</b>
<b>ASSETS</b>				
Cash and equity in pooled cash and investments	\$ 10,384	\$ 20,561	\$ 1,877	\$ 32,822
Other receivables	7	0	0	7
Total assets	<u>\$ 10,391</u>	<u>\$ 20,561</u>	<u>\$ 1,877</u>	<u>\$ 32,829</u>
 <b>NET POSITION</b>				
Held in trust for other purposes	<u>\$ 10,391</u>	<u>\$ 20,561</u>	<u>\$ 1,877</u>	<u>\$ 32,829</u>

**BOROUGH OF CHAMBERSBURG**

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
PRIVATE PURPOSE TRUST FUNDS  
For the Year Ended December 31, 2012**

	<b>Citizen's Reward Fund</b>	<b>Sister City Fund</b>	<b>Project Heat Fund</b>	<b>Total Private Purpose Trust Funds</b>
<b>ADDITIONS</b>				
Interest earnings	\$ 25	\$ 5	\$ 3	\$ 33
Contributions - public	<u>0</u>	<u>1,271</u>	<u>6,946</u>	<u>8,217</u>
Total additions	<u>25</u>	<u>1,276</u>	<u>6,949</u>	<u>8,250</u>
<b>DEDUCTIONS</b>				
Administrative expense	0	0	17,700	17,700
Miscellaneous expense	<u>0</u>	<u>193</u>	<u>0</u>	<u>193</u>
Total deductions	<u>0</u>	<u>193</u>	<u>17,700</u>	<u>17,893</u>
Change in net position	25	1,083	( 10,751)	( 9,643)
Net position, beginning	<u>10,366</u>	<u>19,478</u>	<u>12,628</u>	<u>42,472</u>
Net position, ending	<u>\$ 10,391</u>	<u>\$ 20,561</u>	<u>\$ 1,877</u>	<u>\$ 32,829</u>

**BOROUGH OF CHAMBERSBURG**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
For the Year Ended December 31, 2012**

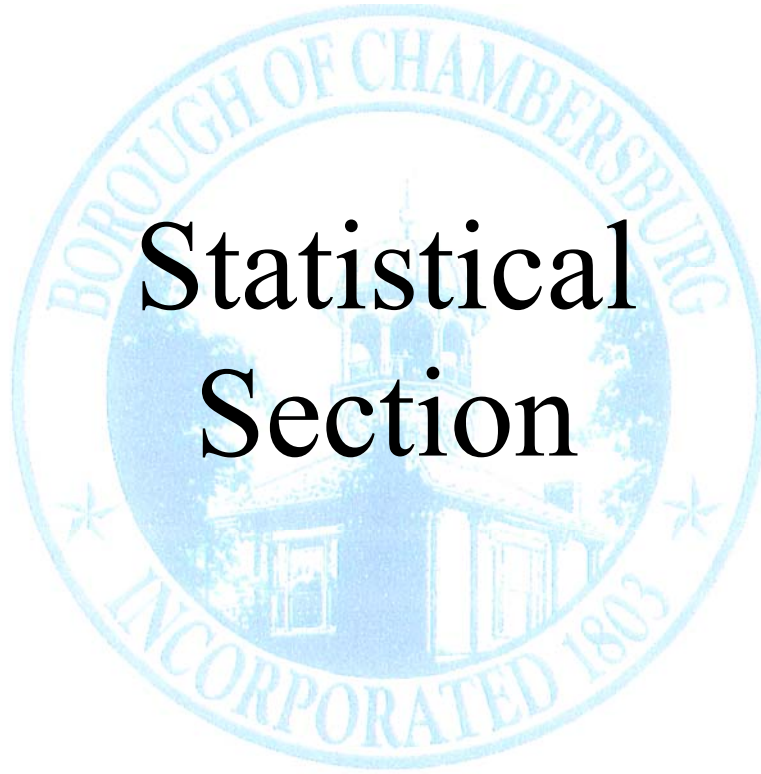
	<b>Balance 1/1/12</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance 12/31/12</b>
<b><u>Payroll Clearing Fund</u></b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 0	\$ 11,819,641	\$ 11,819,641	\$ 0
Total assets	<u>\$ 0</u>	<u>\$ 11,819,641</u>	<u>\$ 11,819,641</u>	<u>\$ 0</u>
<b>LIABILITIES</b>				
Withholdings	\$ 0	\$ 3,570,568	\$ 3,570,568	\$ 0
Total liabilities	<u>\$ 0</u>	<u>\$ 3,570,568</u>	<u>\$ 3,570,568</u>	<u>\$ 0</u>
<b><u>Consumer Deposit Fund</u></b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 853,434	259,068	\$ 260,476	\$ 852,026
Other receivables	1,736	1,848	3,036	548
Total assets	<u>\$ 855,170</u>	<u>\$ 260,916</u>	<u>\$ 263,512</u>	<u>\$ 852,574</u>
<b>LIABILITIES</b>				
Consumer deposits	\$ 855,170	\$ 257,898	\$ 260,494	\$ 852,574
Total liabilities	<u>\$ 855,170</u>	<u>\$ 257,898</u>	<u>\$ 260,494</u>	<u>\$ 852,574</u>
<b><u>Total - All Agency Funds</u></b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 853,434	\$ 12,078,709	\$ 12,080,117	\$ 852,026
Other receivables	1,736	1,848	3,036	548
Total assets	<u>\$ 855,170</u>	<u>\$ 12,080,557</u>	<u>\$ 12,083,153</u>	<u>\$ 852,574</u>
<b>LIABILITIES</b>				
Withholdings	\$ 0	\$ 3,570,568	\$ 3,570,568	\$ 0
Consumer deposits	855,170	257,898	260,494	852,574
Total liabilities	<u>\$ 855,170</u>	<u>\$ 3,828,466</u>	<u>\$ 3,831,062</u>	<u>\$ 852,574</u>



**BOROUGH OF CHAMBERSBURG**

**SCHEDULE OF REAL ESTATE TAXES RECEIVABLE - GENERAL FUND  
YEAR ENDED DECEMBER 31, 2012**

	<b>General Purpose</b>
Assessed valuation of real property	\$ 192,885,430
Add: Additions	2,084,300
Less: Reductions and exonerations	<u>682</u>
Adjusted assessment	194,969,048
Tax rate	<u>20</u> mills
Total tax levied	3,899,381
Add: Penalties	7,601
Less: Discounts	( 65,965)
Collections	<u>( 3,518,641)</u>
2012 taxes receivable - December 31, 2012	322,376
Prior years' taxes	<u>124,114</u>
Total taxes receivable - December 31, 2012	<u><u>\$ 446,490</u></u>



# Statistical Section

**STATISTICAL SECTION**  
**UNAUDITED**

This section of the Borough of Chambersburg's comprehensive annual financial report presents detailed information as a context for the understanding what the information in the financial statements, not disclosures, and required supplementary information says about the municipality's overall financial health.

<b><u>Contents</u></b>	<b><u>Page(s)</u></b>
<b>Financial Trends</b> These schedules contain trend information to help the reader understand how the municipality's financial performance and well-being have changed over time.	<b>79-85</b>
<b>Revenue Capacity</b> These schedules contain information to help the reader assess the municipality's most significant local revenue sources, the property tax, and the earned income tax.	<b>86-91</b>
<b>Debt Capacity</b> These schedules present information to help the reader assess the affordability of the municipality's current levels of outstanding debt and the municipality's ability to issue additional debt in the future.	<b>92-96</b>
<b>Demographic and Economic Information</b> These schedules offer economic and demographic indicators to help the reader understand the environment within which the municipality's financial activities take place.	<b>97-98</b>
<b>Operating Information</b> These schedules contain service information and infrastructure data to help the reader understand how the information in the municipality's financial report relates to the services the municipality provides and the activities it performs.	<b>99-101</b>

**Sources:** Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

## FINANCIAL TRENDS

These schedules contain trend information to help the reader understand how the Borough's financial performance and well-being have changed over time. These schedules include:

Net Position by Component	Schedule 1
Changes in Net Position	Schedule 2
Fund Balances, Governmental Funds	Schedule 3
Changes in Fund Balances, Governmental Funds	Schedule 4
Program Revenues by Function	Schedule 5
Tax Revenues by Source, Governmental Funds	Schedule 6

**Schedule 1**  
 Borough of Chambersburg, PA  
 Net Position By Component  
 Last Ten Years  
*(accrual basis of accounting)*

	2012 (a)	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>Governmental activities</b>										
Net investment in capital assets	\$22,217,709	\$25,275,852	\$25,907,241	\$24,030,856	\$22,103,501	\$20,030,556	\$16,422,498	\$13,745,073	\$9,509,524	\$9,782,731
Restricted	3,852,332	3,769,761	1,193,916	1,452,889	1,168,346	786,100	392,808	613,697	690,381	476,545
Unrestricted	3,952,283	4,633,198	7,463,807	9,876,322	10,751,978	10,030,131	9,157,620	8,434,228	7,735,631	7,225,502
Total governmental activities net position	<u>30,022,324</u>	<u>33,678,811</u>	<u>34,564,964</u>	<u>35,360,067</u>	<u>34,023,825</u>	<u>30,846,787</u>	<u>25,972,926</u>	<u>22,792,998</u>	<u>17,935,536</u>	<u>17,484,778</u>
<b>Business-type activities</b>										
Net investment in capital assets	81,864,727	76,493,701	75,126,828	74,790,451	71,707,129	69,516,503	67,563,288	63,674,212	58,883,260	59,029,207
Restricted	0	0	0	0	0	0	0	0	0	0
Unrestricted	30,945,382	30,885,875	33,192,820	27,013,942	30,437,794	31,862,509	23,049,503	23,219,395	20,207,662	20,613,389
Total business-type activities net position	<u>112,810,109</u>	<u>107,379,576</u>	<u>108,319,648</u>	<u>101,804,393</u>	<u>102,144,923</u>	<u>101,379,012</u>	<u>90,612,791</u>	<u>86,893,607</u>	<u>79,090,922</u>	<u>79,642,596</u>
<b>Primary government</b>										
Net investment in capital assets	104,082,436	101,769,553	101,034,069	98,821,307	93,810,630	89,547,059	83,985,786	77,419,285	68,392,784	68,811,938
Restricted	3,852,332	3,769,761	1,193,916	1,452,889	1,168,346	786,100	392,808	613,697	690,381	476,545
Unrestricted	34,897,665	35,519,073	40,656,627	36,890,264	41,189,772	41,892,640	32,207,123	31,653,623	27,943,293	27,838,891
Total primary government net position	<u>\$142,832,433</u>	<u>\$141,058,387</u>	<u>\$142,884,612</u>	<u>\$137,164,460</u>	<u>\$136,168,748</u>	<u>\$132,225,799</u>	<u>\$116,585,717</u>	<u>\$109,686,605</u>	<u>\$97,026,458</u>	<u>\$97,127,374</u>

(a) During 2012, the Borough implemented items previously reported as assets and liabilities provisions of GASB 65 which changed how bond issue costs were recorded. Prior year amounts have not been restated and are shown based on the reporting requirements prior to the implementation of GASB 65.

**Schedule 2**  
 Borough of Chambersburg, PA  
 Changes in Net Position  
 Last Ten Years  
*(accrual basis of accounting)*

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>Expenses</b>										
Governmental activities										
General government	\$1,696,708	\$1,460,984	\$1,143,438	\$1,380,277	\$1,041,494	\$1,466,517	\$1,043,354	\$935,002	\$927,800	\$978,195
Public safety	7,697,570	8,274,656	8,186,805	7,372,746	7,335,996	7,032,498	6,349,063	5,848,946	5,392,779	5,168,838
Public works	1,655,579	2,315,450	2,113,662	1,963,186	1,117,850	542,993	1,852,946	876,150	1,472,316	1,409,781
Culture and recreation	1,353,831	1,442,428	1,931,419	1,453,670	1,469,475	1,237,341	1,019,986	1,019,864	951,250	920,904
Community development	539,858	776,979	313,210	475,765	661,485	579,662	467,084	142,451	374,668	434,341
Total governmental activities expenses	<u>12,943,546</u>	<u>14,270,497</u>	<u>13,688,534</u>	<u>12,645,644</u>	<u>11,626,300</u>	<u>10,859,011</u>	<u>10,732,433</u>	<u>8,822,413</u>	<u>9,118,813</u>	<u>8,912,059</u>
Business-type activities										
Electric	32,925,694	33,550,331	30,413,576	33,623,997	26,899,617	17,036,148	18,523,367	13,715,436	16,542,623	17,457,025
Gas	6,531,657	7,136,724	7,311,796	8,694,454	10,858,357	9,804,046	10,084,205	10,454,000	8,774,060	8,070,655
Water	2,950,841	2,898,515	2,617,711	2,831,476	2,674,069	2,775,409	2,495,541	2,440,826	2,346,858	2,058,695
Sewer	5,260,073	5,283,679	5,630,067	5,152,404	5,372,469	4,435,959	4,165,673	4,002,632	3,910,354	3,722,403
Sanitation	2,205,691	2,274,672	2,070,085	2,092,023	2,045,442	1,900,908	1,875,660	1,791,125	1,745,817	1,557,641
Parking, traffic and street lights	760,007	173,881	166,447	164,223	145,482	146,970	164,675	180,746	160,206	167,957
Total business-type activities expenses	<u>50,633,963</u>	<u>51,317,802</u>	<u>48,209,682</u>	<u>52,558,577</u>	<u>47,995,436</u>	<u>36,099,440</u>	<u>37,309,121</u>	<u>32,584,765</u>	<u>33,479,918</u>	<u>33,034,376</u>
Total primary government expenses	<u>63,577,509</u>	<u>65,588,299</u>	<u>61,898,216</u>	<u>65,204,221</u>	<u>59,621,736</u>	<u>46,958,451</u>	<u>48,041,554</u>	<u>41,407,178</u>	<u>42,598,731</u>	<u>41,946,435</u>
<b>Program revenues</b>										
Governmental activities										
Charges for services										
General government	334,574	404,010	544,572	455,042	474,050	445,288	491,696	350,807	354,012	307,750
Public safety	1,692,575	1,394,915	1,414,129	1,274,477	1,234,849	1,270,041	1,119,281	947,182	881,110	885,563
Public works	806	2,391	2,880	3,366	4,314	10,406	32,156	26,408	35,720	32,351
Culture and recreation	438,791	412,401	413,090	418,973	398,106	388,699	366,255	347,757	312,298	314,206
Community development	0	0	0	0	0	0	0	0	0	0
Operating grants and contributions	2,089,208	2,189,108	1,874,440	1,414,482	1,775,741	1,488,749	1,200,413	1,403,640	778,856	497,816
Capital grants and contributions	171,505	511,286	1,118,987	2,901,458	2,026,960	2,994,098	2,921,896	4,844,308	693,018	663,615
Total governmental activities program revenues	<u>4,727,459</u>	<u>4,914,111</u>	<u>5,368,098</u>	<u>6,467,798</u>	<u>5,914,020</u>	<u>6,597,281</u>	<u>6,131,697</u>	<u>7,920,102</u>	<u>3,055,014</u>	<u>2,701,301</u>
Business-type activities										
Charges for services										
Electric	31,823,441	32,243,631	34,765,216	30,785,021	25,655,849	23,374,049	19,731,687	17,329,059	16,534,958	17,270,856
Gas	7,368,579	7,812,764	8,323,329	9,410,294	10,971,012	10,111,337	10,295,262	11,611,918	9,065,105	8,470,100
Water	3,460,555	3,075,317	3,196,140	3,375,869	3,469,626	3,879,178	3,472,734	3,107,143	2,752,040	2,459,217
Sewer	5,317,072	5,084,952	4,570,569	4,096,262	4,068,865	4,027,596	3,796,020	3,578,237	3,248,861	2,705,203
Sanitation	1,997,409	2,032,789	2,039,950	2,045,885	2,067,715	2,026,588	1,938,838	1,907,319	1,394,234	1,404,794
Parking, traffic and street lights	168,168	182,707	134,397	134,927	137,939	145,400	154,740	137,451	132,753	129,007
Operating grants and contributions	139,192	518,395	706,484	168,207	173,335	482,632	178,031	149,268	336,985	65,850
Capital grants and contributions	3,643,331	1,195,252	1,320,441	3,400,102	2,619,182	2,537,794	1,481,518	1,678,368	110,623	128,639
Total business-type activities program revenues	<u>53,917,747</u>	<u>52,145,807</u>	<u>55,056,526</u>	<u>53,416,567</u>	<u>49,163,523</u>	<u>46,584,574</u>	<u>41,048,830</u>	<u>39,498,763</u>	<u>33,575,559</u>	<u>32,633,666</u>
Total primary government program revenues	<u>\$58,645,206</u>	<u>\$57,059,918</u>	<u>\$60,424,624</u>	<u>\$59,884,365</u>	<u>\$55,077,543</u>	<u>\$53,181,855</u>	<u>\$47,180,527</u>	<u>\$47,418,865</u>	<u>\$36,630,573</u>	<u>\$35,334,967</u>

**Schedule 2**  
 Borough of Chambersburg, PA  
 Changes in Net Position (Continued)  
 Last Ten Years  
 (accrual basis of accounting)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>Net (expense)/revenue</b>										
Governmental activities	(\$8,216,087)	(\$9,356,386)	(\$8,320,436)	(\$6,177,846)	(\$5,712,280)	(\$4,261,730)	(\$4,600,736)	(\$902,311)	(\$6,063,799)	(\$6,210,758)
Business-type activities	3,283,784	828,005	6,846,844	857,990	1,168,087	10,485,134	3,739,709	6,913,998	95,641	(400,710)
Total primary government net expenses	<u>(4,932,303)</u>	<u>(8,528,381)</u>	<u>(1,473,592)</u>	<u>(5,319,856)</u>	<u>(4,544,193)</u>	<u>6,223,404</u>	<u>(861,027)</u>	<u>6,011,687</u>	<u>(5,968,158)</u>	<u>(6,611,468)</u>
<b>General revenues and other changes in net position</b>										
Governmental activities										
Taxes										
Property taxes	3,860,019	3,797,204	3,732,778	3,710,125	3,627,868	3,486,845	2,810,388	2,731,777	2,656,031	1,887,536
Real estate transfer tax	296,618	265,172	240,954	272,005	540,465	816,051	674,435	718,074	535,193	292,501
Earned income tax	1,753,574	1,561,233	1,524,001	1,390,053	1,907,032	1,568,769	1,629,180	1,428,130	1,052,001	1,468,683
Local services tax	747,799	744,131	757,564	860,057	775,600	1,165,990	1,111,662	875,067	0	0
Occupation privilege tax	0	0	0	0	0	0	0	0	113,974	107,555
Other taxes	14,803	14,213	13,408	12,616	11,682	10,565	10,452	5,549	9,897	11,038
Gain on sale of assets	0	0	0	0	0	0	0	287	698,566	0
Unrestricted contributions and grants	0	0	0	0	22,816	3,926	26,935	99,584	8,903	3,096
Unrestricted investment earnings	19,745	40,144	60,048	181,223	404,894	518,979	437,046	245,268	112,490	85,591
Miscellaneous income	10,557	51,117	24,360	57,152	36,279	125,626	32,651	0	0	107,949
Transfers	(2,143,515)	1,997,019	1,172,220	1,705,586	1,562,682	1,117,180	1,047,915	(343,963)	1,326,605	1,528,990
Total governmental activities	<u>4,559,600</u>	<u>8,470,233</u>	<u>7,525,333</u>	<u>8,188,817</u>	<u>8,889,318</u>	<u>8,813,931</u>	<u>7,780,664</u>	<u>5,759,773</u>	<u>6,513,660</u>	<u>5,492,939</u>
Business-type activities										
Unrestricted investment earnings	60,705	125,701	187,285	358,101	969,639	1,180,310	951,240	544,724	300,121	470,996
Miscellaneous income	42,013	103,241	124,596	148,965	190,867	217,957	104,600	0	28,862	134,991
Transfers	2,143,515	(1,997,019)	(1,172,220)	(1,705,586)	(1,562,682)	(1,117,180)	(1,047,912)	343,963	(1,326,605)	(1,528,990)
Extraordinary items	0	0	0	0	0	0	(316,751)	0	0	0
Total business-type activities	<u>2,246,233</u>	<u>(1,768,077)</u>	<u>(860,339)</u>	<u>(1,198,520)</u>	<u>(402,176)</u>	<u>281,087</u>	<u>(308,823)</u>	<u>888,687</u>	<u>(997,622)</u>	<u>(923,003)</u>
Total primary government	6,805,833	6,702,156	6,664,994	6,990,297	8,487,142	9,095,018	7,471,841	6,648,460	5,516,038	4,569,936
<b>Change in net position</b>										
Governmental activities	(3,656,487)	(886,153)	(795,103)	2,010,971	3,177,038	4,552,201	3,179,928	4,857,462	449,861	(717,819)
Business-type activities	5,530,017	(940,072)	5,986,505	(340,530)	765,911	10,766,221	3,430,886	7,802,685	(901,981)	(1,323,713)
Total primary government change in net position	<u>\$1,873,530</u>	<u>(\$1,826,225)</u>	<u>\$5,191,402</u>	<u>\$1,670,441</u>	<u>\$3,942,949</u>	<u>\$15,318,422</u>	<u>\$6,610,814</u>	<u>\$12,660,147</u>	<u>(\$452,120)</u>	<u>(\$2,041,532)</u>

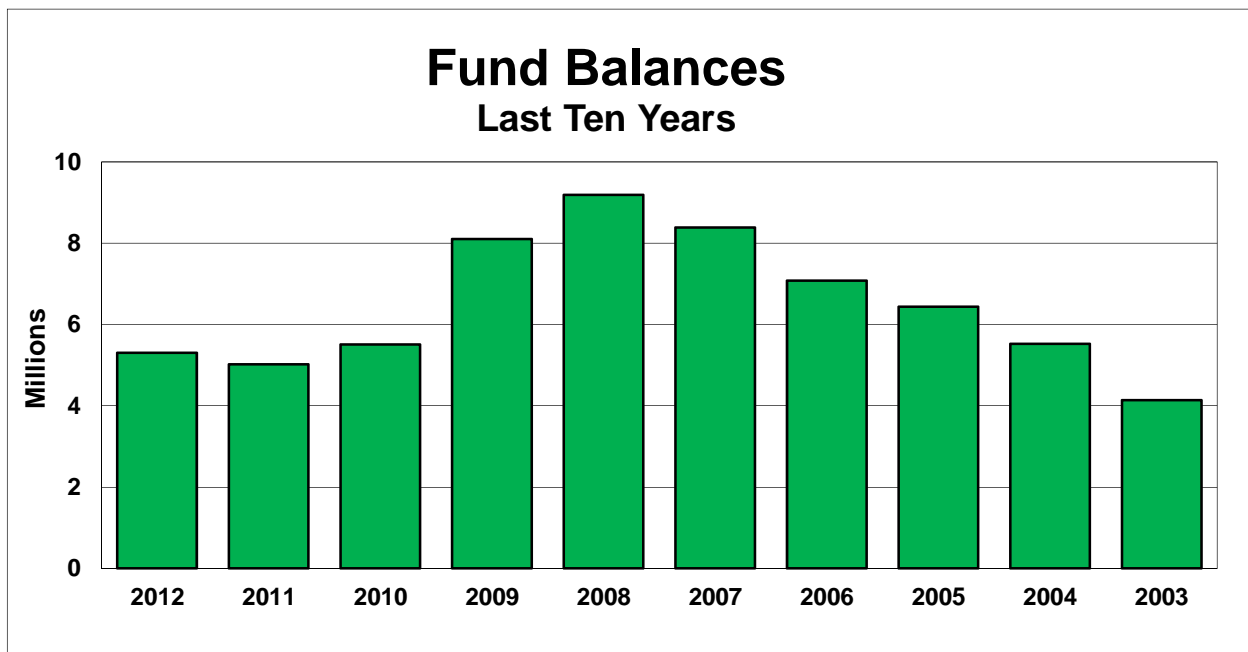
**Schedule 3**  
 Borough of Chambersburg, PA  
 Fund Balances, Governmental Funds  
 Last Ten Years  
 (modified accrual basis of accounting)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>General fund</b>				
Unassigned	\$1,450,260	\$1,259,687	\$ 0	\$ 0
Reserved	0	0	0	0
Unreserved	0	0	1,375,034	2,139,230
Total general fund	<u>1,450,260</u>	<u>1,259,687</u>	<u>1,375,034</u>	<u>2,139,230</u>
<b>All other governmental funds</b>				
Reserved	0	0	583,627	506,093
Unreserved, reported in				
Special revenue fund	0	0	860,642	1,096,594
Capital reserve funds	0	0	2,688,148	4,359,108
Liquid fuels tax fund	0	0	0	0
Nonspendable for long term receivables	237,186	249,133	0	0
Restricted	3,615,146	3,520,628	0	0
Total all other governmental funds	<u>3,852,332</u>	<u>3,769,761</u>	<u>4,132,417</u>	<u>5,961,795</u>
Total governmental funds	<u><u>\$5,302,592</u></u>	<u><u>\$5,029,448</u></u>	<u><u>\$5,507,451</u></u>	<u><u>\$8,101,025</u></u>

Fund balance reporting as presented by GASB 54 was implemented during 2011. Prior year amounts have not been restated and are shown based on the fund balance classifications as presented by GASB Standards prior to the implementation of GASB 54.



2008	2007	2006	2005	2004	2003
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
0	0	0	51,625	0	0
3,022,011	3,132,235	3,002,526	2,444,085	1,780,615	1,270,767
<u>3,022,011</u>	<u>3,132,235</u>	<u>3,002,526</u>	<u>2,495,710</u>	<u>1,780,615</u>	<u>1,270,767</u>
439,688	482,736	334,814	438,199	3,534,247	2,631,946
858,329	455,558	89,893	234,642	0	0
4,871,296	4,309,406	3,647,518	3,271,894	0	0
0	0	0	0	211,065	234,484
0	0	0	0	0	0
0	0	0	0	0	0
<u>6,169,313</u>	<u>5,247,700</u>	<u>4,072,225</u>	<u>3,944,735</u>	<u>3,745,312</u>	<u>2,866,430</u>
<u>\$9,191,324</u>	<u>\$8,379,935</u>	<u>\$7,074,751</u>	<u>\$6,440,445</u>	<u>\$5,525,927</u>	<u>\$4,137,197</u>



**Schedule 4**  
 Borough of Chambersburg, PA  
 Changes in Fund Balances, Governmental Funds  
 Last Ten Years  
 (modified accrual basis of accounting)

	2012	2011	2010	2009
<b>REVENUES</b>				
Real estate taxes	\$3,783,960	\$3,754,875	\$3,732,778	\$3,710,125
Local enabling taxes	2,588,481	2,602,256	2,620,238	2,438,571
Licenses and permits	349,126	320,776	357,550	329,480
Fines and forfeits	147,438	122,283	130,940	127,416
Investment earnings	12,817	22,777	37,461	130,960
Intergovernmental	2,055,872	2,418,840	2,045,106	1,854,862
Program income	0	0	0	0
Charges for services	1,840,196	1,638,809	1,792,542	1,551,711
Miscellaneous	220,524	297,500	212,953	217,277
Contributions and donations	124,660	134,832	79,094	392,826
Total revenues	<u>11,123,074</u>	<u>11,312,948</u>	<u>11,008,662</u>	<u>10,753,228</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,055,445	1,027,258	1,150,564	936,903
Public safety				
Police department	4,065,329	4,230,668	4,597,965	4,105,028
Emergency services	3,210,618	2,412,176	2,056,357	1,790,115
Fire code	0	0	0	0
Planning and zoning	329,461	537,731	455,054	371,105
General health and ambulance service	0	1,053,206	1,184,088	1,086,075
Public works				
Highways	1,442,803	1,447,497	2,107,854	2,168,345
Parking, traffic control, and transit system	0	476,187	990,662	684,238
Street lighting	0	0	0	0
Airport	0	0	0	0
Culture and recreation	1,164,260	1,555,752	1,803,470	1,394,860
Community development	521,509	568,877	487,577	559,625
Capital projects	0	0	0	0
Housing rehabilitation grants/loans	0	0	0	0
Miscellaneous	43,431	79,599	114,803	102,223
Debt service				
Principal retirement	0	0	0	0
Interest and fiscal charges	0	0	0	0
Total expenditures	<u>11,832,856</u>	<u>13,388,951</u>	<u>14,948,394</u>	<u>13,198,517</u>
Excess (deficiency) of revenues over expenditures	<u>(709,782)</u>	<u>(2,076,003)</u>	<u>(3,939,732)</u>	<u>(2,445,289)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of assets	0	0	0	0
Transfers in (out)	982,926	1,598,000	1,346,158	1,330,307
Total other financing sources and uses	<u>982,926</u>	<u>1,598,000</u>	<u>1,346,158</u>	<u>1,330,307</u>
Net change in fund balances	<u>\$273,144</u>	<u>(\$478,003)</u>	<u>(\$2,593,574)</u>	<u>(\$1,114,982)</u>
Debt service as a percentage of non-capital expenditures	00.0%	00.0%	00.0%	00.0%
Debt service as a percentage of total expenditures	0.000%	0.000%	0.000%	0.000%

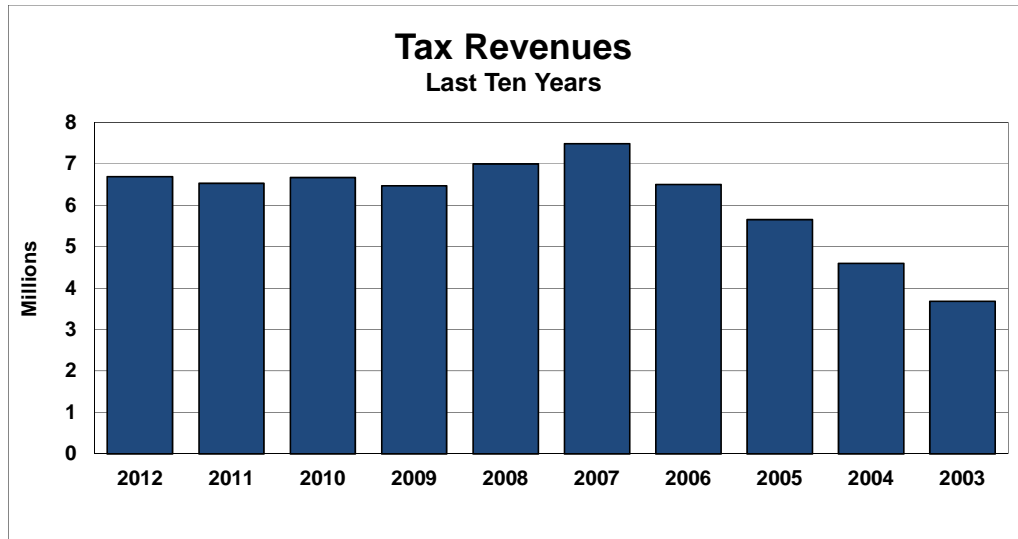
2008	2007	2006	2005	2004	2003
\$3,579,097	\$3,496,353	\$2,812,617	\$2,699,852	\$2,652,016	\$1,881,006
3,115,435	3,795,794	3,378,559	2,990,956	1,924,194	1,605,864
314,841	283,832	327,849	12,216	11,708	34,513
147,943	134,912	124,607	104,554	105,994	88,254
304,813	433,095	340,051	169,742	89,142	92,430
2,203,624	4,128,114	2,963,293	5,390,700	1,441,099	1,108,781
0	0	0	34,413	25,307	22,358
1,533,643	1,609,239	1,429,528	1,257,871	1,149,657	1,138,276
225,042	286,146	406,735	333,743	297,662	361,831
767,176	0	0	99,584	8,903	3,096
<u>12,191,614</u>	<u>14,167,485</u>	<u>11,783,239</u>	<u>13,093,631</u>	<u>7,705,682</u>	<u>6,336,409</u>
900,500	885,772	888,809	776,287	670,380	745,387
4,007,937	3,998,185	3,745,351	3,273,532	3,005,234	2,864,984
1,768,874	1,804,011	1,703,609	1,369,481	1,250,482	1,211,412
0	0	0	93,158	86,156	33,244
424,173	454,234	359,499	295,959	318,144	306,258
995,078	770,771	798,504	771,723	709,344	783,605
1,330,447	962,915	2,553,405	2,845,568	918,701	899,830
448,458	476,549	718,504	186,535	194,161	304,996
0	0	0	189,927	146,879	171,531
0	0	0	0	12,018	47,246
1,493,780	1,189,479	1,058,650	1,668,362	1,050,717	1,024,020
1,198,910	2,765,619	661,039	0	0	0
0	0	0	0	0	0
0	0	0	124,857	63,373	89,548
95,068	638,818	332,789	271,288	330,588	331,284
0	0	0	0	0	0
0	0	0	0	0	0
<u>12,663,225</u>	<u>13,946,353</u>	<u>12,820,159</u>	<u>11,866,677</u>	<u>8,756,177</u>	<u>8,813,345</u>
<u>(471,611)</u>	<u>221,132</u>	<u>(1,036,920)</u>	<u>1,226,954</u>	<u>(1,050,495)</u>	<u>(2,476,936)</u>
0	0	0	0	790,084	0
<u>1,283,000</u>	<u>1,084,052</u>	<u>1,671,226</u>	<u>(312,436)</u>	<u>1,419,435</u>	<u>1,810,283</u>
<u>1,283,000</u>	<u>1,084,052</u>	<u>1,671,226</u>	<u>(312,436)</u>	<u>2,209,519</u>	<u>1,810,283</u>
<u>\$811,389</u>	<u>\$1,305,184</u>	<u>\$634,306</u>	<u>\$914,518</u>	<u>\$1,159,024</u>	<u>(\$666,653)</u>
00.0%	00.0%	00.0%	00.0%	00.0%	00.0%
0.000%	0.000%	0.000%	0.000%	0.000%	0.000%

**Schedule 5**  
 Borough of Chambersburg, PA  
 Program Revenues by Function  
 Last Ten Years  
*(accrual basis of accounting)*

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>Function/Program</b>										
Governmental activities										
General government	\$366,191	\$1,297,380	\$2,029,383	\$635,089	\$2,513,514	\$3,764,057	\$1,399,348	\$1,000,257	\$761,020	\$566,667
Public safety	2,639,445	2,095,069	2,190,353	1,937,743	2,016,269	1,364,935	1,655,801	995,819	954,758	997,471
Public works	564,311	4,860	261,626	2,870,251	532,278	1,015,251	2,180,286	4,740,355	343,978	344,479
Culture and recreation	550,572	675,646	413,090	425,909	539,959	422,506	393,682	347,757	312,298	314,206
Community development	606,940	841,156	473,646	598,806	312,000	30,532	502,580	835,914	682,960	478,478
Subtotal governmental activities	<u>4,727,459</u>	<u>4,914,111</u>	<u>5,368,098</u>	<u>6,467,798</u>	<u>5,914,020</u>	<u>6,597,281</u>	<u>6,131,697</u>	<u>7,920,102</u>	<u>3,055,014</u>	<u>2,701,301</u>
Business-type activities										
Electric	32,759,537	32,517,943	35,088,796	32,316,324	26,568,799	23,787,570	20,634,722	17,714,633	16,639,896	17,341,849
Gas	7,530,410	7,913,084	8,405,864	9,488,238	11,149,104	10,129,533	10,496,579	11,707,046	9,109,242	8,475,849
Water	3,481,859	3,174,372	4,022,392	4,420,697	4,273,076	4,407,194	3,759,890	3,903,315	2,870,600	2,513,010
Sewer	7,933,656	6,235,990	5,243,703	4,958,834	4,919,105	6,050,383	4,025,793	4,092,000	3,340,542	2,735,592
Sanitation	2,034,451	2,112,945	2,153,694	2,095,168	2,112,950	2,062,631	1,974,758	1,942,027	1,477,450	1,437,698
Parking, traffic and street lights	177,834	191,473	142,077	137,306	140,489	147,263	157,088	139,742	137,829	129,668
Subtotal business type activities	<u>53,917,747</u>	<u>52,145,807</u>	<u>55,056,526</u>	<u>53,416,567</u>	<u>49,163,523</u>	<u>46,584,574</u>	<u>41,048,830</u>	<u>39,498,763</u>	<u>33,575,559</u>	<u>32,633,666</u>
Total primary government	<u>\$58,645,206</u>	<u>\$57,059,918</u>	<u>\$60,424,624</u>	<u>\$59,884,365</u>	<u>\$55,077,543</u>	<u>\$53,181,855</u>	<u>\$47,180,527</u>	<u>\$47,418,865</u>	<u>\$36,630,573</u>	<u>\$35,334,967</u>

**Schedule 6**  
 Borough of Chambersburg, PA  
 Tax Revenues by Source, Governmental Funds  
 Last Ten Years  
*(modified accrual basis of accounting)*

Fiscal Year	Real Estate	Real Estate Transfer	Earned Income	Occupational Privilege	Local Services Tax	Cable TV Franchise Fees	Payments in Lieu of Taxes	Total
2012	\$3,769,157	\$296,618	\$1,571,261	\$0	\$720,602	\$315,504	\$14,803	\$6,687,945
2011	3,740,662	265,172	1,499,019	0	702,064	313,867	14,213	6,534,997
2010	3,702,670	240,954	1,638,419	0	757,564	315,038	13,408	6,668,053
2009	3,690,751	272,005	1,313,267	0	860,057	319,990	12,616	6,468,686
2008	3,579,097	540,465	1,787,688	0	775,600	302,892	11,682	6,997,424
2007	3,496,353	816,051	1,728,188	0	1,165,990	269,553	10,565	7,486,700
2006	2,812,617	674,435	1,582,009	0	1,111,662	308,267	10,452	6,499,442
2005 (1)	2,699,853	718,074	1,148,766	0	875,067	209,203	5,549	5,656,512
2004	2,652,016	535,173	1,085,130	113,974	0	206,943	9,897	4,603,133
2003	1,881,006	292,501	1,194,770	107,555	0	193,935	11,038	3,680,805



(1) Beginning in 2005, Occupational Privilege Tax (OPT) was eliminated and replaced with Emergency and Municipal Services Tax (EMST)/local services tax.

Source: Borough of Chambersburg Finance Department.

## REVENUE CAPACITY

These schedules contain trend information to help the reader assess the Borough's most significant local revenue source, the property tax. These schedules include:

Property Tax Rates - Direct and Overlapping Governments	Schedule 7
Assessed Value and Actual Value of Taxable Property	Schedule 8
Principal Taxpayers	Schedule 9
Property Tax Levies and Collections	Schedule 10
Municipal Earned Income Tax Revenue Base and Collections	Schedule 11
Earned Income Tax Statistics	Schedule 12

**Schedule 7**  
 Borough of Chambersburg, PA  
 Property Tax Rates - Direct and Overlapping Governments  
 Last Ten Years

Tax Year	Direct Debt (Operating Mill Rate)	<-----Overlapping Debt----->		
	Borough of Chambersburg	Chambersburg Area Sch Dist	Franklin County	Franklin County Library
2012	20.00	92.76	25.66	1.05
2011	20.00	92.76	25.15	0.8
2010	20.00	89.62	25.15	0.8
2009	20.00	84.98	24.65	0.8
2008	20.00	80.98	21.95	0.8
2007	20.00	76.91	21.75	0.6
2006	17.00	70.68	21.75	0.6
2005	17.00	67.00	20.75	0.6
2004	17.00	62.53	16.75	0.6
2003	12.20	58.33	14.75	0.6

Sources: Borough of Chambersburg Comprehensive Annual Financial Report  
 Chambersburg Area School District Annual Financial Report  
 Franklin County Tax Assessment Office

**Schedule 8**  
 Borough of Chambersburg, PA  
 Assessed Value and Actual Value of Taxable Property  
 Last Ten Years

Fiscal Year Ended December 31,	Agricultural Property	Residential Property	Commercial Property	Industrial Property	Vacant Property	Tax Exempt Property	Total Estimated Assessed Value	Total Taxable Assessed Value	Chambersburg Municipal Millage Rate
2012	\$267,630	\$98,678,800	\$82,147,740	\$9,006,850	\$2,784,410	\$51,973,840	\$244,859,270	\$192,885,430	20.00
2011	267,630	98,098,920	80,602,420	9,296,000	2,802,080	51,726,140	242,793,190	191,067,050	20.00
2010	267,630	96,846,110	78,000,260	9,383,290	2,888,840	51,559,840	238,945,970	187,386,130	20.00
2009	267,630	95,560,690	78,327,490	9,709,350	2,782,180	51,027,070	237,674,410	186,647,340	20.00
2008	267,630	92,976,990	74,950,820	10,007,730	2,911,350	50,946,250	232,060,770	181,114,520	20.00
2007	321,620	90,319,950	68,040,640	9,698,490	2,977,070	50,832,230	222,190,000	171,357,770	20.00
2006	331,460	87,762,230	64,269,630	9,698,490	2,111,770	50,389,070	214,562,650	164,173,580	17.00
2005	319,440	85,328,290	63,225,610	9,698,490	2,025,380	50,528,540	211,125,750	160,597,210	17.00
2004	388,360	83,479,780	61,341,370	9,730,290	1,864,130	51,884,030	208,687,960	156,803,930	12.20
2003	389,190	82,231,740	61,670,330	10,200,230	1,816,060	50,489,080	206,796,630	156,307,550	12.20

Sources: Franklin County, PA Tax Assessor's Office.

Borough of Chambersburg Comprehensive Annual Financial Report.

Note: Certain amounts in the schedule were restated due to errors and omissions in previous years.



**Schedule 9**  
 Borough of Chambersburg, PA  
 Principal Taxpayers  
 12/31/2012 and 12/31/2003

**December 31, 2012**

Taxpayer	Estimated Actual Values of Real Property (1)	Rank	Percentage of Assessed Valuation
Chbg Health Srv/Chbg Hospital	\$12,578,910	1	6.52%
Menno-Haven, Inc	5,485,100	2	2.84%
Chambersburg Crossing LP	5,043,000	3	2.61%
American Real Estate	2,340,650	4	1.21%
Wilsey/Holsum-Ventura Food LLC	2,219,730	5	1.15%
ProLogis	1,780,100	6	0.92%
Wayne Avenue LLC	1,628,060	7	0.84%
Chambersburg Cold Storage	1,491,010	8	0.77%
Tanya K. Nitterhouse	1,338,020	9	0.69%
Chbg Area Development Corp	1,225,230	10	0.64%
<b>Total</b>	<b>\$35,129,810</b>		<b>18.21%</b>

Total Taxable Assessed Valuation **\$192,885,430**

**December 31, 2003**

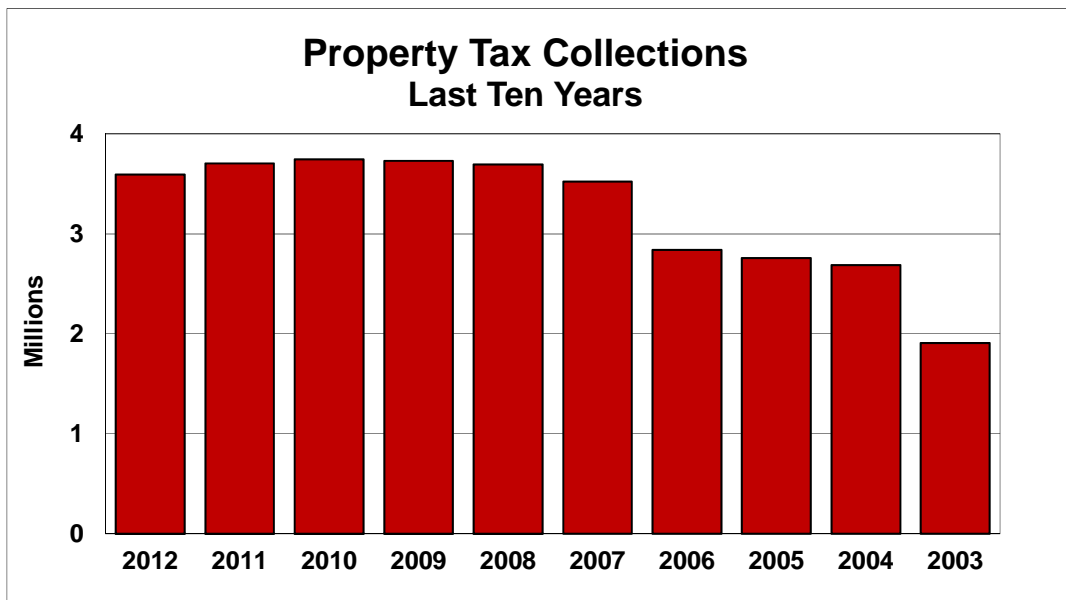
Taxpayer	Estimated Actual Values of Real Property (1)	Rank	Percentage of Assessed Valuation
Menno-Haven, Inc	\$3,890,040	1	2.49%
Chbg Health Srv/Chbg Hospital	3,753,780	2	2.40%
American Real Estate	2,340,650	3	1.50%
Wilsey/Holsum (Ventura)	2,127,500	4	1.36%
Tanya K. Nitterhouse	1,810,140	5	1.16%
Dermody Owen LLC	1,770,950	6	1.13%
Franklin Properties Co	1,556,130	7	1.00%
Mart Limited Partnership	1,516,380	8	0.97%
Chbg Cold Storage	1,491,010	9	0.95%
WCN Properties	1,478,310	10	0.95%
	<b>\$21,734,890</b>		<b>13.91%</b>

Total Taxable Assessed Valuation **\$156,307,550**

(1) As of January 1, 2001, the assessed value on all real property was changed from 40% to 100% of market value.  
 Sources: Borough of Chambersburg Comprehensive Annual Financial Report  
 Franklin County Assessor's Office

**Schedule 10**  
 Borough of Chambersburg, PA  
 Property Tax Levies and Collections  
 Last Ten Fiscal Years

Fiscal Year Ended Dec 31,	Taxes Levied for the Fiscal Year	Collections within the Fiscal Year of the Levy		Collections In Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2012	\$3,872,274	\$3,593,392	92.80%	\$0	\$3,593,392	92.80%
2011	3,821,341	3,523,898	92.22%	177,624	3,701,522	96.86%
2010	3,747,723	3,527,832	94.13%	215,634	3,743,466	99.89%
2009	3,732,947	3,521,879	94.35%	207,380	3,729,259	99.90%
2008	3,691,170	3,449,448	93.45%	241,491	3,690,939	99.99%
2007 (2)	3,524,433	3,327,598	94.42%	196,604	3,524,202	99.99%
2006	2,842,065	2,689,089	94.62%	152,976	2,842,065	100.00%
2005	2,760,042	2,611,898	94.63%	148,144	2,760,042	100.00%
2004 (1)	2,685,963	2,546,557	94.81%	139,406	2,685,963	100.00%
2003	1,908,826	1,811,273	94.89%	97,553	1,908,826	100.00%



(1) The borough's property tax mill rate increased from 12.2 to 17.0, an increase of 40%  
 (2) The borough's property tax mill rate increased from 17.0 to 20.0, an increase of 17.64%  
 Source: Borough of Chambersburg Finance Department

**Schedule 11**  
 Borough of Chambersburg, PA  
 Municipal Earned Income Tax Revenue Base and Collections  
 Last Ten Fiscal Years  
*(modified accrual basis of accounting)*

Fiscal Year	Tax Rate	Total Earned Income Tax Collected	Refunds	Net Earned Income Tax Collected
2012	1.00%	\$1,726,825	\$41,883	\$1,684,942
2011	1.00%	1,545,659	36,156	1,509,503
2010	1.00%	1,506,994	40,290	1,466,704
2009	1.00%	1,532,436	38,505	1,493,931
2008	1.00%	1,768,256	34,413	1,733,843
2007	1.00%	1,604,820	41,275	1,563,545
2006	1.00%	1,517,056	38,543	1,478,513
2005	1.00%	1,359,818	31,052	1,328,766
2004	1.00%	1,258,254	20,624	1,237,630
2003	1.00%	1,286,751	18,481	1,268,270

Source: Franklin County Area Tax Bureau

Note: Certain amounts in the schedule were restated due to errors and omissions in previous years.

**Schedule 12**  
 Borough of Chambersburg, PA  
 Earned Income Tax Statistics  
 Last Ten Years

Number of tax filers										
Income Range	2012 (1)	2011	2010	2009	2008	2007	2006	2005	2004	2003
> \$1,000,000		0	0	0	0	1	0	0	0	0
\$500,000 - \$999,999		12	12	17	16	16	15	12	11	7
\$200,000 - \$499,000		64	65	45	44	43	34	32	34	33
\$100,000 - \$199,000		192	198	163	148	140	132	116	101	81
\$50,000 - \$99,000		1,453	1,442	1,216	1,148	1,099	1,008	924	853	779
<\$50,000		6,923	6,445	6,941	7,455	7,079	7,344	7,377	7,353	7,475
Total		<u>8,644</u>	<u>8,162</u>	<u>8,382</u>	<u>8,811</u>	<u>8,378</u>	<u>8,533</u>	<u>8,461</u>	<u>8,352</u>	<u>8,375</u>

% of total earned income taxes paid										
Income Range	2012 (1)	2011	2010	2009	2008	2007	2006	2005	2004	2003
> \$1,000,000		0.00%	0.00%	0.00%	0.00%	0.41%	0.00%	0.00%	0.00%	0.00%
\$500,000 - \$999,999		2.76%	2.95%	3.76%	3.54%	3.51%	3.42%	3.11%	2.67%	1.70%
\$200,000 - \$499,000		6.85%	6.96%	4.98%	4.88%	5.05%	3.86%	3.91%	4.16%	4.45%
\$100,000 - \$199,000		8.64%	9.15%	7.80%	7.10%	6.87%	6.64%	6.06%	5.63%	4.74%
\$50,000 - \$99,000		32.50%	33.05%	29.12%	27.73%	27.18%	25.64%	24.76%	23.78%	22.75%
<\$50,000		49.25%	47.89%	54.34%	56.75%	56.98%	60.44%	62.16%	63.76%	66.36%
Total		<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Total Personal Income	<u>\$296,903,258</u>	<u>\$286,781,775</u>	<u>\$273,204,270</u>	<u>\$270,954,117</u>	<u>\$263,147,886</u>	<u>\$255,114,215</u>	<u>\$243,248,314</u>	<u>\$230,882,085</u>	<u>\$218,802,655</u>
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(1) Information for year ended 12/31/2012 not yet available  
 Source: Franklin County Area Tax Bureau

## DEBT CAPACITY

These schedules contain trend information to help the reader assess the affordability of the Borough's current levels of outstanding debt and the Borough's ability to issue additional debt in the future. These schedules include:

Ratios of Outstanding Debt by Type	Schedule 13
Ratios of General Bonded Debt Outstanding	Schedule 14
Legal Debt Margin Information	Schedule 15
Computation of Direct and Overlapping Debt	Schedule 16
Debt Capacity Information - Pledged - Revenue Coverage	Schedule 17

**Schedule 13**  
 Borough of Chambersburg, PA  
 Ratios of Outstanding Debt by Type  
 Last Ten Years

<b>Governmental Activities (1)</b>		<b>Business Type Activities (1)</b>						
Fiscal Year	General Obligation Bonds	Electric Department General Obligation Bonds/Notes	Gas Department General Obligation Notes	Sewer Treatment Plant General Obligation Bonds/Notes	Water Plant Revenue Notes Payable (2)	Total Primary Government	Percentage of Personal Income	Per Capita
2012	0	\$13,245,367	\$38,417	\$1,905,767	\$2,649,126	\$17,838,677	4.242%	880
2011	0	14,095,208	0	2,364,792	2,640,542	19,100,542	4.542%	942
2010	0	15,033,600	0	2,866,400	2,845,376	20,745,376	5.309%	1,024
2009	0	15,941,300	0	3,353,700	2,370,233	21,665,233	6.257%	1,206
2008	0	16,355,000	0	3,955,000	2,338,177	22,648,177	6.541%	1,261
2007	0	17,240,000	0	4,340,000	2,556,619	24,136,619	6.971%	1,344
2006	0	17,550,000	0	4,715,000	2,732,990	24,997,990	7.220%	1,392
2005	0	18,355,000	0	4,720,000	4,200,000	27,275,000	7.877%	1,519
2004	0	19,140,000	0	5,440,000	4,371,675	28,951,675	8.361%	1,612
2003	0	19,900,000	0	5,300,000	4,400,000	29,600,000	8.549%	1,648

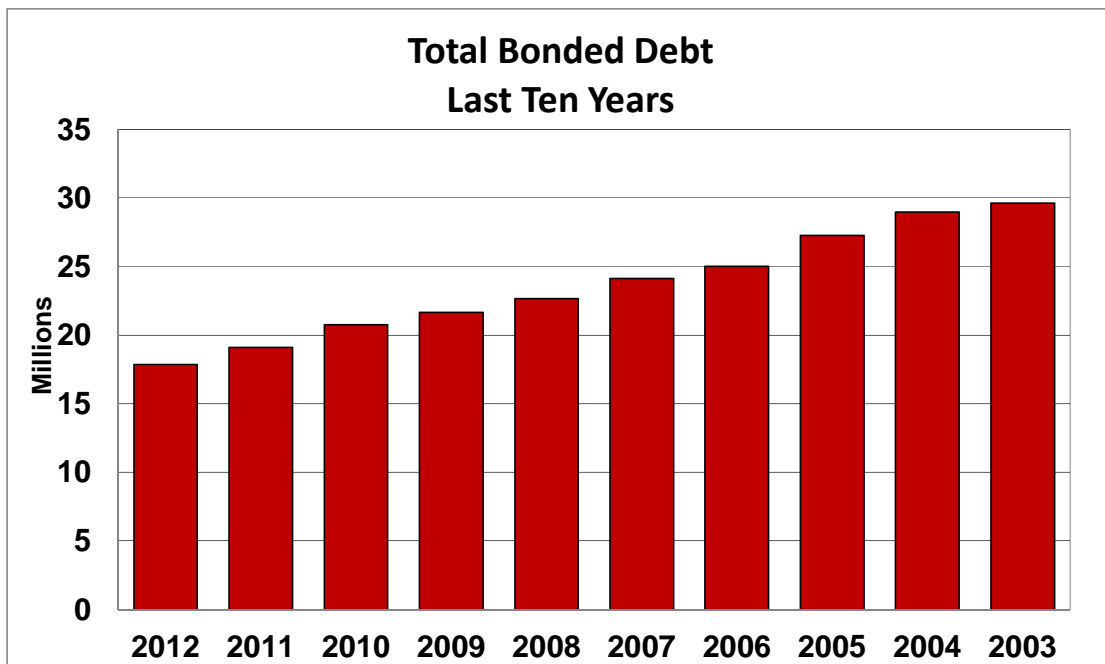
(1) Details regarding the Borough's outstanding debt can be found in the Note 5 in the current financial statements.

(2) Various water projects financed via the Commonwealth of Pennsylvania's Pennvest loan program.

Source: Borough of Chambersburg Finance Department

**Schedule 14**  
 Borough of Chambersburg, PA  
 Ratios of General Bonded Debt Outstanding  
 Last Ten Years

<u>General Bonded Debt Outstanding</u>					
	Net Non- electoral debt	Lease rental debt	Total Primary Government	% of Assessed Valuation	Debt per Capita
2012	\$17,838,677	\$0	\$17,838,677	9.25%	\$880
2011	19,100,542	0	19,100,542	10.00%	942
2010	20,745,376	0	20,745,376	11.07%	1,024
2009	21,665,233	0	21,665,233	11.61%	1,206
2008	22,648,177	0	22,648,177	12.50%	1,261
2007	24,136,619	0	24,136,619	14.09%	1,344
2006	24,997,990	0	24,997,990	15.23%	1,392
2005	27,275,000	0	27,275,000	16.98%	1,519
2004	28,951,675	0	28,951,675	18.46%	1,612
2003	29,600,000	0	29,600,000	18.94%	1,648



Note: Certain amounts in the schedule were restated due to errors and omissions in previous years.  
 Source: Borough of Chambersburg Finance Department.

**Schedule 15**  
 Borough of Chambersburg, PA  
 Legal Debt Margin Information  
 Last Ten Years

General Bonded Debt Outstanding

Fiscal Year	Three year average revenue borrowing base	Legal debt limit	Total Debt Applicable to limit	Legal Debt margin (1)	Legal Debt margin %
2012	\$65,007,250	\$162,518,125	\$17,838,677	\$144,679,448	89.02%
2011	64,107,572	160,268,931	19,100,542	141,168,389	88.08%
2010	62,787,531	156,968,828	20,745,376	136,223,452	86.78%
2009	60,298,760	150,746,900	21,665,233	129,081,667	85.63%
2008	57,735,693	144,339,233	22,648,177	121,691,056	84.31%
2007	54,371,026	135,927,564	24,136,619	111,790,945	82.24%
2006	49,400,865	123,502,163	24,997,990	98,504,173	79.76%
2005	44,163,564	110,408,911	27,275,000	83,133,911	75.30%
2004	40,676,773	101,691,932	28,951,675	72,740,257	71.53%
2003	38,208,010	95,520,026	29,600,000	65,920,026	69.01%

**(1) Legal Debt Margin: (12/31/2012)**

a	Average revenues past 3 yrs	65,007,250 (\$195,021,750 / 3)
b	Legal debt limit (2.5 time average rev)	162,518,125
c	Debt outstanding @ 12/31/2012	(17,838,677)
	Legal Debt Margin (b-c)	<b>\$144,679,448</b>

Source: Borough of Chambersburg Finance Department

Note: Certain amounts in the schedule were restated due to errors and omissions in previous years



**Schedule 16**  
 Borough of Chambersburg, PA  
 Computation of Direct and Overlapping Debt  
 31-Dec-12

Jurisdiction	Total Debt Outstanding	Estimated Percentage Applicable (a)	Amount Applicable To Borough of Chbg
<b>Direct</b>			
Borough of Chambersburg <b>(Governmental Activities)</b>	\$0		\$0
<b>Overlapping</b>			
Chambersburg School Dist	144,415,000	28.8180%	41,617,512
County of Franklin	<u>41,767,000</u>	13.9549%	<u>5,828,547</u>
Total Overlapping Debt	<u>186,182,000</u>		<u>47,446,059</u>
Total	<u><u>\$186,182,000</u></u>		<u><u>\$47,446,059</u></u>

(a) The percentage of overlapping debt applicable is estimated using taxable property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable value that is within the borough's boundaries and dividing it by each unit's total taxable value.

Sources: Borough of Chambersburg Comprehensive Annual Financial Report  
 Franklin County Fiscal Department  
 Chambersburg Area School District

Notes: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the borough. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the borough. This process recognizes that, when considering the borough's ability to issue and repay long-term debt, the entire burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt of each overlapping government.

**Schedule 17**  
 Borough of Chambersburg, PA  
 Debt Capacity Information - Pledged-Revenue Coverage  
 Last Ten Years

**Water Revenue Loan Payable (1)**

Fiscal Year	Utility Service Charges	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2012	\$3,440,721	\$2,833,995	\$606,726	\$211,416	\$85,112	2.05
2011	3,054,195	2,800,078	254,117	204,834	91,121	0.86
2010	3,169,299	2,580,434	588,865	213,664	84,117	1.98
2009	3,375,869	2,831,476	544,393	223,025	60,540	1.92
2008	3,469,626	2,674,069	795,557	218,753	61,061	2.84
2007	3,879,178	2,673,401	1,205,777	213,118	66,696	4.31
2006	3,472,734	2,495,541	977,193	218,998	60,816	3.49
2005	3,107,143	2,440,826	666,317	213,595	66,220	2.38
2004	2,752,040	2,346,858	405,182	42,531	109,955	2.66
2003	2,449,629	1,967,482	482,147	0	110,044	4.38

(1) Water improvement project loan from the Pennsylvania Infrastructure Investment Authority (Pennvest).

Source: Borough of Chambersburg Finance Department

Note: Details regarding the Borough's outstanding debt can be found in the Note 5 in the current financial statements.

## DEMOGRAPHIC AND ECONOMIC INFORMATION

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Borough's financial activities take place. These schedules include:

Demographic and Economic Statistics

Schedule 18

Principal Employers

Schedule 19

**Schedule 18**  
 Borough of Chambersburg, PA  
 Demographic and Economic Statistics  
 Last Ten Years

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Fiscal Year	Population (1)	Per Capita Personal Income (1)	Per Capita Household Income (1)	Median Household Income (1)	Median Age (1)
2012	20,425	\$20,750	\$48,325	\$36,586	36.5
2011	20,268	20,750	48,348	38,246	37.1
2010	20,268	20,750	48,348	38,246	37.1
2009	17,862	19,278	41,641	32,336	40
2008	17,862	19,278	41,641	32,336	40
2007	17,862	19,278	41,641	32,336	40
2006	17,862	19,278	41,641	32,336	40
2005	17,862	19,278	41,641	32,336	40
2004	17,862	19,278	41,641	32,336	40
2003	17,862	19,278	41,641	32,336	40

Educational Attainment Bachelor's Degree or Higher (1)	School Enrollment (1)	Unemployment Rate (1)	Median Value of Residential Property (1)	Total Assessed Property Value (2)	Total Personal Income (3)
19.80%	4,469	7.50%	\$157,700	\$192,885,430	(4)
21.00%	4,713	8.60%	161,000	191,067,050	\$296,903,258
21.00%	4,713	8.60%	161,000	187,386,130	286,781,775
17.90%	3,635	3.90%	86,500	186,647,340	273,204,270
17.90%	3,635	3.90%	86,500	181,114,520	270,954,117
17.90%	3,635	3.90%	86,500	171,357,770	263,147,886
17.90%	3,635	3.90%	86,500	164,173,580	255,114,215
17.90%	3,635	3.90%	86,500	160,597,210	243,248,314
17.90%	3,635	3.90%	86,500	156,803,930	230,882,085
17.90%	3,635	3.90%	86,500	156,307,550	218,802,655

(1) American Fact Finder (5-year estimate)

(2) Franklin County Assessor's Office

(3) Franklin County Area Tax Bureau

(4) Information for year ended 12/31/2012 not yet available

Note: Certain amounts in the schedule were restated due to errors and omissions in previous years.

**Schedule 19**  
 Borough of Chambersburg, PA  
 Principal Employers  
 Current Year and Nine Years Ago

Employer	2012			2003		
	Employees	Rank	Percentage of Total Borough Employment	Employees	Rank	Percentage of Total Borough Employment
Summit Health Services	2,964	1	11.69%	1,458	1	6.64%
Chambersburg School District	1,053	2	4.15%	985	2	4.49%
County of Franklin	1,044	3	4.12%	889	3	4.05%
Menno Haven, Inc	593	4	2.34%	501	4	2.28%
Ventura Foods	415	5	1.64%	304	6	1.38%
Staples Direct	310	6	1.22%	----		----
T.B. Woods, Inc	305	7	1.20%	350	5	1.59%
Farmers & Merchants Trust Co.	285	8	1.12%	208	7	0.95%
Borough of Chambersburg	193	9	0.76%	184	8	0.84%
K-Mart Regional Specialty Center	192	10	0.76%	----		----
Knouse Foods	----		----	178	9	0.81%
Patriot Federal Credit Union	----		----	124	10	0.56%
<b>Total</b>	<b>7,354</b>		<b>28.99%</b>	<b>5,181</b>		<b>23.60%</b>
<b>Total Employees</b>	<b>25,365 (1)</b>			<b>21,951</b>		

(1) Estimated by Franklin County Area Tax Bureau W-2 Forms Filed  
 Source: Franklin County Area Development Corp.  
 Franklin County Area Tax Bureau

## **OPERATING INFORMATION**

These schedules contain service information and infrastructure data to help the reader understand how the information in the municipality's financial report relates to the services the municipality provides and the activities it performs. These schedules include:

Full-time Equivalent Municipal Employees by Function/Program	Schedule 20
Operating Indicators by Function/Program	Schedule 21
Capital Asset Statistics by Function/Program	Schedule 22

**Schedule 20**  
 Borough of Chambersburg, PA  
 Full-Time Equivalent Municipal Employees by Function/Program  
 Last Ten Years

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>Function/Program</b>										
<b>General government:</b>										
Administration	4	4	4	5	4	4	4	4	4	4
MIS	5	5	5	5	5	5	5	5	4	4
Finance	22	22	22	22	22	22	22	22	22	22
Public information	0	0	0	0	0	0	0	0	0	0
<b>Community development:</b>										
Economic develop/planning	2	2	2	2	2	2	1	1	1	1
Inspections	2	2	4	4	4	4	4	4	5	6
<b>Public works:</b>										
Administration	2	2	2	2	2	2	2	2	2	2
Maintenance/labor	24	24	26	26	25	25	22	22	22	24
<b>Human services:</b>	0	0	0	0	0	0	0	0	0	0
<b>Public safety:</b>										
Police officers	31	31	33	33	33	33	30	30	30	30
Police civilians	3	3	4	4	4	4	4	4	4	4
Fire	21	21	21	21	22	21	21	18	18	18
Fire civilians	2	3	3	3	3	3	3	3	3	2
911	0	0	0	0	0	0	0	0	0	0
<b>Recreation:</b>										
Management	6	7	7	5	5	5	5	5	5	5
Seasonal	0	0	0	0	0	0	0	0	0	0
Pool	0	0	0	0	0	0	0	0	0	0
Tennis	0	0	0	0	0	0	0	0	0	0
Park	0	0	0	0	0	0	0	0	0	0
<b>Utilities:</b>										
Administration	13	13	13	13	17	14	14	14	14	14
Maintenance/operations										
Electric department	19	18	18	18	19	19	19	19	17	16
Gas department	13	13	13	13	8	8	8	8	8	8
Water department	14	14	14	14	11	11	11	11	11	10
Sewer treatment plant	9	9	9	9	15	15	15	15	14	13
Parking, traffic and street lights	1	1	1	1	1	1	1	1	1	1
<b>Totals</b>	<b>193</b>	<b>194</b>	<b>201</b>	<b>200</b>	<b>202</b>	<b>198</b>	<b>191</b>	<b>188</b>	<b>185</b>	<b>184</b>

Source: Borough of Chambersburg Human Resources Department



**Schedule 21**  
 Borough of Chambersburg, PA  
 Operating Indicators by Function/Program  
 Last Ten Years

Function/Program	2012	2011	2010	2009
<b>General government:</b>				
Lien letter & tax certification requests	90	91	87	73
<b>Community development:</b>				
Building permits issued	384	351	342	337
Estimated value of construction	\$40,002,841	\$14,890,487	\$75,907,998	\$19,856,490
Occupancy permits issued	73	54	70	91
Number of planning commission Agenda items	11	14	15	34
<b>Public works:</b>				
Roads resurfaced (linear feet)	1,402	9,605	2,725	4,500
Roads reconstructed (linear feet)	5,237	0	6,700	2,550
Tons of snow melting salt used	482	595	675	336
<b>Recreation:</b>				
Pool attendance	32,035	34,111	28,783	30,700
Number of utilization events (2)	1,773	1,977	2,199	1,714
Number of consumers served	97,131	75,265	76,426	69,813
Number of seasonal programs	240	151	153	91
<b>Police:</b>				
Calls for service	13,743	13,847	13,235	13,439
Total arrests	1,520	1,567	1,614	1,587
Part I offenses reported (major offenses)	1,176	1,102	1,158	1,260
Part I offenses cleared (percentage)	38.0%	35.0%	39.0%	40.0%
Part II offenses reported (major offenses)	1,829	2,079	1,898	1,826
Part II offenses cleared (percentage)	40.0%	35.0%	36.0%	36.0%
DUI arrests	153	141	136	112
<b>Fire:</b>				
Total number of responses	861	925	892	947
Responses involving loss	0	5	3	7
Structure fires	20	32	29	30
Volunteer hours	81,597	85,009	86,180	87,190
False alarms/false calls	132	118	147	148
Total calls for assistance	3,503	3,529	3,680	3,626
<b>Utilities:</b>				
Electric department				
Units billed (kwh)	295,123,824	299,890,758	297,488,630	283,303,708
Billed revenue	\$31,174,432	\$31,751,606	\$34,534,887	\$29,658,637
Gas department				
Units billed (100 cu. ft.)	8,995,037	9,933,703	9,490,142	9,331,406
Billed revenue	\$7,260,743	\$8,034,808	\$8,355,397	\$9,546,728
Water department				
Units billed (10 cu. ft.)	13,796,641	13,706,080	14,755,234	14,573,232
Billed revenue	\$2,862,527	\$2,842,906	\$2,903,732	\$2,855,138
Sewer treatment plant				
Units billed (10 cu. ft.)	25,712,303	24,620,125	23,970,170	23,577,112
Billed revenue	\$4,968,169	\$4,917,654	\$4,386,674	\$3,805,662
Sanitation department				
Units billed (cu. yds.)	141,130	146,364	149,709	150,805
Billed revenue	\$1,946,578	\$1,975,707	\$1,989,396	\$1,994,205

2008	2007	2006	2005	2004	2003
55	42	41	45	49	56
398	463	338	277	101	191
\$3,798,670	\$60,752,500	\$55,624,200	\$32,147,498	\$17,768,938	\$18,787,722
133	68	44	53	17	10
33	52	59	62	39	24
11,904	14,500	28,200	8,900	4,800	11,600
0	0	2,200	0	5,870	700
420	546	150	100	250	275
32,714	33,224	34,491	37,513	31,854	33,061
1,859	1,130	2,068	1,936	1,905	1,930
74,431	73,002	79,783	80,030	77,227	80,839
82	77	92	86	95	90
14,584	14,698	14,564	14,298	13,762	12,873
780	1,000	978	1,031	1,392	969
1,356	1,337	1,187	1,020	1,096	922
35.0%	32.2%	27.5%	36.7%	28.6%	26.7%
2,053	2,042	2,129	1,837	2,045	1,640
23.0%	38.5%	36.1%	39.3%	32.1%	31.3%
145	153	151	146	119	75
1,068	1,216	1,219	1,246	1,037	725
5	3	0	2	5	4
20	31	(1)	19	16	14
88,195	86,342	112,414	87,807	81,905	84,762
171	144	205	225	324	241
4,461	4,769	4,543	4,856	(1)	(1)
301,419,493	298,904,180	280,162,497	270,674,464	263,990,940	254,497,955
\$25,122,123	\$22,832,498	\$19,350,942	\$16,909,558	\$16,419,739	\$16,785,427
9,548,283	9,263,225	8,764,951	9,408,519	9,778,613	10,084,543
\$10,804,867	\$9,931,409	\$11,161,166	\$10,926,767	\$8,814,262	\$8,356,282
14,601,233	14,666,433	14,922,136	14,738,824	13,881,565	12,989,941
\$2,856,052	\$2,824,616	\$2,805,748	\$2,590,999	\$2,382,552	\$2,276,402
24,492,922	22,945,608	21,063,582	25,142,782	24,349,957	23,162,292
\$3,699,207	\$3,579,563	\$3,289,890	\$3,375,059	\$3,061,013	\$2,595,252
157,123	154,436	143,248	139,650	140,090	141,257
\$2,015,815	\$1,974,698	\$1,891,367	\$1,856,212	\$1,347,760	\$1,362,011

(1) Information not available

(2) Recreation center usage only

Source: Borough of Chambersburg Designated Departments

**Schedule 22**  
 Borough of Chambersburg, PA  
 Capital Asset Statistics by Function/Program  
 Last Ten Years

Function/Program	2012	2011	2010	2009
<b>General government:</b>				
Square footage occupied	45,912	45,912	45,912	16,571
Inspection vehicles	1	1	2	2
Other departmental vehicles	6	5	5	5
<b>Public works:</b>				
Number of traffic signals	45	45	45	45
Street lights	2,166	2,163	2,162	2,161
Vehicles	12	12	11	11
<b>Recreation:</b>				
Number of parks	16	16	16	16
Acerage of park lands	88	88	88	88
Recreation centers	1	1	1	1
Recreation center square footage	19,975	19,975	19,975	20,154
Tennis courts	5	5	5	5
Ball fields	4	4	4	4
Skate parks	2	2	2	2
Vehicles	3	3	3	3
<b>Public safety:</b>				
Square footage of emergency services dept	18,947	18,947	18,947	9,526
Square footage of police department	15,048	15,048	15,048	10,726
Fire vehicles/ambulances	11	12	11	9
Police vehicles	14	15	15	13
<b>Utilities:</b>				
Electric Department				
Value of plant in service	\$69,699,796	\$69,529,818	\$68,795,448	\$60,896,827
Vehicles	11	9	9	9
Gas Department				
Value of plant in service	\$12,489,239	\$12,395,373	\$12,039,244	\$10,825,895
Vehicles	9	9	10	10
Water Department				
Value of plant in service	\$28,401,148	\$28,410,834	\$28,341,731	\$25,690,405
Vehicles	7	7	7	7
Sewer Treatment Plant				
Value of plant in service	\$42,412,493	\$42,407,403	\$42,040,874	\$38,313,773
Vehicles	6	6	6	6
Sanitation Department				
Value of plant in service	\$528,551	\$528,449	\$520,425	\$555,737
Vehicles	11	10	8	8

2008	2007	2006	2005	2004	2003
16,571	16,571	16,571	16,571	16,571	16,571
2	2	2	2	2	3
5	5	5	5	6	5
40	40	35	35	35	35
1,500	1,500	1,500	1,500	1,500	1,500
11	11	11	11	13	13
16	16	16	14	13	12
81	81	81	78	71	70
1	1	1	1	1	1
20,154	20,154	20,154	20,154	20,154	20,154
9	10	10	12	12	12
4	4	4	5	5	5
2					
3	3	3	3	2	2
9,526	9,526	9,526	9,526	9,526	9,526
10,726	10,726	10,726	10,726	10,726	10,726
9	9	9	10	12	11
12	13	13	13	14	12
\$63,374,252	\$60,902,232	\$57,912,422	\$61,554,987	\$38,721,722	\$38,353,769
8	9	8	8	8	9
\$11,053,344	\$10,752,079	\$10,336,655	\$9,708,207	\$9,145,687	\$8,901,920
9	9	9	7	7	7
\$26,612,637	\$26,063,089	\$25,506,678	\$26,361,379	\$20,567,285	\$1,695,244
7	7	7	7	7	7
\$39,038,610	\$38,578,161	\$36,284,115	\$36,574,119	\$36,087,251	\$36,035,703
6	6	6	6	6	6
\$502,148	\$498,893	\$465,795	\$473,423	\$475,825	\$472,381
8	7	7	8	6	6

Source: Borough of Chambersburg Designated Departments  
General Government and Public Safety square footage updated through re-evaluation



# Single Audit Section



**INDEPENDENT AUDITOR'S 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 Mayor and Borough Council  
Borough of Chambersburg  
Chambersburg, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Chambersburg, as of and for the year ended December 31, 2012, and the related notes to the financial statements which collectively comprise the Borough's basic financial statements, and have issued our report thereon dated June 21, 2013.

**Internal Control Over Financial Reporting**

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

*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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.



To the Mayor and Borough Council  
Borough of Chambersburg  
Chambersburg, Pennsylvania

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Smith Elliott Kearns & Company, LLC*

Chambersburg, Pennsylvania  
June 21, 2013



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Mayor and Borough Council  
Borough of Chambersburg  
Chambersburg, Pennsylvania

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

We have audited the Borough of Chambersburg's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Borough of Chambersburg's major federal programs for the year ended December 31, 2012. The Borough of Chambersburg's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

***Opinion on Each Major Federal Program***

In our opinion, the Borough of Chambersburg complied, in all material respects, with the types of compliance 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, 2012.





To the Mayor and Borough Council  
Borough of Chambersburg

## Report Internal Control Over Compliance

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

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

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

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

*Smith Elliott Kearns & Company, LLC*

Chambersburg, Pennsylvania  
June 21, 2013

**BOROUGH OF CHAMBERSBURG**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2012**

Grantor Program Title	Federal CFDA Number	Pass Through Grantor's Number	Program or Award Amount	Cash Receipts	Modified Accrual Basis Expenditures
<b>U.S. Department of Housing and Urban Development Program:</b>					
<u>Passed-through the PA. Dept. of Community and Economic Development</u>					
Community Development Block Grant	14.228	C000029556	\$ 262,610	\$ 43,848	\$ 43,848
Community Development Block Grant	14.228	C000036981	252,677	3,905	3,905
Community Development Block Grant	14.228	C000046101	258,038	53,883	19,386
Community Development Block Grant	14.228	C000050346	289,742	140,425	57,640
Community Development Block Grant	14.228	C000052219	228,469	56,561	110,444
HOME Grant	14.239	C000046786	350,000	154,737	171,954
HOME Grant	14.239	C000050792	350,000	16,720	17,637
HOME Grant	14.239	C000050780	50,000	2,322	2,322
HOME Grant	14.239	C000050801	500,000	10,218	10,218
Franklin County Home Grant	14.239	C000026927	40,000	0	3,050
Economic Development Initiative	14.246	B-05-SP-PA-0635	24,800	<u>2,552</u>	<u>2,552</u>
<b>Total U.S. Department of HUD</b>				<u>485,171</u>	<u>442,956</u>
<b>U.S. Department of Justice</b>					
Justice Assistance Grant	16.738	2009-SB-B9-2495	55,593	14,122	11,653
Franklin County Justice Assistance Grant	16.738	2009-DJ-BX-0277	21,586	0	3,914
Franklin County Justice Assistance Grant	16.738	2010-DJ-BX-0867	13,592	<u>0</u>	<u>1,190</u>
<b>Total U.S. Department of Justice</b>				<u>14,122</u>	<u>16,757</u>
<b>U.S. Environmental Protection Agency</b>					
Environmental Protection Agency	66.202	XP-97361801-0	591,712	<u>59,171</u>	<u>0</u>
<b>Total U.S. Environmental Protection Agency</b>				<u>59,171</u>	<u>0</u>
<b>U.S. Department of Homeland Security</b>					
Fire Prevention and Safety Grant	97.044	EMW-2011-FP-00312	72,700	0	28,637
SAFER - Hiring Grant	97.044	EMW-2011-FH-00453	1,614,807	<u>130,012</u>	<u>232,017</u>
<b>Total U.S. Department of Homeland Security</b>				<u>130,012</u>	<u>260,654</u>
<b>Total Expenditures of Federal Awards</b>				<u>\$ 688,476</u>	<u>\$ 720,367</u>

**BOROUGH OF CHAMBERSBURG**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2012**

**Note 1. General**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of the Federal awards program of the Borough of Chambersburg, 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 Special Revenue financial statements.

**Note 4. Federal Awards by CFDA Number**

<b>Project Title</b>	<b>CFDA No.</b>	<b>Expenditures</b>	<b>Percent</b>
SAFER and Safety Grant	97.044	\$ 260,654	36.2%
Community Development Block Grant	14.228	235,223	32.6%
HOME Grant	14.239	205,181	28.5%
Justice Assistance Grant	16.738	16,757	2.3%
Economic Development Initiative	14.246	<u>2,552</u>	<u>0.4%</u>
Total federal expenditures		<u>\$ 720,367</u>	<u>100.0%</u>

**BOROUGH OF CHAMBERSBURG  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
DECEMBER 31, 2012**

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified: \_\_\_\_\_ Yes        X   No
- Significant deficiencies identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes        X   None Reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes        X   No

**Federal Awards**

Internal control over major program:

- Material weakness identified? \_\_\_\_\_ Yes        X   No
- Significant deficiencies identified that are not considered to be a material weakness(es)? \_\_\_\_\_ Yes        X   None Reported

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

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

Identification of the major programs:

CFDA Number(s)	Name of Federal Program
97.044	SAFER and Safety Grant
14.228	Community Development Block Grant

Dollar threshold used to distinguish between type A and type B programs \$ 300,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes        X   No

**BOROUGH OF CHAMBERSBURG**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**December 31, 2012**

**Section II - Financial Statement Findings**

A. Significant Deficiency in Internal Control

None noted

B. Compliance Findings

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

**Section III - Federal Award Findings and Questioned Costs**

A. Significant Deficiencies in Internal Control

None noted

B. Compliance Findings

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

**BOROUGH OF CHAMBERSBURG  
SUMMARY SCHEDULE OF PRIOR AUDIT  
FINDINGS RELATED TO FEDERAL AWARDS  
December 31, 2012**

**Findings related to federal awards:**

None