

RICHLAND BOROUGH, PENNSYLVANIA

BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2012

**RICHLAND BOROUGH, PENNSYLVANIA
FINANCIAL STATEMENTS
DECEMBER 31, 2012**

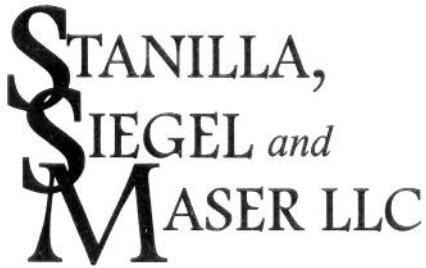
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INDEPENDENT AUDITOR'S REPORT

To the Members of Borough Council
RICHLAND BOROUGH, PENNSYLVANIA
Richland, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, business - type activities, each major fund, and the aggregate remaining fund information of RICHLAND BOROUGH, PENNSYLVANIA, 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 the cash basis of accounting as described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – cash basis of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Richland Borough, as of December 31, 2012, and the respective changes in financial position – cash basis for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

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

Other-Matters

Accounting principles generally accepted in the United States of America require that the supplementary pension and budgetary comparison information on pages 24 through 27 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.

Management has omitted the management discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Stanilla, Siegel and Maser LLC

Lebanon, Pennsylvania

April 19, 2013

RICHLAND BOROUGH, PENNSYLVANIA
STATEMENT OF NET POSITION - CASH BASIS
December 31, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 188,161	\$ 136,063	\$ 324,224
Total Assets	<u>\$ 188,161</u>	<u>\$ 136,063</u>	<u>\$ 324,224</u>
LIABILITIES			
Payroll Withholdings	\$ 14	\$ 2,341	\$ 2,355
Total Liabilities	<u>\$ 14</u>	<u>\$ 2,341</u>	<u>\$ 2,355</u>
NET POSITION			
Restricted	\$ 105,086	\$ -0-	\$ 105,086
Unrestricted	<u>83,061</u>	<u>133,722</u>	<u>216,783</u>
Total Net Position	<u>\$ 188,147</u>	<u>\$ 133,722</u>	<u>\$ 321,869</u>
Total Liabilities and Net Position	<u><u>\$ 188,161</u></u>	<u><u>\$ 136,063</u></u>	<u><u>\$ 324,224</u></u>

See Accompanying Notes to Basic Financial Statements

RICHLAND BOROUGH, PENNSYLVANIA
STATEMENT OF ACTIVITIES - CASH BASIS
For the Year Ended December 31, 2012

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<u>Functions/Programs</u>						
Governmental Activities:						
General Government	\$ 59,007	\$ 1,547	\$ 21,018	\$ (36,442)	\$ -0-	\$ (36,442)
Public Safety	106,692	2,412	8,634	(95,646)		(95,646)
Public Works	238,229	140,789	34,106	(63,334)		(63,334)
Culture and Recreation	4,275			(4,275)		(4,275)
Debt Service	21,394			(21,394)		(21,394)
Employer Paid Taxes & Benefits	41,642			(41,642)		(41,642)
Miscellaneous	2,631			(2,631)		(2,631)
Total Governmental Activities	\$ 473,870	\$ 144,748	\$ 63,758	\$ (265,364)	\$ -0-	\$ (265,364)
Business-Type Activities:						
Water	\$ 207,403	\$ 192,846	\$ 18,438	\$ -0-	\$ 3,881	\$ 3,881
Total Business-Type Activities	\$ 207,403	\$ 192,846	\$ 18,438	\$ -0-	\$ 3,881	\$ 3,881
Total Primary Government	\$ 681,273	\$ 337,594	\$ 82,196	\$ (265,364)	\$ 3,881	\$ (261,483)
General Revenues:						
Taxes:						
Property Taxes				\$ 187,668	\$ -0-	\$ 187,668
Per Capita Taxes				4,564		4,564
Earned Income Taxes				142,090		142,090
Local Services Taxes				19,272		19,272
Real Estate Transfer Taxes				9,877		9,877
Investment Income				140	46	186
Miscellaneous				1		1
Total General Revenues				\$ 363,612	\$ 46	\$ 363,658
Change in Net Position				\$ 98,248	\$ 3,927	\$ 102,175
Net Position - Beginning				89,899	129,795	219,694
Net Position - Ending				\$ 188,147	\$ 133,722	\$ 321,869

See Accompanying Notes To Basic Financial Statements

RICHLAND BOROUGH, PENNSYLVANIA
BALANCE SHEET -CASH BASIS
GOVERNMENTAL FUNDS
December 31, 2012

	General	Highway Aid Fund	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 83,075	\$ 105,086	\$ 188,161
Total Assets	<u>\$ 83,075</u>	<u>\$ 105,086</u>	<u>\$ 188,161</u>
LIABILITIES			
Payroll Withholdings	\$ 14	\$ -0-	\$ 14
Total Liabilities	<u>\$ 14</u>	<u>\$ -0-</u>	<u>\$ 14</u>
FUND BALANCES			
Restricted	\$ -0-	\$ 105,086	\$ 105,086
Unassigned	<u>83,061</u>	<u>-0-</u>	<u>83,061</u>
Total Fund Balance	<u>\$ 83,061</u>	<u>\$ 105,086</u>	<u>\$ 188,147</u>
Total Liabilities and Fund Balance	<u><u>\$ 83,075</u></u>	<u><u>\$ 105,086</u></u>	<u><u>\$ 188,161</u></u>

See Accompanying Notes To Basic Financial Statements

RICHLAND BOROUGH, PENNSYLVANIA

STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID AND CHANGES IN FUND
BALANCE - CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012

	General	Highway Aid Fund	Totals Governmental Funds
REVENUES COLLECTED			
Taxes	\$ 363,471	\$ -0-	\$ 363,471
Licenses and Permits	13,139		13,139
Fines and Forfeits	2,412		2,412
Intergovernmental	18,456	32,163	50,619
Charges for Services	142,336		142,336
Investment Earnings	114	26	140
Miscellaneous	1		1
Total Revenues Collected	<u>\$ 539,929</u>	<u>\$ 32,189</u>	<u>\$ 572,118</u>
EXPENDITURES PAID			
General Government	\$ 59,007	\$ -0-	\$ 59,007
Public Safety	106,692		106,692
Health and Welfare	-0-		-0-
Public Works	238,229		238,229
Culture - Recreation	4,275		4,275
Debt Service	15,403	5,991	21,394
Employer Paid Taxes & Benefits	41,642		41,642
Miscellaneous	2,631		2,631
Total Expenditures Paid	<u>\$ 467,879</u>	<u>\$ 5,991</u>	<u>\$ 473,870</u>
Excess (Deficiency) of Revenues Collected Over Expenditures Paid	<u>\$ 72,050</u>	<u>\$ 26,198</u>	<u>\$ 98,248</u>
OTHER FINANCING SOURCES (USES)	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Excess (Deficiency) of Revenues Collected and Other Financing Sources Over Expenditures Paid and Other Financing Uses	\$ 72,050	\$ 26,198	\$ 98,248
Fund Balance - January 1, 2012	<u>11,011</u>	<u>78,888</u>	<u>89,899</u>
Fund Balance - December 31, 2012	<u><u>\$ 83,061</u></u>	<u><u>\$ 105,086</u></u>	<u><u>\$ 188,147</u></u>

See Accompanying Notes To Basic Financial Statements

RICHLAND BOROUGH, PENNSYLVANIA
STATEMENT OF NET POSITION - CASH BASIS
PROPRIETARY FUND
December 31, 2012

ASSETS

CURRENT ASSETS

Cash & Cash Equivalents	\$ 136,063
Total Assets	<u>\$ 136,063</u>

LIABILITIES AND NET POSITION

LIABILITIES

Payroll Withholdings	\$ 2,341
Total Liabilities	<u>\$ 2,341</u>

NET POSITION

Unrestricted	\$ 133,722
Total Net Position	<u>\$ 133,722</u>
Total Liabilities and Net Position	<u>\$ 136,063</u>

See Accompanying Notes to Basic Financial Statements

RICHLAND BOROUGH, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - CASH BASIS
PROPRIETARY FUND
For the Year Ended December 31, 2012

OPERATING REVENUES

Charges for Services	\$ <u>192,846</u>
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OPERATING EXPENSES

General Water Operating Expenses	\$ <u>129,687</u>
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Operating Income	\$ <u>63,159</u>
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NON OPERATING REVENUES (EXPENSES)

Interest Income	\$ <u>46</u>
Grant Income	18,438
Principal Payments	(51,781)
Interest Expense	<u>(25,935)</u>

Total Non-Operating Revenues (Expenses)	\$ <u>(59,232)</u>
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CHANGE IN NET POSITION	\$ 3,927
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NET POSITION - BEGINNING	<u>129,795</u>
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NET POSITION - ENDING	<u>\$ 133,722</u>
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See Accompanying Notes to Basic Financial Statements

RICHLAND BOROUGH, PENNSYLVANIA
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
December 31, 2012

	<u>Agency Funds</u>	<u>Police Pension Fund</u>	<u>Non-Uniform Pension Fund</u>
ASSETS			
Cash and Cash Equivalents	\$ 984	\$ -0-	\$ -0-
Investments	<u> </u>	<u>277,228</u>	<u>150,138</u>
Total Assets	<u>\$ 984</u>	<u>\$ 277,228</u>	<u>\$ 150,138</u>
LIABILITIES			
Escrow Payable	\$ 984	\$ -0-	\$ -0-
Total Liabilities	<u>\$ 984</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
NET POSITION			
Restricted for Pension Benefits	\$ 277,228	\$ 150,138	\$ 150,138

See Accompanying Notes To Basic Financial Statements

RICHLAND BOROUGH, PENNSYLVANIA
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
For the Year Ended December 31, 2012

	Police Pension Fund	Non-Uniform Pension Fund
Additions		
Contributions - Commonwealth	\$ -0-	\$ 7,152
Contributions - Employer	<u>-0-</u>	<u>8,381</u>
	<u>\$ -0-</u>	<u>\$ 15,533</u>
Investment Income		
Net Apreciation (Depreciation) in		
Fair Value of Investments	\$ 37,741	\$ 12,648
Investment Income	<u>-0-</u>	<u>1,689</u>
	<u>\$ 37,741</u>	<u>\$ 14,337</u>
	<u>\$ 37,741</u>	<u>\$ 29,870</u>
Deductions		
Benefits Paid	\$ 26,539	\$ 5,723
Administrative Expense	<u>11,463</u>	<u>11,292</u>
	<u>\$ 38,002</u>	<u>\$ 17,015</u>
	<u>\$ (261)</u>	<u>\$ 12,855</u>
Net Position Restricted for Pension Benefits		
Beginning of Year	\$ 277,489	\$ 137,283
End of Year	<u>\$ 277,228</u>	<u>\$ 150,138</u>

See Accompanying Notes To Basic Financial Statements

RICHLAND BOROUGH, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFIGANT ACCOUNTING POLICIES

Organization and Reporting Entity

Richland Borough is located in Lebanon County, Pennsylvania. The Borough is a municipal corporation organized in 1906 and is governed by a Borough council and a mayor. The daily operations and management of the Borough is performed by the Borough Manager, who is appointed by the Borough Council. Services provided by the Borough include public safety, public works, public health and welfare, community planning, and culture and recreation.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the Borough are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Borough.

Richland Borough is a municipal corporation governed by an elected council. As required by generally accepted accounting principles, these financial statements are to present Richland Borough (the primary government) and organizations for which the primary government is financially accountable. The Borough is financially accountable for an organization if the Borough appoints a voting majority of the organization's governing board and (1) the Borough is able to significantly influence the programs or services performed or provided by the organization; or (2) the Borough is legally entitled to or can otherwise access the organization's resources; the Borough is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Borough is obligated for the debt of the organization. Component units may also include organizations that are financially dependent on the Borough in that the Borough approved the budget, the issuance of debt, or the levying of taxes.

Millcreek – Richland Joint Authority has been evaluated using the above criteria and is considered a related organization. Significant factors for including the Authority are the appointment of an equal number of voting members to the joint Authority board and the Borough guarantees a percentage of the Authority's debt; however Millcreek Township is considered the primary government for the Authority.

Millcreek – Richland Joint Authority issues a separate report, a copy of which is held in the Borough's office and is available for public review.

Basis of Accounting

Richland Borough prepares its financial statements on the cash basis of accounting (except for the fiduciary funds which are prepared on the accrual basis of accounting), which is a comprehensive basis of accounting other than accounting principles, generally accepted in the United States of America. Under the cash basis of accounting, revenues are recognized when received rather than when earned, and expenses are recognized when paid rather than when incurred. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

RICHLAND BOROUGH, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFIGANT ACCOUNTING POLICIES (continued)

Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, cash receipts/revenues, and cash disbursements/expenditures. Funds are organized into three major categories: governmental, proprietary, and fiduciary.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements.

Governmental Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income.

The General Fund is the primary operating fund of the Borough and is always classified as a major fund. It is used to account for all activities except those required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to disbursements for specified purposes other than debt service or capital projects. The Highway Aid Fund is reported as a major fund. It is used to account for the proceeds and uses of the State liquid fuels funds.

RICHLAND BOROUGH, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFIGANT ACCOUNTING POLICIES (continued):

Enterprise Funds

Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs. The Borough's water fund is a proprietary fund reported under this fund type.

Fiduciary Fund

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Borough programs. The reporting focus is on net assets and changes in net assets.

The Borough's fiduciary funds are presented in the fiduciary fund financial statements by type. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The Borough's fiduciary funds are the Police Pension and Non-Uniform Pension funds which accumulate resources for pension benefit payments to qualified employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally segregated for the specific purpose.

Net Position

Net position of the government-wide funds are categorized as restricted or unrestricted. The restricted category represents the balance of assets restricted by requirements externally imposed constraints or by legislation.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short term highly liquid investments that are readily convertible to known amounts of cash that mature within three months or less.

Investments

Investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

RICHLAND BOROUGH, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFIGANT ACCOUNTING POLICIES (continued):

Capital Assets

Capital assets purchased are recorded as expenditures in the respective fund at the time of purchase. The Borough has not maintained a record of its capital assets.

Government-wide Net Position

Government wide net position is divided into three components:

- Net investment in capital assets - consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets. The Borough does not maintain a record of its capital assets.
- Restricted - consist of net position that is restricted by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.
- Unrestricted - all other net position is reported in this category.

Governmental Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

- Nonspendable - Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact. The Borough has no nonspendable amounts at December 31, 2012.
- Restricted - Amounts that can be spent only for specific purposes because of enabling legislation, the Borough code, state or federal laws, or externally imposed conditions by grantors or creditors.
- Committed - Amounts that can be used only for specific purposes determined by a formal action by Borough Council ordinance or resolution. The Borough has no committed amounts at December 31, 2012.
- Assigned - Amounts that are designated by the Borough Council for a particular purpose. The Borough has no assigned amounts at December 31, 2012.
- Unassigned - All amounts not included in other spendable classifications.

Use of Restricted Resources

When an expense is incurred that can be paid using either restricted or unrestricted resources (net assets), the Borough's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the Borough's policy is to first apply the expenditure toward restricted fund balance and then to other, less restrictive classifications - committed and then assigned fund balances before using unassigned fund balances.

RICHLAND BOROUGH, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFIGANT ACCOUNTING POLICIES (continued):

Risk Management

The Borough is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, and errors and omissions for which it carries commercial insurance.

Interfund Activity

Interfund activity is reported as either a reimbursement or transfer. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements. Intercompany balances are present when there is a time lag in the reimbursement and/or transfer.

Budgetary Data

The Borough follows these procedures in establishing the budgetary data reflected in the financial statements.

- In the fall of each year, the Borough Manager submits to the Borough Council a proposed operating Budget for the subsequent year. The operating budget includes proposed expenditures, and the means of financing them.
- Public Hearings are conducted to obtain citizen comments on the proposed budget. Prior to December 31, the budget is legally adopted by the passage of an ordinance by Borough Council

The Borough prepares it's Budget on the cash basis of accounting.

The legal level of budgetary control is at the fund level. The Borough does not make budget transfers between expenditure accounts. The carryover fund balance from the prior year and the current year excess of revenues collected over expenditures paid are available for appropriation without formal budget revision.

Compensated Absences

Township employees are entitled to certain compensated absences, sick leave, and vacation time as more fully described in Note 6.

Operating Revenues and Expenses

Operating revenues and expenses in the Water Fund are those that result from providing services and producing and delivering goods and/or services. It also includes all revenues and expenses not related to capital and related financing, noncapital financing, or inventory activities.

Real Estate Taxes

The total taxable assessed real estate valuation for the year ended December 31, 2012 is \$12,381,800. The Borough's property tax is levied March 1.

RICHLAND BOROUGH, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFIGANT ACCOUNTING POLICIES (continued):

The Borough is permitted by the Borough Code of the Commonwealth of Pennsylvania to levy taxes up to 30 mills of assessed valuation for general governmental services other than payment of principle and interest on debt and other special purposes. For 2012, Borough real estate taxes were levied at the rate of 15.5 mills (\$15.50 of tax on each \$1,000 of assessed value).

A 2% discount is allowed on taxes paid by April 30. Taxes are payable at a face value during May and June, and a 10% penalty is added to taxes paid after June 30.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Since these financial statements are prepared on the cash basis, estimates are not significant.

Subsequent Event Review

The Borough has evaluated subsequent events through April 19, 2013, the date the financial statements were available to be issued.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Finance Related Legal and Contractual Provisions

The Borough has no material violations of finance related legal and contractual provisions.

Deficit Fund Balance or Retained Earnings of Individual Funds

There are no deficits in fund balances or net assets.

Excess of Expenditures Over Appropriations in Individual Funds

No individual fund, which has a legally adopted budget, had an excess of expenditures over appropriations.

NOTE 3 – CASH AND CASH EQUIVALENTS

Custodial Credit Risk

The Borough is authorized by statute to invest in government securities and insured accounts or their equivalents. The Borough has no formal policy that addresses custodial risk. There were no deposit or investment transactions during the year that were in violation of either state statutes or Borough policy. The Borough deposits cash in local financial institutions. At the year-end, the Borough's carrying amount of deposits was \$220,122 and the bank balance was \$230,282. Bank balances up to \$250,000 are covered by federal depository insurance. Depositories pledge assets to secure deposits in excess of FDIC coverage in accordance with Act 72.

RICHLAND BOROUGH, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE 3 – CASH AND CASH EQUIVALENTS (continued)

Cash equivalents of the Borough consist of funds deposited in the Pennsylvania Local Government Investment Trust (PLGIT). These funds are invested in federal securities and rated AAA by Standard & Poor's. Balances at December 31, 2012 were \$105,086. The cash equivalents are not categorized by level of credit risk as they are pooled funds and securities are not used as evidence of investment. Market values of the above instruments are at cost.

The Borough places no limit on the amounts invested in any one depository.

The Borough does not have a formal investment policy that addresses interest rate and credit risk.

NOTE 4 - INVESTMENTS

The Borough code provides for the deposit of governmental funds into certain authorized investment types including U.S. Treasury bills, U.S. Treasury notes, other short term U.S. and Pennsylvania government obligations or their agencies or instrumentalities and insured or collateralized time deposits and certificates of deposits.

The Governmental Accounting Standards Board in Statement No. 3 (GASB 3), as amended by GASB No. 40, requires state and local governments to disclose certain risks associated with the plan's deposits and investments. GASB 53 requires investment derivative instruments be reported at fair value and disclosed according to GASB 40 requirements.

Pension plans are authorized to invest in legal investments permitted under the Pennsylvania Fiduciaries Investment Act.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment or a deposit. 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.

As of December 31, 2012 the Borough's investment balance exposed to interest rate risk was as follows. Modified duration is shown in years.

<u>Fixed Income Investment Options</u>	<u>Fair Value</u>	<u>Effective Duration</u>
General Account	\$ 46,004	4.88
U.S. Property Separate Account	237,912	*
Total Fair Value of Fixed Income Investment Options	283,916	
Other Investments	140,353	
Total Investments	\$ 424,269	

*U. S. Property Separate Account is subject to investment and liquidity risk and other risks inherent in real estate such as those associated with general and local economic conditions. Therefore, an effective duration is not calculated.

RICHLAND BOROUGH, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE 4 - INVESTMENTS (continued)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Borough does not have a formal investment policy that addresses credit risk. The investments held by the Plan were not exposed to credit risk. Separate accounts held at The Principal Financial Group are commingled pools, rather than individual securities. As a result, these accounts are not rated.

Derivatives

Separate accounts held at The Principal Financial Group may use derivatives as part of their investment strategy. These accounts are commingled pools, rather than individual securities.

Custodial Credit Risk

Custodial risk is the risk that in the event of the failure of the counterparty to a transaction, the Borough will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Borough does not have a formal investment policy that addresses custodial credit risk, however, the Borough held no investments that were exposed to custodial credit risk at December 31, 2012.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of a pension plan's investment in a single issuer. The Borough does not have a formal investment policy that addresses concentration of credit risk.

At December 31, 2012, the following are investments, in any one organization, that represent five percent or more of net assets available for benefits:

Principal Financial Group	\$ 427,366
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Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Borough does not have a formal investment policy that addresses foreign currency risk, however, the Borough held no investments that were exposed to foreign currency risk as of December 31, 2012.

NOTE 5 – RESTRICTED NET POSITION

Restricted net position represents funds of \$105,086 remaining in the Highway Aid.

RICHLAND BOROUGH, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE 6 - COMPENSATED ABSENCES

Full-time employees earn vacation benefits that must be used by the end of the calendar year. Sick days are earned and can be carried over from year to year up to a maximum of 180 days. Upon termination of employment, the Borough pays the employees for their accumulated unused sick time at a rate of 1 day for every 3 days accrued. As of December 31, 2012, the liability for unused sick time was \$13,922.

NOTE 7 - FUND BALANCE REPORTING

At December 31, 2012, fund balances are made up of the following:

Restricted – Highway Aid Fund	\$ <u>105,086</u>
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NOTE 8 - ESCROW PAYABLE

Developers' escrow cash and corresponding offsetting liabilities represent amounts received under the terms of agreements between the Borough and various developers with respect to construction by the developers. The escrow amounts represent security for payment of all costs and expenses incurred by the Borough pursuant to the terms of the agreements. Upon payment of all Borough costs and expenses, any unexpended balance is returnable to the developer.

NOTE 9 - PENSION TRUST FUNDS

The Borough maintains two single employer defined benefit pension plans covering substantially all employees. The Borough Council is responsible for management of plan assets for both the Non-Uniform and Police Pension Plans. The Borough has delegated the authority to manage certain plan assets to the Principal Financial Group. Refer to the plan document for a detail description of plan benefits.

In accordance with Pennsylvania Act Number 205 of 1984, *Municipal Pension Plan Funding Standard and Recovery Act* (Act 205), the Borough has biennial actuarial valuations performed. The next valuation date is as of January 1, 2013. At January 1, 2011 the date of most recent actuarial valuation, employees covered under the Borough's pension plans consisted of:

	NON-UNIFORM PENSION PLAN	POLICE PENSION PLAN
Active Employees	2	-0-
Retirees and Beneficiaries Currently Receiving Benefits	1	1
Terminated Employees Entitled to Deferred Benefits	<u>-0-</u>	<u>-0-</u>
Total	<u>3</u>	<u>1</u>

RICHLAND BOROUGH, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE 9 - PENSION TRUST FUNDS (continued)

Non-Uniform Pension Plan

The Non-Uniform Pension Plan is a single employer plan controlled by the provisions of Ordinances. The Plan covers full-time non-uniformed employees of the Borough. The Plan provides vesting, retirement, survivor, and disability benefits to plan members and their beneficiaries. Refer to the Plan document for detail description of plan benefits.

Police Pension Plan

The Police Pension Plan is a single employer plan controlled by the provisions of Ordinance 238 adopted pursuant to Act 600. The Plan covers full-time police officers. The Plan provides vesting, retirement, survivor, and disability benefits to plan members and their beneficiaries. Refer to the Plan document for detail description of plan benefits.

Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due, in accordance with Act 205, as amended by Act 189. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Valuation of Investments

The Non-Uniform Pension Plan's unallocated insurance contracts are valued at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to pay benefits or administrative expenses. The plan's unallocated separate accounts in the Non-Uniform and Police Pension plans are valued at fair market value.

Contributions and Funding Policy

Act 205 requires that annual contributions to the plans be based upon the plan's Minimum Municipal Obligation (MMO), which is based on the plan's biennial actuarial valuation. In accordance with the plan's governing document, employees are not required to contribute to the plan. The plans may also be eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program which must be used for pension funding. Any funding requirements established by the MMO in excess of employee contributions and state aid must be paid by the municipality in accordance with Act 205.

Investment expenses, including investment manager and custodial services, are funded through investment earnings.

Administrative expenses, including actuarial and consultant services, are funded through investment earnings and/or contributions.

RICHLAND BOROUGH, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE 9 - PENSION TRUST FUNDS (continued)

Contributions and Funding Policy

The Borough's annual pension cost and related information for each plan is as follows as of the most recent actuarial valuation:

	<u>NON-UNIFORM PENSION PLAN</u>	<u>POLICE PENSION PLAN</u>
Annual Pension Cost	\$ 15,578	\$ -0-
Contributions Made	15,533	-0-
Actuarial Valuation Date	1/01/2011	1/01/2011
Actuarial Cost Method	Entry Age Normal	
Amortization Method	Level Dollar	N/A
Remaining Amortization Period	20 years	N/A
Asset Valuation Method	Market Value	
Actuarial Assumptions:		
Investment Rate of Return	7.5%	7.75%
Projected Salary Increases	5.0%	5.5%

Three-year trend information is as follows:

	<u>Year Ending</u>	<u>Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
Non-Uniform Pension Plan	2012	\$15,578	100%	\$ (2,776)
	2011	12,756	100%	(2,821)
	2010	12,190	100%	(2,868)
Police Pension Plan	2012	\$ -0-	N/A	\$ -0-
	2011	-0-	N/A	-0-
	2010	-0-	N/A	-0-

NOTE 10 – DEBT

Government-Type Activities

In December 2011, the Borough entered into a capital lease agreement with Deere Credit, Inc. to lease/purchase equipment in the amount of \$51,576. Annual installments of \$15,403 include interest at a rate of 4.55% and are due until January 2016. The remaining commitment at December 31, 2012 was \$42,227.

In December 2011, the Borough entered into a capital lease agreement with M & T Bank to lease/purchase equipment in the amount of \$26,950. Annual installments of \$5,991 include interest at a rate of 4.46% and are due until May 2016. The remaining commitment at December 31, 2012 was \$21,512.

RICHLAND BOROUGH, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE 10 – DEBT

Business-Type Activities

In August 2002, the Borough entered into an agreement with First National Bank of Fredericksburg to refinance a previous note for the construction of a water tank. The Borough borrowed \$475,000 at an interest rate of 5.3%. Principal and interest payments of \$3,215 are due in monthly installments. The note matures August 2022. The outstanding balance at December 31, 2012 was \$289,314.

The full faith, credit, and taxing power of the Borough are pledged as security for the note.

In May 2011, the Borough entered into an agreement with First National Bank of Fredericksburg for financing water system improvements. The Borough borrowed \$325,000 at an interest rate of 3.75%. Principal and interest payments of \$9,784 are due in quarterly installments. The note matures May 2021. The outstanding balance at December 31, 2012 was \$245,672.

The full faith, credit, and taxing power of the Borough are pledged as security for the note.

Debt service requirements for the next five years and thereafter are as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 72,562	\$ 26,546	\$ 99,108
2014	75,857	23,252	99,109
2015	79,283	19,826	99,109
2016	67,506	16,201	83,707
2017	64,575	13,142	77,717
2018-2019	<u>238,942</u>	<u>24,188</u>	<u>263,130</u>
	<u>\$ 598,725</u>	<u>\$ 123,155</u>	<u>\$ 721,880</u>

The following is a summary of debt transactions for the Borough for the year ended December 31, 2012:

Long Term

Debt at January 1, 2012	\$ 641,838
Proceeds of Debt Issuance	-0-
Principal Retired	(51,781)
Capital Lease Obligations	26,950
Payments on Capital Lease	(18,282)
Debt at December 31, 2012	<u>\$ 598,725</u>

RICHLAND BOROUGH, PENNSYLVANIA
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE 11 - GUARANTEE

The Borough entered into a guaranty agreement with the Millcreek-Richland Joint Authority (a related organization) and Fulton Bank to guarantee 30% of the Guaranteed Sewer Revenue Bonds Series 2007 for Millcreek-Richland Joint Authority. The balance of the bonds outstanding at December 31, 2012 was \$7,965,000 of which the Borough's is guarantor of \$2,389,500.

NOTE 12 - INTERMUNICIPAL AGREEMENT

In May 2007, the Borough entered into a joint municipal agreement to purchase law enforcement services from Millcreek Township through December 31, 2012. For the year ended December 31, 2012 the Borough paid \$75,278 for these services. The contract was not renewed for 2013.

NOTE 13 – COMMITMENTS

In October 2012, The Borough approved an agreement with Lebanon Farm Disposal for the company to provide trash collection services to the Borough for the years 2013 to 2015. The contract rate is \$368,129 for the three years.

The Borough has signed an inter-municipal agreement "Grumbine Plan" pertaining to the repayment from the overpaid municipalities (that agreed to the plan) to the underpaid entities relating to the former EIT issue. The Borough agreed to repay the amount owed of \$26,313 over a 10 year period at 0% interest beginning in 2011. The Borough's annual payments are \$2,631. Payments are made to Fulton Bank, paying agent, and the bank is responsible for distribution of the funds to the underpaid entities. The balance remaining on this commitment at December 31, 2012 was \$21,051.

NOTE 14 - RECLASSIFICATION

Certain amounts in the financial statements have been reclassified to conform to current year presentation.

REQUIRED SUPPLEMENTARY INFORMATION

RICHLAND BOROUGH, PENNSYLVANIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS
December 31, 2012

Historical trend information about the plan is presented herewith as required supplementary information. It is intended to help users assess the plant's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(b-a)		(a/b) Funded Ratio	(c) Covered Payroll	[(b-a)/c] UAAL as a Percent of Covered Payroll
			Unfunded AAL (UAAL)	(b-a)			
Police Pension Plan	1/1/11 \$ 294,240	\$ 282,239	\$ (12,001)	104%	\$ -0-	\$ -0-	N/A
	1/1/09 333,364	290,173	(43,191)	115%		-0-	N/A
	1/1/07 479,004	284,754	(194,250)	168%	44,224		(439)%
	1/1/05 367,960	254,625	(113,335)	145%	39,472		(287)%
Non-Uniform Pension Plan	1/1/11 \$ 154,576	\$ 189,849	\$ 35,273	81%	\$ 88,172	40%	
*	1/1/09 171,272	184,970	13,698	93%	83,031	16%	
	1/1/07 189,387	166,475	(22,912)	114%	79,333	(29)%	
	1/1/05 155,288	150,643	(4,645)	103%	72,052	(6)%	

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, accrued liability and unfunded (assets in excess of) accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the accrued liability (column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

Trends in unfunded (assets in excess of) accrued liability and annual covered payroll are both affected by inflation. Expressing unfunded (assets in excess of) accrued liability as a percentage of annual covered payroll (column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded accrued liability, the smaller this percentage, the stronger the plan. However, when assets are in excess of the accrued liability, the higher the bracketed percentage, the stronger the plan.

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations, if applicable.

* (1) The actuarial assumptions for the remaining amortization periods was increased from 18 years to 20 years.

RICHLAND BOROUGH, PENNSYLVANIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
DECEMBER 31, 2012

The following tables provide an analysis of funding progress for the last six years:

Police Pension Plan

<u>Calendar Year</u>	Annual Required <u>Contribution</u>	Contributions	Percentage Contributed
2007	\$ -0-	\$ -0-	N/A
2008	-0-	-0-	N/A
2009	-0-	-0-	N/A
2010	-0-	-0-	N/A
2011	-0-	-0-	N/A
2012	-0-	-0-	N/A

Non-Uniform Plan

<u>Calendar Year</u>	Annual Required <u>Contribution</u>	Contributions	Percentage Contributed
2007	\$ 9,767	\$ 9,767	100%
2008	8,831	8,831	100%
2009	8,726	8,726	100%
2010	12,146	12,146	100%
2011	12,709	12,709	100%
2012	15,533	15,533	100%

RICHLAND BOROUGH, PENNSYLVANIA
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF REVENUES COLLECTED AND EXPENDITURES PAID - CASH BASIS
GENERAL FUND - BUDGET AND ACTUAL
For the Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES COLLECTED				
Taxes	\$ 338,500	\$ 338,500	\$ 363,471	\$ 24,971
Licenses and Permits	12,500	12,500	13,139	639
Fines and Forfeits	2,000	2,000	2,412	412
Intergovernmental	8,059	8,059	18,456	10,397
Charges for Services	143,200	143,200	142,336	(864)
Investment Earnings	300	300	114	(186)
Miscellaneous	-0-	-0-	1	1
Total Revenues Collected	\$ 504,559	\$ 504,559	\$ 539,929	\$ 35,370
EXPENDITURES PAID				
General Government	\$ 89,937	\$ 89,937	\$ 59,007	\$ 30,930
Public Safety	113,500	113,500	106,692	6,808
Public Works	274,734	274,734	253,632	21,102
Culture - Recreation	4,000	4,000	4,275	(275)
Employer Paid Taxes & Benefits	50,388	50,388	41,642	8,746
Miscellaneous	-0-	-0-	2,631	(2,631)
Total Expenditures Paid	\$ 532,559	\$ 532,559	\$ 467,879	\$ 64,680
Excess (Deficiency) of Revenues Collected Over Expenditures Paid	\$ (28,000)	\$ (28,000)	\$ 72,050	\$ 100,050

RICHLAND BOROUGH, PENNSYLVANIA
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF REVENUES COLLECTED AND EXPENDITURES PAID - CASH BASIS
HIGHWAY AID FUND - BUDGET AND ACTUAL
For the Year Ended December 31, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget
				Positive (Negative)
REVENUES COLLECTED				
Intergovernmental - State	\$ 32,732	\$ 32,732	\$ 32,163	\$ (569)
Interest	<u>80</u>	<u>80</u>	<u>26</u>	<u>(54)</u>
Total Revenues Collected	<u>\$ 32,812</u>	<u>\$ 32,812</u>	<u>\$ 32,189</u>	<u>\$ (623)</u>
EXPENDITURES PAID				
Road Maintenance	\$ 61,000	\$ 61,000	\$ -0-	\$ 61,000
Debt Service	<u>-0-</u>	<u>-0-</u>	<u>5,991</u>	<u>(5,991)</u>
Total Expenditures Paid	<u>\$ 61,000</u>	<u>\$ 61,000</u>	<u>\$ 5,991</u>	<u>\$ 55,009</u>
Excess (Deficiency) of Revenues Collected Over Expenditures Paid	<u><u>\$ (28,188)</u></u>	<u><u>\$ (28,188)</u></u>	<u><u>\$ 26,198</u></u>	<u><u>\$ 54,386</u></u>