

RICHLAND BOROUGH
FINANCIAL STATEMENTS
DECEMBER 31, 2013

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INDEPENDENT AUDITORS' REPORT

Borough Council
Richland Borough
Richland, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Richland Borough, as of and for the year ended December 31, 2013, which collectively comprise the Borough's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting; 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. 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 opinions.

Opinions

As discussed in Note 1, Richland Borough prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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 for the primary government of Richland Borough, as of December 31, 2013, and the respective changes in financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Other-Matters

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 24 through 25 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. Richland Borough has not presented the management's discussion and analysis that the Governmental Accounting Standards Board requires to supplement, although not to be a part of, the basic financial statements.

Garcia Garman & Shea, PC

Lebanon, Pennsylvania
March 28, 2014

RICHLAND BOROUGH
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2013

	Governmental Activities	Business-Type Activities	Total
<u>ASSETS</u>			
CURRENT ASSETS			
Cash and cash equivalents	\$ 370,502	\$ 134,083	\$ 504,585
Internal balances	(54,943)	54,943	-
Total current assets	\$ 315,559	\$ 189,026	\$ 504,585
<u>LIABILITIES AND NET POSITION</u>			
CURRENT LIABILITIES			
Escrow liability	\$ 5,269	\$ -	\$ 5,269
Total current liabilities	5,269	-	5,269
NET POSITION			
Unrestricted	178,012	189,026	367,038
Restricted, Highway Aid	132,278	-	132,278
Total net position	310,290	189,026	499,316
Total liabilities and net position	\$ 315,559	\$ 189,026	\$ 504,585

See accompanying notes to the financial statements.

RICHLAND BOROUGH
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities				
General government	\$ 81,413	\$ -	\$ -	\$ -
Public safety	25,737	3,832	9,837	-
Public works	324,266	151,303	57,263	-
Culture and recreation	12,408	-	-	-
Insurance	10,919	-	-	-
Employee benefits	48,526	-	7,769	-
Debt service				
Principal	18,472	-	-	-
Interest	2,921	-	-	-
Total governmental activities	524,662	155,135	74,869	-
Business-type activities				
Water	143,156	198,439	-	-
Total primary government	\$ 667,818	\$ 353,574	\$ 74,869	\$ -

General revenues

Taxes

- Property taxes, levied for general purpose
- Earned income taxes, levied for general purpose
- Local services tax, levied for general purpose
- Other enabling taxes, levied for general purpose
- Franchise taxes
- Public service taxes

Proceeds from sale of assets

Investment earnings

Other revenue

Refund of prior years expenses

Refund of prior years revenue

Total general revenues, special items, and transfers

Change in net position

Net position, beginning

Net position, ending

See accompanying notes to the financial statements.

Net (Expense) Revenue and Changes in Net
Position - Primary Government

Governmental Activities	Business-type Activities	Total
\$ (81,413)	\$ -	\$ (81,413)
(12,068)	-	(12,068)
(115,700)	-	(115,700)
(12,408)	-	(12,408)
(10,919)	-	(10,919)
(40,757)	-	(40,757)
(18,472)	-	(18,472)
(2,921)	-	(2,921)
(294,658)	-	(294,658)
-	55,283	55,283
(294,658)	55,283	(239,375)
189,000	-	189,000
140,416	-	140,416
26,022	-	26,022
4,400	-	4,400
13,463	-	13,463
16,004	-	16,004
121	-	121
190	21	211
2,511	-	2,511
27,305	-	27,305
(2,631)	-	(2,631)
416,801	21	416,822
122,143	55,304	177,447
188,147	133,722	321,869
\$ 310,290	\$ 189,026	\$ 499,316

See accompanying notes to the financial statements.

RICHLAND BOROUGH
 BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
 DECEMBER 31, 2013

	<u>General</u>	<u>Highway Aid</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
CURRENT ASSETS			
Cash and cash equivalents	\$ 238,224	\$ 132,278	\$ 370,502
Due from other funds	4,542	-	4,542
Total current assets	\$ 242,766	\$ 132,278	\$ 375,044
<u>LIABILITIES AND FUND BALANCES</u>			
CURRENT LIABILITIES			
Due to other funds	\$ 59,485	\$ -	\$ 59,485
Escrow payable	5,269	-	5,269
Total current liabilities	64,754	-	64,754
FUND BALANCES			
Restricted	-	132,278	132,278
Unassigned	178,012	-	178,012
Total fund balances	178,012	132,278	310,290
Total liabilities and fund balances	\$ 242,766	\$ 132,278	\$ 375,044

See accompanying notes to the financial statements.

RICHLAND BOROUGH
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
 DECEMBER 31, 2013

	General	Highway Aid	Total Governmental Funds
REVENUES			
Taxes	\$ 375,381	\$ -	\$ 375,381
Licenses and permits	13,895	-	13,895
Fines	3,150	-	3,150
Interest and rents	142	48	190
Grants and gifts	42,420	33,160	75,580
Charges for services	151,303	-	151,303
Other revenue	2,511	-	2,511
Total revenues	588,802	33,208	622,010
EXPENDITURES			
General government	\$ 81,413	-	81,413
Public safety	25,737	-	25,737
Public works	324,240	26	324,266
Culture and recreation	12,408	-	12,408
Insurance	10,919	-	10,919
Employee benefits	48,526	-	48,526
Debt service			
Principal	13,441	5,031	18,472
Interest	1,962	959	2,921
Total expenditures	518,646	6,016	524,662
Excess (deficiency) of revenues over expenses	70,156	27,192	97,348
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of assets	121	-	121
Refund of prior years expenditures	27,305	-	27,305
Refund of prior years revenues	(2,631)	-	(2,631)
Total other financing sources (uses)	24,795	-	24,795
Net change in fund balances	94,951	27,192	122,143
Fund balances, beginning	83,061	105,086	188,147
Fund balances, ending	\$ 178,012	\$ 132,278	\$ 310,290

See accompanying notes to the financial statements.

RICHLAND BOROUGH
STATEMENT OF NET POSITION - PROPRIETARY FUNDS - MODIFIED CASH BASIS
DECEMBER 31, 2013

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 134,083
Due from other funds	<u>59,485</u>
Total current assets	<u><u>\$ 193,568</u></u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Due to other funds	<u>\$ 4,542</u>
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NET POSITION

Unrestricted	<u>189,026</u>
Total liabilities and net position	<u><u>\$ 193,568</u></u>

See accompanying notes to the financial statements.

RICHLAND BOROUGH
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
 PROPRIETARY FUNDS - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2013

	Water Fund
OPERATING REVENUES	
Water rents	\$ 193,750
Tapping and other fees	4,689
	198,439
Total operating revenues	198,439
OPERATING EXPENSES	
Wages	7,143
Payroll taxes	587
Utilities	7,400
Chemicals	6,086
Pumping and distribution	13,198
Repairs and maintenance	8,772
Accounting	3,273
Engineering	2,386
Insurance	6,904
Supplies	9,691
	65,440
Total operating expenses	65,440
Operating income (loss)	132,999
NON-OPERATING REVENUES (EXPENSES)	
Interest paid	(23,532)
Principal payments on debt	(54,184)
Investment income	21
	(77,695)
Total nonoperating revenues (expenses)	(77,695)
Change in net position	55,304
Net position, beginning	133,722
Net position, ending	\$ 189,026

See accompanying notes to the financial statements.

RICHLAND BOROUGH
 STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 138,954
Payroll and benefits	(10,071)
Goods and services	(53,168)
	<u>75,715</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal payments	(54,184)
Interest payment	(23,532)
	<u>(77,716)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	21
	<u>21</u>
Net change in cash and cash equivalents	(1,980)
Cash and cash equivalents, beginning	136,063
Cash and cash equivalents, ending	\$ 134,083
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 132,999
Adjustments to reconcile operating income to net cash provided by operating activities	
(Increase) decrease in	
Due from other funds	(59,485)
Increase (decrease) in	
Payroll withholdings	(2,341)
Due to other funds	4,542
	<u>4,542</u>
Net cash provided by operating activities	\$ 75,715

See accompanying notes to the financial statements.

RICHLAND BOROUGH
 STATEMENT OF NET POSITION - FIDUCIARY FUNDS
 DECEMBER 31, 2013

	Police Pension Fund	Non-uniformed Pension Fund	Total
ASSETS			
Investments	\$ 290,831	\$ 164,469	\$ 455,300
NET POSITION			
Restricted for pension benefits	\$ 290,831	\$ 164,469	\$ 455,300

See accompanying notes to the financial statements.

RICHLAND BOROUGH
 STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2013

	Police Pension Fund	Non-uniformed Pension Fund	Total
ADDITIONS			
Contributions, State aid	\$ -	\$ 7,769	\$ 7,769
Contributions, employer	-	7,763	7,763
Investment income (loss)	51,605	15,814	67,419
Total additions	51,605	31,346	82,951
DEDUCTIONS			
Benefit payments	26,539	5,723	32,262
Administrative expenses	11,463	11,292	22,755
Total deductions	38,002	17,015	55,017
Change in net position	13,603	14,331	27,934
Net position restricted for pension benefits			
Beginning	277,228	150,138	427,366
Ending	\$ 290,831	\$ 164,469	\$ 455,300

See accompanying notes to the financial statements.

RICHLAND BOROUGH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 Secretary, who is appointed by the Borough Council. Services provided by the Borough as authorized by its charter include public safety, public works, public health and welfare, culture and recreation.

The Borough defines its reporting entity based upon the criteria established by Governmental Accounting Standards Board (GASB) Statement No. 14 “The Financial Reporting Entity.” The Borough includes in its reporting entity organizations for which it is financially accountable and other organizations for which the nature and significance of the relationship with the Borough is such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

The definition of reporting entity is based primarily on the notion of financial accountability. The Borough is financially accountable to an organization if they appoint a voting majority of an organization’s governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific burdens on, the Borough. The Borough would include any organization fiscally dependent upon it.

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’s guarantee of 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.

Fund Accounting

The Borough’s accounts are maintained on the basis of funds, each of which is considered a separate accounting entity. Fund accounting is designed to demonstrate legal compliance and aid management by segregating transactions related to specific Borough funding or activities. The operation of each fund is accounted for within a separate set of self-balancing accounts as follows:

Major Governmental Funds

- 1) General Fund – This fund is the general operating fund of the Borough and is used to account for all financial resources except those required to be accounted for in another fund.
- 2) Highway Aid Fund – This fund is used to account for revenues and expenditures related to street repair and maintenance.

RICHLAND BOROUGH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Major Enterprise Funds

These funds are used for activities which are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. These funds include the Water Fund.

Water Fund

This fund is used to account for the assets, liabilities, income and expenses related to the operation of the Borough's water system.

Other Fund Types

Fiduciary Funds

These funds are used to account for assets held by the Borough in a Trustee capacity or as an agent for individuals, private organizations, or other governments.

- 1) Police Pension Fund – This fund accounts for the activities of the uniform pension plan, which accumulates resources for pension benefits payments to qualified employees.
- 2) Non-Uniform Pension Fund – This fund accounts for the activities of the non-uniform pension plan, which accumulates resources for pension benefits payments to qualified employees.

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 governmental and business-type activities of the Borough.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each identifiable activity of the business-type, and for each function or program of the governmental activities of the Borough. 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 amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. All taxes and revenues not classified as program revenues are presented as general revenues of the Borough.

Fund Financial Statements

Fund financial statements report detailed information about the Borough. Their focus is on major funds rather than reporting by fund type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary Funds are reported by fund type.

RICHLAND BOROUGH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the modified cash basis of accounting. The fund financial statements are prepared using the modified cash basis for governmental and proprietary funds and accrual basis for fiduciary funds. Modifications in such a method from the accrual basis are as follows:

- Revenues are recorded as collected or received.
- Expenditures are recorded as cash is disbursed, not when incurred. Prepaid expenses are not recorded; they are considered an expense of the period in which they are paid.

Net Position

Net position is divided into three components:

Net investment in capital assets – consist of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.

Restricted net position – consist of assets that are restricted by the Borough's creditors, by the state enabling legislation, by grantors, and by other contributors.

Unrestricted – all other net position is reported in this category.

Budgetary Control

The Borough has established the calendar year end for reporting purposes.

During October, a draft budget is prepared by the Secretary and forwarded to the Borough Council where it is discussed at the November Board meeting. The Borough makes available to the public its proposed operating budget for all funds. The operating budget includes proposed expenditures and the means of financing them. The Council holds public hearings and a final budget must be prepared and adopted no later than December 31, through the passage of an ordinance.

Budgeted amounts are final appropriated amounts, which are as originally adopted.

The Combined Statements of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Major Funds – Modified Cash Basis presents a comparison of budgetary data to actual results of operations for which annual operating budgets are legally adopted. These funds utilize the same basis of accounting for both budgetary purposes and actual results for this comparison.

RICHLAND BOROUGH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Interfund Activity

Transfers between governmental and business-type activities on government-wide statements are reported in the same manner as general revenues. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds.

Restricted Resources

The Borough utilizes restricted resources first on those occasions where both restricted and unrestricted resources are available for the same purpose.

Use of Estimates

The presentation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities 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 Equivalents

For the purpose of the statement of cash flows, cash equivalents are highly liquid investments with an original maturity of three months or less.

Capital Assets

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

Infrastructure

The cost of constructing or acquiring infrastructure assets is reported as expenditures in the respective fund at the time of purchase. The Borough has not maintained a record of its infrastructure assets.

Long-Term Debt

Repayment of long-term debt is reported as expenditures in the respective fund. The Borough does not report a liability for the long-term debt under the modified cash basis. See Note 4 for details on outstanding amounts and current portion.

Operating Revenue and Expense

The proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. The principal operating revenue of the proprietary funds is charges for services. Operating expenses include the cost of sales and services, and administrative expenses. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

RICHLAND BOROUGH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 2 – DEPOSITS AND INVESTMENTS

The Borough is permitted to invest funds consistent with sound business practices in the following types of investments:

- 1) Obligations of (a) the United States of America, (b) the Commonwealth of Pennsylvania, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of their agencies or instrumentalities backed respectively by their full faith and credit.
- 2) Deposits in savings, time deposit or share accounts of institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation 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 therefore shall be pledged by the depository.

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

At year end, the carrying amount of the Borough's cash and deposits in all fund types (with the exception of fiduciary funds) was \$504,585 and the bank balance was \$517,993, of which \$250,000 was fully insured and \$267,993 was collateralized by securities held by the pledging financial institution's trust department or agent but not in the Borough's name. When collateral is required in excess of insurance limits, the requirements of Act 72 of 1971 are followed with respect to pooling, custody and type of collateral.

The Borough places no limit on the amounts deposited in any one issuer. The Borough's deposits in Jonestown Bank and Trust represented 100% of the Borough's total investments.

The Borough does not have a formal investment policy that limits investment maturities as a means of managing changing interest rates, addresses custodial credit risk, concentration of credit risk, or foreign currency risk.

NOTE 3 – PROPERTY TAXES

Based upon assessed valuations provided by the county, the tax collector bills and collects taxes on behalf of the Borough. The schedule for property taxes levied for 2013 is as follows:

Tax levy date	March 1, 2013
2% discount period	Through April 30, 2013
Face payment period	Through June 30, 2013
10% penalty period	Beginning July 1, 2013
Lien filing date	January 1, 2014

The Borough tax rate in 2013 was 1.89 mills (\$1.89 per \$1,000 assessed value).

RICHLAND BOROUGH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 4 – LONG-TERM DEBT

In an agreement dated June 2002, the Borough refinanced with First National Bank of Fredericksburg a previous note for construction of a water tank. The note requires monthly payments of interest and principal of \$3,215 at the rate of 5.3% interest, through August 2022. Payments on debt are recorded as expenditures in the water fund.

In an agreement dated May 2011, the Borough acquired financing through First National Bank of Fredericksburg for water system improvement costs. The note requires quarterly payments of interest and principal of \$9,784 at the rate of 3.75% interest, through May 2021. Payments on debt are recorded as expenditures in the water fund.

In December 2011 the Borough entered an agreement with John Deere Financial to finance the purchase of a backhoe loader. The agreement requires annual payments of \$15,403 with an effective interest rate of 0.41%. The final payment is due in January 2016. Payments on debt are recorded as expenditures in the general fund.

In December 2011, the Borough entered an agreement with M&T Bank to finance the purchase of a truck. The agreement requires annual payments of \$5,991 with an effective interest rate of 4.46%. The final payment is due in May 2016. Payments on debt are recorded as expenditures in the highway aid fund.

Changes to the Borough’s long-term debt through the water fund are as follows:

	Balance 12/31/12	Issues or Additions	Payments or Retirements	Balance 12/31/13
Water Fund				
First National Bank of Fredericksburg 2002 Series	\$ 289,314	\$ -	\$ (23,836)	\$ 265,478
First National Bank of Fredericksburg 2011 Series	245,672	-	(30,348)	215,324
Total Water Fund	\$ 534,986	\$ -	\$ (54,184)	\$ 480,802
General Fund				
John Deere Financial	\$ 42,227	\$ -	\$ (13,441)	\$ 28,786
Highway Aid Fund				
M & T Bank	\$ 21,512	\$ -	\$ (5,031)	\$ 16,481

Principal and interest requirements to maturity, for each of the five subsequent years and in five year increments thereafter are as follows:

RICHLAND BOROUGH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 4 – LONG-TERM DEBT BALANCE *(continued)*

Fiscal year ending December 31,	Interest	Principal	Combined Total
Water Fund			
2014	\$ 21,114	\$ 56,601	\$ 77,715
2015	18,552	59,165	77,717
2016	15,870	61,846	77,716
2017	13,063	64,653	77,716
2018	10,124	67,592	77,716
2019-2023	13,833	170,945	184,778
	<u>\$ 92,556</u>	<u>\$ 480,802</u>	<u>\$ 573,358</u>
General Fund			
2014	\$ 1,337	\$ 14,066	\$ 15,403
2015	684	14,720	15,404
	<u>\$ 2,021</u>	<u>\$ 28,786</u>	<u>\$ 30,807</u>
Highway Aid Fund			
2014	\$ 735	\$ 5,256	\$ 5,991
2015	501	5,490	5,991
2016	256	5,735	5,991
	<u>\$ 1,492</u>	<u>\$ 16,481</u>	<u>\$ 17,973</u>

NOTE 5 – FUND BALANCE

The Borough reports fund balance under GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on the Borough's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance – amounts that are not in spendable form (such as inventory) or are required to be maintained intact.

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance – amounts constrained to specific purposes by the Borough itself, using its highest level of decision-making authority (the Borough Council). To be reported as committed, amounts cannot be used for any other purpose unless the Borough takes the same highest level action to remove or change the constraint.

Assigned fund balance – amounts the Borough intends to use for a specific purpose. Intent can be expressed by the Borough Council or by an official or body to which the Borough Council delegates the authority.

RICHLAND BOROUGH
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2013

NOTE 5 – FUND BALANCE *(continued)*

Unassigned fund balance – amounts available for any purpose. Positive amounts are reported only in the General Fund.

The Borough Council establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. Assigned fund balance is established by the Board of Supervisors through adoption or amendment of the budget as intended for specific purposes (such as the purchase of fixed assets, construction, debt service, or for other purposes).

The Borough will typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

NOTE 6 – PENSION PLANS

Richland Borough contributes to two single employer, defined benefit pension plans that cover the employees of the Borough: The Police Pension Plan and the Non-Uniform Pension Plan. The Borough has delegated the authority to manage plan assets of both plans to the Principal Financial Group.

The Richland Borough filed actuarial valuation report Form 203-C with the Public Employee Retirement Commission. The report dated January 1, 2013, was the most recent certified by the municipality's chief administrative officer. This report indicated the municipality maintains a pension plan to provide pension or retirement benefits for Police and Non-Uniform employees.

Plan Membership

As of January 1, 2013, the pension plans' membership consisted of:

	Police Pension Plan	Non-Uniform Pension Plan
Active plan participants	-	2
Retired and beneficiaries currently receiving benefits	1	1
Terminated employees entitled to benefits but not yet receiving them	-	-
Total	1	3

The plans provide for retirement, disability and death benefits to plan members and their beneficiaries.

Summary of Accounting Policies

The plans' policy is to prepare its financial statements on the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plans are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

RICHLAND BOROUGH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 6 – PENSION PLANS *(continued)*

Valuation of Investments

The pension plans' 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 expense charged by Principal Life Insurance Company.

The pension plans' unallocated separate accounts are valued at fair value.

Contributions

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, non-uniformed employees are not required to contribute to the plan. Employee contributions to the Police Pension Plan are currently waived. 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. The Borough in accordance with Act 205 must pay any funding requirements established by the MMO in excess of employee and state aid.

Investments and administrative expenses are paid through investment earnings.

REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF FUNDING PROGRESS

POLICE PENSION FUND

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	[(b-a)/c] UAAL as a % of Covered Payroll
1/1/13	\$ 277,228	\$ 276,785	\$ (443)	100.2%	\$ -	N/A
1/1/11	294,240	282,239	(12,001)	104.3%	-	N/A
1/1/09	333,364	290,173	(43,191)	114.9%	-	N/A

NON-UNIFORM PENSION FUND

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	[(b-a)/c] UAAL as a % of Covered Payroll
1/1/13	\$ 157,992	\$ 221,496	\$ 63,504	71.3%	\$ 90,538	70.1%
1/1/11	154,576	189,849	35,273	81.4%	88,172	40.0%
1/1/09	171,272	184,970	13,698	92.6%	83,031	16.5%

RICHLAND BOROUGH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 6 – PENSION PLANS *(continued)*

SCHEDULE OF CONTRIBUTIONS FROM THE BOROUGH
AND OTHER CONTRIBUTION ENTITIES

POLICE PENSION FUND

Plan Year Ended	Annual Required Contribution	Annual Contribution	Percentage Contributed
December 30, 2013	\$ -	\$ -	N/A
December 31, 2012	-	-	N/A
December 31, 2011	-	-	N/A

NON-UNIFORM PENSION FUND

Plan Year Ended	Annual Required Contribution	Annual Contribution	Percentage Contributed
December 30, 2013	\$ 15,532	\$ 15,532	100.00%
December 31, 2012	15,533	15,533	100.00%
December 31, 2011	12,709	12,709	100.00%

NOTES TO SUPPLEMENTARY SCHEDULE

The information presented in the required supplementary schedule was determined as part of the actuarial valuation at the date indicated. Additional information as of the actuarial latest valuation date used to determine the Annual Required Contribution (ARC) is as follows:

	Police Pension Plan	Non-Uniform Pension Plan
Actuarial Valuation Date	January 1, 2013	January 1, 2013
Actuarial Cost Method	Entry age, Normal	Entry age, Normal
Asset Valuation Method	Market Value	Each year the investment gain (excess of actual investment income including realized and unrealized appreciation over expected investment income) or loss is recognized over a five-year period. In no event is the actuarial value of assets allowed to be greater than 120% or less than 80% of contract value.

RICHLAND BOROUGH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 6 – PENSION PLANS *(continued)*

	Police Pension Plan	Non-Uniform Pension Plan
Actuarial Assumptions		
Investment Rate of Return	7.75%	7.50%
Projected Salary Increases	5.00%	5.00%
Withdrawal	None	None
Mortality, Postretirement	RP-2000 Table	RP-2000 Table
Disability	None	None
Retirement Age	Normal Retirement Age	Normal Retirement Age
Expense	Estimated administrative and actuarial plan expenses	Estimated administrative and actuarial plan expenses
Marriage	100% married; male is 3 years older than the female	100% married; male is 3 years older than the female

NOTE 7 – GUARANTEE OF DEBT

In 2007, the Borough entered into agreements to guarantee a certain portion of the 2007 Guaranteed Sewer Revenue Bonds Series B of the Millcreek-Richland Joint Authority (a component unit of Millcreek Township). The guarantee, in the amount of \$2,565,000, is backed by the full faith, credit and taxing power of the Borough. The bonds were issued for the purpose of constructing additions, extensions, and improvements to the sanitary sewage system of the Authority, a portion of which serves the Borough, and paying related costs and expenses. The bond has a final maturity of August 1, 2037. The outstanding balance on the bonds as of December 31, 2013, was \$7,800,000, of which the Borough guarantees \$2,340,000.

NOTE 8 – RELATED PARTY TRANSACTIONS

The Borough paid a contractor who is related to an employee of the Borough approximately \$9,300 for the year ended December 31, 2013, to perform various improvements to the Borough's building.

NOTE 9 – 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 Net Position

The Borough does not have any deficit in net position.

Excess of Expenditures over Appropriations

Capital improvements were not included as budgeted expenses. These expenditures were passed by resolution during the year. Debt repayment and the Fireman's Relief contribution were unbudgeted expenditures. Legal expense was over budget. These differences attribute to the Borough's expenditures exceeding the appropriations.

REQUIRED SUPPLEMENTARY INFORMATION

RICHLAND BOROUGH
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
 BALANCES - BUDGET AND ACTUAL - MAJOR FUNDS - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2013

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Taxes	\$ 346,250	\$ 375,381	\$ 29,131
Licenses and permits	13,350	13,895	545
Fines	300	3,150	2,850
Interest and rents	100	142	42
Grants and gifts	20,072	42,420	22,348
Charges for services	126,000	151,303	25,303
Other revenue	-	2,511	2,511
Total revenues	506,072	588,802	82,730
EXPENDITURES			
General government	\$ 49,077	\$ 81,413	(32,336)
Public safety	12,000	25,737	(13,737)
Public works	524,253	324,240	200,013
Culture and recreation	4,000	12,408	(8,408)
Insurance	11,100	10,919	181
Employee benefits	46,033	48,526	(2,493)
Debt service			-
Principal	-	13,441	(13,441)
Interest	-	1,962	(1,962)
Total expenditures	646,463	518,646	127,817
Excess of revenues over (under) expenditures	(140,391)	70,156	210,547
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of assets	-	121	121
Refund of prior years expenditures	-	27,305	27,305
Refund of prior years revenues	-	(2,631)	(2,631)
Excess of revenues and other sources over (under) expenditures and other uses	<u>\$ (140,391)</u>	94,951	<u>\$ 235,342</u>
Fund balance, beginning		<u>83,061</u>	
Fund balance, ending		<u>\$ 178,012</u>	

See accompanying notes to the financial statements.

Special Revenue Funds			Totals		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ 346,250	\$ 375,381	\$ 29,131
-	-	-	13,350	13,895	545
-	-	-	300	3,150	2,850
25	48	23	125	190	65
30,721	33,160	2,439	50,793	75,580	24,787
-	-	-	126,000	151,303	25,303
-	-	-	-	2,511	2,511
30,746	33,208	2,462	536,818	622,010	85,192
-	-	-	49,077	81,413	(32,336)
-	-	-	12,000	25,737	(13,737)
5,991	26	5,965	530,244	324,266	205,978
-	-	-	4,000	12,408	(8,408)
-	-	-	11,100	10,919	181
-	-	-	46,033	48,526	(2,493)
-	-	-	-	-	-
-	5,031	(5,031)	-	18,472	(18,472)
-	959	(959)	-	2,921	(2,921)
5,991	6,016	(25)	652,454	524,662	127,792
24,755	27,192	2,437	(115,636)	97,348	212,984
-	-	-	-	121	121
-	-	-	-	27,305	27,305
-	-	-	-	(2,631)	(2,631)
<u>\$ 24,755</u>	<u>27,192</u>	<u>\$ 2,437</u>	<u>\$ (115,636)</u>	<u>122,143</u>	<u>\$ 237,779</u>
	<u>105,086</u>			<u>188,147</u>	
	<u>\$ 132,278</u>			<u>\$ 310,290</u>	

See accompanying notes to the financial statements.

SUPPLEMENTAL INFORMATION



Vincent M. Garcia, CPA
Matthew P. Garman, CPA
Angela K. Shea, CPA
William D. Oyster, CPA

INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTAL INFORMATION

Borough Council
Richland Borough
Richland, Pennsylvania

Our report on our audit of the basic financial statements of Richland Borough for the year ended December 31, 2013, appears on pages 1 through 2. That audit was conducted for the purpose of forming an opinion on such financial statements taken as a whole. The general fund – schedule of revenues – modified cash basis, and general fund – schedule of expenditures – modified cash basis were presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Garcia Garman & Shea, PC

Lebanon, Pennsylvania
March 28, 2014

RICHLAND BOROUGH
 GENERAL FUND - SCHEDULE OF REVENUES - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2013

	2013
TAXES	
Real estate, current year	\$ 187,803
Real estate, prior years	1,197
Local services tax	26,022
Per capita taxes, current year	4,400
Real estate transfer tax	15,543
Earned income tax	140,416
	375,381
LICENSES AND PERMITS	
Zoning permits	432
Cable television	13,463
	13,895
FINES	
	3,150
INTEREST AND RENTS	
Interest earned on time deposits and savings accounts	142
	142
GRANTS AND GIFTS	
Fireman's Relief Grant	9,837
Municipal Pension System	7,769
Snow removal	24,103
Public Utility Realty	461
Liquor license fees	250
	42,420
CHARGES FOR SERVICES	
Refuse collection	151,303
	151,303
OTHER REVENUE	
Miscellaneous	2,511
	2,511
Total revenues	\$ 588,802

RICHLAND BOROUGH
GENERAL FUND - SCHEDULE OF EXPENDITURES - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2013

	2013
ADMINISTRATION	
Salaries, mayor	\$ 75
Salary, township secretary	19,362
Material and supplies	2,980
General expense	4,815
Legal and accounting fees	20,839
Telephone	2,561
Engineering services	2,443
	53,075
TAX COLLECTION	
Commissions	112
Material and supplies	397
	509
MUNICIPAL BUILDING	
General expenses	5,222
Material and supplies	2,016
Utilities	8,365
Repairs and maintenance	12,226
	27,829
PROTECTION TO PERSONS AND PROPERTY	
Police	993
Contribution to volunteer fire company	13,600
Fireman's Relief Fund	9,837
Emergency management	1,063
Zoning	244
	25,737
HIGHWAYS AND STREETS	
Salaries and wages	95,359
Material and supplies	5,141
Repairs and maintenance of equipment	31,436
Vehicle operation	7,544
Equipment rental	2,584
Street lights	35,004
Capital improvements	12,569
Snow removal	11,041
	200,678

RICHLAND BOROUGH
 GENERAL FUND - SCHEDULE OF EXPENDITURES - MODIFIED CASH BASIS *(continued)*
 FOR THE YEAR ENDED DECEMBER 31, 2013

	2013
PUBLIC WORKS - OTHER	
Refuse collection	123,562
PARKS AND RECREATION	2,908
OTHER EXPENDITURES	
Contributions, library	9,500
Employee payroll taxes and benefits	48,526
Insurance	10,919
Debt service	
Principal	13,441
Interest	1,962
Total other expenditures	84,348
Total expenditures	\$ 518,646