

BOROUGH OF CLARION
CLARION, PENNSYLVANIA
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012

BOROUGH OF CLARION
YEAR ENDED DECEMBER 31, 2012

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-3
Management's Discussion and Analysis	4-14
Basic Financial Statements:	
Government-wide Financial Statements	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements	
Balance Sheet – Governmental Funds	17
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	18
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	19
Reconciliation of the Statement of the Revenues, Expenditures, and Changes in Fund Balances of the Governmental Funds to the Statement of Activities	20
Statement of Fiduciary Net Position	21
Statement of Changes in Fiduciary Net Position	22
Notes to Financial Statements	23-44
Required Supplementary Information	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual – General Fund	46
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual – Liquid Fuel Fund (Highway Aid)	47
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual – Recreation Fund	48
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual – Fire Equipment Fund	49
General Employees Pension Schedule of Funding Progress	50
Police Pension <i>Schedule</i> of Funding Progress	51
Other Supplementary Information	
Combining Balance Sheet – Special Revenue Funds	53
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Special Revenue Funds	54

Zelenkofske Axelrod LLC

INDEPENDENT AUDITORS' REPORT

Borough Council
Borough of Clarion
Clarion, Pennsylvania

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

<u>Harrisburg</u>	<u>Lehigh Valley</u>	<u>Philadelphia</u>	<u>Pittsburgh</u>
830 Sir Thomas Court, Suite 100 Harrisburg, PA 17109 717.561.9200 Fax 717.561.9202	1101 West Hamilton Street Allentown, PA 18101-1043 610.871.5077 Fax 717.561.9202	2370 York Road, Suite A-5 Jamison, PA 18929 215.918.2277 Fax 215.918.2302	3800 McKnight E. Drive, Suite 3805 Pittsburgh, PA 15237 412.367.7102 Fax 412.367.7103

Zelenkofske Axelrod LLC

Borough Council
Borough of Clarion
Page 2

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Borough, as of December 31, 2012, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of GASB Statements

As described in Note 1 to the financial statements, in 2012 the Borough adopted the remaining provisions of Governmental Accounting Standards Board Statements No. 57, "OPEB Measurements By Agent Employers' and Agent Multiple Employer Plans", Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", Statement No. 62, "Codification of Accounting and Financial Reporting Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements", Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" and Statement No. 64, " Derivative Instruments: Application of Hedge Accounting Termination Provisions- Amendment of GASB Statement No. 53".

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of employer contributions and funding progress, schedule of funding progress for postemployment benefits other than pensions and budgetary comparison information on pages 4 through 14 and 46 through 51 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 regarding 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.

Zelenkofske Axelrod LLC

Borough Council
Borough of Clarion
Page 3

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough's basic financial statements. The combining special revenue fund financial statements on pages 53 and 54 are not a required part of the financial statements.

The combining special revenue fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The combining special revenue fund financial statements have been subjected to the auditing procedures applied by us 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 combining special revenue fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

ZELENKOFKSKE AXELROD LLC

Zelenkofske Axelrod LLC

Pittsburgh, Pennsylvania
May 24, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the financial statements for the Borough of Clarion ("Borough") presents a narrative overview and narrative of the Borough's financial performance for the fiscal year ended December 31, 2012. Prior year comparative information is presented.

FINANCIAL HIGHLIGHTS

- The Borough's total Net Position at the end of 2012 was \$3,667,272.
- The General Fund unassigned Fund Balance was \$395,506 at the end of 2012.
- Total Governmental Funds Revenues of \$2,379,702 were collected in 2012, of which \$1,916,160 was expended for Public Safety and Public Works.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of the following four parts:

- Management's discussion and analysis (this section)
- Basic financial statements (including notes)
- Required supplementary information
- Other supplemental information

Management's discussion and analysis is a guide to reading the financial statements and provides related information to help the reader to better understand the Borough's government. The basic financial statements include notes that provide additional information essential to a full understanding of the financial data provided in the government-wide and fund financial statements. Required supplementary information is provided on the Borough's Police Pension and General Employees Pension Trust Funds and budget to actual figures for the General Fund, the Recreation Fund, the Fire Equipment Fund and the Liquid Fuels Fund.

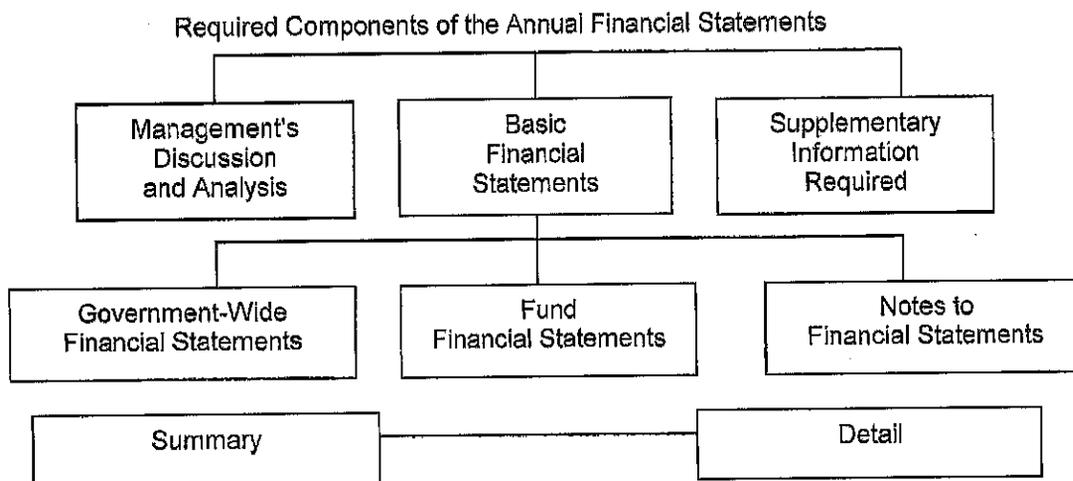
The basic financial statements present two different views of the Borough.

- *Government-wide financial statements*, the first two statements, provide information about the Borough's overall financial status.
- *Fund financial statements*, the remaining statements, focus on individual parts of the Borough's government. They provide more detail on operations than the government-wide statements. There are two types of fund financial statements:
 - *Governmental funds statements* show how general government services such as public safety, public works for highways and streets, and health and welfare were financed in the short term, as well as what remains for future spending.
 - *Fiduciary funds statements* reflect activities involving resources that are held by the Borough as a trustee or agent for the benefit of others, including employees of the Borough like the Police Pension Trust Fund. Fiduciary funds are not reflected in the government-wide statements because the resources cannot be used to support the Borough's programs.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Table A-1 shows how the various parts of this annual report are arranged and related to one another.

Table A-1: Organization of the Borough's Annual Financial Report



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Table A-2 summarizes the major features of the Borough's financial statements, including the area of the Borough's activities they cover and the types of information they contain.

Table A-2: Major Features of the Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Financial Statements	
		Governmental	Fiduciary
Scope	Entire entity (except fiduciary funds)	The day-to-day operating activities of the Borough, such as public safety and public works	Instances in which the Borough administers resources on behalf of others, such as the Police Pension Fund
Required Financial Statements	-Statement of Net Position -Statement of Activities	-Balance Sheet -Statement of Revenues, Expenditures and Changes in Fund Balance	-Statement of Fiduciary Net Position -Statement of Changes in Fiduciary net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources measurement focus	Accrual accounting and economic resources focus
Type of asset and liability information	All assets and liabilities, both financial and capital, short-term and long-term	Current assets and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow and outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services and have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

The remainder of this overview explains the structure and contents of the government-wide and fund financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**Government-Wide Financial Statements**

Government-wide financial statements report information about the Borough as a whole using accounting methods similar to those used by private-sector companies.

- The statement of net position includes all the Borough's assets and liabilities, except fiduciary funds, with the difference between the two reported as net position. This statement serves a purpose similar to that of the balance sheet of a private-sector business.
- The statement of activities focuses on how the Borough's net position changed during the year. Because it separates program revenue (revenue generated by specific programs through charges for services, grants and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program), it shows to what extent each program has to rely on local taxes for funding.

All changes to net position are reported using the accrual method of accounting, which requires that revenues be reported when they are earned and expenses be reported when the goods and/or services are received, regardless of when cash is received or paid.

Net position is one way to measure the Borough's financial position. Over time, increases or decreases in the Borough's net position are one indicator of whether the Borough's financial position is improving or deteriorating. However, other non-financial factors such as changes in the Borough's real property tax base and general economic conditions must be considered to assess the overall position of the Borough.

There is only one type of category of activities for the primary government:

- *Governmental activities* include the Borough's basic services such as general government, public safety, public works for highways and streets, community development, health and welfare and culture and recreation. Property taxes and state and federal grants finance most of these activities.

Net position of the governmental activities differ from the governmental fund balances because governmental fund level statements only report transactions using or providing current financial resources. Also, capital assets are reported as expenditures when financial resources (money) are expended to purchase or build said assets. Likewise, the financial resources that may have been borrowed are considered revenue when they are received. The principal and interest payments are both considered expenditures when paid. Depreciation is not calculated as it does not provide or reduce current financial resources. Finally, capital assets and long-term debt do not affect fund balances.

Government wide statements are reported using an economic resources measurement focus and full accrual basis of accounting that involves the following steps to format the statement of Net Position:

- Capitalize current outlays for capital assets
- Report long-term debt as a liability
- Depreciate capital assets and allocate the depreciation to the proper program/activities

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- Calculate revenue and expense using the economic resources measurement focus and the accrual basis of accounting
- Allocate Net position balances as follows:
 - Net investment in capital assets
 - Restricted Net position is Net position with constraints placed on the use by external sources (creditors, grantors, contributors, or laws or regulations of governments) or imposed by law through constitutional provisions or enabling legislation
 - Unrestricted Net position is Net position that does not meet any of the above restrictions

Fund Financial Statements

Fund financial statements provide more detailed information on the Borough's most significant funds, not the Borough as a whole. Funds are accounting devices, i.e., a group of related accounts; the Borough uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by state law. Other funds are established to control and manage resources designated for specific purposes. Fund financial statements are reported using current financial resources and modified accrual accounting established by the Government Accounting Standards Board (GASB) for governments.

The Borough has two kinds of funds:

- *Governmental funds* include most of the Borough's basic services and focus on: (1) the flow in and out of cash and other financial assets that can readily be converted into cash, and: (2) the balances left at year-end that are available for spending. These funds are reported using the modified accrual accounting basis, and a current financial resources measurement focus. Consequently, the governmental funds statements provide a detailed short-term view that helps determine the financial resources available in the near future to finance the Borough's programs.

The relationship between governmental activities (reported in the statement of Net Position and the statement of activities) and governmental funds is described in a reconciliation that follows the governmental fund financial statements.

The Borough adopts an annual budget for the General Fund, Liquid Fuel (Highway Aid) Fund, Street Light Fund, Recreation Fund, Fire Equipment Fund, Library Fund, Recycling Fund and the Pension Fund. A budgetary comparison of the Borough's General Fund, Liquid Fuel (Highway Aid) Fund, Recreation Fund, and Fire Equipment Fund are presented as required supplementary information.

- *Fiduciary funds* are funds for which the Borough is the trustee or fiduciary. These include the Police Pension Plan and the Non Uniformed Pension Plan. The Borough is responsible to ensure the assets reported in these funds are used for their intended purposes. This fiduciary activity is reported in a separate statement of fiduciary Net Position and a statement of changes in fiduciary Net Position. These funds are excluded from the Borough's government-wide financial statements because the Borough cannot use these assets to finance its operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

GOVERNMENT-WIDE FINANCIAL STATEMENTS**Net Position**

The Borough's total assets were \$3,963,370 at December 31, 2012. Of this amount \$1,591,126 was capital assets at December 31, 2012.

GASB No. 34 requires that all capital assets, including infrastructure, be valued and reported within the governmental activities column of the government-wide financial statements, but allowed infrastructure to be added over several years.

**Table A-3: Borough of Clarion
Condensed Statement of Net Position**

	Governmental Activities 2011	Governmental Activities 2012	Changes from 2011 to 2012
Capital Assets	\$ 1,469,316	\$ 1,591,126	\$ 121,810
Other Assets	2,370,275	2,372,244	1,969
Total Assets	3,839,591	3,963,370	123,779
Liabilities	216,974	296,098	79,124
Net Position:			
Net Investment in			
Capital Assets	1,428,582	1,538,177	109,595
Restricted Net Position	1,593,044	1,665,180	72,136
Unrestricted Net Position	600,991	463,915	(137,076)
Total Net Position	\$ 3,622,617	\$ 3,667,272	\$ 44,655

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The following statement of activities represents changes in Net Position for the years ended December 31, 2011 and 2012. It shows revenues by source and expenses by function for governmental activities and the government as a whole.

**Table A-4: Borough of Clarion
Condensed Statement of Activities**

	Governmental Activities 2011	Governmental Activities 2012	Changes from 2011 to 2012	Percentage Change
Program Revenues:				
Charges for Services	\$ 758,580	\$ 587,452	\$ (171,128)	-22.6%
Operating Grants and Contributions	665,241	422,626	(242,615)	-36.5%
General Revenues:				
Real Estate Taxes	794,445	821,745	27,300	3.4%
Act 511 Taxes	394,391	452,951	58,560	14.8%
Interest Revenue	13,605	39,500	25,895	190.3%
Sale of Capital Assets	6,005	5,235	(770)	-14.7%
Total Revenues	<u>2,632,267</u>	<u>2,329,509</u>	<u>(302,758)</u>	<u>-11.5%</u>
Expenses:				
General Government	369,977	261,474	(108,503)	-29.3%
Public Safety	1,172,733	1,045,074	(127,659)	-10.9%
Public Works	901,884	910,262	8,378	0.9%
Culture and Recreation	162,801	254,831	92,030	56.5%
Interest on Long Term Debt	180	150	(30)	-16.7%
Total Expenses	<u>2,607,575</u>	<u>2,471,791</u>	<u>(135,784)</u>	<u>-5.2%</u>
Changes in Net Assets	<u>\$ 24,692</u>	<u>\$ (142,282)</u>	<u>\$ (166,974)</u>	<u>-676.2%</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Net Program Expenses

Net program expenses indicate the amount of support required from taxes and other general revenues for a program of the government. In 2012, revenue from real estate taxes and Act 511 taxes was \$821,745 and \$452,951 respectively.

**Table A-5: Borough of Clarion
Net Cost of Governmental Activities**

	2012	
	Total Cost of Services	Net Cost of Services
General Government	\$ 261,474	\$ 129,723
Public Safety	1,045,074	(812,303)
Public Works	910,262	(654,999)
Culture and Recreation	254,831	(123,984)
Interest on Long Term Debt	150	(150)
Total	<u>\$ 2,471,791</u>	<u>\$ (1,461,713)</u>

The Borough relied on real estate taxes, earned income taxes and other general revenues to fund 59.1% of its governmental activities in 2012.

Capital Assets

The Borough's investment in capital assets at December 31, 2012, net of accumulated depreciation, was \$1,591,126. Capital assets consist primarily of land, buildings, equipment and vehicles. The following is a summary of capital assets at December 31, 2012:

**Table A-6: Borough of Clarion
Capital Assets**

	Governmental Activities 2011	Governmental Activities 2012	Changes from 2011 to 2012
Land	\$ 229,794	\$ 229,794	\$ -
Buildings and Improvements	2,370,316	2,387,695	17,379
Equipment	647,879	647,879	-
Vehicles	543,441	614,658	71,217
Accumulated Depreciation	<u>(2,135,177)</u>	<u>(2,288,900)</u>	<u>(153,723)</u>
Total Net Capital Assets	<u>\$ 1,656,253</u>	<u>\$ 1,591,126</u>	<u>\$ (65,127)</u>

Detailed information about the Borough's capital assets can be found in Note 4, Notes to the Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Debt Administration

The Borough's long term debt activity for 2012 is as follows and is detailed in Note 7 to the Financial Statements:

**Table A-7: Borough of Clarion
Statement of Long Term Debt**

<u>Type</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Loan and Note Payable	\$ 36,801	\$ 54,611	\$ 38,463	\$ 52,949
Capital Lease	3,933	-	3,933	-
Compensated Absences	46,157	63,416	12,567	97,006
Total Long Term Debt	\$ 86,891	\$ 118,027	\$ 54,963	\$ 149,955

In 2012, the Borough purchased a police vehicle for \$29,611 and a Public Works Skid Steer Loader for \$25,000. The loan and note payable balance as of December 31, 2012 is \$52,949.

FUND FINANCIAL STATEMENTS

GOVERNMENTAL FUNDS

The Borough uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources available for spending. Such information is useful in assessing the Borough's financing requirements. In particular, unreserved/undesignated fund balance may serve as a useful measure of the Borough's net resources available for spending at the end of the year.

The Borough's governmental funds include the general fund and special revenue funds. The general fund is the chief operating fund for the Borough. Special revenue funds are restricted to specific legislated use. The major funds are shown on the statement of revenues, expenditures and changes in fund balances in the financial statements.

Taxes are one of the Borough's most significant revenue sources, accounting for 53.4% of 2012 Governmental revenues. Taxes increased in 2012 by \$116,535. The 2012 mill rate increased from 19.50 to 20.50. The General Fund mill rate increased from 14.445 to 15.545 mills. Street Light fund decreased from 1.65 to 1.35 mills. The Recreation Fund remained the same at .5 mills. The Library Fund mill rate remained the same at .975. The Fire Equipment Fund mill rate remained the same at 1.63 mills. The Recycling Fund mill increased from .30 to .50 mills. Intergovernmental revenue decreased in 2012 by \$242,615 due to a decrease in grant funds received for Recycling programs. In 2011 the Borough received \$280,454 for the Recycling Fund for the purchased of the recycling vehicle. The Borough received \$186,437 in Contributions for the Fire Company rehabilitation building project in 2011 and in 2012 Contributions received was \$24,702. Licenses and permits decreased in 2012 by \$4,399.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Governmental fund revenues by source at December 31, 2011 and 2012 were as follows:

**Table A-8: Borough of Clarion
Revenues by Source, Governmental Funds**

Revenues:	2011	2012	Variance	Percentage of Change
Taxes	\$ 1,153,743	\$ 1,270,278	\$ 116,535	10.1%
Licenses, fees and permits	169,987	165,588	(4,399)	-2.6%
Charges for services	234,873	215,167	(19,706)	-8.4%
Fines and forfeits	151,421	129,917	(21,504)	-14.2%
Intergovernmental	665,241	422,626	(242,615)	-36.5%
Interest and rents	13,605	39,500	25,895	190.3%
Miscellaneous income	15,862	51,578	35,716	225.2%
Contributions	186,437	25,202	(161,235)	-86.5%
Loan proceeds	31,111	54,611	23,500	75.5%
Sale of capital assets	6,005	5,235	(770)	-12.8%
Total revenues	\$ 2,628,285	\$ 2,379,702	\$ (248,583)	-9.5%

GOVERNMENTAL FUND EXPENDITURES decreased 8.0% or \$207,189 during 2012. The Administration department of the general government decreased 16.3% or \$ 62,878. This decrease was due to not replacing the Borough Manager in 2012. The Public Works program increased 1.2% or \$10,352 from 2011. The Public Works increase was mainly due to expenditures for the Recycling program in 2011 was \$ 58,313 and in 2012 the program decreased to \$ 33,745. The annual paving project expenditures in the Capital Project Fund were \$196,264 for 2011 as compared to \$175,661 in 2012. In 2011 the CDBG program cost was \$64,918 as compared to \$56,073 in 2012. The Public Safety expenditures decreased in 2012 by \$174,768. This was mainly due to the Fire Company Building Rehab project in 2011. The Public Safety function alone accounts for 43.28% of total governmental fund expenditures. Public Works accounts for 36.72% and Administration accounts for 10.64% of the total governmental fund expenditures. Culture and Recreation is 9.36% of total governmental fund expenditures.

Governmental fund expenditures by function at December 31, 2011 and 2012 were as follows:

**Table A-9: Borough of Clarion
Expenditures by Function, Governmental Funds**

Expenditures	2011	2012	Net Change	% of Change
General Government	\$ 386,879	\$ 254,827	\$ (132,052)	-34.1%
Public Safety	1,211,420	1,036,652	(174,768)	-14.4%
Public Works	869,156	879,508	10,352	1.2%
Culture and Recreation	130,268	224,179	93,911	72.1%
Debt Service	4,687	150	(4,537)	-96.8%
Miscellaneous	180	85	(95)	-52.8%
Total Expenditures	\$ 2,602,590	\$ 2,395,401	\$ (207,189)	-8.0%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

GOVERNMENTAL FUND BALANCES

Ending Balances for Governmental Funds at December 31, 2012:

**Table A-10: Borough of Clarion
Ending Fund Balances, Governmental Funds**

Funds	Governmental Funds
General Fund	\$ 395,557
Liquid Fuel Fund	21,592
Recreation Fund	178,360
Capital Projects	1,115,598
Fire Equipment Fund	140,930
Other Governmental Funds	208,649
Total	\$ 2,060,686

Budgetary Highlights – The actual General Fund expenditures were \$116,212 under the 2012 Budget. The Administration actual expenditures were under budget by \$ 68,220 due to not replacing the Borough Manager in 2012.

Economic Conditions – The 2012 assessed valuation totals \$140,973,068 of which 71.6% (\$100,847,712) is non-taxable and 28.4% (\$40,125,356) is taxable. The majority of the non-taxable property is with Clarion University. The Borough is limited within the amount of real estate tax received due to the non-exempt status. There is no growth potential within the Borough for industrial or commercial development.

Next Year's Budget – Borough Council kept the tax millage in the 2013 Budget the same at 20.50 mills. The 2013 mills rate for the various funds are: General Fund mills increased from 15.545 mills to 15.745 mills, Street Lighting decrease from 1.35 mills to 1.30 mills, Fire Equipment Fund stayed the same at 1.63 mills, the Library Fund stayed the same at .975 mills, Recreation Fund stayed the same at .50 mills and the Recycling Fund decreased from .50 mills to .35 mills.

CONTACTING THE BOROUGH'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the Borough's finances and to demonstrate the Borough's accountability. Questions concerning this financial information or requests for additional information should be directed to:

Borough of Clarion
Secretary/Treasurer
1400 East Main Street
Clarion, PA 16214

BOROUGH OF CLARION
STATEMENT OF NET POSITION
DECEMBER 31, 2012

Assets	Governmental Activities
Current Assets:	
Cash and cash equivalents	\$ 636,872
Investments	1,437,875
Accounts receivable	30,989
Taxes receivable, net	190,689
Other assets	51
Total Current Assets	2,296,256
Noncurrent Assets:	
Land	229,794
Buildings and Improvements	2,387,695
Equipment	647,879
Vehicles	614,658
Accumulated depreciation	(2,288,900)
Total Capital Assets	1,591,126
Net Pension Asset	75,988
Total Noncurrent Assets	1,667,114
Total Assets	\$ 3,963,370
Liabilities	
Current Liabilities:	
Accounts payable	\$ 95,242
Other accrued liabilities	20,913
Unearned revenues	3
Due to other governments	29,985
Current portion of long-term debt	31,830
Total Current Liabilities	177,973
Noncurrent Liabilities:	
Compensated absences	97,006
Non-current portion of long-term debt	21,119
Total Noncurrent Liabilities	118,125
Total Liabilities	296,098
Net Position	
Net Investment in Capital Assets	1,538,177
Restricted	
Program	505,867
Capital Projects	1,159,313
Unrestricted	483,915
Total Net Position	3,667,272
Total Liabilities and Net Position	\$ 3,963,370

The accompanying notes are an integral part of these financial statements.

BOROUGH OF CLARION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

Functions/Programs	Program Revenues		Net (Expenses) Revenue and Changes in Net Assets	
	Expenses	Charges for Services		Operating Grants and Contributions
Primary Government				
Governmental Activities:				
General Government - Administration	\$ 261,474	\$ 289,669	\$ 101,528	\$ 129,723
Public Safety	1,046,074	205,362	27,409	(812,303)
Public Works	910,262	19,112	236,151	(654,999)
Culture and Recreation	254,831	73,309	57,538	(123,984)
Interest Expense	150	-	-	(150)
Total Governmental Activities	2,471,791	587,452	422,626	(1,461,713)
Total Primary Government	\$ 2,471,791	\$ 587,452	\$ 422,626	\$ (1,461,713)

General Revenues:

Taxes:	
Real Estate	821,745
Act 511	452,951
Interest Revenue	39,500
Sale of Capital Assets	5,235
Total General Revenues	1,319,431

Change in Net Position (142,282)

Net Position - Beginning 3,622,617

Prior Period Adjustment 186,937

Net Position - Beginning (Restated, Note 12) 3,809,554

Net Position - Ending \$ 3,667,272

The accompanying notes are an integral part of these financial statements.

BOROUGH OF CLARION
 COMBINED BALANCE SHEET - GOVERNMENTAL FUNDS
 DECEMBER 31, 2012

	General Fund	Liquid Fuel Fund	Recreation Fund	Fire Equipment Fund	Capital Project Fund	Community Development Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets								
Cash and cash equivalents	\$ 344,061	\$ 28,516	\$ 23,334	\$ 20,881	\$ 96,324	\$ 29,988	\$ 93,568	\$ 636,672
Investments	-	-	157,440	120,596	1,039,243	-	120,596	1,437,875
Accounts Receivable	15,036	83	125	13,703	-	-	2,022	30,969
Taxes receivable	161,787	-	2,916	9,507	-	-	16,479	190,689
Prepaid assets	51	-	-	-	-	-	-	51
Due from other funds	-	2,517	-	-	-	-	-	2,517
Total Assets	\$ 520,935	\$ 31,116	\$ 183,815	\$ 164,687	\$ 1,135,567	\$ 29,988	\$ 232,665	\$ 2,298,773
Liabilities and Fund Balance								
Liabilities:								
Accounts payable	\$ 34,235	\$ 9,524	\$ 3,289	\$ 16,695	\$ 19,969	\$ -	\$ 11,530	\$ 95,242
Other accrued liabilities	20,913	-	-	-	-	-	-	20,913
Due to other governmental units	-	-	-	-	-	29,985	-	29,985
Due to other funds	2,517	-	-	-	-	-	-	2,517
Deferred revenues	67,713	-	2,166	7,062	-	3	12,486	89,430
Total Liabilities	125,378	9,524	5,455	23,757	19,969	29,988	24,016	238,087
Fund Balances:								
Nonspendable	51	-	-	-	-	-	-	51
Restricted	-	-	-	-	-	-	4,647	4,647
Administration	-	-	-	-	-	-	-	140,930
Public safety	-	-	-	140,930	-	-	-	33,822
Public works	-	21,592	-	-	-	-	-	55,414
Culture and Recreation	-	-	178,360	-	-	-	126,465	304,825
Capital Project Funds	-	-	-	-	1,115,598	-	43,715	1,159,313
Unassigned	395,506	-	-	-	-	-	-	395,506
Total Fund Balances	395,557	21,592	178,360	140,930	1,115,598	-	208,649	2,060,686
Total Liabilities and Fund Balances	\$ 520,935	\$ 31,116	\$ 183,815	\$ 164,687	\$ 1,135,567	\$ 29,988	\$ 232,665	\$ 2,298,773

The accompanying notes are an integral part of these financial statements.

BOROUGH OF CLARION
 RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION
 DECEMBER 31, 2012

Total fund balances of governmental funds		\$	2,060,686
Amount reported for governmental activities in the Statement of Net Position are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			
Those assets consist of:			
Land		\$	229,794
Buildings and improvements, net of \$1,447,233 accumulated depreciation.			940,462
Equipment and Vehicles, net of \$841,667 accumulated depreciation.			420,870
Total Capital Assets			1,591,126
Some of the Borough's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as unearned revenue in the funds.			
			89,427
The net pension asset resulting from contributions in excess of the annual required contribution are not financial resources and therefore are not reported in the funds.			
			75,988
Long-term liabilities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities - both current and long-term-are reported in the Statement of Net Position. Long-term liabilities at year-end consist of:			
Long-term debt			(52,949)
Compensated Absences			(97,006)
			(149,955)
Total net position of governmental activities		\$	3,667,272

The accompanying notes are an integral part of these financial statements.

BOROUGH OF CLARION
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	General Fund	Liquid Fuel Fund	Recreation Fund	Fire Equipment Fund	Capital Project Fund	Community Development Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:								
Real estate taxes	\$ 617,270	\$ -	\$ 21,499	\$ 64,901	\$ -	\$ -	\$ 113,656	\$ 817,326
Act 511 taxes	452,952	-	-	-	-	-	-	452,952
Licenses and permits	165,588	-	-	-	-	-	-	165,588
Fines and forfeitures	129,917	-	-	-	-	-	-	129,917
Intergovernmental revenues	15,240	109,196	56,878	1,103	-	55,618	184,591	422,626
Charges for services	129,477	-	40,427	8,200	-	-	37,063	215,167
Interest and rents	1,912	30	9,710	3,418	20,982	1	3,447	39,500
Contributions	-	-	500	24,702	-	-	-	25,202
Miscellaneous	4,297	2,475	32,382	-	12,424	-	-	51,578
Total Revenues	1,516,653	111,701	161,396	102,324	33,406	55,619	338,757	2,319,856
Expenditures:								
Current:								
Administration	220,715	-	-	-	-	-	34,112	254,827
Public safety	857,564	-	-	100,617	-	-	78,471	1,036,652
Public works	372,774	104,883	-	-	175,661	56,073	170,117	879,508
Culture and Recreation	85	-	176,179	-	-	-	48,000	224,179
Miscellaneous	150	-	-	-	-	-	-	85
Debt service	-	-	-	-	-	-	-	150
Total Expenditures	1,451,288	104,883	176,179	100,617	175,661	56,073	330,700	2,395,401
Excess (Deficiency) of Revenues Over Expenses	65,365	6,818	(14,783)	1,707	(142,256)	(454)	8,057	(75,545)
Other Financing Sources (Uses):								
Sale of capital assets	5,235	-	-	-	-	-	-	5,235
Loan proceeds	54,611	-	-	-	-	-	-	54,611
Operating transfers in	84,353	28,740	20,000	-	196,300	454	53,239	363,086
Operating transfers out	(89,599)	(28,740)	(34,606)	-	-	-	(230,141)	(383,086)
Total Other Financing Sources (Uses)	54,600	-	(14,606)	-	196,300	454	(176,902)	59,846
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	119,965	6,818	(29,389)	1,707	54,045	-	(168,845)	(15,699)
Fund Balance								
Beginning of year	275,592	14,774	207,749	139,223	1,061,553	-	377,494	2,076,385
End of year	\$ 395,557	\$ 21,592	\$ 178,360	\$ 140,930	\$ 1,115,598	\$ -	\$ 208,649	\$ 2,060,886

The accompanying notes are an integral part of these financial statements.

BOROUGH OF CLARION
 RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND
 CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2012

Amount reported for governmental activities in the Statement of
 Activities are different because:

Net change in fund balances - total governmental funds \$ (15,699)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay (\$88,596) was exceeded by depreciation (\$153,723) in the current period.

Capital Additions	88,596		
Depreciation	(153,723)		
Net Change on Capital Assets	(65,127)		(65,127)

Under the modified accrual basis of accounting used in governmental funds, revenues are not reported until they become available. In the statement of activities, however, revenues are recorded regardless of when financial resources are available. This is the change in unearned real estate tax revenue from 12/31/11 to 12/31/12.

4,418

The change in the net pension asset does not require financial resources and is therefore not reported in the funds but is shown as a reduction to expense in the statement of activities.

(2,810)

The issuance of bonds and similar long-term debt provides current financial resources to governmental funds and thus contribute to the change in fund balance. In the Statement of Net Position, however, issuing debt increases long-term liabilities and does not affect the Statement of Activities. Similarly, repayment of principal is an expenditure in the governmental funds, but reduces the liability in the Statement of Net Position. Also, governmental funds report the effect of issuances costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. The amounts of the items that make up these differences in the treatment of long-term debt and related items are:

Debt issued or incurred:			
Principal Repayments			38,463
Capital Lease Payments			3,933
Loan Proceeds			(54,811)

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of the timing of the related cash flows.

Compensated Absences			(50,849)
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Net change in governmental activities net position \$ (142,282)

BOROUGH OF CLARION
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2012

	General Employees Defined Benefit Pension	General Employees Defined Contribution Pension	Police Pension	Total
Assets				
Cash	\$ 14,914	\$ 8,182	\$ 8,224	\$ 31,320
Investments	1,268,392	-	2,588,342	3,856,734
Total Assets	<u>\$ 1,283,306</u>	<u>\$ 8,182</u>	<u>\$ 2,596,566</u>	<u>\$ 3,888,054</u>
Liabilities				
Accounts Payable	\$ 176	\$ -	\$ 510	\$ 686
Total Liabilities	<u>176</u>	<u>-</u>	<u>510</u>	<u>686</u>
Net Position Held in Trust for Employees' Pension Benefits	<u>\$ 1,283,130</u>	<u>\$ 8,182</u>	<u>\$ 2,596,056</u>	<u>\$ 3,887,368</u>

The accompanying notes are an integral part of these financial statements.

BOROUGH OF CLARION
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012

	General Employee Defined Benefit Pension	General Employee Define Contribution Pension	Police Pension	Total
Additions:				
Contributions:				
Member	\$ 11,828	\$ -	\$ 21,779	\$ 33,607
Municipal	28,869	8,182	-	36,051
Commonwealth	34,123	-	55,280	89,403
Total Contributions	<u>72,820</u>	<u>8,182</u>	<u>77,059</u>	<u>158,061</u>
Investment Income:				
Net Appreciation in Fair Value of Investments	113,685	-	217,309	330,994
Interest	4	-	4	8
Dividend	24,970	-	46,806	71,776
Investment Income	<u>138,659</u>	<u>-</u>	<u>264,119</u>	<u>402,778</u>
Total Additions	<u>211,479</u>	<u>8,182</u>	<u>341,178</u>	<u>560,839</u>
Deductions:				
Administrative expenses	7,079	-	9,496	16,575
Retirement Benefits	79,085	-	88,333	167,418
Refund of Member Contributions	6,589	-	-	6,589
Total Deductions	<u>92,753</u>	<u>-</u>	<u>97,829</u>	<u>190,582</u>
Net Increase	118,726	8,182	243,349	370,257
Net Position Held in Trust for Employees' Pension Benefits:				
Beginning of Year	<u>1,164,404</u>	<u>-</u>	<u>2,352,707</u>	<u>3,517,111</u>
End of Year	<u>\$ 1,283,130</u>	<u>\$ 8,182</u>	<u>\$ 2,596,056</u>	<u>\$ 3,887,368</u>

The accompanying notes are an integral part of these financial statements.

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Borough of Clarion (the "Borough") operates under the Borough Code under the laws of the Commonwealth of Pennsylvania. The Borough was incorporated in April 1841. The Borough operates under a Council-Manager form of government and provides the following services: public safety, streets, public improvements, planning and zoning, culture and recreation and general administrative services. The accompanying financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, ("GAAP") applicable to governmental units, as prescribed by the Governmental Accounting Standards Board ("GASB").

A summary of the Borough's significant accounting policies is as follows:

A) Reporting Entity

The Borough has adopted the provisions of GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units." The management of the Borough has determined that there are no entities that should be included as component units.

B) Government-Wide and Fund Financial Statements

The Government-wide financial statements (i.e., statement of net position and the statement of activities) report information on all the non-fiduciary activities of the government as a whole. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment is affected by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 or segment and 2.) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability rather than an expenditure.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Borough considers revenues to be available if they are collected within 365 days of the end of the current fiscal period with the exception of property taxes which must be received within 60 days of year end to be deemed available. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Licenses, operating grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when the Borough receives cash.

Under the current financial resources measurement focus, only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered to be a measure of "available spendable resources". Governmental funds operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during the period.

~~Because of their spending measurement focus, expenditure recognition for governmental fund types exclude amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.~~

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended rather than as fund assets. The proceeds of long-term debt are recorded as an other financing source rather than a fund liability. However, debt service expenditures, as well as expenditures related to compensated absences and claims for judgments, are recorded only when payment is due.

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)

The Borough reports the following major governmental funds:

- The General Fund is the primary government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Liquid Fuel Fund (Highway Aid) is used to account for financial resources to be used to provide funds and services to maintain the Borough's roads and streets.
- The Recreation Fund is used to account for financial resources to be used to provide funds and services for the Borough's recreation activities such as the Borough's pool.
- The Fire Equipment Fund is used to account for financial resources to be used to provide funds and services for the Borough's Fire Company activities such as the annual contribution of real estate tax millage.
- The Capital Project Fund is used to account for capital projects within the Borough. The Capital Project Fund was created with the proceeds from the sale of the Clarion Area Authority ("CAA") on October 30, 2008. The funds can be used only for projects that benefit the former rate payers of the CAA. As part of the sale agreement the Borough must allocate annually for the next fifteen years starting in 2009, \$10,000 to be paid to the Fire Company, Borough Library and the Park programs. The total allocation to be paid over ten years is \$450,000.
- The Community Development Fund is used to account for financial resources to be used to provide federal funds for the Community Development projects within the Borough.

Additionally, the Borough reports the following fund type:

- The Pension Trust Funds account for the revenues (i.e., member contributions, Borough contributions, and net investment income) and the expenses (i.e., contributions refunded, retirement allowances, and death benefits paid) of the Police and General Employees' Pension Trust Funds.
-

BOROUGH OF CLARION
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2012

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 (CONTINUED)

D) Assets, Liabilities, and Net Position or Fund Balances

1. Cash and Cash Equivalents

The Borough considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

2. Receivables and Payables

• Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances." All receivables are shown net of an allowance for doubtful accounts, where applicable.

3. Capital Assets

Capital assets, which include property, plant and equipment and infrastructure assets, are reported in the applicable governmental activities column in the government-wide financial statements. Property, plant and equipment, with initial, individual costs that equal or exceed \$5,000 and estimated useful lives of over one year are recorded as capital assets. Capital assets are recorded at historical costs or estimated historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The Borough did not have any intangible assets for the year ended December 31, 2012.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

Major outlay of capital assets and improvements are capitalized as projects are completed.

Capital assets are depreciated using the straight line method over the following intended useful lives:

<u>Asset</u>	<u>Years</u>
Buildings and Improvements	40
Vehicles	5-10
Equipment	5-10

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

D) Assets, Liabilities, and Net Position or Fund Balances (Continued)

4. Compensated Absences

Borough policy permits employees to accumulate a limited amount of earned, but unused sick time. These benefits are payable to employees upon separation of services. All leave pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported. The computed liability is in compliance with GASB 16, *Accounting for Compensated Absences*.

5. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

6. Unearned / Deferred Revenues

The unearned revenues will be recognized as revenue in the fiscal year they are earned in accordance with the accrual basis of accounting. Deferred revenues reported in governmental fund financial statements represent unearned revenues or revenues which are measurable but not available and, in accordance with the modified accrual basis of accounting, are reported as deferred revenues. The Borough deems revenues received within 365 days of year end to be available with the exception of property taxes, which must be received within 60 days of year end to be deemed available.

BOROUGH OF CLARION
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2012

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 (CONTINUED)

D) Assets, Liabilities, and Net Position or Fund Balances (Continued)

7. Net Position/Fund Balances

The government-wide financial statements utilize a Net Position presentation. Net Position is categorized as net investment in capital assets, restricted and unrestricted.

- *Net Investment in Capital Assets*, – This category groups all capital assets into one component of Net Position. Accumulated and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Position* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Position* – This category represents net position of the borough not restricted for any project or other purpose.

GASB Statement No. 54 establishes accounting and financial standards for all governments that report governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions as follow:

- A. Non-spendable – This classification consists of amounts that cannot be spent because they are either not in spendable form or are legally to be maintained intact.
- B. Restricted - This classification consists of amounts that are restricted to specific purposes. This component of fund balance consists of constraints placed on net asset use through external restrictions, such as constitution provisions or enabling legislation.
- C. Committed - This classification consists of amounts used for specific purposes imposed by formal actions of the Borough's highest level of decision-making authority (Borough Council). The removal or modification of the use of committed funds can only be accomplished by formal action prior to fiscal year-end by the Borough's highest level of authority.
- D. Assigned - This classification consists of amounts constrained by the Borough to be used for specific purposes that are neither restricted nor committed. The present procedure is for the Borough Manager and Borough Council to jointly assign amounts to be used for specific purposes before issuance of audited financial statements.
- E. Unassigned - This component of fund balance consists of amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes within the General Fund.

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

D) Assets, Liabilities, and Net Position or Fund Balances (Continued)

7. Net Position/Fund Balances (Continued)

The Borough's policy is to apply expenditures against any restricted fund balance, committed fund balance, assigned fund balance, and then unassigned fund balance. The Borough's policy is to apply expenses against restricted and then unrestricted net position.

8. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions except quasi-external transactions and reimbursements are reported as transfers.

9. Accounting Estimates

The preparation of the 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 amounts may differ from those estimates.

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

D) Assets, Liabilities, and Net Position or Fund Balances (Continued)

10. Adoption of Governmental Accounting Standards

In December 2009, the GASB issued Statement No. 57, "OPEB Measurements by agent Employers and Agent Multiple-Employer Plans". The adoption of this statement had no effect on the 2012 financial statements.

In November 2010, the GASB issued Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements." The adoption of this statement had no effect on the 2012 financial statements.

In December 2010, the GASB issued Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1089 FASB and AICPA Pronouncements." The adoption of this statement had no effect on the 2012 financial statements.

In June 2011, the GASB unanimously approved Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The adoption of this statement resulted in new terminology for the Government Wide Statement of Net Position and the related footnotes to the financial statements.

In June 2011, the GASB approved Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53)*. The adoption of this statement had no effect 2012 financial statements.

11. Pending Changes in Accounting Principles

In November 2010, the GASB issued Statement No. 61, "The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34." The Borough of Clarion is required to adopt Statement No. 61 for its calendar year 2013 financial statements.

In March 2012, the GASB issued Statement No. 65, "Items Previously Reported as Assets and Liabilities". The Borough of Clarion is required to adopt Statement No. 65 for its calendar year 2013 financial statements.

In March 2012, the GASB issued Statement No. 66, "Technical Corrections - 2012- an amendment of GASB Statements No. 10 and No. 62". The Borough of Clarion is required to adopt Statement No. 66 for its calendar year 2013 financial statements.

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

D) Assets, Liabilities, and Net Position or Fund Balances (Continued)

11. Pending Changes in Accounting Principles (Continued)

In June 2012, the GASB issued Statement No. 67, "*Financial Reporting for Pension Plans – amendment of GASB Statement No. 25*". The Borough of Clarion is required to adopt Statement No. 67 for its calendar year 2014 financial statements.

In June 2012, the GASB issued Statement No. 68, "*Financial Reporting for Pension Plans – amendment of GASB Statement No. 27*". The Borough of Clarion is required to adopt Statement No. 68 for its calendar year 2015 financial statements.

In January 2013, the GASB issued Statement No. 69, "*Government Combinations and Disposals of Government Operations*". The Borough of Clarion is required to adopt Statement No. 69 for its calendar year 2014 financial statements.

In April 2013, the GASB issued Statement No. 70, "*Accounting and Financial Reporting for Non-exchange Financial Guarantees*". The Borough of Clarion is required to adopt Statement No. 70 for its calendar year 2014 financial statements.

The Borough has not yet completed the various analysis required to estimate the financial statement impact of these new pronouncements.

E) Budgets and Budgetary Accounting

Legal Requirements

Commonwealth of Pennsylvania statutes require that Borough Governments establish budgetary systems and adopt annual operating budgets. The Borough's annual budget includes the General Fund and certain special revenue funds, and is based on estimates of revenues and expenditures approved by the Borough Council. The Borough adopted the 2012 budget on the same basis of accounting as reported in the financial statements. The Borough follows these procedures in establishing the budgetary data reflected in the financial statements:

Borough Budget Process

1. During the fall, the Borough Manager prepares a preliminary budget which is submitted to the Council for review.
2. The Council reviews the preliminary projections of revenues and expenditures incorporating any revisions or adjustments.
3. The Council advertised that the proposed budget is available for public inspection for 10 days prior to final adoption.
4. After the 10-day inspection period, but prior to December 31, the Council adopts the final budget by enacting an appropriate resolution.

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

E) Budgets and Budgetary Accounting (Continued)

5. Formal budgetary process is employed as a planning device. The adopted budget is on the modified accrual basis. Budget amounts are as originally adopted, or as amended by the Council.

Level of Control

The Borough maintains budgetary control at the individual fund level.

Lapsing of Appropriations

Unexpended appropriations lapse at year-end.

Management Amendment Authority

During the course of the year, departmental needs may change, emergencies may occur or additional revenue may arise. As a result, funds are transferred between line items of a department's budget or additional revenue may need to be budgeted for a specific project or grant. Adjustments to the budget are made on a line item basis during the year and approved by Borough Council.

NOTE 2: DEPOSIT AND INVESTMENT RISK

The Borough's deposits and investments for both the governmental activities and pension trust funds as of December 31, 2012 were as follows:

Deposits - Governmental Activities	
Cash	\$ 636,672
Investments	
Certificates of Deposits	1,437,875
Pension	
Deposits - Pension Trust Funds	
Cash	\$ 31,320
Investments - Pension Trust Funds	
Mutual Funds - Equity	<u>3,856,734</u>
Total Pension Investments	<u>3,856,734</u>
Total Pension Deposits and Investments	<u>\$ 3,888,054</u>

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 2: DEPOSIT AND INVESTMENT RISK (CONTINUED)

The Certificate of Deposits had the following debt investments and maturities:

Investment Type	Value	Than 1	1-5	6-10	Than 10
Certificate of Deposit	\$ 1,437,875	\$ -	\$ 1,437,875	\$ -	\$ -

The Pension Funds had the following debt investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
Fixed Income Mutual Fund					
Police Pension Plan	\$ 524,380	\$ -	\$ 524,380	\$ -	\$ -
General Employees	416,510	-	416,510	-	-
Total Fixed Income Mutual Fund	\$ 940,890	\$ -	\$ 940,890	\$ -	\$ -

Interest Rate Risk. The Pension Funds Investment Policies do not have a formal investment policy that limits investment maturities as a means of managing their exposure to fair value losses arising from increasing interest rates.

Credit Risk. The Pension Funds Investment Policies do not have a formal investment policy that limits these funds credit risk.

As of December 31, 2012, the Pension Funds Investments in fixed income mutual funds were not rated by Standard & Poor's.

Custodial Credit Risk. For deposits and investments, including the pension funds, custodial credit risk is the risk that in the event of the failure of the counterparty, the Borough will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Total deposits held by outside parties at December 31, 2012 were \$2,105,867 with a book value of \$2,105,867. Of the Borough's \$2,105,867 in deposits, \$1,373,262 were exposed to custodial credit risk, as they were uninsured and uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the Borough's name. None of the Pension Funds' investments were exposed to custodial credit risk at December 31, 2012. The Borough does not have a formal investment policy related to custodial credit risk.

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 3: REAL ESTATE TAXES

Real estate taxes attach as an enforceable lien on property on January 1. Taxes are billed on March 1, payable under the following terms: 2% discount, March 1 based on the assessed value listed as of the prior December 31 for the real property located in the Borough through April 30; face amount, May 1 through June 30, and 10% penalty after June 30. The County bills these taxes which are collected by an elected local tax collector and remitted to the Borough. Real estate taxes levied for 2012 are recorded as receivables, net of estimated uncollectibles. The net receivables collected during 2012 and expected to be collected within the first sixty (60) days of 2013 are recognized as revenue in 2012. Net receivables estimated to be collectible subsequent to March 1, are reflected in unearned revenue. Prior years levies are recorded using these same principles and remaining receivables are annually reevaluated as to collectibility.

The rate of real estate taxation in 2012, was 15.545 mills for general purposes, .975 for the library, 1.63 for fire equipment, 1.35 for street lights, .5 mills for recreation, and .5 mills for recycling fund purposes on a total Borough assessed valuation of \$40,125,356.

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 229,794	\$ -	\$ -	\$ 229,794
Total capital assets, not being depreciated	<u>229,794</u>	<u>-</u>	<u>-</u>	<u>229,794</u>
Capital assets, being depreciated				
Buildings and Improvements	2,370,316	17,379	-	2,387,695
Equipment	647,879	-	-	647,879
Vehicles	543,441	71,217	-	614,658
Total capital assets, being depreciated	<u>3,561,636</u>	<u>88,596</u>	<u>-</u>	<u>3,650,232</u>
Less accumulated depreciation for:				
Buildings and Improvements	(1,385,177)	(62,056)	-	(1,447,233)
Equipment	(548,007)	(19,049)	-	(567,056)
Vehicles	(201,993)	(72,618)	-	(274,611)
Total accumulated depreciation	<u>(2,135,177)</u>	<u>(153,723)</u>	<u>-</u>	<u>(2,288,900)</u>
Total capital assets, being depreciated, net	<u>1,426,459</u>	<u>(65,127)</u>	<u>-</u>	<u>1,361,332</u>
Total capital assets, net (Restated Note 12)	<u>\$ 1,656,253</u>	<u>\$ (65,127)</u>	<u>\$ -</u>	<u>\$ 1,591,126</u>

BOROUGH OF CLARION
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2012

NOTE 4: CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions/programs as follows:

Governmental Activities

General government - Administrative	\$ 4,019
Public safety	35,001
Public works	84,051
Culture and recreation	<u>30,652</u>
Total Depreciation Expense, Governmental Activities	<u>\$ 153,723</u>

NOTE 5: EMPLOYEES RETIREMENT PLANS

A. Pension Trust FundsPlan Description

The Borough sponsors two single employer defined benefit plans covering substantially all full-time employees. Employees become eligible for participation in a plan upon employment and become fully vested after twelve years of service in the Police Pension Plan and ten years of service in the General Employees' Pension Plan. The Police Pension Plan was established by municipal ordinance with the authority for municipal contributions required by Act 205, of the Pennsylvania legislature. The General Employees' Pension Plan was established and is controlled by Ordinance No. 95-673.

At January 1, 2011, the date of the most recent actuarial valuation, participants in the plans are as follows:

Participants:	<u>General Employees'</u>	<u>Police</u>
Retirees and beneficiaries	5	6
Terminated employees entitled to benefits but not yet receiving them	2	2
Active employees:	<u>7</u>	<u>8</u>
Total	<u>14</u>	<u>16</u>

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 5: EMPLOYEES RETIREMENT PLANS (CONTINUED)

A. Pension Trust Funds (Continued)Plan Description

The benefits provided by the plans differ by employment group and are based upon average monthly compensation, age and length of service. A summary of benefit provisions, by employee group, is as follows:

	<u>General Employees'</u>	<u>Police</u>
Normal retirement age	60	50
Years of service	15	25
Average compensation period	36 months	36 months
Early retirement	N/A	N/A
Vesting	100% after completion of 15 years of service	100% after completion of 12 years of service
Normal forms of benefits	Life	Life with 50% survivor Benefit
Normal benefits	2% average monthly compensation multiplied by the number of complete years of service	50% average monthly Compensation
Early benefit	N/A	N/A
Disability benefit	N/A	50% average monthly compensation
Service increment	None	\$100 monthly compensation For 26 or more years of service

B. Funding Status and Progress

The amount presented below as "pension assets" is the actuarial present value of accumulated plan benefits, adjusted for the effect of projected salary increases, and is intended to assist users of this information in assessing the plan's funding status on a going concern basis and the progress made in accumulating sufficient assets to pay when they become due. The measurement of the pension obligations is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions.

The pension assets, which are actuarially determined on a biannual basis, have been calculated as of January 1, 2011. Significant actuarial assumptions used include a rate of return on the investment of present and future assets of 7.5% per year compounded annually and projected salary increases of 5.0% (5.5% for the police plan) per year compounded annually. The actuarial cost method used is the entry age normal cost method. As of January 1, 2011, the most recent actuarial valuation date, the General Employees' Pension Plan was 83.3% funded and the Police Pension Plan was 103.2% funded.

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 5: EMPLOYEES RETIREMENT PLANS (CONTINUED)

For the General Employees' Pension Plan, the actuarial accrued liability for the benefits was \$1,416,625, and the actuarial value of the assets was \$1,179,775, resulting in an unfunded actuarial accrued liability (UAAL) of \$236,850. The actuarial value of the assets as a percentage of the actuarial accrued liability was 83.3%. The covered payroll was \$253,051, and the ratio of the UAAL to the covered payroll was 93.6%. For the Police Pension Plan, the actuarial accrued liability for the benefits was \$2,282,521, and the actuarial value of the assets was \$2,356,303, resulting in an excess actuarial accrued liability (UAAL) of \$73,782. The actuarial value of the assets as a percentage of the actuarial accrued liability was 103.2%. The covered payroll was \$409,468, and the ratio of the UAAL to the covered payroll was N/A.

The summary of annual pension cost and net pension assets (NPA) was as follows:

	General Employees'	Police	Total
Annual Required Contribution (ARC)	\$ 62,989	\$ 55,269	\$ 118,258
Interest on NPA	(4,023)	(1,887)	(5,910)
Adjustment to the ARC	7,408	2,705	10,113
Annual Pension Cost	66,374	56,087	122,461
Contributions made	64,371	55,280	119,651
Change in NPA	(2,003)	(807)	(2,810)
NPA, Beginning of Year	53,638	25,160	78,798
NPA, End of Year	<u>\$ 51,635</u>	<u>\$ 24,353</u>	<u>\$ 75,988</u>

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 5: EMPLOYEES RETIREMENT PLANS (CONTINUED)

B. Historical Trend Information

Historical trend information designed to provide information about the Borough's program made in accumulating sufficient assets to pay benefits when due is presented in the following tables. Actuarial data provided only for years in which actuarial studies have been completed.

Three year trend information

	Calendar Year	Annual Required Contribution	Percentage of Annual Required Contribution Contributed
General Employees Pension Plan	2010	\$ 66,462	102%
	2011	61,571	121%
	2012	62,989	102%
Police Pension Plan	2010	\$ 48,247	111%
	2011	38,452	133%
	2012	55,269	100%

NOTE 6: COMPENSATED ABSENCES

Vacation and personal days may not be accumulated from year to year. All Borough employees earn 1.5 sick days per month worked, for a maximum of 18 days per year. The total that employees covered under the Teamster contract (general employees) may accumulate is a maximum of 180 sick days. All other employees (police) may accumulate up to a maximum of 150 days.

At the end of each calendar year, each non police officer employee has the option to receive payment of \$30 per day of his/her unused sick days in which they have in excess of the maximum 180 days referred to above. A police officer has the option to receive payment of \$75 per day of his unused sick days in which they have in excess of the maximum 150 days referred to above. At retirement any employee may sell back accumulated unused sick leave up to the maximum amount. At December 31, 2012, the total liability for compensated absences was \$97,006.

Applicable GASB pronouncements require accrual of sick pay that met certain specific conditions. The Borough has determined that such conditions apply to accumulated sick pay of Governmental Funds. To the extent sick pay liabilities in Governmental Funds are to be liquidated with available resources, they are accounted for as fund liabilities in the Fund Financial Statements; the remainder of the obligation is accounted for as a liability in the Government-wide financial statements.

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 7: LONG-TERM LIABILITIES

A summary of changes in long-term liabilities follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities: Loans and Note Payable:					
Loans and Note	\$ 36,801	\$ 54,611	\$ 38,463	\$ 52,949	\$ 31,830
Total Loans and Note Payable	36,801	54,611	38,463	52,949	31,830
Capital Lease	3,933	-	3,933	-	-
Other Liabilities					
Compensated Absences	46,157	63,416	12,567	97,006	-
	46,157	63,416	12,567	97,006	-
Governmental Activities Long-Term Liabilities	<u>\$ 86,891</u>	<u>\$ 118,027</u>	<u>\$ 54,963</u>	<u>\$ 149,955</u>	<u>\$ 31,830</u>

An analysis of debt service requirements to maturity on these obligations follows (with the exception of compensated absences and capital leases):

Years Ended December 31:	Principal Requirements	Interest Requirements	Total Debt Service Requirements
2013	\$ 31,830	\$ 122	\$ 31,952
2014	19,542	316	19,858
2015	1,577	4	1,581
Total Requirements	<u>\$ 52,949</u>	<u>\$ 442</u>	<u>\$ 53,391</u>

BOROUGH OF CLARION
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2012

NOTE 7: LONG-TERM LIABILITIES (CONTINUED)

The following is a summary of general obligation debt outstanding:

<u>Year</u>	<u>Amount of Original Issue</u>	<u>Purpose</u>	<u>Balance Outstanding December 31, 2012</u>
2010	\$ 34,880	Note payable to be paid in 36 monthly installments starting in April 10, 2010 through March 10, 2013 with an interest rate of 2.97%. Proceeds were used to purchase a police vehicle.	\$3,026
2011	\$ 31,111	Note payable to be paid in 36 monthly installments starting in February 27, 2011 through January 27, 2014 with an interest rate of 3.00%. Proceeds were used to purchase a police vehicle.	11,558
2012	29,611	Note payable to be paid in 36 monthly installments starting in January 18, 2012 through January 10, 2015 with an interest rate of 2.64%. Proceeds were used to purchase a police vehicle.	20,802
2012	25,000	Note payable to be paid in 36 monthly installments starting in January 18, 2012 through January 10, 2015 with an interest rate of 2.64%. Proceeds were used to purchase a Public Works Skid Steer Loader.	17,563
	Total		<u>\$ 52,949</u>

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 8: INTERFUND RECEIVABLES AND PAYABLES

Interfund receivable and payable balances consist of the following at December 31, 2012:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Governmental Fund:		
General Fund	\$ -	\$ 2,517
Liquid Fuel Fund	2,517	-
	<u>2,517</u>	<u>-</u>
Total Governmental Funds	<u>2,517</u>	<u>2,517</u>
	<u>\$ 2,517</u>	<u>\$ 2,517</u>
Total Interfund Receivables and Payables	<u>\$ 2,517</u>	<u>\$ 2,517</u>

The General Fund has paid expenses on behalf of other funds, therefore, a corresponding interfund receivable and payable has been recorded.

NOTE 9: INTERFUND OPERATING TRANSFERS

Interfund transfers are executed as a result of the requirements for the General Fund to match a portion of the expenditures or expenses of other funds. Interfund operating transfers are as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
Governmental Funds:		
<u>Major Funds:</u>		
General Fund	\$ 84,353	\$ 89,599
Liquid Fuel Fund	28,740	28,740
Recreation Fund	20,000	34,606
CDBG Fund	454	-
Capital Project Fund	196,300	-
<u>Non-Major Funds</u>		
Street Lighting Fund	7,190	6,787
Recycling Fund	-	196,300
Pension Fund	20,219	-
Insurance Expenditure Fund	13,450	12,659
Housing Rehab Fund	-	12,380
Storm Sewer Fund	12,380	2,015
	<u>\$ 383,086</u>	<u>\$ 383,086</u>
Total Governmental Funds	<u>\$ 383,086</u>	<u>\$ 383,086</u>
	<u>\$ 383,086</u>	<u>\$ 383,086</u>
Total Interfund Operating Transfers	<u>\$ 383,086</u>	<u>\$ 383,086</u>

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 10: RESTRICTED FUND BALANCES/NET POSITION

The restrictions of fund balance/Net Position included in the fund governmental financial statements represent portions of fund balances/Net Position that are restricted for various purposes and are not available for payment of other subsequent expenditures. The following constraints included in the fund financial statements:

Governmental FundsGeneral Fund

Non-Spendable - Prepaid Assets		\$ 51
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Capital Project Fund

Restricted for capital projects		1,115,598
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Fire Equipment Fund

Restricted for the fire department usage		140,930
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Recreation Fund

Restricted for recreational program usage		178,360
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Liquid Fuels Fund

Restricted for Public Works and Highway projects		21,592
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Non-Major Funds

Restricted for Street Lighting usage	\$ 12,561		
Restricted for Library usage	126,465		
Restricted for Storm Sewer Projects	43,715		
Restricted under Act 13	3,568		
Restricted for the Recycling Program	21,261		
Restricted for Employee Pension	1,079		
Total Non- Major Funds	208,649		208,649

Fiduciary FundsGeneral Employee Pension Trust Fund

This amount represents amount restricted for General Employees Define Benefits Plan		1,283,130
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This amount represents amount restricted for General Employees Defined Contributin Plan		8,182
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Police Pension Trust Fund

This amount represents amounts restricted for the payment for the Police Pension Benefits.		2,596,056
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BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

NOTE 11: LITIGATION

In the normal course of business, there are various claims and suits pending against the Borough and its elected officials. Management is of the opinion that these matters will not have a material adverse effect on the Borough's financial position at December 31, 2012.

NOTE 12: PRIOR PERIOD ADJUSTMENT

In 2011 the Borough and the Fire Company were in the process of refurbishing the Fire Company Building. In 2011 the total expenditures to the Fire Company building was \$186,937. The prior year adjustment to building assets was a net cost of \$186,937. The following adjustment was required to restate Net Position:

	12/31/2011	Additions	Retirement	1/1/2012 Restated
Buildings	\$ 2,183,379	\$ 186,937	\$ -	\$ 2,370,316
Accumulative Depreciation	(1,385,177)	-	-	(1,385,177)
		186,937	-	
Net Adjustment to Capital Assets			186,937	
Net Position -Beginning of Year			\$ 3,622,617	
Prior Perod Adjustment			186,937	
Net Position - Beginning (Restated)			\$ 3,809,554	

NOTE 13: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

~~Fire Equipment Fund expenditures exceeded the amount budgeted by \$ 16,252. The over expenditures in the Fire Equipment Fund was excess expenditures in the capital building project. The excess expenditures were paid through fund balance.~~

NOTE 14: SUBSEQUENT EVENTS

During January 2013 the Borough issued a Tax and Revenue Anticipation Note with a financial institution in the aggregate principal amount of \$300,000 at a fixed interest rate of 1.50%.

REQUIRED
SUPPLEMENTARY
INFORMATION

BOROUGH OF CLARION
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 GENERAL FUND - BUDGET TO ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Real Estate Taxes	\$ 641,765	\$ 641,765	\$ 617,270	\$ (24,495)
Act 511 Taxes	382,505	382,505	452,952	70,447
Licenses and Permits	161,580	161,580	165,588	4,008
Fines	147,355	147,355	129,917	(17,438)
Interest and Rents	1,570	1,570	1,912	342
Intergovernmental Revenues	13,140	13,140	15,240	2,100
Charges for Services	119,050	119,050	129,477	10,427
Miscellaneous	2,500	2,500	4,297	1,797
Refunds	2,500	2,500	-	(2,500)
Total Revenues	1,471,965	1,471,965	1,516,653	44,688
Expenditures:				
Current:				
General Government	288,935	288,935	220,715	68,220
Public Safety	893,960	893,960	857,564	36,396
Public Works	384,240	384,240	372,774	11,466
Miscellaneous	275	275	85	190
Debt Service	90	90	150	(60)
Total Expenditures	1,567,500	1,567,500	1,451,288	116,212
Excess of Revenues Over (Under) Expenditures	(95,535)	(95,535)	65,365	160,900
Other Financing Sources (Uses)				
Loan Proceeds	58,000	58,000	54,611	(3,389)
Tax Anticipation Note	300,000	300,000	-	(300,000)
Sale of Capital Assets	500	500	5,235	4,735
Tax Anticipation Note (Payment)	(300,000)	(300,000)	-	300,000
Operating Transfers In	34,850	34,850	84,353	49,503
Operating Transfers (Out)	(20,500)	(20,500)	(89,599)	(69,099)
Total Other Financing Uses	72,850	72,850	54,600	(18,250)
Excess of Revenues and Other Financing Uses Under Expenditures	(22,685)	(22,685)	119,965	142,650
Fund Balances - January 1, 2012	275,592	275,592	275,592	-
Fund Balances - December 31, 2012	\$ 252,907	\$ 252,907	\$ 395,557	\$ 142,650

BOROUGH OF CLARION
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 LIQUID FUEL FUND (HIGHWAY AID) - BUDGET TO ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental Revenue	\$ 109,512	\$ 109,512	\$ 109,196	(316)
Miscellaneous	50	50	2,475	2,425
Interest and Rents	10	10	30	20
Total Revenues	<u>109,572</u>	<u>109,572</u>	<u>111,701</u>	<u>2,129</u>
Expenditures:				
Current:				
Public Works	108,500	108,500	104,883	3,617
Total Expenditures	<u>108,500</u>	<u>108,500</u>	<u>104,883</u>	<u>3,617</u>
Excess of Revenues Over Expenditures	1,072	1,072	6,818	5,746
Other Financing Sources (Uses)				
Sale of Capital Assets	100	100	-	(100)
Operating Transfer In	20,500	20,500	28,740	8,240
Operating Transfer (Out)	(20,500)	(20,500)	(28,740)	(8,240)
Total Other Financing Sources (Uses)	<u>100</u>	<u>100</u>	<u>-</u>	<u>(100)</u>
Excess of Revenues and Other Financing Sources Over Expenditures	<u>1,172</u>	<u>1,172</u>	<u>6,818</u>	<u>5,646</u>
Fund Balances - January 1, 2012	<u>14,774</u>	<u>14,774</u>	<u>14,774</u>	<u>-</u>
Fund Balances - December 31, 2012	<u>\$ 15,946</u>	<u>\$ 15,946</u>	<u>\$ 21,592</u>	<u>\$ 5,646</u>

BOROUGH OF CLARION
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 RECREATION FUND - BUDGET TO ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Real Estate Taxes	\$ 22,290	\$ 22,290	\$ 21,499	\$ (791)
Interest and Rents	35	35	9,710	9,675
Charges for Services	25,650	25,650	40,427	14,777
Intergovernmental Revenue	55,935	55,935	56,878	943
Miscellaneous	650	650	32,382	31,732
Refunds of Prior Year Expenditures	250	250	-	(250)
Contributions	250	250	500	250
Total Revenues	<u>105,060</u>	<u>105,060</u>	<u>161,396</u>	<u>56,336</u>
Expenditures:				
Current:				
Recreation	<u>217,385</u>	<u>217,385</u>	<u>176,179</u>	<u>41,206</u>
Total Expenditures	<u>217,385</u>	<u>217,385</u>	<u>176,179</u>	<u>41,206</u>
Excess of Revenues Under Expenditures	(112,325)	(112,325)	(14,783)	97,542
Other Financing Uses				
Operating Transfers In			20,000	20,000
Operating Transfers (Out)	-	-	(34,606)	(34,606)
Total Other Financing Uses	<u>-</u>	<u>-</u>	<u>(14,606)</u>	<u>(14,606)</u>
Excess of Revenues and Other Financing Uses Under Expenditures	<u>(112,325)</u>	<u>(112,325)</u>	<u>(29,389)</u>	<u>82,936</u>
Fund Balances - January 1, 2012	<u>207,749</u>	<u>207,749</u>	<u>207,749</u>	<u>-</u>
Fund Balances - December 31, 2012	<u>\$ 95,424</u>	<u>\$ 95,424</u>	<u>\$ 178,360</u>	<u>\$ 82,936</u>

BOROUGH OF CLARION
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 FIRE EQUIPMENT FUND - BUDGET TO ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues:				
Real Estate Tax	\$ 62,900	\$ 62,900	\$ 84,901	2,001
Intergovernmental Revenue	1,250	1,250	1,103	(147)
Charges for Services	8,200	8,200	8,200	-
Contributions	250	250	24,702	24,452
Interest and Rents	10	10	3,418	3,408
Total Revenues	72,610	72,610	102,324	29,714
Expenditures:				
Current:				
Public Safety	84,365	84,365	100,617	(16,252)
Total Expenditures	84,365	84,365	100,617	(16,252)
Excess of Revenues Over Expenditures	(11,755)	(11,755)	1,707	13,462
Other Financing Sources (Uses)				
Operating Transfer In	-	-	-	-
Operating Transfer (Out)	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Excess of Revenues and Other Financing Sources Over Expenditures	(11,755)	(11,755)	1,707	13,462
Fund Balances - January 1, 2012	152,027	152,027	139,223	(12,804)
Fund Balances - December 31, 2012	\$ 140,272	\$ 140,272	\$ 140,930	\$ 658

BOROUGH OF CLARION
 REQUIRED SUPPLEMENTARY INFORMATION
 GENERAL EMPLOYEES PENSION PLAN
 DECEMBER 31, 2012

SCHEDULE OF FUNDING PROGRESS

Year Ending January 1	Actuarial Valuation Date	(1) Actuarial Value Of Assets	(2) Actuarial Accrued Liability (AAL) - Entry Age	(3) Unfunded AAL (UAAL)	(4) Funded Ratio	(5) Covered Payroll	(6) UAAL as a % of Covered Payroll
2001	1/1/2001	\$ 775,294	\$ 754,240	\$(21,054)	102.8%	\$ 257,350	N/A
2003	1/1/2003	765,648	968,836	203,188	79.0	257,609	78.9%
2005	1/1/2005	950,643	1,100,736	150,093	86.4	287,910	52.1
2007	1/1/2007	1,150,865	1,264,585	113,720	91.0	300,365	37.9
2009	1/1/2009	1,069,761	1,369,611	299,850	78.1	305,825	98.0
2011	1/1/2011	1,179,775	1,416,625	236,850	83.3	253,051	93.6

BOROUGH OF CLARION
 REQUIRED SUPPLEMENTARY INFORMATION
 POLICE PENSION PLAN
 DECEMBER 31, 2012

SCHEDULE OF FUNDING PROGRESS

Year Ending January 1	Actuarial Valuation Date	(1) Actuarial Value Of Assets	Actuarial Accrued Liability (AAL) - Entry Age	(3) Unfunded AAL (UAAL)	(4) Funded Ratio	(5) Covered Payroll	(6) UAAL as a % of Covered Payroll
2001	1/1/2001	\$ 2,085,026	\$ 1,176,707	\$ (908,319)	177.2%	\$ 276,568	N/A
2003	1/1/2003	1,911,677	1,461,773	(449,904)	130.8	340,714	N/A
2005	1/1/2005	2,241,319	1,666,363	(574,956)	134.5	328,135	N/A
2007	1/1/2007	2,482,485	1,855,837	(626,648)	133.8	374,833	N/A
2009	1/1/2009	2,242,196	2,065,976	(176,222)	108.5	398,981	N/A
2011	1/1/2011	2,356,303	2,282,521	(73,782)	103.2	409,468	N/A

OTHER
SUPPLEMENTARY
INFORMATION

BOROUGH OF CLARION
 COMBINING BALANCE SHEET - SPECIAL REVENUE FUNDS
 DECEMBER 31, 2012

	Street Lighting Fund	Library Fund	Storm Sewer Fund	ACT 13 Fund	Recycling Fund	Insurance Expense Fund	Pension Fund	Housing Rehab Fund	Total Nonmajor Governmental Funds
Assets									
Cash and cash equivalents	\$ 15,112	\$ 4,270	\$ 45,637	\$ 3,568	\$ 23,902	\$ -	\$ 1,079	\$ -	\$ 93,568
Investments	-	120,596	-	-	-	-	-	-	120,596
Accounts receivable	-	135	-	-	1,887	-	-	-	2,022
Taxes receivable	7,874	5,688	-	-	2,917	-	-	-	16,479
Total Assets	\$ 22,986	\$ 130,689	\$ 45,637	\$ 3,568	\$ 28,706	\$ -	\$ 1,079	\$ -	\$ 232,665
Liabilities and Fund Balance									
Liabilities:									
Accounts payable	\$ 4,622	\$ -	\$ 1,922	\$ -	\$ 4,986	\$ -	\$ -	\$ -	\$ 11,530
Deferred revenue	5,803	4,224	-	-	2,459	-	-	-	12,486
Total Liabilities	10,425	4,224	1,922	-	7,445	-	-	-	24,016
Fund Balances:									
Restricted									
General Government	-	-	-	3,568	-	-	1,079	-	4,647
Public Works	12,561	-	-	-	21,261	-	-	-	33,822
Culture and Recreation	-	126,465	-	-	-	-	-	-	126,465
Capital Project Funds	-	-	43,715	-	-	-	-	-	43,715
Total Fund Balance	12,561	126,465	43,715	3,568	21,261	-	1,079	-	208,649
Total Liabilities and Fund Balances	\$ 22,986	\$ 130,689	\$ 45,637	\$ 3,568	\$ 28,706	\$ -	\$ 1,079	\$ -	\$ 232,665

BOROUGH OF CLARION
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Street Lighting Fund	Library Fund	Storm Sewer Fund	ACT 13 Fund	Recycling Fund	Insurance Expense Fund	Pension Fund	Housing Rehab Fund	Total Nonmajor Governmental Funds
Revenues:									
Real estate taxes	\$ 54,469	\$ 39,079	\$ -	\$ -	\$ 20,108	\$ -	\$ -	\$ -	\$ 113,656
Intergovernmental revenues	914	660	44,213	-	26,210	-	112,594	-	184,591
Charges for Services	-	-	63	3,568	115	33,317	-	-	37,063
Interest and rents	10	3,406	-	-	14	4	13	-	3,447
Total Revenues	55,393	43,145	44,276	3,568	46,447	33,321	112,607	-	338,757
Expenditures:									
Current:									
General Government	-	-	-	-	-	34,112	-	-	34,112
Public Safety	-	-	-	-	-	-	78,471	-	78,471
Public Works	53,872	-	13,326	-	33,745	-	69,174	-	170,117
Culture and Recreation	-	48,000	-	-	-	-	-	-	48,000
Total Expenditures	53,872	48,000	13,326	-	33,745	34,112	147,645	-	330,700
Excess of Revenues Over Expenditures	1,521	(4,855)	30,950	3,568	12,702	(791)	(35,038)	-	8,057
Other Financing Sources (Uses):									
Operating transfers in	7,190	-	12,380	-	-	13,450	20,219	-	53,239
Operating transfers out	(6,787)	-	(2,015)	-	(196,300)	(12,659)	-	(12,380)	(230,141)
Total Other Financing Sources (Uses)	403	-	10,365	-	(196,300)	791	20,219	(12,380)	(176,902)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	1,924	(4,855)	41,315	3,568	(183,598)	-	(14,819)	(12,380)	(168,845)
Fund Balance									
Beginning of year	10,637	131,320	2,400	-	204,859	-	15,898	12,360	377,494
End of year	\$ 12,561	\$ 126,465	\$ 43,715	\$ 3,568	\$ 21,261	\$ -	\$ 1,079	\$ -	\$ 208,649