

BOROUGH OF CLARION
CLARION, PENNSYLVANIA
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

BOROUGH OF CLARION
YEAR ENDED DECEMBER 31, 2016

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Zelenkofske Axelrod LLC

INDEPENDENT AUDITOR'S 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, 2016, 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.

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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, 2016, 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 2016 the Borough adopted the provisions of Governmental Accounting Standards Board Statement No. 72, "*Fair Value Measurement and Application*", Statement No. 73 "*Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*", Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*", Statement No.77, "*Tax Abatement Disclosures*", Statement No.78, "*Pension Provided through Certain Multiple-Employer Defined Benefit Pension Plans*", and Statement No. 79, "*Certain External Investment Pools and Pool Participants*". Our opinion is not modified in respect to these matters.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of revenues, expenditures, and changes in fund balance budget to actual comparison, employees and police retirement fund schedule of borough's contributions and investment return for the last ten years, employees and police retirement fund schedules of changes in the net pension liability and related ratios information on pages 4 through 14 and 52 through 59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management 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.

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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 Other Supplementary Information on pages 61 through 64 is not a required part of the financial statements. The Other Supplementary Information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The Other Supplementary Information has 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 Other Supplementary Information is fairly stated in all material respects in relation to the basic financial statements as a whole.

ZELENKOFKSKE AXELROD LLC

Zelenkofske Axelrod LLC

Pittsburgh, Pennsylvania
June 16, 2017

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, 2016. Prior year comparative information is presented.

FINANCIAL HIGHLIGHTS

- The Borough's total Net Position at the end of 2016 was \$3,213,292.
- The General Fund unassigned Fund Balance was \$390,713 at the end of 2016.
- Total Governmental Funds Revenues of \$2,133,167 were collected in 2016, of which \$1,713,259 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.

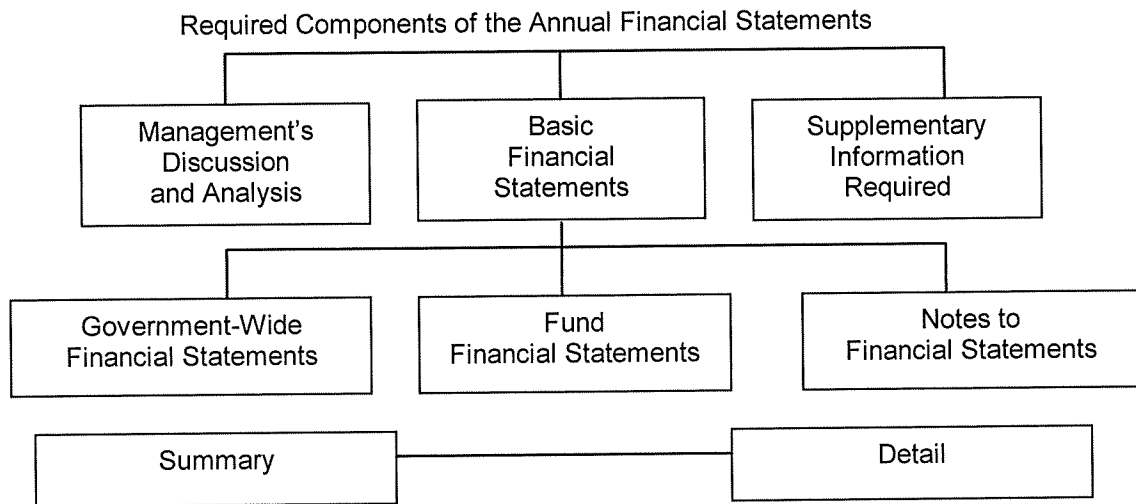
The basic financial statements present two different views of the Borough.

- *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 and deferred outflows was \$3,879,810 at December 31, 2016. Of this amount, \$1,400,170 was capital assets at December 31, 2016.

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 2015	Governmental Activities 2016	Changes from 2015 to 2016
Capital Assets	\$ 1,417,771	\$ 1,400,170	\$ (17,601)
Other Assets	2,210,357	2,220,328	9,971
Total Assets	3,628,128	3,620,498	(7,630)
Deferred Outflows	261,190	259,312	(1,878)
Total Assets and Deferred Outflows	\$ 3,889,318	\$ 3,879,810	\$ (9,508)
Current Liabilities	\$ 208,050	\$ 222,652	\$ 14,602
Long-Term Liabilities	177,335	223,637	46,302
Total Liabilities	385,385	446,289	60,904
Deferred Inflows	306,488	220,229	(86,259)
<u>Net Position:</u>			
Net Investment in Capital Assets	1,297,996	1,211,120	(86,876)
Restricted Net Position	1,300,485	1,420,256	119,771
Unrestricted Net Position	598,964	581,916	(17,048)
Total Net Position	3,197,445	3,213,292	15,847
Total Liabilities, Deferred Inflows, and Net Position	\$ 3,889,318	\$ 3,879,810	\$ (9,508)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The following statement of activities represents changes in Net Position for the years ended December 31, 2015 and 2016. 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 2015	Governmental Activities 2016	Changes from 2015 to 2016	Percentage Change
Program Revenues:				
Charges for Services	\$ 609,945	\$ 492,091	\$ (117,854)	-19.3%
Operating Grants and Contributions	416,363	276,744	(139,619)	-33.5%
General Revenues:				
Real Estate Taxes	858,411	867,391	8,980	1.0%
Act 511 Taxes	465,184	449,680	(15,504)	-3.3%
Interest Revenue	28,605	25,372	(3,233)	-11.3%
Miscellaneous Income	-	14,658	14,658	-100%
Sale of Capital Assets	100	29,500	29,400	29400.0%
Total Revenues	<u>2,378,608</u>	<u>2,155,436</u>	<u>(223,172)</u>	<u>-9.4%</u>
Expenses:				
General Government	232,015	240,412	8,397	3.6%
Public Safety	1,309,915	1,123,676	(186,239)	-14.2%
Public Works	827,186	618,421	(208,765)	-25.2%
Culture and Recreation	319,430	110,490	(208,940)	-65.4%
Interest on Long Term Debt	6,594	46,590	39,996	606.6%
Total Expenses	<u>2,695,140</u>	<u>2,139,589</u>	<u>(555,551)</u>	<u>-20.6%</u>
Changes in Net Position	<u>\$ (316,532)</u>	<u>\$ 15,847</u>	<u>\$ 332,379</u>	<u>-105.0%</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 2016, revenue from real estate taxes and Act 511 taxes was \$867,391 and \$449,680, respectively.

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

	2015		2016	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
General Government	\$ 232,015	\$ (39,132)	\$ 240,412	\$ 24,123
Public Safety	1,309,915	(960,650)	1,123,676	(890,568)
Public Works	827,186	(445,183)	618,421	(373,509)
Culture and Recreation	319,430	(217,273)	110,490	(84,210)
Interest on Long Term Debt	6,594	(6,594)	46,590	(46,590)
Total	\$ 2,695,140	\$ (1,668,832)	\$ 2,139,589	\$ (1,370,754)

The Borough relied on real estate taxes, earned income taxes and other general revenues to fund 64.07% of its governmental activities in 2016.

Capital Assets

The Borough's investment in capital assets at December 31, 2016, net of accumulated depreciation, was \$1,400,170. Capital assets consist primarily of land, buildings, equipment and vehicles. The following is a summary of capital assets at December 31, 2016:

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

	Governmental Activities 2015	Governmental Activities 2016	Changes from 2015 to 2016
Land	\$ 229,794	\$ 229,794	\$ -
Buildings and Improvements	2,418,478	2,424,598	6,120
Equipment	702,686	727,428	24,742
Vehicles	707,226	715,961	8,735
Accumulated Depreciation	(2,640,413)	(2,697,611)	(57,198)
Total Net Capital Assets	\$ 1,417,771	\$ 1,400,170	\$ (17,601)

Detailed information about the Borough's capital assets can be found in Note 5, Notes to the Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Debt Administration

The Borough's long term debt activity for 2016 is as follows and is detailed in Note 8 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	\$ 119,775	\$ 121,819	\$ 52,544	\$ 189,050
Compensated Absences	84,010	13,151	25,910	71,251
Total Long Term Debt	<u>\$ 203,785</u>	<u>\$ 134,970</u>	<u>\$ 78,454</u>	<u>\$ 260,301</u>

The loan and note payable balance as of December 31, 2016 is \$189,050.

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, unassigned 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 57.0% of 2016 Governmental revenues. Taxes decreased in 2016 by \$25,912. In 2016, Real Estate tax decreased by \$10,408 due to tax appeals and Act 511 taxes decreased by \$15,504. The 2016 mill rate remained at 22.0 mills in 2016. The General Fund mill rate increased 1.50 mills from 15.595 to 17.095. The Street Light fund remained at 1.10 mills. The Recreation Fund remained the same at .5 mills. The Library Fund mill rate decreased by .50 mills from 1.475 to .975. The Fire Equipment Fund mill rate decreased by 1.0 mill from 2.63 mills to 1.63 mills. The Recycling Fund mill rate remained the same at .70 mills. Intergovernmental revenue decreased in 2016 by \$139,618 due to a decrease of CDBG grant funding in the amount of \$156,688. Licenses and permits decreased in 2016 by \$27,411. The decrease was due to fewer building permits issued in 2016. Sale of Capital Assets increased by \$29,400 in 2016 due to the sale of a police car and a front-end loader.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Governmental fund revenues by source at December 31, 2015 and 2016 were as follows:

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

Revenues:	2015	2016	Variance	Percentage of Change
Taxes	\$ 1,364,872	\$ 1,338,960	\$ (25,912)	-1.9%
Licenses, fees and permits	264,051	236,640	(27,411)	-10.4%
Charges for services	234,958	148,180	(86,778)	-36.9%
Fines and forfeits	82,184	90,579	8,395	10.2%
Intergovernmental	416,362	276,744	(139,618)	-33.5%
Interest and rents	30,024	26,791	(3,233)	-10.8%
Other Income	26,833	14,773	(12,060)	-44.9%
Contributions	500	500	-	0.0%
Loan proceeds	62,700	184,819	122,119	194.8%
Sale of capital assets	100	29,500	29,400	29400.0%
Total revenues	\$ 2,482,584	\$ 2,347,486	\$ (135,098)	-5.4%

GOVERNMENTAL FUND EXPENDITURES decreased 18.4% or \$500,886 during 2016. The Administration department of the general government increased 2.2% or \$5,425. The Public Works program decreased 15.0% or \$111,984 from 2015. The CDBG program had expenditures of \$5,945 which was a decrease from 2015 of \$156,688. The Capital Project Fund expended \$52,727, a decrease of \$50,648 from 2015 for storm sewer repairs which were not needed in 2016. Culture and Recreation decreased \$200,907 in 2016. Weaver Park had improvements of \$109,598 in 2015; but in 2016, the amount expended was only \$13,978. In 2015, the Library Fund had expenditures of \$149,616. In 2016, the Library Fund had expenditures of \$45,773. This decrease is due to the Borough paying off the library allocation in 2015. The Public Safety expenditures had a net decrease of 18.5% or (\$244,403). The Police department decreased in 2016 by \$16,713 due to a staffing decrease and the Fire Equipment fund decreased \$174,759 in 2016. In 2015 the Fire Equipment Fund had Contributions of \$109,024 to pay off the Fire Company Allocation. The Public Safety function alone accounts for 48.62% of total governmental fund expenditures. Public Works accounts for 28.71% and Administration accounts for 11.28% of the total governmental fund expenditures. Culture and Recreation is 4.15% of total governmental fund expenditures.

Governmental fund expenditures by function at December 31, 2015 and 2016 were as follows:

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

Expenditures	2015	2016	Net Change	% of Change
Administration	\$ 244,429	\$ 249,854	\$ 5,425	2.2%
Public Safety	1,321,633	1,077,230	(244,403)	-18.5%
Public Works	748,013	636,029	(111,984)	-15.0%
Culture and Recreation	292,941	92,034	(200,907)	-68.6%
Capital Projects	103,375	52,727	(50,648)	-49.0%
Debt Service	4,802	106,199	101,397	2111.6%
Miscellaneous	1,198	1,432	234	19.5%
Total Expenditures	\$ 2,716,391	\$ 2,215,505	\$ (500,886)	-18.4%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

GOVERNMENTAL FUND BALANCES

Ending Balances for Governmental Funds at December 31, 2016:

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

<u>Funds</u>	<u>Governmental Funds</u>
General Fund	\$ 390,713
Liquid Fuel Fund	111,276
Recreation Fund	180,219
Capital Projects	1,050,716
Fire Equipment Fund	47,310
Other Governmental Funds	<u>30,514</u>
Total	<u>\$ 1,810,748</u>

Financial Highlights – The 2016 General Fund revenues were under expenditures by \$98,534. The Other Financing Sources reported an increase of \$109,105. The General Fund in 2016 reported a net increase of \$10,571. The General Fund balance increased to \$390,713.

Economic Conditions – The 2016 assessed valuation totals \$141,099,638 of which 71.66% (\$101,117,599) is non-taxable and 28.34% (\$39,982,039) 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 tax millage in the 2017 Budget remained at 22.0 mills. The 2017 mill rates for the various funds are: General Fund stayed the same at 17.095 mills, Street Lighting stayed the same at 1.1 mills, Fire Equipment Fund stayed the same at 1.63 mills, Library Fund remained the same at .975 mills, Recreation Fund stayed the same at .50 mills, and the Recycling Fund stayed the same at .70 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
Council President
1400 East Main Street
Clarion, PA 16214

BOROUGH OF CLARION
STATEMENT OF NET POSITION
DECEMBER 31, 2016

<u>Assets</u>	<u>Governmental Activities</u>
Current Assets:	
Cash and cash equivalents	\$ 1,660,557
Investments	157,775
Accounts receivable	23,309
Taxes receivable, net	190,914
Prepaid assets	1,420
Total Current Assets	<u>2,033,975</u>
Noncurrent Assets:	
Land	229,794
Buildings and Improvements	2,424,598
Equipment	727,428
Vehicles	715,961
Accumulated depreciation	(2,697,611)
Total Capital Assets	<u>1,400,170</u>
Pension Asset	186,353
Total Noncurrent Assets	<u>1,586,523</u>
Total Assets	<u>3,620,498</u>
 <u>Deferred Outflows of Resources</u>	
Pensions	<u>259,312</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 3,879,810</u>
 <u>Liabilities</u>	
Current Liabilities:	
Accounts payable	\$ 57,912
Other accrued liabilities	30,419
Line of Credit	76,900
Current portion of long-term debt	57,421
Total Current Liabilities	222,652
Noncurrent Liabilities:	
Compensated absences	71,251
Non-current portion of long-term debt	131,629
Net Pension Liability	20,757
Total Noncurrent Liabilities	223,637
Total Liabilities	<u>446,289</u>
 <u>Deferred Inflows of Resources</u>	
Pensions	<u>220,229</u>
 <u>Net Position</u>	
Net Investment in Capital Assets	1,211,120
Restricted	
Program	368,540
Capital Projects	1,050,716
Debt Service	1,000
Unrestricted	581,916
Total Net Position	<u>3,213,292</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 3,879,810</u>

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

BOROUGH OF CLARION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

Functions/Programs	Program Revenues			Net (Expenses) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	
Primary Government:					
Governmental Activities:					
General Government - Administration	\$ 240,412	\$ 250,390	\$ 14,145	\$ 24,123	
Public Safety	1,123,676	211,444	21,664	(890,568)	
Public Works	618,421	3,977	240,935	(373,509)	
Culture and Recreation	110,490	26,280	-	(84,210)	
Interest Expense	46,590	-	-	(46,590)	
Total Governmental Activities	2,139,589	492,091	276,744	(1,370,754)	
Total Primary Government	\$ 2,139,589	\$ 492,091	\$ 276,744	(1,370,754)	
General Revenues:					
Taxes:					
Real Estate				867,391	
Act 511				449,680	
Interest Revenue				25,372	
Miscellaneous Income				14,658	
Gain On sale of Capital Assets				29,500	
Total General Revenues				1,386,601	
Change in Net Position				15,847	
Net Position - Beginning				3,197,445	
Net Position - Ending				\$ 3,213,292	

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

BOROUGH OF CLARION
COMBINED BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2016

Assets	General Fund	Liquid Fuel Fund	Recreation Fund	Fire Equipment Fund	Capital Project Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 312,904	\$ 114,251	\$ 22,243	\$ 45,472	\$ 1,128,946	\$ 36,741	\$ 1,660,557
Investments	-	-	157,775	-	-	-	157,775
Accounts Receivable	23,219	-	-	90	-	-	23,309
Taxes receivable	157,214	-	2,630	13,838	-	17,232	190,914
Prepaid assets	1,420	-	-	-	-	-	1,420
Total Assets	\$ 494,757	\$ 114,251	\$ 182,648	\$ 59,400	\$ 1,128,946	\$ 53,973	\$ 2,033,975
Liabilities, Deferred Inflows and Fund Balance							
Liabilities:							
Accounts payable	\$ 36,292	\$ 2,975	\$ 326	\$ 3,270	\$ 1,330	\$ 13,719	\$ 57,912
Other accrued liabilities	29,619	-	800	-	-	-	30,419
Line of Credit	-	-	-	-	76,900	-	76,900
Total Liabilities	65,911	2,975	1,126	3,270	78,230	13,719	165,231
Deferred Inflows of Resources							
Unavailable Revenue - Property Taxes	38,133	-	1,303	8,820	-	9,740	57,996
Fund Balances:							
Restricted							
Administration	-	-	-	-	-	7,701	7,701
Public safety	-	-	-	47,310	-	-	47,310
Public works	-	111,276	-	-	-	1,882	113,158
Culture and Recreation	-	-	180,219	-	-	20,152	200,371
Capital Project Funds	-	-	-	-	1,050,716	-	1,050,716
Debt Service Fund	-	-	-	-	-	1,000	1,000
Unassigned	390,713	-	-	-	-	(221)	390,492
Total Fund Balances	390,713	111,276	180,219	47,310	1,050,716	30,514	1,810,748
Total Liabilities and Deferred Inflows of Resources and Fund Balances	\$ 494,757	\$ 114,251	\$ 182,648	\$ 59,400	\$ 1,128,946	\$ 53,973	\$ 2,033,975

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, 2016

Total fund balances of governmental funds \$ 1,810,748

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 \$1,711,296 accumulated depreciation.		713,302	
Equipment and Vehicles, net of \$986,315 accumulated depreciation.		<u>457,074</u>	
Total Capital Assets			1,400,170

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.

57,996

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	(189,050)		
Compensated Absences	(71,251)		
Deferred Outflows of Resources - Pension	259,312		
Deferred Inflows of Resources - Pension	(220,229)		
Net Pension Asset	186,353		
Net Pension Liability	(20,757)		
Total Long term Liabilities			<u>(55,622)</u>

Total net position of governmental activities	\$	<u>3,213,292</u>	
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STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

Revenues:	General Fund	Liquid Fuel Fund	Recreation Fund	Fire Equipment Fund	Capital Project Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Real estate taxes	\$ 686,491	\$ -	\$ 20,261	\$ 68,688	\$ -	\$ 113,840	\$ 889,280
Act 511 taxes	449,680	-	-	-	-	-	449,680
Licenses and permits	236,640	-	-	-	-	-	236,640
Fines and forfeitures	90,579	-	-	-	-	-	90,579
Intergovernmental revenues	13,867	148,418	-	-	-	114,459	276,744
Charges for services	98,187	-	20,826	12,700	-	16,467	148,180
Interest and rents	1,934	114	5,748	27	18,943	25	26,791
Contributions	-	-	500	-	-	-	500
Miscellaneous	7,618	101	2,500	4,554	-	-	14,773
Total Revenues	1,584,996	148,633	49,835	85,969	18,943	244,791	2,133,167
Expenditures:							
Current:							
Administration	249,854	-	-	-	-	-	249,854
Public safety	941,840	-	-	61,261	-	74,129	1,077,230
Public works	401,968	85,659	-	-	-	148,402	636,029
Culture and Recreation	-	-	46,261	-	-	45,773	92,034
Capital Projects	-	-	-	-	52,727	-	52,727
Miscellaneous	1,432	-	-	-	-	-	1,432
Debt Service	88,436	-	-	-	-	17,763	106,199
Total Expenditures	1,683,530	85,659	46,261	61,261	52,727	286,067	2,215,505
Excess (Deficiency) of Revenues Over Expenses	(98,534)	62,974	3,574	24,708	(33,784)	(41,276)	(82,338)
Other Financing Sources (Uses):							
Loan proceeds	121,819	-	-	-	63,000	-	184,819
Sale of fixed assets	29,500	-	-	-	-	-	29,500
Operating transfers in	1,155,365	-	1,200	-	1,134,889	61,489	2,352,943
Operating transfers out	(1,197,579)	-	(1,200)	(4,164)	(1,125,226)	(24,774)	(2,352,943)
Total Other Financing Sources (Uses)	109,105	-	-	(4,164)	72,663	36,715	214,319
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	10,571	62,974	3,574	20,544	38,879	(4,561)	131,981
Fund Balance							
Beginning of year	380,142	48,302	176,645	26,766	1,011,837	35,075	1,678,767
End of year	\$ 390,713	\$ 111,276	\$ 180,219	\$ 47,310	\$ 1,050,716	\$ 30,514	\$ 1,810,748

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, 2016

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

Net change in fund balances - total governmental funds \$ 131,981

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. The Net Change in Capital Assets is the Net Capital Additions of \$156,512, less the Net Depreciation of \$169,161 and Net Book Value of Assets Disposed of \$4,952.

Net Capital Additions	(156,512)	
Net Depreciation	169,161	
Net Book Value of Assets Disposed	4,952	
Net Change in Capital Assets	(17,601)	(17,601)

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 12/31/15 to 12/31/16.

(21,889)

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 premiums and discounts 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:

Principal Repayments	52,544	
Debt Proceeds	(121,819)	(69,275)

Some expenses reported in the statement of activities do not require the use of current financial resources, and, therefore, are not reported as expenditures in governmental funds.

Change in Net Pension Liability and Deferred Amounts	(20,128)	
Change in Compensated Absences	12,759	(7,369)

Net change in governmental activities net position \$ 15,847

BOROUGH OF CLARION
STATEMENT OF FIDUCIARY NET POSITON
DECEMBER 31, 2016

	General Employees Defined Benefit Pension	General Employeess Define Contribution Pension	Police Pension	Total
Assets				
Cash	\$ 7,920	\$ -	\$ 6,046	\$ 13,966
Investments	1,470,738	-	3,418,747	4,889,485
Define Contribution Portion:				
Cash Equivalents	-	11,073	-	11,073
Investments Mutual Funds	-	19,195	-	19,195
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$ 1,478,658</u>	<u>\$ 30,268</u>	<u>\$ 3,424,793</u>	<u>\$ 4,933,719</u>
Liabilities				
Accounts Payable	\$ 226	\$ -	\$ 1,025	\$ 1,251
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities	<u>226</u>	<u>-</u>	<u>1,025</u>	<u>1,251</u>
Net Position Held in Trust for Employees' Pension Benefits	<u>\$ 1,478,432</u>	<u>\$ 30,268</u>	<u>\$ 3,423,768</u>	<u>\$ 4,932,468</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, 2016

	General Employee Defined Benefit Pension	General Employee Defined Contribution Pension	Police Pension	Total
Additions:				
Contributions:				
Member	\$ 3,636	\$ -	\$ 10,998	\$ 14,634
Municipal	-	7,135	-	7,135
Commonwealth	40,578	-	41,178	81,756
Total Contributions	44,214	7,135	52,176	103,525
Investment Income:				
Net appreciation (depreciation) in Fair Value of Investments	28,743	(1,361)	69,932	97,314
Interest	51,960	292	121,434	173,686
Investment Income	80,703	(1,069)	191,366	271,000
Total Additions	124,917	6,066	243,542	374,525
Deductions:				
Administrative expenses	7,659	-	8,657	16,316
Refund of Member Contributions	-	-	16,662	16,662
Retirement Benefits	93,779	-	116,397	210,176
Total Deductions	101,438	-	141,716	243,154
Net Increase	23,479	6,066	101,826	131,371
Net Position Held in Trust for Employees' Pension Benefits:				
Beginning of Year	1,454,953	24,202	3,321,942	4,801,097
End of Year	<u>\$ 1,478,432</u>	<u>\$ 30,268</u>	<u>\$ 3,423,768</u>	<u>\$ 4,932,468</u>

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

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

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. 61, "The Financial Reporting Entity: Omnibus – and amendment of GASB Statements Non.14 No. and No.39" 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, 2016

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, 2016

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.

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, 2016

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, 2016.

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

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*.

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

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

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

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 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 expensed as incurred.

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. Deferred Inflows/Outflows of Resources

The Statement of Net Position reports separate sections for deferred outflows and deferred inflows of resources. These separate financial statement elements represent a consumption or acquisition of net position that applies to a future period(s) and so will not be recognized as an outflow or inflow of resources (expense/revenue) until then. The Borough has two items that qualify for reporting in these categories: deferred outflows and inflows related to pensions, and unavailable tax revenue.

Deferred outflows and inflows of resources related to pensions are described further in Note 6. Annual changes to the net pension liability resulting from differences between expected and actual experience with regard to economic and demographic factors and from changes of assumptions about future economic or demographic factors or other inputs are deferred and amortized over a closed period equal to the average of the expected service lives of all employees that are provided with pension benefits determined for the period during which the changes occurred. Differences between projected and actual earnings on pension plan investments are amortized over a closed five-year period.

In the governmental funds balance sheet, the Borough only has one type of item, which arises under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable tax revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

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, 2016

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, 2016

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

The Borough adopted the provisions of Statement No. 72, "*Fair Value Measurement and Application*". The adoption of this statement had no effect on previously reported amounts.

The Borough adopted the provisions of Statement No. 73, "*Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*". The adoption of this statement had no effect on previously reported amounts.

The Borough adopted the provisions of Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*". The adoption of this statement had no effect on previously reported amounts.

The Borough adopted the provisions of Statement No. 77, "*Tax Abatement Disclosures*". The adoption of this statement had no effect on previously reported amounts.

The Borough adopted the provisions of Statement No. 78, "*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*". The adoption of this statement had no effect on previously reported amounts.

The Borough adopted the provisions of Statement No. 79, "*Certain External Investment Pools and Pool Participants*". The adoption of this statement had no effect on previously reported amounts.

11. Pending Changes in Accounting Principles

In June 2015, the GASB issued Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other than Pensions". The Borough of Clarion is required to adopt Statement No. 74 for its calendar year 2017 financial statements.

In June 2015, the GASB issued Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". The Borough of Clarion is required to adopt Statement No. 75 for its calendar year 2018 financial statements.

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

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 January of 2016, The GASB issued Statement No. 80 "*Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*". The Borough of Clarion is required to adopt statement No. 80 for its calendar year 2017 financial statements.

In March of 2016, The GASB issued Statement No. 81 "*Irrevocable Split-Interest Agreements*". The Borough of Clarion is required to adopt statement No. 81 for its calendar year 2017 financial statements.

In March of 2016, The GASB issued Statement No. 82 "*Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*". The Borough of Clarion is required to adopt statement No. 82 for its calendar year 2017 financial statements.

In November 2016, The GASB issued Statement No. 83 "*Certain Asset Retirement Obligations*". The Borough of Clarion is required to adopt statement No. 84 for its calendar year 2018 financial statements.

In January 2017, The GASB issued Statement No. 84 "*Fiduciary Activities*". The Borough of Clarion is required to adopt statement No. 84 for its calendar year 2018 financial statements.

In March of 2017, The GASB issued Statement No. 85 "*Omnibus 2017*". The Borough of Clarion is required to adopt statement No. 85 for its calendar year 2017 financial statements.

In May of 2017, The GASB issued Statement No. 86 "*Certain Debt Extinguishments*". The Borough of Clarion is required to adopt Statement No. 86 for its calendar year 2018 financial statements.

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

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

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

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 2016 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 Secretary/Treasurer 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.
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.

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

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, 2016 were as follows:

Deposits - Governmental Activities	
Cash	\$ 1,660,557
Investments	
Certificates of Deposits	40,478
Fixed Income Accounts	117,297
Total Cash and Investments	<u>\$ 1,818,332</u>
Pension	
Deposits - Pension Trust Funds	
Cash	\$ 25,039
Investments - Pension Trust Funds	
Mutual Funds - Equity	<u>4,908,680</u>
Total Pension Investments	<u>4,908,680</u>
Total Pension Cash and Investments	<u>\$ 4,933,719</u>

The Certificate of Deposits 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
Certificate of Deposit	\$ 40,478	\$ -	\$ 40,478	\$ -	\$ -
Fixed Income Accounts	117,297	117,297			

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, 2016, the Pension 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, 2016 were \$1,684,588 with a book value of \$1,685,596. Of the Borough's \$1,684,588 in deposits, \$1,409,549 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. The Borough does not have a formal investment policy related to custodial credit risk.

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 3: FAIR VALUE MEASUREMENTS

The Borough categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Borough has the following recurring fair value measurements as of December 31, 2016:

Certificates of Deposit - Valued using quoted market prices (Level 1 inputs)

Mutual Funds - Valued using quoted market prices (Level 1 inputs)

Fixed Income Funds - Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yield currently available on comparable securities of issuers with similar credit ratings. (Level 1 inputs)

The following table summarizes the assets of the Borough for which fair values are determined on a recurring basis as of December 31, 2016:

<u>Description</u>	<u>12/31/2016</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Other significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Mutual Funds	\$4,908,680	\$4,908,680	\$-	\$-
Fixed Income Investments	117,297	117,297	-	-
Certificates of Deposit	40,478	40,478	-	-
Totals	<u>\$5,066,455</u>	<u>\$5,066,455</u>	<u>\$-</u>	<u>\$-</u>

NOTE 4: 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 2016 are recorded as receivables, net of estimated uncollectibles. The net receivables collected during 2016 and expected to be collected within the first sixty (60) days of 2017 are recognized as revenue in 2016. 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 2016, was 17.095 mills for general purposes, .975 for the library, 1.63 for fire equipment, 1.10 for street lights, .5 mills for recreation, and .70 mills for recycling fund purposes on a total Borough assessed valuation of \$39,982,039.

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016, 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	229,794	-	-	229,794
Capital assets, being depreciated				
Buildings and Improvements	2,418,478	6,120	-	2,424,598
Equipment	702,686	115,400	90,658	727,428
Vehicles	707,226	34,992	26,257	715,961
Total capital assets, being depreciated	3,828,390	156,512	116,915	3,867,987
Less accumulated depreciation for:				
Buildings and Improvements	(1,646,589)	(64,707)	-	(1,711,296)
Equipment	(613,629)	(23,237)	90,658	(546,208)
Vehicles	(380,195)	(81,217)	21,305	(440,107)
Total accumulated depreciation	(2,640,413)	(169,161)	111,963	(2,697,611)
Total capital assets, being depreciated, net	1,187,977	(12,649)	228,878	1,170,376
Total capital assets, net	\$ 1,417,771	\$ (12,649)	\$ 228,878	\$ 1,400,170

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 5: CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions/programs as follows:

Governmental Activities

General government - Administrative	\$ 667
Public safety	58,909
Public works	81,159
Culture and recreation	<u>28,426</u>
Total Depreciation Expense, Governmental Activities	<u>\$ 169,161</u>

NOTE 6: EMPLOYEES RETIREMENT PLANS

A. Pension Trust Funds

Plan 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 December 31, 2016, participants in the plans are as follows:

Participants:	General Employees	Police
	<hr/>	<hr/>
Retirees and beneficiaries	4	5
Terminated employees entitled to benefits but not yet receiving them	5	1
Active employees:	<u>2</u>	<u>9</u>
Total	<u>11</u>	<u>15</u>

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 6: 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 or liabilities, which are actuarially determined on a biannual basis, have been calculated as of January 1, 2015. 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, 2015, the most recent actuarial valuation date, the General Employees' Pension Plan was 99.9% funded and the Police Pension Plan was 110.3% funded.

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 6: EMPLOYEES RETIREMENT PLANS (CONTINUED)

Police Pension Plan Reporting

Net Pension Liability

The components of the net pension liability of the Police Pension Plan at December 31, 2016, were as follows:

Total Pension Liability	\$3,237,415
Plan Fiduciary Net Position	<u>(3,423,768)</u>
Net Pension Liability (Asset)	\$ (186,353)

Plan Fiduciary Net Position as a percentage of the total pension Liability	105.8%
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Changes in the Police's net pension asset for the Plan for the year ended December 31, 2016 were as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 12/31/15	\$ 3,045,522	\$ 3,321,942	\$ (276,420)
Service Cost	94,361	-	94,361
Interest Cost	230,591	-	230,591
Changes of Benefit Terms	-	-	-
Changes for Experience	-	-	-
Changes of Assumptions	-	-	-
Contributions - Employer	-	41,178	(41,178)
Contributions - Member	-	10,998	(10,998)
Net Investment Income	-	191,366	(191,366)
Benefit Payments, including			
Refunds of Member Contributions	(133,059)	(133,059)	-
Administrative Expense	-	(8,657)	8,657
Other Changes	-	-	-
Net Changes	<u>191,893</u>	<u>101,826</u>	<u>90,067</u>
Balances at 12/31/16	<u>\$ 3,237,415</u>	<u>\$ 3,423,768</u>	<u>\$ (186,353)</u>

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 6: EMPLOYEES RETIREMENT PLANS (CONTINUED)

Deferred Outflows of Resources

The total pension expense recognized in 2016 for the plan was \$46,574. At December 31, 2016, the County reported deferred outflows of resources related to the pension plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience	\$ -	\$ 119,115
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	178,858	-
Total	<u>\$ 178,858</u>	<u>\$ 119,115</u>

The deferred outflows and inflows of resources will be recognized in pension expense as follows:

<u>Year Ended December 31:</u>	<u>Governmental Activities</u>
2017	\$ 10,225
2018	10,225
2019	28,551
2020	10,742
Total	<u>\$ 59,743</u>

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 6: EMPLOYEES RETIREMENT PLANS (CONTINUED)

The schedule of changes in the net pension liability and related ratios, presented as other supplementary information following the notes to the financial statements, presents multiyear trend information about the plan.

Police Pension Plan Actuarial Methods and assumptions

Actuarial Assumptions: The total pension liability was determined by an actuarial valuation as of January 1, 2015 and rolled forward to the reporting date using the following significant actuarial assumptions applied to all periods included in the measurement:

Inflation:	3.0%
Salary increases:	5.5% including inflation
Mortality:	RP-2000 Combined Healthy Mortality Table with Blue Collar Adjustments, with rates set forward 5 years for disabled lives. Rates are projected to improve with 75% of scale AA.

Investments:

Investments in the plan are managed by Wells Fargo. Investments are recorded at fair value based on quoted market prices.

Investment policy. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by Borough Council by a majority vote of its members. It is the policy of Borough Council to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy utilizes a combination of actively and passively managed asset classes. Actively managed asset classes shall be managed with the objective to provide incremental returns relative to the appropriate market benchmarks. Passive strategies shall be managed with the objective of replicating the return of the appropriate benchmark. The following was the Police Pension Plan's adopted asset allocation policy as of December 31, 2016:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Range</u>
Equities	60.00%	40%-70%
Fixed Income	40.00%	30%-60%
Cash	0.00%	0%-15%
	<u>100.00%</u>	

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 6: EMPLOYEES RETIREMENT PLANS (CONTINUED)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which the best-estimate ranges of expected future real rates of return (expected returns, net of inflation and investment expenses not funded through the MMO) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the target asset allocation as of December 31, 2016 are summarized in the following table:

Asset Class	Long Term Expected Real Rate of Return
Equities	6.30%
Fixed Income	2.00%
Cash	0.00%

Discount rate. The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made equal to the Minimum Municipal Obligation. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payment to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate. The following shows the effect of a 1% change in the discount rate on the net pension liability:

	1% Decrease (6.50%)	Current Rate (7.50%)	1% Increase (8.50%)
Borough's Net Pension Liability	\$ 223,496	\$ (186,353)	\$ (531,181)

Rate of Return. For the year ended December 31, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, as 5.83 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

General Employees' Pension Plan Reporting

Net Pension Liability

The components of the net pension liability of the General Employees' Pension Plan at December 31, 2016, were as follows:

Total Pension Liability	\$ 1,499,189
Plan Fiduciary Net Position	<u>(1,478,432)</u>
Net Pension Liability	\$ 20,757

Plan Fiduciary Net Position as a percentage
of the total pension Liability

98.6%

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 6: EMPLOYEES RETIREMENT PLANS (CONTINUED)

Changes in the Employees' net pension liability for the Plan for the year ended December 31, 2016 were as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 12/31/15	\$ 1,461,268	\$ 1,454,953	\$ 6,315
Service Cost	23,775	-	23,775
Interest Cost	107,925	-	107,925
Changes of Benefit Terms	-	-	-
Changes for Experience	-	-	-
Changes of Assumptions	-	-	-
Contributions - Employer	-	40,578	(40,578)
Contributions - Member	-	3,636	(3,636)
Net Investment Income	-	80,703	(80,703)
Benefit Payments, including Refunds of Member Contributions	(93,779)	(93,779)	-
Administrative Expense	-	(7,659)	7,659
Other Changes	-	-	-
Net Changes	37,921	23,479	14,442
Balances at 12/31/16	\$ 1,499,189	\$ 1,478,432	\$ 20,757

Deferred Outflows of Resources

The total pension expense recognized in 2016 for the plan was \$(26,446). At December 31, 2016, the County reported deferred outflows of resources related to the pension plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ -	\$ 101,114
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	80,454	-
Total	\$ 80,454	\$ 101,114

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 6: EMPLOYEES RETIREMENT PLANS (CONTINUED)

The deferred outflows of resources will be recognized in pension expense as follows:

<u>Year Ended</u> <u>December 31:</u>	<u>Governmental</u> <u>Activities</u>
2017	\$ (15,330)
2018	(15,330)
2019	4,890
2020	5,110
Total	<u>\$ (20,660)</u>

The schedule of changes in the net pension liability and related ratios, presented as other supplementary information following the notes to the financial statements, presents multiyear trend information about the plan.

General Employees' Pension Plan Actuarial Methods and assumptions

Actuarial Assumptions: The total pension liability was determined by an actuarial valuation as of January 1, 2015 and rolled forward to the reporting date using the following significant actuarial assumptions applied to all periods included in the measurement:

Inflation:	3.0%
Salary increases:	5.0% including inflation
Mortality:	RP-2000 Combined Healthy Mortality Table, with rates set forward 5 years for disabled lives. Rates are projected to improve with 75% of scale AA.

Investments:

Investments in the plan are managed by Wells Fargo. Investments are recorded at fair value based on quoted market prices.

Investment policy. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by Borough Council by a majority vote of its members. It is the policy of Borough Council to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy utilizes a combination of actively and passively managed asset classes. Actively managed asset classes shall be managed with the objective to provide incremental returns relative to the appropriate market benchmarks. Passive strategies shall be managed with the objective of replicating the return of the appropriate benchmark. The following was the General Employees' Pension Plan's adopted asset allocation policy as of December 31, 2016:

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 6: EMPLOYEES RETIREMENT PLANS (CONTINUED)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Range</u>
Equities	60.00%	40%-70%
Fixed Income	40.00%	30%-60%
Cash	0.00%	0%-15%
	<u>100.00%</u>	

The long-term expected rate of return on pension plan investments was determined using a building-block method in which the best-estimate ranges of expected future real rates of return (expected returns, net of inflation and investment expenses not funded through the MMO) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the target asset allocation as of December 31, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Long Term Expected Real Rate of Return</u>
Equities	6.30%
Fixed Income	2.00%
Cash	0.00%

Discount rate. The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made equal to the Minimum Municipal Obligation. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payment to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate. The following shows the effect of a 1% change in the discount rate on the net pension liability:

	<u>1% Decrease (6.50%)</u>	<u>Current Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Borough's Net Pension Liability	\$ 172,705	\$ 20,757	\$ (109,369)

Rate of Return. For the year ended December 31, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, as 5.69 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 7: 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, up to 18 days annually, 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 up to 18 days annually, 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, 2016, the total liability for compensated absences was \$71,251. In 2016 the sick leave liability decreased \$12,759 due to two officers leaving the police department.

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, 2016

NOTE 8: 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	<u>\$ 119,775</u>	<u>\$ 121,819</u>	<u>\$ 52,544</u>	<u>\$ 189,050</u>	<u>\$ 57,421</u>
Total Loans and Note Payable	<u>119,775</u>	<u>121,819</u>	<u>52,544</u>	<u>189,050</u>	<u>57,421</u>
Other Liabilities					
Compensated Absences	<u>84,010</u>	<u>13,151</u>	<u>25,910</u>	<u>71,251</u>	<u>-</u>
	<u>84,010</u>	<u>13,151</u>	<u>25,910</u>	<u>71,251</u>	<u>-</u>
Governmental Activities Long-Term Liabilities	<u>\$ 203,785</u>	<u>\$ 134,970</u>	<u>\$ 78,454</u>	<u>\$ 260,301</u>	<u>\$ 57,421</u>

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

Years Ended December 31:	Principal Requirements	Interest Requirements	Total Debt Service Requirements
2017	\$ 57,421	\$ 4,113	\$ 61,534
2018	58,849	2,685	61,534
2019	42,703	1,291	43,994
2020	18,843	593	19,436
2021	<u>11,234</u>	<u>103</u>	<u>11,337</u>
Total Requirements	<u>\$ 189,050</u>	<u>\$ 8,785</u>	<u>\$ 197,835</u>

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

NOTE 8: LONG-TERM LIABILITIES (CONTINUED)

The following is a summary of general obligation debt outstanding:

Amount of Original Issue	Purpose	Balance Outstanding December 31, 2016
\$ 130,271	Note payable to be paid in 89 monthly installments starting in March 20, 2014 through July 20, 2021 with an interest rate of 2.75%. Proceeds were used to purchase a dump truck for the Public Works Department.	83,606
34,859	Note payable to be paid in 36 monthly installments starting in August 10, 2016 through July 10, 2019 with an interest rate of 2.30%. Proceeds were used to purchase a 2016 Police Vehicle, Ford Cruiser.	30,173
86,960	Note payable to be paid in 36 monthly installments starting in August 10, 2016 through July 10, 2019 with an interest rate of 2.30%. Proceeds were to purchase a 2016 front in-loader for the Public Works Department.	<u>75,271</u>
	Total Outstanding Debt as of December 31, 2016	<u>\$ 189,050</u>

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

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	\$ 1,155,365	\$ 1,197,579
Recreation Fund	1,200	1,200
Fire Equipment Fund	-	4,164
Capital Fund	1,134,889	1,125,226
<u>Non-Major Funds</u>		
Street Lighting	23,526	11,526
Pension Fund	5,000	-
Recycling	14,200	8,700
Impact Fee (Act 13 Fund)	-	4,548
Debt Service Fund	18,763	-
	<u> </u>	<u> </u>
Total Governmental Funds	<u>\$ 2,352,943</u>	<u>\$ 2,352,943</u>
Total Interfund Operating Transfers	<u><u>\$ 2,352,943</u></u>	<u><u>\$ 2,352,943</u></u>

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

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 Funds

Capital Project Fund

Restricted for capital projects	\$ 1,050,716
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Fire Equipment Fund

Restricted for the fire department usage	47,310
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Recreation Fund

Restricted for recreational program usage	180,219
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Liquid Fuels Fund

Restricted for Public Works and Highway projects	111,276
--	---------

Non-Major Funds

Restricted for Debt Service	\$ 1,000	
Restricted for Library usage	20,152	
Restricted under Act 13	5,010	
Restricted for Recycling usage	1,882	
Restricted for Employee Pension	2,691	
Total Non- Major Funds	30,735	30,735

Fiduciary Funds

General Employee Pension Trust Fund

This amount represents amount restricted for General Employees Define Benefits Plan	1,478,432
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This amount represents amount restricted for General Employees Defined Contribution Plan	30,268
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Police Pension Trust Fund

This amount represents amounts restricted for the payment for the Police Pension Benefits.	3,423,768
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BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016

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, 2016.

NOTE 12: SUBSEQUENT EVENTS

During January 2017 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%.

In April 2017 the Borough authorized and was approved for a 2017 General Obligation Note in the amount of \$59,102 for the purchase of a Public Works Truck.

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, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
Revenues:				
Real Estate Taxes	\$ 699,054	\$ 699,054	\$ 686,491	\$ (12,563)
Act 511 Taxes	456,735	456,735	449,680	(7,055)
Licenses and Permits	209,595	209,595	236,640	27,045
Fines	83,680	83,680	90,579	6,899
Interest and Rents	1,450	1,450	1,934	484
Intergovernmental Revenues	13,990	13,990	13,867	(123)
Charges for Services	73,100	73,100	98,187	25,087
Miscellaneous	5,500	5,500	7,618	2,118
Refunds	25	25	-	(25)
Total Revenues	1,543,129	1,543,129	1,584,996	41,867
Expenditures:				
Current:				
General Government	284,085	284,085	249,854	34,231
Public Safety	1,064,437	1,064,437	941,840	122,597
Public Works	465,550	465,550	401,968	63,582
Miscellaneous	275	275	1,432	(1,157)
Debt Service	333,050	333,050	88,436	244,614
Total Expenditures	2,147,397	2,147,397	1,683,530	463,867
Excess of Revenues Over (Under) Expenditures	(604,268)	(604,268)	(98,534)	505,734
Other Financing Sources (Uses)				
Proceeds from Long Term Debt	125,500	-	121,819	121,819
Tax Anticipation Note	300,000	300,000	-	(300,000)
Sale of Capital Assets	9,850	9,850	29,500	19,650
Tax Anticipation Note (Payment)	(300,000)	(300,000)	-	300,000
Operating Transfers In	-	-	1,155,365	1,155,365
Operating Transfers (Out)	(62,500)	(62,500)	(1,197,579)	(1,135,079)
Total Other Financing Uses	72,850	(52,650)	109,105	161,755
Excess of Revenues and Other Financing Uses Under Expenditures	(531,418)	(656,918)	10,571	667,489
Fund Balances - January 1, 2016	380,142	380,142	380,142	-
Fund Balances - December 31, 2016	\$ (151,276)	\$ (276,776)	\$ 390,713	\$ 667,489

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, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
Revenues:				
Intergovernmental Revenue	\$ 144,623	\$ 144,623	\$ 148,418	3,795
Miscellaneous	-	-	101	101
Interest and Rents	45	45	114	69
Refunds of Prior Year Expenditures	-	-	-	-
Total Revenues	144,668	144,668	148,633	3,965
Expenditures:				
Current:				
Public Works	120,935	120,935	85,659	35,276
Total Expenditures	120,935	120,935	85,659	35,276
Excess of Revenues Over Expenditures	23,733	23,733	62,974	39,241
Other Financing Sources (Uses)				
Sale of Capital Assets	-	-	-	-
Operating Transfer In	-	-	-	-
Operating Transfer (Out)	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Excess of Revenues and Other Financing Sources Over Expenditures	23,733	23,733	62,974	39,241
Fund Balances - January 1, 2016	48,302	48,302	48,302	-
Fund Balances - December 31, 2016	\$ 72,035	\$ 72,035	\$ 111,276	\$ 39,241

BOROUGH OF CLARION
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 RECREATION FUND - BUDGET TO ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
Revenues:				
Real Estate Taxes	\$ 20,652	\$ 20,652	\$ 20,261	\$ (391)
Interest and Rents	10	10	5,748	5,738
Charges for Services	21,800	21,800	20,826	(974)
Miscellaneous	400	400	2,500	2,100
Contributions	500	500	500	-
Total Revenues	43,362	43,362	49,835	6,473
Expenditures:				
Current:				
Recreation	59,425	59,425	46,261	13,164
Total Expenditures	59,425	59,425	46,261	13,164
Excess of Revenues Under Expenditures	(16,063)	(16,063)	3,574	19,637
Other Financing Uses				
Operating Transfers In	-	-	1,200	1,200
Operating Transfers (Out)	-	-	(1,200)	(1,200)
Total Other Financing Uses	-	-	-	-
Excess of Revenues and Other Financing Uses Under Expenditures	(16,063)	(16,063)	3,574	19,637
Fund Balances - January 1, 2016	176,645	176,645	176,645	-
Fund Balances - December 31, 2016	\$ 160,582	\$ 160,582	\$ 180,219	\$ 19,637

BOROUGH OF CLARION
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 FIRE EQUIPMENT FUND - BUDGET TO ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
Revenues:				
Real Estate Tax	\$ 69,436	\$ 69,436	\$ 68,688	(748)
Charges for Services	11,200	11,200	12,700	1,500
Miscellaneous	-	-	4,554	4,554
Interest and Rents	10	10	27	17
Total Revenues	80,646	80,646	85,969	5,323
Expenditures:				
Current:				
Public Safety	74,590	74,590	61,261	13,329
Total Expenditures	74,590	74,590	61,261	13,329
Excess of Revenues Over Expenditures	6,056	6,056	24,708	18,652
Other Financing Sources (Uses)				
Operating Transfer In	-	-	-	-
Operating Transfer (Out)	-	-	(4,164)	(4,164)
Total Other Financing Sources (Uses)	-	-	(4,164)	(4,164)
Excess of Revenues and Other Financing Sources Over Expenditures	6,056	6,056	20,544	14,488
Fund Balances - January 1, 2016	26,766	26,766	26,766	-
Fund Balances - December 31, 2016	\$ 32,822	\$ 32,822	\$ 47,310	\$ 14,488

Borough of Clarion
Employees' Retirement Fund
Schedule of Borough's Contributions and Investment Returns
Schedule of Borough's Contributions - Last Ten Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	\$ 40,578	\$ 49,066	\$ 53,447	\$ 58,428	\$ 62,989	\$ 61,571	\$ 66,462	\$ 60,515	\$ 59,231	\$ 55,680
Contribution in relations to the										
Actuarially determined contribution	40,578	49,066	53,447	58,428	64,371	74,253	67,600	74,296	67,941	58,174
Contribution Deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ (1,382)	\$ (12,682)	\$ (1,138)	\$ (13,781)	\$ (8,710)	\$ (2,494)
Covered-employee payroll	\$ 141,227	\$ 139,832	\$ 136,349	\$ 136,349	\$ 235,125	\$ 235,125	\$ 253,051	\$ 253,051	\$ 305,825	\$ 305,825
Contributions as a percentage of covered - employees payroll	28.7%	35.1%	39.2%	42.9%	27.4%	31.6%	26.7%	29.4%	22.2%	19.0%

Employees' Retirement Fund
Schedule of Investment Returns - Last Ten Years

	2016	2015	2014
Annual money-weighted rate of return net of investment expense	5.69%	0.66%	6.67%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 -year trend is compiled, Pension plans should present investment return information for those years for which information is available.

Notes to Schedule

Actuarially determined contribution rates are calculated as of January 1, one year prior to the end of the fiscal year in which contributions are reported.

	2016	2015	2014
Total Pension Liability	\$ 1,499,189	\$ 1,461,268	\$ 1,621,629
Plan Fiduciary net position	(1,478,432)	(1,454,953)	(1,504,288)
Net pension liability	\$ 20,757	\$ 6,315	\$ 117,341

Plan fiduciary net position as a percentage of the total pension Liability 98.6%

Methods and assumptions used to determine contributions rates:

Actuarial Cost method	Entry
Amortization method	Level Dollar
Remaining amortization period	10 Years aggregate
Assets valuation method	4-year smoothing losses from prior years
Inflation	3%
Salary Increases	5% including Inflation
Investment rate of return	7.5% net of investment expenses not funded through the MMO, and including Inflation.
Retirement Age	Normal: Age 60 and 15 years of services Early Retirement: Age 55 and 15 years of services
Mortality	RPP-2000 Combined Healthy Mortality Table, with rates set forward 5 years for disabled lives. Rates are projected to improved with 75% of scale AA.

**Borough of Clarion
Employees' Retirement Fund
Schedule of Changes in the Net Pension Liability and Related Ratios**

	2016	2015	2014
<u>Total Pension Liability</u>			
Service cost	\$ 23,775	\$ 22,643	\$ 24,903
Benefit payments and refunds	(93,779)	(108,945)	(109,212)
Interest	107,925	105,818	117,015
Changes of benefit terms	-	2,127	-
Differences between expected and actual experience	-	(182,004)	-
Net change in total pension liability	37,921	(160,361)	32,706
 Total Pension Liability - beginning	 1,461,268	 1,621,629	 1,588,923
Total Pension Liability - ending (a)	\$ 1,499,189	\$ 1,461,268	\$ 1,621,629
 <u>Plan Fiduciary Net Position</u>			
Contributions - employer	40,578	48,956	53,447
Contributions - member	3,636	6,965	7,064
Net investment income	80,703	9,723	95,159
Benefit payments and refunds	(93,779)	(108,945)	(109,212)
Administrative expenses	(7,659)	(6,034)	(8,846)
Net change in plan fiduciary net position	23,479	(49,335)	37,612
 Plan Fiduciary Net Position - beginning	 1,454,953	 1,504,288	 1,466,676
Plan Fiduciary Net Position - ending (b)	\$ 1,478,432	\$ 1,454,953	\$ 1,504,288
 Net Pension Liability - ending (a) - (b)	 \$ 20,757	 \$ 6,315	 \$ 117,341
 Plan fiduciary net position as a percentage of the total pension liability	 98.60%	 99.60%	 92.80%
Covered-employee payroll	\$ 141,227	\$ 139,832	\$ 136,349
Net Pension Liability as percentage of covered-employee payroll	14.70%	4.50%	86.10%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, Pension plans should present information for those years for which information is available.

Borough of Clarion
Police Retirement Fund
Schedule of Borough's Contributions and Investment Returns
Schedule of Borough's Contributions - Last Ten Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contribution	\$ 41,178	\$ 83,324	\$ 85,102	\$ 59,520	\$ 55,269	\$ 38,452	\$ 48,247	\$ 83,307	\$ 5,326	\$ 10,727	\$ 4,704	\$ 11,987
Contribution in relation to the												
Actuarially determined contribution	41,178	83,324	85,102	59,520	55,280	51,134	53,754	8,307	5,326	10,727	4,704	11,987
Contribution Deficiency (excess)	-	-	-	-	(11)	(12,682)	(5,507)	75,000	-	-	-	-

Covered-employee payroll	\$ 319,645	\$ 444,246	\$ 476,004	\$ 476,004	\$ 435,576	\$ 435,576	\$ 409,468	\$ 398,981	\$ 374,833	\$ 328,135	\$ 328,135	
Contributions as a percentage of covered - employee payroll	12.9%	18.8%	17.9%	12.5%	12.7%	11.7%	13.1%	2.0%	1.3%	2.9%	1.4%	3.7%

Police Retirement Fund			
Schedule of Investment Returns - Last Ten Years			
	2016	2015	2014
Annual money-weighted rate of return net of investment expense	5.83%	0.61%	6.66%

This schedule is presented to illustrate the requirement to show investment return information for 10 years. However, until a full 10-year trend is compiled, pension plans should present investment return information for those years for which information is available.

Notes to Schedule

Actuarially determined contribution rates are calculated as of January 1, one year prior to the end of the fiscal year in which contributions are reported.

	2016	2015	2014
Total Pension Liability	\$ 3,237,415	\$ 3,045,522	\$ 3,054,795
Plan Fiduciary net position	(3,423,768)	(3,321,942)	3,313,064
Net pension liability	\$ (186,353)	\$ (276,420)	\$ (258,269)

Plan fiduciary net position as a percentage of the total pension Liability 105.8%

Methods and assumptions used to determine contributions rates:

Actuarial Cost method	Entry
Amortization method	Level Dollar
Remaining amortization period	11 years aggregate
Assets valuation method	4-year smoothing losses from prior years
Inflation	3%
Salary Increases	5.5% including Inflation
Investment rate of return	7.5% net of investment expenses not funded through the MMO, and including inflation.
Retirement Age	Normal: Age 50 and 25 years of services Early Retirement Completion of 20 years of Services
Mortality	RPP-2000 Combined Healthy Mortality Table, with rates set forward 5 years for disabled lives. Rates are project to Improved with 75% of scale AA.

**Borough of Clarion
Police Retirement Fund
Schedule of Changes in the Net Pension Liability and Related Ratios**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>Total Pension Liability</u>			
Service cost	\$ 94,361	\$ 89,442	\$ 89,750
Interest	230,591	216,453	216,677
Changes of benefit terms	-	7,490	-
Differences between expected and actual experience	-	(210,743)	-
Benefit payments and refunds	(133,059)	(111,915)	(100,017)
Net change in total pension liability	<u>191,893</u>	<u>(9,273)</u>	<u>206,410</u>
 Total Pension Liability - beginning	 <u>3,045,522</u>	 <u>3,054,795</u>	 <u>2,848,385</u>
Total Pension Liability - ending (a)	<u><u>\$ 3,237,415</u></u>	<u><u>\$ 3,045,522</u></u>	<u><u>\$ 3,054,795</u></u>
 <u>Plan Fiduciary Net Position</u>			
Contributions - employer	41,178	83,324	85,102
Contributions - member	10,998	21,696	22,642
Net investment income	191,366	20,047	205,300
Benefit payments and refunds	(133,059)	(111,915)	(100,017)
Administrative expenses	(8,657)	(4,274)	(2,340)
Net change in plan fiduciary net position	<u>101,826</u>	<u>8,878</u>	<u>210,687</u>
 Plan Fiduciary Net Position - beginning	 <u>3,321,942</u>	 <u>3,313,064</u>	 <u>3,102,377</u>
Plan Fiduciary Net Position - ending (b)	<u><u>\$ 3,423,768</u></u>	<u><u>\$ 3,321,942</u></u>	<u><u>\$ 3,313,064</u></u>
 Net Pension Liability - ending (a) - (b)	 <u><u>\$ (186,353)</u></u>	 <u><u>\$ (276,420)</u></u>	 <u><u>\$ (258,269)</u></u>
 Plan fiduciary net position as a percentage of the total pension liability	 105.80%	 109.10%	 108.50%
 Covered-employee payroll	 \$ 319,645	 \$ 444,246	 \$ 476,004
 Net Pension Liability as percentage of covered-employee payroll	 -58.30%	 -62.22%	 -54.26%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, Pension plans should present information for those years for which information is available.

OTHER
SUPPLEMENTARY
INFORMATION

BOROUGH OF CLARION
OTHER GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2016

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	Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds
<u>Assets</u>			
Cash and cash equivalents	\$ 35,741	\$ 1,000	\$ 36,741
Taxes receivable	17,232	-	17,232
Total Assets	<u>\$ 52,973</u>	<u>\$ 1,000</u>	<u>\$ 53,973</u>
<u>Liabilities and Fund Balance</u>			
Liabilities:			
Accounts payable	\$ 13,719	\$ -	\$ 13,719
Total Liabilities	<u>13,719</u>	<u>-</u>	<u>13,719</u>
Deferred Inflows of Resources			
Unavailable Revenue - Property Taxes	<u>9,740</u>	<u>-</u>	<u>9,740</u>
Fund Balances:			
Restricted			
General Government	7,701	-	7,701
Public Works	1,882	-	1,882
Culture and Recreation	20,152	-	20,152
Debt Service Fund	-	1,000	1,000
Unassigned	(221)	-	(221)
Total Fund Balance	<u>29,514</u>	<u>1,000</u>	<u>30,514</u>
Total Liabilities and Deferred Inflows of Resources and Fund Balances	<u>\$ 52,973</u>	<u>\$ 1,000</u>	<u>\$ 53,973</u>

BOROUGH OF CLARION
OTHER GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2016

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	Special Revenue Funds	Debt Service Fund	Total Other Governmental Funds
Revenue			
Real Estate Taxes	\$ 113,840	\$ -	\$ 113,840
Intergovernmental revenues	114,459	-	114,459
Charges for Services	16,467	-	16,467
Interest and rents	25	-	25
	<u>244,791</u>	<u>-</u>	<u>244,791</u>
Total Revenue			
Expenditures			
Current:			
Public Safety	74,129	-	74,129
Public Works	148,402	-	148,402
Culture and Recreation	45,773	-	45,773
Debt Services:			
Principal	-	16,596	16,596
Interest	-	1,167	1,167
Total Expenditures	<u>268,304</u>	<u>17,763</u>	<u>286,067</u>
Excess of Revenues Over (Under) Expenditures	<u>(23,513)</u>	<u>(17,763)</u>	<u>(41,276)</u>
Other Financing Sources (Uses)			
Operating Transfers In	42,726	18,763	61,489
Operating Transfers (Out)	<u>(24,774)</u>	<u>-</u>	<u>(24,774)</u>
Total Other Financing Sources (Uses)	<u>17,952</u>	<u>18,763</u>	<u>36,715</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(5,561)	1,000	(4,561)
Fund Balances-Beginning of Year	<u>35,075</u>	<u>-</u>	<u>35,075</u>
Fund Balances-End of Year	<u>\$ 29,514</u>	<u>\$ 1,000</u>	<u>\$ 30,514</u>

BOROUGH OF CLARION
COMBINING BALANCE SHEET - SPECIAL REVENUE FUNDS
DECEMBER 31, 2016

	Street Lighting Fund	Library Fund	ACT 13 Fund	Recycling Fund	Community Development Fund	Pension Fund	Total Special Revenue Funds
Assets							
Cash and cash equivalents	\$ 2,678	\$ 22,705	\$ 5,010	\$ 2,657	\$ -	\$ 2,691	\$ 35,741
Taxes receivable	5,788	7,761	-	3,683	-	-	17,232
Total Assets	\$ 8,466	\$ 30,466	\$ 5,010	\$ 6,340	\$ -	\$ 2,691	\$ 52,973
Liabilities and Fund Balance							
Liabilities:							
Accounts payable	\$ 5,738	\$ 5,487	\$ -	\$ 2,494	\$ -	\$ -	\$ 13,719
Total Liabilities	5,738	5,487	-	2,494	-	-	13,719
Deferred Inflows of Resources							
Unavailable Revenue - Property Taxes	2,949	4,827	-	1,964	-	-	9,740
Fund Balances:							
Restricted							
General Government	-	-	5,010	-	-	2,691	7,701
Public Works	-	-	-	1,882	-	-	1,882
Culture and Recreation	-	20,152	-	-	-	-	20,152
Unassigned	(221)	-	-	-	-	-	(221)
Total Fund Balance	(221)	20,152	5,010	1,882	-	2,691	29,514
Total Liabilities and Deferred Inflows of Resources and Fund Balances	\$ 8,466	\$ 30,466	\$ 5,010	\$ 6,340	\$ -	\$ 2,691	\$ 52,973

BOROUGH OF CLARION
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Street Lighting Fund	Library Fund	ACT 13 Fund	Recycling Fund	Community Development Fund	Pension Fund	Total Special Revenue Funds
Revenues:							
Real estate taxes	\$ 44,868	\$ 40,827	\$ -	\$ 28,145	\$ -	\$ -	\$ 113,840
Intergovernmental revenues	-	-	-	884	5,945	107,630	114,459
Charges for Services	-	17	1,576	240	-	14,634	16,467
Interest and rents	3	11	4	2	-	5	25
Total Revenues	44,871	40,855	1,580	29,271	5,945	122,269	244,791
Expenditures:							
Current:							
Public Safety	-	-	-	-	-	74,129	74,129
Public Works	59,138	-	-	31,959	5,945	51,360	148,402
Culture and Recreation	-	45,773	-	-	-	-	45,773
Total Expenditures	59,138	45,773	-	31,959	5,945	125,489	268,304
Excess of Revenues Over Expenditures	(14,267)	(4,918)	1,580	(2,688)	-	(3,220)	(23,513)
Other Financing Sources (Uses):							
Operating transfers in	23,526	-	-	14,200	-	5,000	42,726
Operating transfers out	(11,526)	-	(4,548)	(8,700)	-	-	(24,774)
Total Other Financing Sources (Uses)	12,000	-	(4,548)	5,500	-	5,000	17,952
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(2,267)	(4,918)	(2,968)	2,812	-	1,780	(5,561)
Fund Balance							
Beginning of year	2,046	25,070	7,978	(930)	-	911	35,075
End of year	\$ (221)	\$ 20,152	\$ 5,010	\$ 1,882	\$ -	\$ 2,691	\$ 29,514