

BROUGH OF CLARION
CLARION, PENNSYLVANIA
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

BOROUGH OF CLARION
YEAR ENDED DECEMBER 31, 2017

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Zelenkofske Axlerod LLC

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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, 2017, 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.



Borough Council
Borough of Clarion
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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, 2017, 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 2017 the Borough adopted the provisions of Governmental Accounting Standards Board Statement No. 74, "*Financial Reporting for Postemployment Benefit Plans Other than Pensions*", Statement No. 80 "*Blending Requirements for Certain Component Units – an amendment of GASB Statement No.14*", Statement No. 81, "*Irrevocable Split-Interest Agreements*", and Statement No. 82, "*Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*". Our opinion is not modified in respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of 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 53 through 60 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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Borough Council
Borough of Clarion
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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 62 through 65 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.

Zelenkofske Axlerod LLC

ZELENKOFKSKE AXELROD LLC

Pittsburgh, Pennsylvania
May 23, 2018

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, 2017. Prior year comparative information is presented.

FINANCIAL HIGHLIGHTS

- The Borough's total Net Position at the end of 2017 was \$3,532,038.
- The General Fund Unassigned Fund Balance was \$546,939 at the end of 2017.
- Total Governmental Funds Revenues of \$2,263,554 were collected in 2017, of which \$1,725,873 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 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.

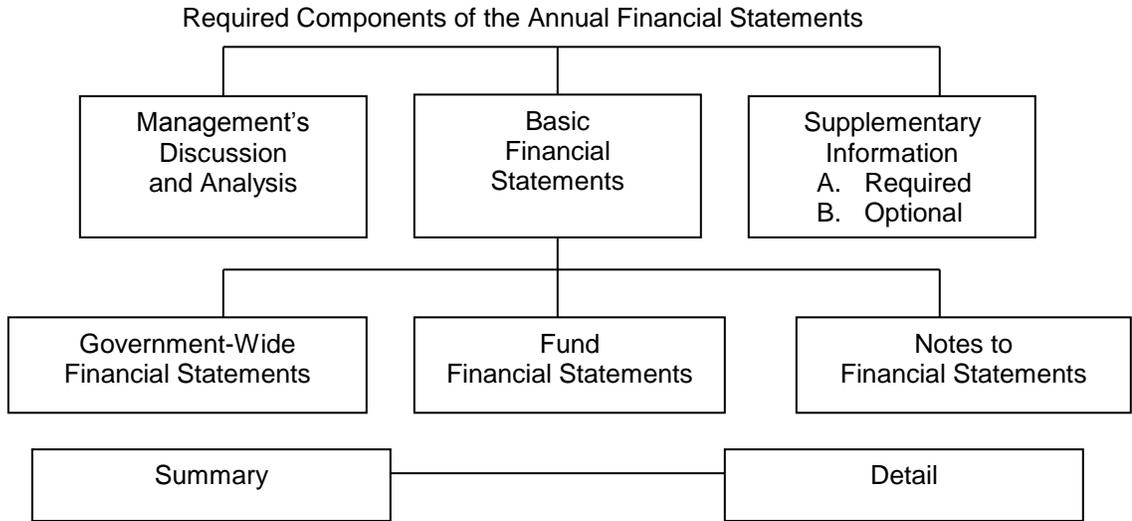
The basic financial statements present two different views of the Borough.

- *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 culture and recreation 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. Budgetary comparisons 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 \$4,679,732 at December 31, 2017. Of this amount, \$1,328,538 was capital assets at December 31, 2017.

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 2016	Governmental Activities 2017	Changes from 2016 to 2017
Capital Assets	\$ 1,400,170	\$ 1,328,538	\$ (71,632)
Other Assets	2,220,328	3,053,790	833,462
Total Assets	3,620,498	4,382,328	761,830
Deferred Outflows	259,312	297,404	38,092
Total Assets and Deferred Outflows	\$ 3,879,810	\$ 4,679,732	\$ 799,922
Current Liabilities	\$ 222,652	\$ 171,043	\$ (51,609)
Long-Term Liabilities	223,637	178,703	(44,934)
Total Liabilities	446,289	349,746	(96,543)
Deferred Inflows	220,229	797,948	577,719
Net Position:			
Net Investment in			
Capital Assets	1,211,120	1,147,399	(63,721)
Restricted Net Position	1,420,256	1,387,631	(32,625)
Unrestricted Net Position	581,916	997,008	415,092
Total Net Position	3,213,292	3,532,038	318,746
Total Liabilities, Deferred Inflows, and Net Position	\$ 3,879,810	\$ 4,679,732	\$ 799,922

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The following statement of activities represents changes in Net Position for the years ended December 31, 2016 and 2017. 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 2016	Governmental Activities 2017	Changes from 2016 to 2017	Percentage Change
Program Revenues:				
Charges for Services	\$ 492,091	\$ 630,917	\$ 138,826	28.2%
Operating Grants and Contributions	276,744	303,922	27,178	9.8%
General Revenues:				
Real Estate Taxes	867,391	894,848	27,457	3.2%
Act 511 Taxes	449,680	467,775	18,095	4.0%
Interest Revenue	25,372	8,123	(17,249)	-68.0%
Miscellaneous Income	14,658	-	(14,658)	-100.0%
Sale of Capital Assets	29,500	-	(29,500)	-100.0%
Total Revenues	2,155,436	2,305,585	150,149	7.0%
Expenses:				
General Government	240,412	241,149	737	0.3%
Public Safety	1,123,676	1,018,332	(105,344)	-9.4%
Public Works	618,421	614,320	(4,101)	-0.7%
Culture and Recreation	110,490	107,659	(2,831)	-2.6%
Interest on Long Term Debt	46,590	5,379	(41,211)	-88.5%
Total Expenses	2,139,589	1,986,839	(152,750)	-7.1%
Changes in Net Position	\$ 15,847	\$ 318,746	\$ 302,899	1911.4%

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 2017, revenue from real estate taxes and Act 511 taxes was \$894,848 and \$467,775, respectively.

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

	2016		2017	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
General Government	\$ 240,412	\$ 24,123	\$ 241,149	\$ 231
Public Safety	1,123,676	(890,568)	1,018,332	(570,500)
Public Works	618,421	(373,509)	614,320	(417,869)
Culture and Recreation	110,490	(84,210)	107,659	(58,483)
Interest on Long Term Debt	46,590	(46,590)	5,379	(5,379)
Total	\$ 2,139,589	\$ (1,370,754)	\$ 1,986,839	\$ (1,052,000)

The Borough relied on real estate taxes, earned income taxes and other general revenues to fund 52.95% of its governmental activities in 2017.

Capital Assets

The Borough's investment in capital assets at December 31, 2017, net of accumulated depreciation, was \$1,328,538. Capital assets consist primarily of land, buildings, equipment and vehicles. The following is a summary of capital assets at December 31, 2017:

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

	Governmental Activities 2016	Governmental Activities 2017	Changes from 2016 to 2017
Land	\$ 229,794	\$ 229,794	\$ -
Buildings and Improvements	2,424,598	2,424,598	-
Equipment	727,428	757,492	30,064
Vehicles	715,961	735,063	19,102
Accumulated Depreciation	(2,697,611)	(2,818,409)	(120,798)
Total Net Capital Assets	\$ 1,400,170	\$ 1,328,538	\$ (71,632)

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 2017 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	\$ 189,050	\$ 59,102	\$ 67,013	\$ 181,139
Compensated Absences	71,251	14,445	9,791	75,905
Total Long Term Debt	<u>\$ 260,301</u>	<u>\$ 73,547</u>	<u>\$ 76,804</u>	<u>\$ 257,044</u>

The loan and note payable balance as of December 31, 2017 is \$181,139.

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 56.9% of 2017 Governmental revenues. Taxes decreased in 2017 by \$18,368. In 2017, Real Estate Tax decreased by \$36,463 due to tax appeals and Act 511 taxes increased by \$18,095. The 2017 mill rate remained at 22.0 mills in 2017. The General Fund mill rate remained the same at 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 remained the same at .975 mills. The Fire Equipment Fund mill rate remained the same at 1.63 mills. The Recycling Fund mill rate remained the same at .70 mills. Intergovernmental revenue increased in 2017 by \$27,178. Licenses and permits increased in 2017 by \$58,398 a 24.7% increase. The increase was due to a large building project in the local school district. Sale of Capital Assets decreased by \$29,500 in 2017. The Borough had no Capital Assets sold in 2017. The Borough loan proceeds decreased in 2017 by \$125,717. The Borough purchased a Ford F-550 Truck for a cost of \$70,102. The actual loan amount for this vehicle was \$59,102. In 2016, the Borough purchased a front-end loader and a police vehicle for a total of \$184,819. The decrease on loan proceeds is \$125,717.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Governmental fund revenues by source at December 31, 2016 and 2017 were as follows:

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

Revenues:	2016	2017	Variance	Percentage of Change
Taxes	\$ 1,338,960	\$ 1,320,592	\$ (18,368)	-1.4%
Licenses, fees and permits	236,640	295,038	58,398	24.7%
Charges for services	148,180	212,135	63,955	43.2%
Fines and forfeits	90,579	90,266	(313)	-0.3%
Intergovernmental	276,744	303,922	27,178	9.8%
Interest and rents	26,791	8,123	(18,668)	-69.7%
Other Income	14,773	32,978	18,205	123.2%
Contributions	500	500	-	0.0%
Loan proceeds	184,819	59,102	(125,717)	-68.0%
Sale of capital assets	29,500	-	(29,500)	-100.0%
Total revenues	\$ 2,347,486	\$ 2,322,656	\$ (24,830)	-1.1%

GOVERNMENTAL FUND EXPENDITURES decreased .8% or \$16,671 during 2017. The Administration department of the general government increased 11.5% or \$28,631. The Public Works program decreased 2.3% or \$14,916 from 2016. The CDBG program had expenditures of \$4,652, which was a decrease from 2016 of \$1,293. The Capital Project Fund expended \$30,802, a decrease of \$21,925 from 2016 for storm sewer repairs. The 2017 expenditures were for the Storm Water Authority start up in 2017. Culture and Recreation decreased \$1,791 or 1.9% in 2017. In 2017, the Library Fund expended \$39,087. In 2017, the Recreation Fund had expenditures of \$51,156 for the parks and pool program. Public Safety expenditures increased 2.6% or \$27,530. The Police department expenditures decreased in 2017 by \$47,609 due to a staffing decrease, Meter Enforcement increased by \$15,989 due to increased staffing costs, and Zoning and Planning increased by \$55,177 due to inspection expenditures associated with a large building project in the local school district. The Fire Equipment fund expenditures increased in 2017 by \$10,147. The Public Safety function alone accounts for 50.2% of total governmental fund expenditures. Public Works accounts for 28.2% and Administration accounts for 12.7% of the total governmental fund expenditures. Culture and Recreation is 4.1% of total governmental fund expenditures.

Governmental fund expenditures by function at December 31, 2016 and 2017 were as follows:

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

Expenditures	2016	2017	Net Change	% of Change
Administration	\$ 249,854	\$ 278,485	\$ 28,631	11.5%
Public Safety	1,077,230	1,104,760	27,530	2.6%
Public Works	636,029	621,113	(14,916)	-2.3%
Culture and Recreation	92,034	90,243	(1,791)	-1.9%
Capital Projects	52,727	30,802	(21,925)	-41.6%
Debt Service	106,199	72,392	(33,807)	-31.8%
Miscellaneous	1,432	1,039	(393)	-27.4%
Total Expenditures	\$ 2,215,505	\$ 2,198,834	\$ (16,671)	-0.8%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**GOVERNMENTAL FUND BALANCES**

Ending fund balances for Governmental Funds at December 31, 2017:

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

Funds	Governmental Funds
General Fund	\$ 546,939
Liquid Fuel Fund	126,580
Recreation Fund	175,877
Capital Projects	985,535
Fire Equipment Fund	53,590
Other Governmental Funds	<u>46,049</u>
Total	<u>\$ 1,934,570</u>

Financial Highlights – The 2017 General Fund revenues were over expenditures by \$95,965. The Other Financing Sources reported an increase of \$60,261. The General Fund in 2017 reported a net increase of \$156,226. The General Fund balance increased to \$546,939.

Economic Conditions – The 2017 assessed valuation totals \$141,619,851 of which 71.31% \$100,982,711 is non-taxable and 28.69% \$40,637,140 is taxable. The majority of the non-taxable property is with Clarion University. The Borough is limited with 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 2018 Budget remained at 22.0 mills. The 2018 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, 2017

Assets	Governmental Activities
Current Assets:	
Cash and cash equivalents	\$ 730,999
Investments	1,153,288
Accounts receivable	29,242
Taxes receivable, net	213,770
Total Current Assets	2,127,299
Noncurrent Assets:	
Land	229,794
Buildings and Improvements	2,424,598
Equipment	757,492
Vehicles	735,063
Accumulated depreciation	(2,818,409)
Total Capital Assets	1,328,538
Net Pension Asset	926,491
Total Noncurrent Assets	2,255,029
Total Assets	4,382,328
Deferred Outflows of Resources	
Pensions	297,404
Total Assets and Deferred Outflows of Resources	\$ 4,679,732
Liabilities	
Current Liabilities:	
Accounts payable	\$ 57,722
Other accrued liabilities	34,980
Current portion of long-term debt	78,341
Total Current Liabilities	171,043
Noncurrent Liabilities:	
Compensated absences	75,905
Non-current portion of long-term debt	102,798
Total Noncurrent Liabilities	178,703
Total Liabilities	349,746
Deferred Inflows of Resources	
Pensions	797,948
Net Position	
Net Investment in Capital Assets	1,147,399
Restricted	
Program	401,096
Capital Projects	985,535
Debt Service	1,000
Unrestricted	997,008
Total Net Position	3,532,038
Total Liabilities, Deferred Inflows and Net Position	\$ 4,679,732

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

BOROUGH OF CLARION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Program Revenues			Net (Expenses) Revenue and Changes in Net Position
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	
Functions/Programs				
Primary Government:				
Governmental Activities:				
General Government - Administration	\$ 241,149	\$ 226,270	\$ 15,110	\$ 231
Public Safety	1,018,332	363,910	83,922	(570,500)
Public Works	614,320	15,586	180,865	(417,869)
Culture and Recreation	107,659	25,151	24,025	(58,483)
Interest Expense	5,379	-	-	(5,379)
	1,986,839	630,917	303,922	(1,052,000)
Total Governmental Activities				
	\$ 1,986,839	\$ 630,917	\$ 303,922	(1,052,000)
Total Primary Government				
	\$ 1,986,839	\$ 630,917	\$ 303,922	(1,052,000)
		General Revenues:		
		Taxes:		
		Real Estate	894,848	
		Act 511	467,775	
		Interest Revenue	8,123	
			1,370,746	
		Total General Revenues	1,370,746	
		Change in Net Position	318,746	
		Net Position - Beginning	3,213,292	
		Net Position - Ending	\$ 3,532,038	

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

BOROUGH OF CLARION
COMBINED BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2017

	General Fund	Liquid Fuel Fund	Recreation Fund	Fire Equipment Fund	Capital Project Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<u>Assets</u>							
Cash and cash equivalents	\$ 469,036	\$ 129,656	\$ 27,981	\$ 54,215	\$ 2,542	\$ 47,569	\$ 730,999
Investments	-	-	148,585	-	1,004,703	-	1,153,288
Accounts receivable	29,197	45	-	-	-	-	29,242
Taxes receivable	182,592	-	3,178	10,361	-	17,639	213,770
Total Assets	<u>\$ 680,825</u>	<u>\$ 129,701</u>	<u>\$ 179,744</u>	<u>\$ 64,576</u>	<u>\$ 1,007,245</u>	<u>\$ 65,208</u>	<u>\$ 2,127,299</u>
<u>Liabilities, Deferred Inflows and Fund Balance</u>							
<u>Liabilities:</u>							
Accounts payable	\$ 21,255	\$ 3,121	\$ 1,609	\$ 3,623	\$ 21,710	\$ 6,404	\$ 57,722
Other accrued liabilities	34,980	-	-	-	-	-	34,980
Total Liabilities	<u>56,235</u>	<u>3,121</u>	<u>1,609</u>	<u>3,623</u>	<u>21,710</u>	<u>6,404</u>	<u>92,702</u>
<u>Deferred Inflows of Resources</u>							
Unavailable Revenue - Property Taxes	<u>77,651</u>	<u>-</u>	<u>2,258</u>	<u>7,363</u>	<u>-</u>	<u>12,755</u>	<u>100,027</u>
<u>Fund Balances:</u>							
<u>Restricted</u>							
Administration	-	-	-	-	-	9,764	9,764
Public safety	-	-	-	53,590	-	-	53,590
Public works	-	126,580	-	-	-	13,177	139,757
Culture and Recreation	-	-	175,877	-	-	22,108	197,985
Capital Project Funds	-	-	-	-	985,535	-	985,535
Debt Service Fund	-	-	-	-	-	1,000	1,000
Unassigned	546,939	-	-	-	-	-	546,939
Total Fund Balances	<u>546,939</u>	<u>126,580</u>	<u>175,877</u>	<u>53,590</u>	<u>985,535</u>	<u>46,049</u>	<u>1,934,570</u>
Total Liabilities and Deferred Inflows of Resources and Fund Balances	<u>\$ 680,825</u>	<u>\$ 129,701</u>	<u>\$ 179,744</u>	<u>\$ 64,576</u>	<u>\$ 1,007,245</u>	<u>\$ 65,208</u>	<u>\$ 2,127,299</u>

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 POSITON
DECEMBER 31, 2017

Total fund balances of governmental funds		\$ 1,934,570
<p>Amount reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		
<p>Those assets consist of:</p>		
Land	\$ 229,794	
Buildings and improvements, net of \$1,775,253 accumulated depreciation.	649,345	
Equipment and vehicles, net of \$1,043,156 accumulated depreciation.	449,399	
Total Capital Assets	1,328,538	1,328,538
<p>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.</p>		
		100,027
<p>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.</p>		
<p>Long-term liabilities at year-end consist of:</p>		
Long-term debt	(181,139)	
Compensated Absences	(75,905)	
Deferred Outflows of Resources - Pension	297,404	
Deferred Inflows of Resources - Pension	(797,948)	
Net Pension Asset	926,491	
Total Long-term Liabilities	168,903	168,903
Total net positon of governmental activities		\$ 3,532,038

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

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	General Fund	Liquid Fuel Fund	Recreation Fund	Fire Equipment Fund	Capital Project Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:							
Real estate taxes	\$ 660,438	\$ -	\$ 19,382	\$ 64,679	\$ -	\$ 108,318	\$ 852,817
Act 511 taxes	467,775	-	-	-	-	-	467,775
Licenses and permits	295,038	-	-	-	-	-	295,038
Fines and forfeitures	90,266	-	-	-	-	-	90,266
Intergovernmental revenues	15,110	155,247	24,025	-	-	109,540	303,922
Charges for services	163,563	-	21,074	12,700	-	14,798	212,135
Interest and rents	1,008	175	1,481	39	5,391	29	8,123
Contributions	-	-	500	-	-	-	500
Miscellaneous	28,400	731	3,577	270	-	-	32,978
Total Revenues	1,721,598	156,153	70,039	77,688	5,391	232,685	2,263,554
Expenditures:							
Current:							
Administration	278,485	-	-	-	-	-	278,485
Public safety	966,945	-	-	71,408	-	66,407	1,104,760
Public works	378,478	111,241	-	-	-	131,394	621,113
Culture and Recreation	-	-	51,156	-	-	39,087	90,243
Capital Projects	-	-	-	-	30,802	-	30,802
Miscellaneous	1,039	-	-	-	-	-	1,039
Debt Service	686	19,436	-	-	-	52,270	72,392
Total Expenditures	1,625,633	130,677	51,156	71,408	30,802	289,158	2,198,834
Excess (Deficiency) of Revenues Over Expenses	95,965	25,476	18,883	6,280	(25,411)	(56,473)	64,720
Other Financing Sources (Uses):							
Loan proceeds	59,102	-	-	-	-	-	59,102
Operating transfers in	150,264	-	800	-	86,468	72,008	309,540
Operating transfers out	(149,105)	(10,172)	(24,025)	-	(126,238)	-	(309,540)
Total Other Financing Sources (Uses)	60,261	(10,172)	(23,225)	-	(39,770)	72,008	59,102
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	156,226	15,304	(4,342)	6,280	(65,181)	15,535	123,822
Fund Balance							
Beginning of year	390,713	111,276	180,219	47,310	1,050,716	30,514	1,810,748
End of year	\$ 546,939	\$ 126,580	\$ 175,877	\$ 53,590	\$ 985,535	\$ 46,049	\$ 1,934,570

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, 2017

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

Net change in fund balances - total governmental funds \$ 123,822

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which net capital outlay less retirement of assets was a net of \$49,166 less depreciation net of retirement of assets in the current period was \$179,781.

Net Capital Additions	108,149	
Net Depreciation	(179,781)	
Net Change in Capital Assets	(71,632)	(71,632)

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 12/31/16 to 12/31/17.

42,031

Governmental funds do not report the changes in the Pension Expense:

221,268

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	67,013	
Loan proceeds	(59,102)	
Net Change in Long-term Debt	7,911	7,911

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

Compensated Absences		(4,654)
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Net change in governmental activities net position	\$	318,746
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BOROUGH OF CLARION
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2017

	General Employees Defined Benefit Pension	General Employees Define Contribution Pension	Police Pension	<u>Total</u>
Assets				
Cash	\$ 11,110	\$ -	\$ 13,066	\$ 24,176
Investments	1,652,430	-	3,912,053	5,564,483
Defined Contribution Portion:				
Cash Equivalents	-	78	-	78
Investments Mutual Funds	-	40,379	-	40,379
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
 Total Assets	 <u>\$ 1,663,540</u>	 <u>\$ 40,457</u>	 <u>\$ 3,925,119</u>	 <u>\$ 5,629,116</u>
Liabilities				
Accounts Payable	\$ 226	\$ -	\$ 715	\$ 941
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>226</u>	<u>-</u>	<u>715</u>	<u>941</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
 Net Position Held in Trust for Employees' Pension Benefits	 <u>\$ 1,663,314</u>	 <u>\$ 40,457</u>	 <u>\$ 3,924,404</u>	 <u>\$ 5,628,175</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, 2017

	General Employee Defined Benefit Pension	General Employee Defined Contribution Pension	Police Pension	Total
Additions:				
Contributions:				
Member	\$ 3,623	\$ -	\$ 9,394	\$ 13,017
Municipal	-	992	-	992
Commonwealth	40,112	6,946	36,864	83,922
Total Contributions	<u>43,735</u>	<u>7,938</u>	<u>46,258</u>	<u>97,931</u>
Investment Income:				
Net increase in fair value of investments	182,968	1,717	430,813	615,498
Interest and dividends	55,954	534	132,521	189,009
Investment Income	<u>238,922</u>	<u>2,251</u>	<u>563,334</u>	<u>804,507</u>
Total Additions	<u>282,657</u>	<u>10,189</u>	<u>609,592</u>	<u>902,438</u>
Deductions:				
Administrative expenses	7,892	-	7,170	15,062
Retirement benefits	89,883	-	101,786	191,669
Total Deductions	<u>97,775</u>	<u>-</u>	<u>108,956</u>	<u>206,731</u>
Net Increase	184,882	10,189	500,636	695,707
Net Position Held in Trust for Employees' Pension Benefits:				
Beginning of Year	<u>1,478,432</u>	<u>30,268</u>	<u>3,423,768</u>	<u>4,932,468</u>
End of Year	<u>\$ 1,663,314</u>	<u>\$ 40,457</u>	<u>\$ 3,924,404</u>	<u>\$ 5,628,175</u>

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

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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 – an amendment of GASB Statements No. 14 and No. 34" 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, 2017

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, 2017

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, 2017

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, 2017.

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, 2017

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, 2017

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 depreciation 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 constitutional 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, 2017

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.

10. Adoption of Governmental Accounting Standards Board Statements

The Borough adopted the provisions of Statement No. 74, "*Financial Reporting for Postemployment Benefit Plans Other than Pensions*". The adoption of this statement had no effect on previously reported amounts.

The Borough adopted the provisions of Statement No. 80, "*Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*". The adoption of this statement had no effect on previously reported amounts.

The Borough adopted the provisions of Statement No. 81, "*Irrevocable Split-Interest Agreements*". The adoption of this statement had no effect on previously reported amounts.

The Borough adopted the provisions of Statement No. 82, "*Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*". The adoption of this statement had no effect on previously reported amounts.

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

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

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.

In November 2016, the GASB issued Statement No. 83, "*Certain Asset Retirement Obligations*". The Borough of Clarion is required to adopt statement No. 83 for its calendar year 2019 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 2019 financial statements.

In March 2017, the GASB issued Statement No. 85, "*Omnibus 2017*". The Borough of Clarion is required to adopt Statement No. 85 for its calendar year 2018 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.

In June of 2017, the GASB issued Statement No. 87, "*Leases*". The Borough of Clarion is required to adopt Statement No. 87 for its calendar year 2020 financial statements.

In April of 2018, the GASB issued Statement No. 88, "*Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*". The Borough of Clarion is required to adopt Statement No. 88 for its calendar 2019 financial statement.

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, 2017

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 2017 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, 2017

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, 2017 were as follows:

Deposits - Governmental Activities		
Cash	\$	730,999
Investments		
Certificates of Deposits		1,034,956
Fixed Income Accounts		118,332
Total Cash and Investments	<u>\$</u>	<u>1,884,287</u>
Pension		
Deposits - Pension Trust Funds		
Cash	\$	24,254
Investments - Pension Trust Funds		
Mutual Funds - Equity		5,604,862
Total Pension Investments		<u>5,604,862</u>
Total Pension Cash and Investments	<u>\$</u>	<u>5,629,116</u>

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

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less Than 1	1-5
Certificates of Deposit	\$ 1,034,956	\$ 773,327	\$ 261,629
Fixed Income Accounts	118,332	5,235	113,097
Total	\$ 1,153,288	\$ 778,562	\$ 374,726

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, 2017, 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, 2017 were \$743,100 with a book value of \$755,253. Of the Borough's \$743,100 in deposits, \$468,845 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, 2017

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, 2017:

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, 2017:

<u>Description</u>	<u>Fair Value Measurements at Reporting Date Using</u>			
	<u>12/31/2017</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	\$ 5,604,862	\$ 5,604,862	\$ -	\$ -
Fixed Income Investments	118,332	118,332	-	-
Totals	<u>\$ 5,723,194</u>	<u>\$ 5,723,194</u>	<u>\$ -</u>	<u>\$ -</u>

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

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 2017 are recorded as receivables, net of estimated uncollectibles. The net receivables collected during 2017 and expected to be collected within the first sixty (60) days of 2018 are recognized as revenue in 2017. 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 2017, 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 \$40,637,140.

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017, 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	2,424,598	-	-	2,424,598
Equipment	727,428	38,047	(7,983)	757,492
Vehicles	715,961	70,102	(51,000)	735,063
Total capital assets, being depreciated	3,867,987	108,149	(58,983)	3,917,153
Less accumulated depreciation for:				
Buildings and Improvements	(1,711,296)	(63,957)	-	(1,775,253)
Equipment	(546,208)	(29,403)	7,983	(567,628)
Vehicles	(440,107)	(86,421)	51,000	(475,528)
Total accumulated depreciation	(2,697,611)	(179,781)	58,983	(2,818,409)
Total capital assets, being depreciated, net	1,170,376	(71,632)	-	1,098,744
Total capital assets, net	\$ 1,400,170	\$ (71,632)	\$ -	\$ 1,328,538

Depreciation expense was charged to functions/programs as follows:

Governmental Activities

General government - Administrative	\$ 3,281
Public safety	57,665
Public works	90,257
Culture and recreation	28,578
	<hr/>
Total Depreciation Expense, Governmental Activities	\$ 179,781

BOROUGH OF CLARION
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2017

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, 2017, participants in the plans are as follows:

Participants:	<u>General Employees'</u>	<u>Police</u>
Retirees and beneficiaries	5	8
Terminated employees entitled to benefits but not yet receiving them	2	1
Active employees	4	7
Total	<u>11</u>	<u>16</u>

For both Plans, the Borough is required to make annual contributions based upon the Minimum Municipal Obligation using each Plans' most recent biennial actuarial evaluations, as prescribed by Act 205 of 1984 (as amended). General employees are required to contribute 2.5%, as governed by the General Employees' Pension Plan's governing ordinances. Police employees are required to contribute 5 - 8%, as governed by the Police Pension Plan's governing ordinances and collective bargaining.

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

NOTE 6: EMPLOYEES RETIREMENT PLANS (CONTINUED)

A. Pension Trust Funds (Continued)

Plan Description (Continued)

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>
Normal retirement age	Age 60 and 15 years of service
Early retirement	Age 55 and 15 years of service
Vesting	10-14 years of service – 50%; 15 or more years – 100%
Retirement benefits	Monthly benefit equal to 2.0% of total pay averaged over the final 36 months of employment, multiplied by years of service
Early benefit	Normal retirement benefit based on credited service to date is payable at normal retirement date. Benefits may commence early, but will be reduced by .5% for each month prior to normal retirement date
Death benefit	Before 10 years of service – refund of contributions plus interest After 10 years of service but before retirement – participant's spouse will receive the survivor portion of the participant's accrued benefit converted to a joint and 100% survivor annuity. For non-collectively bargained participants without a spouse or if the spouse renounces the survivor benefit, the beneficiary shall be entitled to the participant's accrued benefit for 120 months After retirement – normal form of payment is a life annuity with 120 payments guaranteed. At retirement, participant may select on optional form of benefit payment that is an actuarial equivalent of the normal form
Disability benefit	For service related or non-service related, upon total and permanent disablement occurring prior to early or normal retirement, and qualification for social security disability benefits, the accrued benefit is payable until normal retirement date and life thereafter
Cost-of-living adjustment	Effective on each anniversary of retirement, a retiree who retired on or after January 1, 2003 will receive an increase in the monthly benefit equal to the change in the Consumer Price Index during the last year multiplied by the pension benefit. The total of all increases may not exceed 30% of the retiree's original benefit
Vesting benefit	Participant will receive the prospective normal retirement benefit using credited service to date, multiplied by the vested percentage, payable at the normal retirement date

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

NOTE 6: EMPLOYEES RETIREMENT PLANS (CONTINUED)

A. Pension Trust Funds (Continued)

Plan Description (Continued)

	<u>Police</u>
Normal retirement	Age 50 and 25 years of service
Early retirement	20 years of service
Vesting	100% after completion of 12 years of service
Retirement benefits	Monthly benefit equal to 50% of gross pay averaged over the last 36 months of employment, plus a service increment of \$20 for each year of service in excess of 25 years, up to a maximum of \$100
Early benefit	Accrued benefit at actual retirement, payable at normal retirement. Benefit may be elected immediately, but will be reduced by actuarial equivalent factors for each month early
Death benefit	Before vesting – refund of contributions plus interest After retirement or vesting – monthly benefit equal to 50% of the pension the participant was receiving or was entitled to receive on the day of the participant's death. The monthly survivor benefits are payable to the participant's spouse for life. If there is no spouse, or the spouse later dies, the benefit will be paid to the participant's dependent children, if any, until age 18, or age 23 if attending college
Disability benefit	For service-related, 50% of the final monthly average salary at disablement/retirement, but no less than 50% of the member's salary at the time the disability was incurred, offset by social security disability benefits for the same injury. No non-service related benefits offered
Post-retirement adjustment	Effective on each anniversary of retirement, a retiree will receive an increase in the monthly benefit equal to the percentage increase in the Consumer Price Index during the last year (with a maximum annual increase of 6%). The total of all increases may not exceed 30% of original benefit, nor may total benefit exceed 75% of the average monthly salary used to calculate the original benefit
Vesting benefit	Accrued benefit at date of termination payable monthly starting at normal retirement date

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.

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

NOTE 6: EMPLOYEES RETIREMENT PLANS (CONTINUED)

B. Funding Status and Progress (Continued)

The pension assets, which are actuarially determined on a biannual basis, have been calculated as of January 1, 2017. Significant actuarial assumptions used include a rate of return on the investment of present and future assets of 7.25% (7.50% was used in 2016) per year compounded annually and projected salary increases of 4.75% (5.0% for the police plan) per year compounded annually. The actuarial cost method used is the entry age normal cost method. As of December 31, 2017, with the pension liability determined by an actuarial valuation as of January 1, 2017, and rolled forward to the reporting date using the significant actuarial assumptions noted above, the General Employees' Pension Plan was 114.2% funded and the Police Pension Plan was 122.4% funded.

Police Pension Plan Reporting

Net Pension Liability

The components of the net pension liability of the Police Pension Plan at December 31, 2017, were as follows:

Total Pension Liability	\$ 3,204,963
Plan Fiduciary Net Position	<u>(3,924,404)</u>
Net Pension Liability (Asset)	<u>\$ (719,441)</u>

Plan Fiduciary Net Position as a percentage of the total pension Liability	122.4%
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Changes in the Police's net pension asset for the Plan for the year ended December 31, 2017 were as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 12/31/16	\$ 3,237,415	\$ 3,423,768	\$ (186,353)
Service Cost	63,453	-	63,453
Interest Cost	220,153	-	220,153
Changes of Benefit Terms	-	-	-
Changes for Experience	(338,770)	-	(338,770)
Changes of Assumptions	124,498	-	124,498
Contributions - Employer	-	36,864	(36,864)
Contributions - Member	-	9,394	(9,394)
Net Investment Income	-	563,334	(563,334)
Benefit Payments, including			
Refunds of Member Contributions	(101,786)	(101,786)	-
Administrative Expense	-	(7,170)	7,170
Other Changes	-	-	-
Net Changes	<u>(32,452)</u>	<u>500,636</u>	<u>(533,088)</u>
Balances at 12/31/17	<u>\$ 3,204,963</u>	<u>\$ 3,924,404</u>	<u>\$ (719,441)</u>

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

NOTE 6: EMPLOYEES RETIREMENT PLANS (CONTINUED)

Deferred Outflows of Resources and Deferred Inflows of Resources

The total pension expense recognized in 2017 for the plan was \$(110,483). At December 31, 2017, 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	\$ -	\$ 264,780
Changes of Assumptions	70,368	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	<u>122,819</u>	<u>254,405</u>
Total	<u>\$ 193,187</u>	<u>\$ 519,185</u>

The deferred outflows of resources (+) and deferred inflows (-) of resources related to pension will be recognized in pension expense as follows:

<u>Year Ended December 31:</u>	<u>Governmental Activities</u>
2018	\$ (146,537)
2019	(63,000)
2020	(52,859)
2021	<u>(63,602)</u>
Total	<u>\$ (325,998)</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.

Police Pension Plan Actuarial Methods and Assumptions

Actuarial Assumptions: The total pension liability was determined by an actuarial valuation as of January 1, 2017 and rolled forward to the reporting date using the following significant actuarial assumptions applied to all periods included in the measurement:

Inflation:	2.75%
Salary increases:	5.0% including inflation
Mortality:	RP-2014 mortality with 50% of the Blue Collar adjustment and mortality improvement based on the Long-Range Demographic Assumptions for the 2015 Social Security Administration's Trustee Report. Rates set forward 5 years for disabled members

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

NOTE 6: EMPLOYEES RETIREMENT PLANS (CONTINUED)

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, 2017:

<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, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Long Term Expected Real Rate of Return</u>
Equities	6.30%
Fixed Income	1.90%
Cash	0.00%

Discount rate. The discount rate used to measure the total pension liability was 7.25% (7.50% was used in prior year). 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 (6.25%)</u>	<u>Current Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Borough's Net Pension Liability	\$ (318,156)	\$ (719,441)	\$ (1,053,553)

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

NOTE 6: EMPLOYEES RETIREMENT PLANS (CONTINUED)

Rate of Return. For the year ended December 31, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, as 16.65%. 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, 2017, were as follows:

Total Pension Liability	\$ 1,456,264
Plan Fiduciary Net Position	<u>(1,663,314)</u>
Net Pension Liability	<u>\$ (207,050)</u>

Plan Fiduciary Net Position as a percentage of the total pension Liability	114.2%
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Changes in the Employees' net pension liability for the Plan for the year ended December 31, 2017 were as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 12/31/16	\$ 1,499,189	\$ 1,478,432	\$ 20,757
Service Cost	26,420	-	26,420
Interest Cost	101,533	-	101,533
Changes of Benefit Terms	-	-	-
Changes for Experience	(145,148)	-	(145,148)
Changes of Assumptions	64,153	-	64,153
Contributions - Employer	-	40,112	(40,112)
Contributions - Member	-	3,623	(3,623)
Net Investment Income	-	238,922	(238,922)
Benefit Payments, including			
Refunds of Member Contributions	(89,883)	(89,883)	-
Administrative Expense	-	(7,892)	7,892
Other Changes	-	-	-
Net Changes	<u>(42,925)</u>	<u>184,882</u>	<u>(227,807)</u>
Balances at 12/31/17	<u>\$ 1,456,264</u>	<u>\$ 1,663,314</u>	<u>\$ (207,050)</u>

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

NOTE 6: EMPLOYEES RETIREMENT PLANS (CONTINUED)

Deferred Outflows of Resources and Deferred Inflows of Resources

The total pension expense recognized in 2017 for the plan was \$(33,809). At December 31, 2017, 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	\$ -	\$ 171,258
Change of Assumptions	48,878	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	<u>55,339</u>	<u>107,505</u>
Total	<u>\$ 104,217</u>	<u>\$ 278,763</u>

The deferred outflows of resources (+) and deferred inflows (-) of resources related to pension will be recognized in pension expense as follows:

<u>Year Ended December 31:</u>	<u>Governmental Activities</u>
2018	\$ (61,490)
2019	(41,270)
2020	(41,050)
2021	<u>(30,736)</u>
Total	<u>\$ (174,546)</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, 2017 and rolled forward to the reporting date using the following significant actuarial assumptions applied to all periods included in the measurement:

Inflation:	2.75%
Salary increases:	4.75% including inflation
Mortality:	RP-2014 Mortality Table. Mortality Improvement based on the Long-Range Demographic Assumptions for the 2015 Social Security Administration's Trustee Report. Rates set forward 5 years for disabled members

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

NOTE 6: EMPLOYEES RETIREMENT PLANS (CONTINUED)

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, 2017:

<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, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Long Term Expected Real Rate of Return</u>
Equities	6.30%
Fixed Income	1.90%
Cash	0.00%

Discount rate. The discount rate used to measure the total pension liability was 7.25% (7.50% was used in prior year). 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.

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

NOTE 6: EMPLOYEES RETIREMENT PLANS (CONTINUED)

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 (6.25%)	Current Rate (7.25%)	1% Increase (8.25%)
Borough's Net Pension Liability	\$ (45,326)	\$ (207,050)	\$ (344,551)

Rate of Return. For the year ended December 31, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, as 16.54%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

General Employees' Pension Plan (Defined Contribution)

Plan Description

The Borough of Clarion General Employees' Pension Plan is a single-employer defined contribution pension plan. The Plan was established effective December 28, 1959. The Plan was amended and restated by Ordinance 95-673 effective January 1, 1995. The Plan is governed by the Borough Council, which may amend plan provisions, and which is responsible for manage of Plan assets. The Borough Council has delegated the authority to manage certain Plan assets to Wells Fargo Advisors.

At December 31, 2017, participants in the defined contribution plan is as follows:

Participants:	General Employees'
Retirees and beneficiaries	0
Terminated employees entitled to benefits but not yet receiving them	0
Active employees	4
Total	4

A summary of benefit provisions is as follows:

Normal retirement	Age 60 and 15 years of service
Early retirement	Age 55 and 10 years of service
Vesting	100% after 10 years of service
Retirement or disability benefits	Fair market value of participant's account paid as a lump sum
Survivor benefit	If participant dies while actively employed by Borough, participant's account shall become 100% vested, and shall be payable to his/her beneficiary

The Borough is required to contribute 5.5% of each eligible participant's total compensation as established by the Borough Council.

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

NOTE 7: COMPENSATED ABSENCES

Vacation and personal days may not be accumulated from year to year, except:

- Police employees may roll over up to one week of vacation time, which must be used by June 30 of the following year, and
- Public works employees and certain office staff may roll over up to one week of vacation time, which must be used by June 1 of the following 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) and office staff may accumulate is a maximum of 180 sick days. Police employees 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, 2017, the total liability for compensated absences was \$75,905. In 2017, the sick leave liability increased \$4,654.

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, 2017

NOTE 8: LONG-TERM LIABILITIES

A summary of changes in long-term liabilities follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Loans and Note Payable:					
Loans and Note	\$ 189,050	\$ 59,102	\$ 67,013	\$ 181,139	\$ 78,341
Total Loans and Note Payable	<u>189,050</u>	<u>59,102</u>	<u>67,013</u>	<u>181,139</u>	<u>78,341</u>
Other Liabilities					
Compensated Absences	71,251	14,445	9,791	75,905	-
	<u>71,251</u>	<u>14,445</u>	<u>9,791</u>	<u>75,905</u>	<u>-</u>
Governmental Activities Long-Term Liabilities	<u>\$ 260,301</u>	<u>\$ 73,547</u>	<u>\$ 76,804</u>	<u>\$ 257,044</u>	<u>\$ 78,341</u>

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

Years Ended December 31:	<u>Principal Requirements</u>	<u>Interest Requirements</u>	<u>Total Debt Service Requirements</u>
2018	\$ 78,341	\$ 3,538	\$ 81,879
2019	62,609	1,729	64,338
2020	28,954	655	29,609
2021	11,235	103	11,338
Total Requirements	<u>\$ 181,139</u>	<u>\$ 6,025</u>	<u>\$ 187,164</u>

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

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, 2017
\$ 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.	\$ 66,251
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.	18,708
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.	46,670
59,102	Note payable to be paid in 36 monthly installments starting in July 22, 2017 through June 22, 2020 with an interest rate of 2.10%. Proceeds were to purchase a 2017 Ford F-550 Public Works Truck value at \$70,102	49,510
Total Outstanding Debt as of December 31, 2017		\$ 181,139

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

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	\$ 150,264	\$ 149,105
Liquid Fuels Fund	-	10,172
Recreation Fund	800	24,025
Fire Equipment Fund	-	-
Capital Fund	86,468	126,238
<u>Non-Major Funds</u>		
Street Lighting	12,500	-
Library Fund	2,488	-
Pension Fund	1,500	-
Recycling	3,250	-
Debt Service Fund	52,270	-
	<u>309,540</u>	<u>309,540</u>
Total Governmental Funds	<u>\$ 309,540</u>	<u>\$ 309,540</u>
Total Interfund Operating Transfers	<u>\$ 309,540</u>	<u>\$ 309,540</u>

BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

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 FundsCapital Project Fund

Restricted for capital projects		\$ 985,535
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Fire Equipment Fund

Restricted for the fire department usage		53,590
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Recreation Fund

Restricted for recreational program usage		175,877
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Liquid Fuels Fund

Restricted for Public Works and Highway projects		126,580
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Non-Major Funds

Restricted for Debt Service	\$ 1,000		
Restricted for Street Lighting	12,108		
Restricted for Library usage	22,108		
Restricted under Act 13	6,561		
Restricted for Recycling usage	1,069		
Restricted for Employee Pension	3,203		
Total Non- Major Funds	46,049		46,049

Fiduciary FundsGeneral Employee Pension Trust Fund

This amount represents amount restricted for General Employees' Define Benefits Plan		1,663,314
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This amount represents amount restricted for General Employees' Defined Contribution Plan		40,457
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Police Pension Trust Fund

This amount represents amounts restricted for the payment for the Police Pension Benefits		3,924,404
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BOROUGH OF CLARION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

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, 2017.

NOTE 12: SUBSEQUENT EVENTS

During January 2018, 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 1.35%.

NOTE 13: LEGAL COMPLIANCE

For the year ended December 31, 2017, the Fire Equipment Fund's total expenditures exceeded total appropriations by \$10,696 or 17.6%. Additional revenues earned in the current year provided the funds for those additional expenditures.

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, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Real Estate Taxes	\$ 718,383	\$ 718,383	\$ 660,438	\$ (57,945)
Act 511 Taxes	440,360	440,360	467,775	27,415
Licenses and Permits	217,095	217,095	295,038	77,943
Fines	82,750	82,750	90,266	7,516
Interest and Rents	1,425	1,425	1,008	(417)
Intergovernmental Revenues	13,940	13,940	15,110	1,170
Charges for Services	73,550	73,550	163,563	90,013
Miscellaneous	4,125	4,125	28,400	24,275
Total Revenues	<u>1,551,628</u>	<u>1,551,628</u>	<u>1,721,598</u>	<u>169,970</u>
Expenditures:				
Current:				
General Government	288,856	288,856	278,485	10,371
Public Safety	1,009,420	1,009,420	966,945	42,475
Public Works	332,403	332,403	378,478	(46,075)
Miscellaneous	1,250	1,250	1,039	211
Debt Service	2,675	2,675	686	1,989
Total Expenditures	<u>1,634,604</u>	<u>1,634,604</u>	<u>1,625,633</u>	<u>8,971</u>
Excess of Revenues Over (Under) Expenditures	<u>(82,976)</u>	<u>(82,976)</u>	<u>95,965</u>	<u>178,941</u>
Other Financing Sources (Uses)				
Proceeds from Long Term Debt	-	-	59,102	59,102
Tax Anticipation Note	300,000	300,000	-	(300,000)
Sale of Capital Assets	7,500	7,500	-	(7,500)
Tax Anticipation Note (Payment)	(300,000)	(300,000)	-	300,000
Operating Transfers In	65,500	65,500	150,264	84,764
Operating Transfers (Out)	(45,500)	(45,500)	(149,105)	(103,605)
Total Other Financing Uses	<u>27,500</u>	<u>27,500</u>	<u>60,261</u>	<u>(26,341)</u>
Excess of Revenues and Other Financing Uses Over (Under) Expenditures	<u>(55,476)</u>	<u>(55,476)</u>	<u>156,226</u>	<u>211,702</u>
Fund Balances - January 1, 2017	<u>390,713</u>	<u>390,713</u>	<u>390,713</u>	<u>-</u>
Fund Balances - December 31, 2017	<u>\$ 335,237</u>	<u>\$ 335,237</u>	<u>\$ 546,939</u>	<u>\$ 211,702</u>

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, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental Revenue	\$ 152,019	\$ 152,019	\$ 155,247	3,228
Miscellaneous	50	50	731	681
Interest and Rents	35	35	175	140
Total Revenues	<u>152,104</u>	<u>152,104</u>	<u>156,153</u>	<u>4,049</u>
Expenditures:				
Current:				
Public Works	142,935	142,935	111,241	31,694
Debt Service	-	-	19,436	(19,436)
Total Expenditures	<u>142,935</u>	<u>142,935</u>	<u>130,677</u>	<u>12,258</u>
Excess of Revenues Over Expenditures	9,169	9,169	25,476	16,307
Other Financing Sources (Uses)				
Operating Transfer (Out)	-	-	(10,172)	(10,172)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(10,172)</u>	<u>(10,172)</u>
Excess of Revenues and Other Financing Sources Over Expenditures	<u>9,169</u>	<u>9,169</u>	<u>15,304</u>	<u>6,135</u>
Fund Balances - January 1, 2017	<u>111,276</u>	<u>111,276</u>	<u>111,276</u>	<u>-</u>
Fund Balances - December 31, 2017	<u>\$ 120,445</u>	<u>\$ 120,445</u>	<u>\$ 126,580</u>	<u>\$ 6,135</u>

BOROUGH OF CLARION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
RECREATION FUND - BUDGET TO ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Real Estate Taxes	\$ 20,765	\$ 20,765	\$ 19,382	\$ (1,383)
Interest and Rents	13	13	1,481	1,468
Charges for Services	21,800	21,800	21,074	(726)
Intergovernmental Revenue	-	-	24,025	24,025
Miscellaneous	250	250	3,577	3,327
Contributions	500	500	500	-
Total Revenues	<u>43,328</u>	<u>43,328</u>	<u>70,039</u>	<u>26,711</u>
Expenditures:				
Current:				
Recreation	<u>58,425</u>	<u>58,425</u>	<u>51,156</u>	<u>7,269</u>
Total Expenditures	<u>58,425</u>	<u>58,425</u>	<u>51,156</u>	<u>7,269</u>
Excess of Revenues Under Expenditures	(15,097)	(15,097)	18,883	33,980
Other Financing Uses				
Operating Transfers In	-	-	800	800
Operating Transfers (Out)	<u>-</u>	<u>-</u>	<u>(24,025)</u>	<u>(24,025)</u>
Total Other Financing Uses	<u>-</u>	<u>-</u>	<u>(23,225)</u>	<u>(23,225)</u>
Excess of Revenues and Other Financing Uses Under Expenditures	<u>(15,097)</u>	<u>(15,097)</u>	<u>(4,342)</u>	<u>10,755</u>
Fund Balances - January 1, 2017	<u>180,219</u>	<u>180,219</u>	<u>180,219</u>	<u>-</u>
Fund Balances - December 31, 2017	<u>\$ 165,122</u>	<u>\$ 165,122</u>	<u>\$ 175,877</u>	<u>\$ 10,755</u>

BOROUGH OF CLARION
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 FIRE EQUIPMENT FUND - BUDGET TO ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Real Estate Tax	\$ 67,760	\$ 67,760	\$ 64,679	(3,081)
Charges for Services	11,200	11,200	12,700	1,500
Miscellaneous	-	-	270	270
Interest and Rents	15	15	39	24
Total Revenues	<u>78,975</u>	<u>78,975</u>	<u>77,688</u>	<u>(1,287)</u>
Expenditures:				
Current:				
Public Safety	<u>60,712</u>	<u>60,712</u>	<u>71,408</u>	<u>(10,696)</u>
Total Expenditures	<u>60,712</u>	<u>60,712</u>	<u>71,408</u>	<u>(10,696)</u>
Excess of Revenues Over Expenditures	18,263	18,263	6,280	(11,983)
Fund Balances - January 1, 2017	<u>47,310</u>	<u>47,310</u>	<u>47,310</u>	<u>-</u>
Fund Balances - December 31, 2017	<u>\$ 65,573</u>	<u>\$ 65,573</u>	<u>\$ 53,590</u>	<u>\$ (11,983)</u>

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 40,112	\$ 40,578	\$ 49,066	\$ 53,447	\$ 58,428	\$ 62,989	\$ 61,571	\$ 66,462	\$ 60,515	\$ 59,231
Contribution in relation to the Actuarially determined contribution	40,112	40,578	49,066	53,447	58,428	64,371	74,253	67,600	74,296	67,941
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,382)	\$ (12,682)	\$ (1,138)	\$ (13,781)	\$ (8,710)
Covered-employee payroll	\$ 145,890	\$ 141,227	\$ 139,832	\$ 136,349	\$ 136,349	\$ 235,125	\$ 235,125	\$ 253,051	\$ 253,051	\$ 305,825
Contributions as a percentage of covered - employee payroll	27.5%	28.7%	35.1%	39.2%	42.9%	27.4%	31.6%	26.7%	29.4%	22.2%

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

	2017	2016	2015	2014
Annual money-weighted rate of return net of investment expense	16.54%	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.

	2017	2016	2015	2014
Total Pension liability	\$ 1,456,264	\$ 1,499,189	\$ 1,461,268	\$ 1,621,629
Plan fiduciary net position	(1,663,314)	(1,478,432)	(1,454,953)	(1,504,288)
Net pension liability	\$ (207,050)	\$ 20,757	\$ 6,315	\$ 117,341

Plan fiduciary net position as a percentage of the total pension liability 114.2%

Methods and assumptions used to determine contributions rates:

Actuarial Cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	1 year aggregate
Assets valuation method	4-year smoothing
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	RP-2000 Combined Healthy Mortality Table, with rates set forward 5 years of disabled members. Rates projected with 75% of scale AA

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

	<u>Year 2017</u>	<u>Year 2016</u>	<u>Year 2015</u>	<u>Year 2014</u>
<u>Total Pension Liability</u>				
Service cost	\$ 26,420	\$ 23,775	\$ 22,643	\$ 24,903
Interest	101,533	107,925	105,818	117,015
Changes of benefit terms	-	-	2,127	-
Differences between expected and actual experience	(145,148)	-	(182,004)	-
Changes in assumptions	64,153	-	-	-
Benefit payments and refunds	(89,883)	(93,779)	(108,945)	(109,212)
Net change in total pension liability	(42,925)	37,921	(160,361)	32,706
Total Pension Liability - beginning	<u>1,499,189</u>	<u>1,461,268</u>	<u>1,621,629</u>	<u>1,588,923</u>
Total Pension Liability - ending (a)	<u>\$ 1,456,264</u>	<u>\$ 1,499,189</u>	<u>\$ 1,461,268</u>	<u>\$ 1,621,629</u>
<u>Plan Fiduciary Net Position</u>				
Contributions - employer	40,112	40,578	48,956	53,447
Contributions - member	3,623	3,636	6,965	7,064
Net investment income	238,922	80,703	9,723	95,159
Benefit payments and refunds	(89,883)	(93,779)	(108,945)	(109,212)
Administrative expenses	(7,892)	(7,659)	(6,034)	(8,846)
Net change in plan fiduciary net position	<u>184,882</u>	<u>23,479</u>	<u>(49,335)</u>	<u>37,612</u>
Plan Fiduciary Net Position - beginning	<u>1,478,432</u>	<u>1,454,953</u>	<u>1,504,288</u>	<u>1,466,676</u>
Plan Fiduciary Net Position - ending (b)	<u>\$ 1,663,314</u>	<u>\$ 1,478,432</u>	<u>\$ 1,454,953</u>	<u>\$ 1,504,288</u>
Net Pension Liability - ending (a) - (b)	<u>\$ (207,050)</u>	<u>\$ 20,757</u>	<u>\$ 6,315</u>	<u>\$ 117,341</u>
Plan fiduciary net position as a percentage of the total pension liability	114.2%	98.6%	99.6%	92.8%
Covered-employee payroll	\$ 145,890	\$ 141,227	\$ 139,832	\$ 136,349
Net Pension Liability as percentage of covered-employee payroll	-141.9%	14.7%	4.5%	86.1%

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**

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 36,864	\$ 41,178	\$ 83,324	\$ 85,102	\$ 59,520	\$ 55,269	\$ 38,452	\$ 48,247	\$ 83,307	\$ 5,326
Contribution in relation to the Actuarially determined contribution	36,864	41,178	83,324	85,102	59,520	55,280	51,134	53,754	8,307	5,326
Contribution deficiency (excess)	-	-	-	-	-	(11)	(12,682)	(5,507)	75,000	-
Covered-employee payroll	\$ 447,232	\$ 319,645	\$ 444,246	\$ 476,004	\$ 476,004	\$ 435,576	\$ 435,576	\$ 409,468	\$ 409,468	\$ 398,981
Contributions as a percentage of covered - employee payroll	8.2%	12.9%	18.8%	17.9%	12.5%	12.7%	11.7%	13.1%	2.0%	1.3%

Police Retirement Fund
Schedule of Investment Returns - Last Ten Years

	2017	2016	2015	2014
Annual money-weighted rate of return net of Investment expense	16.65%	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.

	2017	2016	2015	2014
Total pension liability	\$ 3,204,963	\$ 3,237,415	\$ 3,045,522	\$ 3,054,795
Plan fiduciary net position	(3,924,404)	(3,423,768)	(3,321,942)	3,313,064
Net pension liability	\$ (719,441)	\$ (186,353)	\$ (276,420)	\$ (258,269)

Plan fiduciary net position as a percentage of the total pension liability 122.4%

Methods and assumptions used to determine contributions rates:

Actuarial Cost method	Entry age normal
Amortization method	Level dollar, open
Remaining amortization period	17 years aggregate
Assets valuation method	4-year smoothing
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	RP-2000 Combined Healthy Mortality Table, with Blue Collar Adjustment, rates set forward 5 years for disabled lives. Rates projected using 75% of scale AA

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

	<u>Year 2017</u>	<u>Year 2016</u>	<u>Year 2015</u>	<u>Year 2014</u>
<u>Total Pension Liability</u>				
Service cost	\$ 63,453	\$ 94,361	\$ 89,442	\$ 89,750
Interest	220,153	230,591	216,453	216,677
Changes of benefit terms	-	-	7,490	-
Differences between expected and actual experience:				
Changes in assumptions	124,498	-	-	-
Benefit payments and refunds	<u>(101,786)</u>	<u>(133,059)</u>	<u>(111,915)</u>	<u>(100,017)</u>
Net change in total pension liability	<u>(32,452)</u>	<u>191,893</u>	<u>(9,273)</u>	<u>206,410</u>
Total Pension Liability - beginning	<u>3,237,415</u>	<u>3,045,522</u>	<u>3,054,795</u>	<u>2,848,385</u>
Total Pension Liability - ending (a)	<u>\$ 3,204,963</u>	<u>\$ 3,237,415</u>	<u>\$ 3,045,522</u>	<u>\$ 3,054,795</u>
<u>Plan Fiduciary Net Position</u>				
Contributions - employer	36,864	41,178	83,324	85,102
Contributions - member	9,394	10,998	21,696	22,642
Net investment income	563,334	191,366	20,047	205,300
Benefit payments and refunds	(101,786)	(133,059)	(111,915)	(100,017)
Administrative expenses	<u>(7,170)</u>	<u>(8,657)</u>	<u>(4,274)</u>	<u>(2,340)</u>
Net change in plan fiduciary net position	<u>500,636</u>	<u>101,826</u>	<u>8,878</u>	<u>210,687</u>
Plan Fiduciary Net Position - beginning	<u>3,423,768</u>	<u>3,321,942</u>	<u>3,313,064</u>	<u>3,102,377</u>
Plan Fiduciary Net Position - ending (b)	<u>\$ 3,924,404</u>	<u>\$ 3,423,768</u>	<u>\$ 3,321,942</u>	<u>\$ 3,313,064</u>
Net Pension Liability - ending (a) - (b)	<u>\$ (719,441)</u>	<u>\$ (186,353)</u>	<u>\$ (276,420)</u>	<u>\$ (258,269)</u>
Plan fiduciary net position as a percentage of the total pension liability	122.4%	105.8%	109.1%	108.5%
Covered-employee payroll	\$ 447,232	\$ 319,645	\$ 444,246	\$ 476,004
Net Pension Liability as percentage of covered-employee payroll	-160.90%	-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.

O T H E R
S U P P L E M E N T A R Y
I N F O R M A T I O N

BOROUGH OF CLARION
OTHER GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2017

Assets	Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds
Cash and cash equivalents	\$ 46,569	\$ 1,000	\$ 47,569
Taxes receivable	17,639	-	17,639
Total Assets	\$ 64,208	\$ 1,000	\$ 65,208
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities:			
Accounts payable	\$ 6,404	\$ -	\$ 6,404
Total Liabilities	6,404	-	6,404
Deferred Inflows of Resources			
Unavailable Revenue - Property Taxes	12,755	-	12,755
Fund Balances:			
Restricted			
General Government	9,764	-	9,764
Public Works	13,177	-	13,177
Culture and Recreation	22,108	-	22,108
Debt Service Fund		1,000	1,000
Total Fund Balance	45,049	1,000	46,049
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 64,208	\$ 1,000	\$ 65,208

BOROUGH OF CLARION
OTHER GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2017

	Special Revenue Funds	Debt Service Fund	Total Other Governmental Funds
Revenue			
Real Estate Taxes	\$ 108,318	\$ -	\$ 108,318
Intergovernmental revenues	109,540	-	109,540
Charges for Services	14,798	-	14,798
Interest and rents	29	-	29
	<u>232,685</u>	<u>-</u>	<u>232,685</u>
Total Revenue			
Expenditures			
Current:			
Public Safety	66,407	-	66,407
Public Works	131,394	-	131,394
Culture and Recreation	39,087	-	39,087
Debt Services:			
Principal	-	49,658	49,658
Interest	-	2,612	2,612
Total Expenditures	<u>236,888</u>	<u>52,270</u>	<u>289,158</u>
Deficit of Revenues Under Expenditures	<u>(4,203)</u>	<u>(52,270)</u>	<u>(56,473)</u>
Other Financing Sources			
Operating Transfers In	<u>19,738</u>	<u>52,270</u>	<u>72,008</u>
Total Other Financing Sources	<u>19,738</u>	<u>52,270</u>	<u>72,008</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	15,535	-	15,535
Fund Balances-Beginning of Year	<u>29,514</u>	<u>1,000</u>	<u>30,514</u>
Fund Balances-End of Year	<u>\$ 45,049</u>	<u>\$ 1,000</u>	<u>\$ 46,049</u>

BOROUGH OF CLARION
COMBINING BALANCE SHEET - SPECIAL REVENUE FUNDS
DECEMBER 31, 2017

	Street Lighting Fund	Library Fund	ACT 13 Fund	Recycling Fund	Community Development Fund	Pension Fund	Total Nonmajor Governmental Funds
<u>Assets</u>							
Cash and cash equivalents	\$ 14,077	\$ 20,314	\$ 6,561	\$ 2,414	\$ -	\$ 3,203	\$ 46,569
Investments	-	-	-	-	-	-	-
Taxes receivable	6,992	6,198	-	4,449	-	-	17,639
Total Assets	<u>\$ 21,069</u>	<u>\$ 26,512</u>	<u>\$ 6,561</u>	<u>\$ 6,863</u>	<u>\$ -</u>	<u>\$ 3,203</u>	<u>\$ 64,208</u>
<u>Liabilities and Fund Balance</u>							
Liabilities:							
Accounts payable	\$ 3,911	\$ -	\$ -	\$ 2,493	\$ -	\$ -	\$ 6,404
Total Liabilities	<u>3,911</u>	<u>-</u>	<u>-</u>	<u>2,493</u>	<u>-</u>	<u>-</u>	<u>6,404</u>
Deferred Inflows of Resources							
Unavailable Revenue - Property Taxes	<u>5,050</u>	<u>4,404</u>	<u>-</u>	<u>3,301</u>	<u>-</u>	<u>-</u>	<u>12,755</u>
Fund Balances:							
Restricted							
General Government	-	-	6,561	-	-	3,203	9,764
Public Works	12,108	-	-	1,069	-	-	13,177
Culture and Recreation	-	22,108	-	-	-	-	22,108
Total Fund Balance	<u>12,108</u>	<u>22,108</u>	<u>6,561</u>	<u>1,069</u>	<u>-</u>	<u>3,203</u>	<u>45,049</u>
Total Liabilities and Deferred Inflows of Resources and Fund Balances	<u>\$ 21,069</u>	<u>\$ 26,512</u>	<u>\$ 6,561</u>	<u>\$ 6,863</u>	<u>\$ -</u>	<u>\$ 3,203</u>	<u>\$ 64,208</u>

BOROUGH OF CLARION
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2017

	Street Lighting Fund	Library Fund	ACT 13 Fund	Recycling Fund	Community Development Fund	Pension Fund	Total Nonmajor Governmental Funds
Revenues:							
Real estate taxes	\$ 42,641	\$ 38,542	\$ -	\$ 27,135	\$ -	\$ -	\$ 108,318
Intergovernmental revenues	-	-	-	817	4,652	104,071	109,540
Charges for Services	-	-	1,549	232	-	13,017	14,798
Interest and rents	6	13	2	4	-	4	29
Total Revenues	<u>42,647</u>	<u>38,555</u>	<u>1,551</u>	<u>28,188</u>	<u>4,652</u>	<u>117,092</u>	<u>232,685</u>
Expenditures:							
Current:							
Public Safety	-	-	-	-	-	66,407	66,407
Public Works	42,818	-	-	32,251	4,652	51,673	131,394
Culture and Recreation	-	39,087	-	-	-	-	39,087
Total Expenditures	<u>42,818</u>	<u>39,087</u>	<u>-</u>	<u>32,251</u>	<u>4,652</u>	<u>118,080</u>	<u>236,888</u>
Excess of Revenues Over Expenditures	(171)	(532)	1,551	(4,063)	-	(988)	(4,203)
Other Financing Sources (Uses):							
Operating transfers in	12,500	2,488	-	3,250	-	1,500	19,738
Operating transfers out	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>12,500</u>	<u>2,488</u>	<u>-</u>	<u>3,250</u>	<u>-</u>	<u>1,500</u>	<u>19,738</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	12,329	1,956	1,551	(813)	-	512	15,535
Fund Balance							
Beginning of year	(221)	20,152	5,010	1,882	-	2,691	29,514
End of year	<u>\$ 12,108</u>	<u>\$ 22,108</u>	<u>\$ 6,561</u>	<u>\$ 1,069</u>	<u>\$ -</u>	<u>\$ 3,203</u>	<u>\$ 45,049</u>