BOROUGH OF GETTYSBURG

FINANCIAL REPORT

DECEMBER 31, 2012

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Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

Borough Council
Borough of Gettysburg
Gettysburg, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Borough of Gettysburg, and the related notes to the financial statements, which collectively comprise the Borough of Gettysburg's basic financial statement 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 and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Gettysburg Municipal Authority, the discretely presented component unit, were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

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

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Borough Council
Borough of Gettysburg

Emphasis-of-matter

As described in Note 2, the Borough of Gettysburg has implemented a reporting model to account for deferred inflows, deferred outflows, net position, and items previously recorded as assets and liabilities as required by the provisions of the Governmental Accounting Standards Board ('GASB") Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB 65, *Items Previously Recognized as Assets and Liabilities*, as of January 1, 2012. Our opinions on these financial statements are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles general accepted in the United States of America that require the management's discussion and analysis on pages 4 through 11, the schedule of pension plan funding progress and employer contributions on page 46, and the budgetary comparison schedule - general fund on page 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough of Gettysburg's basic financial statements. The combining nonmajor fund financial statements and the schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements and the schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

Borough Council
Borough of Gettysburg

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2013 on our consideration of the Borough of Gettysburg's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Borough of Gettysburg's internal control over financial reporting and compliance.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
May 10, 2013

As management of the Borough of Gettysburg, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Borough of Gettysburg for the fiscal year ended December 31, 2012. We encourage readers to consider the information presented here in conjunction with additional information that can be found in the basic financial statements and the accompanying notes to those financial statements.

Financial Highlights

- The net position of the Borough of Gettysburg at December 31, 2012 was $ 11,794,433. Of this amount $ 902,747 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.

- The total net position increased by $ 118,517.

- At December 31, 2012, the governmental funds reported combined fund balances of $ 2,435,964 of which $ 121,679 is nonspendable because funds were used to purchase inventory that was still held at the close of the year and to prepay various expenses; $ 1,205,679 is restricted to a particular use and $ 1,014,936 is unassigned and is available for spending at the Borough of Gettysburg's discretion. The fund balance also includes an assigned amount of $ 93,670 which represents the deficit portion of the adopted 2013 budget. A portion of the current year's reserves must be set aside to balance the budget in the year 2013.

- The General Fund restricted fund balance of $ 7,696 represents donations for specific purposes received in 2012 that were not expended and fees received under the Borough's Subdivision and Land Development ordinance that have been waived and must be used for landscaping elsewhere in the Borough.

- Governmental fund balances decreased $ 840,463 during the year.

Overview of the Financial Statements

This discussion and analysis is to serve as an introduction to the Borough of Gettysburg's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional supplementary information.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Borough of Gettysburg's finances, in a manner similar to a private-sector business. The government-wide financial statements can be found on pages 12 and 13 of this report.

- The Statement of Net Position presents information on all of the Borough of Gettysburg's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Borough of Gettysburg is improving or deteriorating.

- The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal period.

Overview of the Financial Statements (Continued)

- Government-wide financial statements distinguish functions of the Borough of Gettysburg that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-like activities). The Borough of Gettysburg's governmental activities include Public Safety, Health and Human Services, Community Development, Public Works, General Government, Culture and Recreation and Debt Service. These financial statements do not present any business-like activities. The government-wide financial statements present information of the component unit, which is the water and sewer transactions of Gettysburg Municipal Authority.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Borough of Gettysburg, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance and related legal requirements. All of the funds of the Borough of Gettysburg can be divided into three categories: governmental funds, fiduciary funds and component units.

- Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental fund financial statements focus on near-term inflows and outflows of available resources, as well as on balances of available resources available at the end of the fiscal year. This information is useful in evaluating the Borough of Gettysburg's near-term financing requirements.

- Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information for governmental funds with information presented for governmental activities in the government-wide financial statements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison.

- The Borough of Gettysburg maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Capital Projects Fund and Capital Reserve Fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. A schedule in the Other Supplemental Section of the financial statements details the funds that make up the other governmental funds.

- The Borough of Gettysburg adopts an annual appropriated budget for all of the governmental funds except for the debt service fund.

- The basic governmental fund financial statements can be found on pages 14 – 17 of the report.

Component Unit. A component unit is a legally separate organization that a primary government must include as part of its financial reporting entity for fair presentation in conformity with Generally Accepted Accounting Practices (GAAP). It is important to underscore that components units, by definition, must be legally separate entities.

There are three specific tests for determining whether a particular legally separate entity is a component unit of a primary government's financial reporting entity. Those tests involve 1) appointment of the unit's governing board 2) fiscal dependence on the primary government and 3) the potential that exclusion would result in misleading financial reporting.

Overview of the Financial Statements (Continued)

Gettysburg Municipal Authority (GMA) financial information is presented as a discretely presented component unit in the financial statements that follow. Two important criteria used to come to this conclusion are 1) the Borough of Gettysburg council appoints the governing board of GMA and 2) a management agreement that provides for the Borough to manage and operate the Utility. The notes to the financial statements address this issue and provide additional information in Note 1. "Summary of Significant Accounting Policies". Separate financial statements, which include a Management Discussion and Analysis of the Authority, are available at the Authority's administrative office located at 59 East High Street, Gettysburg, PA 17325.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Borough of Gettysburg's programs. The basic fiduciary fund financial statements can be found on pages 18 - 19 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 - 45 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning funding progress for the Borough's employee pension obligations. Required supplementary information can be found on page 46- 47 of this report.

Government-Wide Financial Analysis

As stated earlier, the net position may serve over time as a useful indicator of a government's financial position.

In the case of the Borough of Gettysburg, assets exceeded liabilities by $ 11,794,433 at the close of the most recent fiscal year. By far the largest portion of the Borough's net position reflects its investment in capital assets (e.g., land, buildings, equipment and construction in progress) less any related debt used to acquire those assets.

The Borough uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Borough's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

BOROUGH OF GETTYSBURG'S NET POSITION

	Governmental Activities	
	2012	2011
Current assets	$ 3,068,466	$ 3,784,672
Capital assets and other assets	13,853,615	13,312,121
TOTAL ASSETS	16,922,081	17,096,793
Current liabilities	884,884	856,580
Noncurrent liabilities	4,242,764	4,624,044
TOTAL LIABILITIES	5,127,648	5,480,624
Net position:		
Net investment in capital assets	9,841,694	9,162,341
Restricted	1,049,992	948,938
Unrestricted	902,747	1,504,890
TOTAL NET POSITION	$ 11,794,433	$ 11,616,169

Changes in Net Position

The following is a summary of the Borough of Gettysburg's changes in net position:

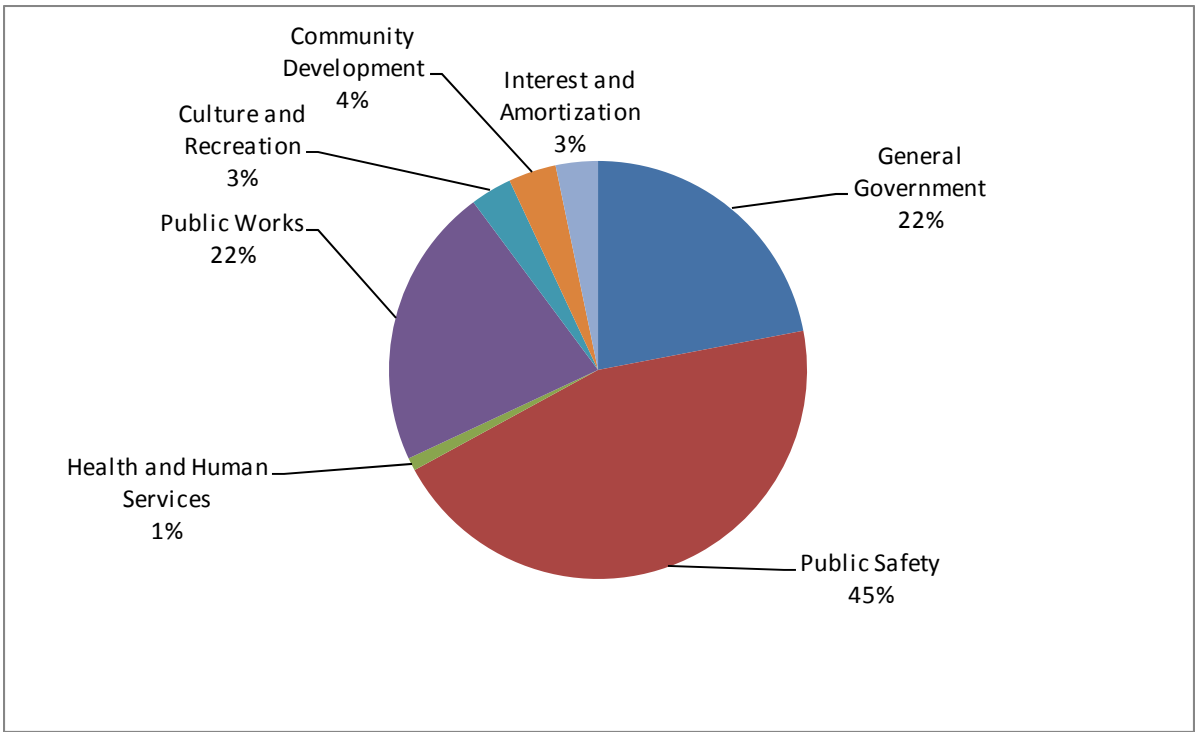
	Governmental Activities	
	2012	2011
Revenues:		
Program Revenues:		
Charges for Services	$ 1,363,911	$ 1,492,496
Operating Grants and Contributions	367,499	662,824
Capital Grants and Contributions	882,808	2,324,725
General Revenues:		
Taxes:		
Property	1,798,906	1,758,085
Earned income tax	462,441	438,175
Real Estate Transfer	72,986	55,026
Local services tax	256,461	305,226
Admission	130,648	160,390
Occupational and Per Capita	32,333	38,111
Unrestricted investment earnings	3,947	6,081
	5,371,940	7,241,139
Expenses:		
General Government	1,154,285	1,117,246
Public Safety	2,397,220	2,219,478
Health and Human Services	25,063	20,631
Public Works	1,143,124	978,502
Culture and Recreation	168,654	233,200
Community Development	194,188	201,911
Interest and Amortization	170,889	183,069
Total Expenses	5,253,423	4,954,037
Increase in Net Position	118,517	2,287,102
Net Position - Beginning (as restated)	11,675,916	9,388,814
Net Position - Ending	$11,794,433	$11,675,916

Financial Analysis of the Government's Funds

Governmental Funds - As noted earlier, the Borough of Gettysburg uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The focus of the Borough of Gettysburg's governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing financing requirements. Unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. The Borough of Gettysburg's governmental funds reported combined ending fund balances of $ 2,435,964. Approximately 30% of this total amount ($ 722,936) constitutes unassigned fund balance which is available for spending at the government's discretion. The remainder of the fund balance ($ 1,713,028) is shown as nonspendable, restricted and assigned to indicate that it is not available for new spending because it has already been set aside for prepaid expenses, funds to be used solely for law enforcement purposes, donations received for specific purposes, funds received from a developer in lieu of fulfilling the landscaping ordinance which will fund plantings in other areas of the Borough, fuel inventory, capital projects and a budget deficit next year.

The general fund is the primary operating fund of the Borough. During the year, expenditures exceeded revenues and other financing sources and uses (transfers in/out) in the general fund by $ 547,290.

The chart below illustrates the breakdown of governmental funds costs:



Budgetary Highlights

The original budget for the Borough of Gettysburg was not changed during the year for any of the governmental funds.

During the year, actual general fund revenues were more than budgeted revenues by $ 78,766 and actual general fund expenditures were higher than budgeted expenditures by $ 214,650. The unfavorable budget variances for expenditures were generated by the General Government, Public Safety and Culture and Recreation Departments.

Capital Asset Administration

The Borough of Gettysburg's investment in capital assets includes land, buildings and improvements, equipment, streets, storm sewer systems, lighting systems, and other infrastructure. This investment in capital assets as of December 31, 2012 was $ 13,805,495 for governmental activities (net of accumulated depreciation). Major capital asset events during the year were:

- Additions of $ 1,342,222 and retirements of $ 64,991 in capital assets of governmental activities. Government activities added assets that include the completion of West Middle Street brick sidewalks, the purchase of an Express Parc parking garage revenue machine, the street reconstruction of Howard Avenue, resurfacing of various alley's and various microsurfacing projects throughout the Borough that will extend the life of aging streets.

Comparative Capital Assets at December 31:

	Governmental Activities	
	2012	2011
Land and Improvements	$ 912,933	$ 297,282
Building and Improvements	8,381,000	8,657,547
Machinery and Equipment	731,214	758,062
Collections	14,150	14,150
Construction in Progress	0	64,991
Infrastructure	3,766,198	3,433,829
Total Capital Assets	$ 13,805,495	$ 13,225,861

Additional information on capital assets can be found in Note 6 in the Notes to Financial Statements.

Debt Administration

The Borough of Gettysburg had total outstanding bonded debt of $ 4,397,338. The governmental activity amounts are backed by the full faith and credit of the Borough of Gettysburg. The following is a comparative statement of outstanding debt:

	Governmental Activities	
	2012	2011
General Obligation Bonds and loans payable	$ 4,397,338	$ 4,758,175

During the year $ 330,173 of bonded debt and $ 30,664 of a Pennsylvania Infrastructure Bank Loan were retired.

The Borough of Gettysburg received a rating of A+, and stable outlook from Standard & Poors for the series 2010 general obligation bond issue. The rating reflects Standard & Poors assessment of the Borough's:

- Stable local economy, anchored by higher education and a tourism component;
- Adequate wealth and income indicators;
- Financial position that has strengthened considerably recently, characterized now by very strong reserves; and
- Moderately low debt profile.

As a borough, there are legal limitations on the amount of debt that can be outstanding. The recent borrowing base calculation put the limit of non-electoral debt at $ 10,516,502. At the current debt level of $ 4,397,338 the Borough is indebted at 42% of the amount the allowable non-electoral debt. Additional information on the Borough of Gettysburg's long term debt can be found in Note 7 in the Notes to Financial Statements.

Economic Factors and Next Year's Budget

Assessed valuation has averaged .5% annual growth over the period 2006 to 2010 with an average assessed value during the same period of $ 118,000,000. During 2011 a county wide reassessment was conducted and finalized and the assessed value was adjusted to $ 514,884,800. The 2013 assessment has decreased by 1% since the reassessment in 2011 due to assessment appeals but has increased .2% since the 2012 assessment. The general fund budget for 2013 reflects a 2% percent increase in total revenues and a 3% increase in expenditures over the 2012 budget.

Request for Information

This financial report is designed to provide a general overview of the Borough of Gettysburg's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Florence A. Ford, Borough Manager, 59 East High Street, Gettysburg, PA 17325.

BOROUGH OF GETTYSBURG

STATEMENT OF NET POSITION
December 31, 2012

	Governmental Activities	Component Unit Authority
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,024,672	$ 3,404,996
Investments	0	1,612,130
Taxes receivable, net	269,324	0
Accounts receivable - billed	652,791	783,480
Accounts receivable - unbilled	0	512,800
Accrued interest receivable	0	642
Inventories	11,689	52,106
Prepaid expenses	109,990	75,016
Total current assets	3,068,466	6,441,170
Noncurrent assets		
Restricted investments	6,894	2
Bond issue costs	41,226	62,356
Capital assets not being depreciated:		
Collections	14,150	0
Construction in progress	0	1,559,120
Capital assets net of accumulated depreciation:		
Land and land improvements	912,933	392,360
Buildings and improvements	8,381,000	24,329,219
Machinery, equipment and furniture	731,214	28,714,917
Infrastructure	3,766,198	0
Total noncurrent assets	13,853,615	55,057,974
Total assets	16,922,081	61,499,144
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charges on bond refunding	0	411,276
Total assets and deferred outflows of resources	$ 16,922,081	$ 61,910,420
LIABILITIES		
Current liabilities		
Accounts payable	$ 345,919	$ 372,458
Accrued wages and withholdings	94,434	50,917
Accrued interest	27,346	32,006
Consumer deposits	0	46,756
Long-term liabilities: Due within one year		
Bonds and notes payable	371,789	799,337
Compensated absences	41,617	0
Termination benefit payable	3,779	0
Total current liabilities	884,884	1,301,474
Noncurrent liabilities		
Long-term liabilities: Due in more than one year		
Bonds and notes payable	4,025,549	16,698,049
Compensated absences	209,425	0
Termination benefit payable	7,790	0
Total noncurrent liabilities	4,242,764	16,698,049
Total liabilities	5,127,648	17,999,523
NET POSITION		
Net investment in capital assets	9,841,694	37,911,270
Restricted	1,049,992	0
Unrestricted	902,747	5,999,627
Total net position	11,794,433	43,910,897
Total liabilities and net position	$ 16,922,081	$ 61,910,420

The Notes to Financial Statements are an integral part of this statement.

BOROUGH OF GETTYSBURG

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Component Unit Authority
Primary government						
Governmental activities						
General government	$ 1,154,285	$ 208,472	$ 78,693	$ 0	($ 867,120)	
Public safety	2,397,220	208,836	128,778	0	(2,059,606)	
Health and human services	25,063	0	0	0	(25,063)	
Public works	1,143,124	915,133	44,505	676,861	493,375	
Culture and recreation	168,654	31,470	45,836	33,350	(57,998)	
Community development	194,188	0	69,687	172,597	48,096	
Interest and amortization	170,889	0	0	0	(170,889)	
Total governmental activities	5,253,423	1,363,911	367,499	882,808	(2,639,205)	
Component Unit						
Municipal Authority - Sewer and Water	$ 6,175,102	$ 5,071,925	$ 0	$ 398,740		($ 704,437)
General revenues and transfers:						
Taxes:						
Property taxes					$ 1,798,906	$ 0
Earned income tax					462,441	0
Real estate transfer tax					72,986	0
Local services tax					256,461	0
Admission tax					130,648	0
Occupational and per capita taxes					32,333	0
Unrestricted investment earnings					3,947	14,695
Total general revenues and transfers					2,757,722	14,695
Change in net position					118,517	(689,742)
Net position - beginning (as restated)					11,675,916	44,600,639
Net position - ending					$ 11,794,433	$ 43,910,897

The Notes to Financial Statements are an integral part of this statement.

BOROUGH OF GETTYSBURG

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2012

	General Fund	Capital Projects Fund	Capital Reserve Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 247,854	$ 939,605	$ 729,391	$ 107,822	$ 2,024,672
Investments	0	0	0	6,894	6,894
Accounts and grants receivable	165,915	356,292	0	52,194	574,401
Taxes receivable, net	269,324	0	0	0	269,324
Due from other funds	846,270	50,000	8,500	0	904,770
Inventories	11,689	0	0	0	11,689
Prepaid expenses	109,990	0	0	0	109,990
Total assets	$ 1,651,042	$ 1,345,897	$ 737,891	$ 166,910	$ 3,901,740
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES					
Liabilities					
Accounts payable	$ 139,474	191,079	$ 0	$ 15,366	$ 345,919
Due to other funds	58,500	570,109	230,000	46,161	904,770
Accrued wages, benefits and withholdings	94,434	0	0	0	94,434
Total liabilities	292,408	761,188	230,000	61,527	1,345,123
Deferred inflows of resources					
Unavailable tax revenue	120,653	0	0	0	120,653
Total deferred inflows of resources	120,653	0	0	0	120,653
Fund balances					
Nonspendable	121,679	0	0	0	121,679
Restricted	7,696	584,709	507,891	105,383	1,205,679
Assigned	93,670	0	0	0	93,670
Unassigned	1,014,936	0	0	0	1,014,936
Total fund balances	1,237,981	584,709	507,891	105,383	2,435,964
Total liabilities, deferred inflows and fund balances	$ 1,651,042	$ 1,345,897	$ 737,891	$ 166,910	$ 3,901,740

The Notes to Financial Statements are an integral part of this statement.

BOROUGH OF GETTYSBURG

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
December 31, 2012

Total fund balance - governmental funds		$ 2,435,964
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund balance sheet, but are reported in the governmental activities of the Statement of Net Position.		
Cost of assets	$ 23,434,616	
Accumulated depreciation	(9,629,121)	13,805,495
Bond issue costs are not available to pay current period expenditures and therefore are not reported in the fund balance sheet, but are reported in the government activities of the Statement of Net Position.		41,226
Taxes receivable are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the fund balance sheet. However, these are recorded as revenue and receivable when earned for the government-wide statements.		120,653
Certain other receivables will be collected in the future, but are not available to pay current year expenditures, and therefore, are not recorded in the fund financial statements.		78,390
Some liabilities are not due and payable in the current period and are therefore excluded from the fund balance sheet, but are included in governmental activities in the Statement of Net Position.		
Bonds and notes payable, net	(4,397,338)	
Accrued interest	(27,346)	
Compensated absences	(251,042)	
Termination benefits	(11,569)	
		(4,687,295)
Total net position - governmental activities		$ 11,794,433

The Notes to Financial Statements are an integral part of this statement.

BOROUGH OF GETTYSBURG

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012

	General Fund	Capital Projects Fund	Capital Reserve Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	$ 2,719,544	$ 0	$ 0	$ 0	$ 2,719,544
Licenses and permits	75,095	0	0	0	75,095
Fines and forfeits	232,355	0	8,500	0	240,855
Investment earnings	874	2,118	737	218	3,947
Rents	12,025	0	0	0	12,025
Intergovernmental	286,385	749,967	0	213,728	1,250,080
Charges for services	1,006,726	0	0	0	1,006,726
Donations	21,265	0	0	0	21,265
Miscellaneous	19,372	0	0	0	19,372
Total revenues	4,373,641	752,085	9,237	213,946	5,348,909
EXPENDITURES					
General government	976,458	8,260	0	0	984,718
Public safety	2,093,572	0	69,971	0	2,163,543
Health and human services	25,063	0	0	0	25,063
Public works	831,521	1,068,933	0	152,446	2,052,900
Culture and recreation	145,725	0	0	0	145,725
Community development	64,999	156,100	0	69,687	290,786
Debt service	491,593	0	0	35,044	526,637
Total expenditures	4,628,931	1,233,293	69,971	257,177	6,189,372
Excess (deficiency) of revenues over expenditures	(255,290)	(481,208)	(60,734)	(43,231)	(840,463)
OTHER FINANCING SOURCES (USES)					
Transfers in (out)	0	(223,000)	223,000	0	0
Total other financing sources and uses	0	(223,000)	223,000	0	0
Net change in fund balances	(255,290)	(704,208)	162,266	(43,231)	(840,463)
Fund balances - beginning	1,493,271	1,288,917	345,625	148,614	3,276,427
Fund balances - ending	$ 1,237,981	$ 584,709	$ 507,891	$ 105,383	$ 2,435,964

The Notes to Financial Statements are an integral part of this statement.

BOROUGH OF GETTYSBURG

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012

Net change in fund balances - total governmental funds		($ 840,463)
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense differs from capital outlays in the period.		
Depreciation expense	(697,597)	
Capital outlays, net of retirements	1,277,231	
		579,634
Because some taxes will not be collected for several months after the Borough's fiscal year ends, they are not considered as "available" revenues in the governmental funds. The difference in tax revenue is:		34,231
Certain other receivables are recorded for government-wide purposes due to their long term nature. Amounts received from these sources are recorded as revenues in the current year in the fund financial statements, but reduce the receivable for the government-wide statements.		(11,200)
Governmental funds report debt proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of debt principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the difference between proceeds and repayments.		365,130
Governmental funds report bond issue costs and discounts as expenditures. However, in the statement of activities, these costs are amortized over the life of the related bond. This is the amount of amortization expense for bond issue costs and bond discounts.		(12,605)
Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds. This is the difference between the amount (incurred) and the amount paid for:		
Accrued interest expense	3,222	
Compensated absences	(9,472)	
Termination benefits	6,155	
Vision benefits	3,885	
		3,790
Change in net position - governmental activities		$ 118,517

The Notes to Financial Statements are an integral part of this statement.

BOROUGH OF GETTYSBURG

STATEMENT OF FIDUCIARY NET POSITION
December 31, 2012

	Pension Trust Funds	Private Purpose Trust Fund
ASSETS		
Cash and cash equivalents	$ 495,892	$ 0
Investments	5,869,838	8,576
Total assets	$ 6,365,730	$ 8,576
NET ASSETS		
Held in trust for:		
Employees' pension benefits	$ 6,365,730	$ 0
Other purposes	0	8,576
Total net assets	$ 6,365,730	$ 8,576

The Notes to Financial Statements are an integral part of this statement.

BOROUGH OF GETTYSBURG

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended December 31, 2012

	Pension Trust Funds	Private Purpose Trust Funds
Additions		
Contributions		
Employer	$ 92,695	$ 0
Employer - state funded	171,653	0
Total contributions	264,348	0
Investment earnings		
Net appreciation (depreciation) in fair value of investments and gain (loss) on sale of investments	494,297	0
Interest, dividends and other	150,815	21
Total investment income	645,112	21
Less investment expenses:		
Fiduciary fees	(32,351)	0
Net investment earnings	612,761	21
Total additions	877,109	21
Deductions		
Benefit payments	256,709	0
Administrative expense	11,743	0
Other services	0	21
Total deductions	268,452	21
Change in net assets held in trust for:		
Employees' pension benefits	608,657	0
Net position - beginning	5,757,073	8,576
Net position - ending	$ 6,365,730	$ 8,576

The Notes to Financial Statements are an integral part of this statement.

Note 1. Summary of Significant Accounting Policies

Nature of Operations

The Borough of Gettysburg, Pennsylvania, operates under a strong council-weak mayor-manager form of government and provides the following services as authorized by the Borough Code: Public Safety – Police and Fire, Highways and Streets, Sanitation, Public Service, Health and Social Services, Culture – Recreation, Public Improvements, Planning and Zoning, and General Administrative Services.

The financial statements of the Borough of Gettysburg, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The government's more significant accounting policies are described below.

Reporting Entity

The GASB defines the criteria used to determine the composition of the reporting entity. It requires that the reporting entity include (a) the primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the primary government. A primary government may also be financially accountable for the governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation in some manner for the debt of the organization; or (c) is obligated in some manner for the debt of the organization.

Some organizations are included as component units because of their fiscal dependency on the primary government. An organization is fiscally dependent on the primary government if it is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the primary government.

Based upon the application of these criteria, the following is a brief review of the potential component unit addressed in defining the government's reporting entity.

Note 1. Summary of Significant Accounting Policies (Continued)

The following component unit meets the criteria for discrete presentation and is included within the reporting entity:

- The Gettysburg Municipal Authority (the "Authority") is governed by a board appointed by Borough Council. The Authority owns the water and sewer plant which services the Borough of Gettysburg entirely and neighboring townships, Cumberland and Straban. The Borough has also issued general obligation bonds on behalf of the Authority and guaranteed certain other bond issues. The debt service for these bond issues is paid entirely by the Authority. See Note 8 for additional information.

The Authority and the Borough are currently negotiating a new service agreement that will detail duties to be handled by the Authority and the Borough. Separate financial statements of the Authority are available at the Authority's Administrative office located at 59 East High Street, Gettysburg, Pennsylvania 17325.

Fund Accounting

The accounts of the Borough are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance/net position, revenue, and expenditures/expenses. The various funds of the primary government are segregated into the categories of governmental and fiduciary.

Governmental Funds

Governmental Funds are those through which most governmental functions of the Borough are financed. The measurement focus is on the flow of expendable resources, rather than on net earnings determination.

The Borough reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the Borough. This fund is used to account for all financial transactions except those required to be accounted for in another fund. This is a budgeted fund, and any unassigned fund balances are considered as resources available for use.

Capital Projects Fund - This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by enterprise funds).

Capital Reserve Fund – This fund is used to set monies aside for future capital improvements.

The Borough reports the following non-major governmental funds:

Special Revenue Funds - Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term *proceeds of specific revenue sources* establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund. The Borough has the following Special Revenue Funds:

- *Small Communities Program Fund* – is used to account for the proceeds and disposition of various federal and state grants that are restricted by grant agreements to expenditures for community development projects.

Note 1. Summary of Significant Accounting Policies (Continued)

Fund Accounting (Continued)

- *Highway Aid Fund* - is used to account for the proceeds and disposition of state liquid fuels entitlements that are legally restricted to expenditures for specific purposes, primarily building and maintaining local roads and bridges.

- *Company K Fund* – is used to account for the proceeds and disposition of funds donated to the Borough that are restricted for the perpetual care and maintenance of the Company K Memorial Monument.

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Borough under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Borough's own programs. The Borough has no investment trust funds or agency funds. Fiduciary Funds are not included in the government-wide financial statements.

The Borough maintains pension trust funds for the police and non-uniformed personnel. The Borough also maintains a private purpose trust fund - the Eichelberger-Stahle Trust Fund, which accounts for a charity fund in which yearly proceeds are to be distributed to the deserving poor of the Borough.

Basis of Presentation

Government-wide Financial Statements – The statements of net position and activities display information about the Borough as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The Borough's public safety, health and welfare, highways, parking facilities, culture and recreation, community development, and general administrative services are classified as governmental activities. The statements distinguish between these activities of the Borough that are governmental and the discretely presented component unit.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financials but differs from the manner in which governmental fund financials are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Borough's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient for the goods or services offered by the program and grants and contributions that are restricted to meeting the operation or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Borough, with certain limited exceptions. The comparison of direct expenses and program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Borough.

Note 1. Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

Fund Financial Statements – Fund financial statements report detailed information about the Borough. The focus of the governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The major fund concept does not apply to fiduciary funds and they are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

Fiduciary funds are reported using the economic resources measurement focus.

Basis of Accounting

Accrual

Government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of 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. Net position (total assets plus deferred outflows of resources less deferred inflows of resources and total liabilities) are used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased net position. Depreciation is charged as expense against current operations and accumulated depreciation is reported on the statement of net position.

Modified Accrual

The 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 collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers tax revenue to be available if collected within 60 days of the end of the fiscal period. In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB standards, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and as unearned revenue by the recipient.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Note 1. Summary of Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

Cash and Cash Equivalents

Cash and cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and include investments with original maturities of three months or less.

Investments

Investments and investment pools are reported at fair value, which is determined as follows:

> Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Managed funds related to the retirement systems and investments in external investment pools not listed on an established market are reported at estimated fair value as determined by the respective fund managers based on quoted sales prices of the underlying securities. Unrealized appreciation or depreciation due to changes in fair values of such investments is recognized annually.

Concentrations

The Borough receives real estate, per capita, and occupation taxes from residents within the Borough limits. The Borough uses a tax collector to collect all current real estate, per capita and occupation taxes. The Borough may lien any property associated with the real estate assessment.

The Borough is located in Adams County within South Central Pennsylvania.

Inventories

Inventory of fuel is maintained in the General Fund. It is carried at cost using the first-in, first-out method and is subsequently charged to expenditure when consumed.

All other governmental funds expense inventoriable items when purchased, which are insignificant at year end.

Capital Assets

General capital assets are those assets that generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the governmental fund financial statements.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Capital assets with a value of $ 1,000 or more are capitalized by the Borough. Infrastructure acquired after January 1, 2003 (in accordance with GASB provisions) is capitalized and depreciated over its estimated useful life. When an asset is disposed of, cost and related accumulated depreciation is removed, and any gain or loss arising from its disposal is credited or charged to operations.

Note 1. Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Land improvements	20
Infrastructure	20
Buildings and improvements	20 - 40
Machinery and equipment	5 - 15
Furnishings and fixtures	5

Collections include historical treasures that are not depreciated. The collections are being held for public exhibition, protected, kept unencumbered, cared for and preserved, and therefore are not depreciated.

Net Position

In the government-wide financial statements, net position is classified in the following categories:

Net Investment in Capital Assets: This component consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, accounts payable or other borrowings attributable to the acquisition, construction or improvement of those capital assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of debt is included in the same net position component as the unspent proceeds. Deferred outflows of resources and deferred inflows of resources attributable to acquisition, construction, or improvement of assets or related debt also should be included in this component of net position.

Restricted: This component of net position consists of restricted assets and deferred outflows of resources reduced by liabilities and deferred inflows of resources related to those assets. These restrictions could include constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. As of December 31, 2012 restricted net position consisted of:

Restricted for:		
Future capital improvements	$	923,663
Highway department		89,808
Public safety		11,421
Company K monument		6,894
Baseball field renovations		5,600
Tree planting		2,096
Community development		8,681
USS Gettysburg		1,829
	$	1,049,992

Unrestricted: This component of net position is the net amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Note 1. Summary of Significant Accounting Policies (Continued)

Net Position Flow Assumption: Sometimes the Borough will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Borough's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

Fund Balance – Governmental Funds

Governmental funds classify fund balance based on the relative strength of the spending constraints placed on the purpose for which resources can be used. The classifications are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact. This classification includes items such as prepaid amounts, inventories, and the long term portion of loans and notes receivable. This also includes the corpus (or principal) of permanent funds.

Restricted: This classification includes amounts where the constraints placed on the use of resources are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, change or mandate payment and includes a legally enforceable requirement on the use of these funds.

Committed: This classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Borough's highest level of decision-making authority. This formal action is in the form of a resolution which is made by the Borough Council. Once an amount is committed, it cannot be used for any other purpose unless changed by the same type of formal action used to initially constrain the funds.

Assigned: This classification includes spendable amounts that are reported in governmental funds *other than in the General Fund*, that are neither restricted nor committed, and amounts in the General Fund that are intended to be used for a specific purpose. The intent of an assigned fund balance should be expressed by either the Borough Council, or a subordinate high-level body, such as the finance committee, borough manager, or finance director that is authorized to assign amounts to be used for specific purposes. The assignment of fund balance cannot result in a negative unassigned fund balance.

Unassigned: This classification represents the portion of a spendable fund balance that has not been categorized as restricted, committed, or assigned. The general fund is the only fund which would include a positive unassigned fund balance as all other fund types must categorize amounts within the other classifications. A negative unassigned fund balance may occur in any fund when there is an over expenditure of restricted or committed fund balance. In this case, any assigned fund balance (and unassigned fund balance in the general fund) would be eliminated prior to reporting a negative unassigned fund balance.

Note 1. Summary of Significant Accounting Policies (Continued)

Fund Balance Flow Assumptions

Sometimes the Borough will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. The Borough does not have a spending order policy when fund balance resources are available for a specific purpose in multiple classifications. Therefore, the default spending order is to use restricted resources first and then apply unrestricted resources in the following order: committed, assigned and unassigned.

Interfund Activity

Advances between funds are accounted for in the appropriate interfund receivable and payable accounts. Advances between funds which are not expected to be repaid are accounted for as transfers. Interfund balances and transactions are eliminated in the government-wide financial statements.

Exchange transactions, if any, between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds.

Budgets and Budgetary Accounting

Annual budgets are adopted for the General Fund, Capital Projects Fund, Highway Aid Fund, Capital Reserve Fund, and the Small Communities Fund. The budgets are prepared on a basis consistent with accounting principles generally accepted in the United States of America. All appropriations lapse at year-end. There were no budget revisions during the year ended December 31, 2012.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities, if any, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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 columns in the statement of net assets. Bond premium and discounts, as well as issuance costs related to insurance premiums, 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. Deferred charges on bond refunding are shown as deferred outflows of resources. Bond issuance costs related to insurance premiums are reported as assets and amortized over the term of the related debt.

Note 1. Summary of Significant Accounting Policies (Continued)

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 while discounts on debt issuances are reported as other financing uses (if resulting from a disparity in interest rates) or as debt service expenditures (if resulting from underwriter's fees). Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Pension Plans

The Borough offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Borough employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in trust for the exclusive benefit of participants and their beneficiaries. The assets will not be diverted to any other purpose. The Borough has a duty of due care that would be required of an ordinary prudent investor.

The Borough has established two defined benefit pension plans for the benefit of substantially all full-time employees, the police plan and non-uniformed plan. The financial statements related to its pension plans are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Compensated Absences/Vision Benefits

Liability for compensated absences is accounted for in accordance with the provisions of the GASB, which require entities to accrue for employees' rights to receive compensation for vacation leave, or payments in lieu of accrued vacation or sick leave, as such benefits are earned and payment becomes probable.

Under terms of the Borough's employment agreements, employees are granted vacation, personal, and sick leave in varying amounts. Vacation and personal time must be used during the calendar year for all employees and cannot be carried over. Upon retirement from the Borough, non-uniformed employees and police are reimbursed for accumulated sick leave in accordance with personnel policies. Under terms of the Borough's employment agreements, employees are granted vision benefits in varying amounts. Upon retirement from the Borough, all employees are reimbursed for unused accumulated vision benefits in accordance with personnel policies.

The vesting method is used to account for sick leave and vision liabilities. In accordance with GASB standards, no liability is recorded in the governmental fund financial statements and an expenditure is recorded as payments are made. In the government-wide statements, the liability and expenses are recorded as earned.

Note 1. Summary of Significant Accounting Policies (Continued)

Discretely Presented Municipal Authority:

Accounts Receivable and Concentration of Credit Risk

The Authority provides water and sewer service to customers within the Gettysburg area. Receivables are recorded at face amount. A minimal allowance for doubtful accounts has been recorded.

Unbilled Revenue

During the year, customer water meters are read quarterly and water/sewer bills rendered throughout quarterly periods. Because not every meter is read on the same date, revenue for services rendered but not yet billed is accrued at year-end to match revenues with related expenses.

Capital Assets

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Capital assets with a value of $ 1,000 or more are capitalized by the Authority. When an asset is disposed of, cost and related accumulated depreciation is removed, and any gain or loss arising from its disposal is credited or charged to operations.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and plant	25-40 years
Wells	25 years
Lift stations	25 years
Utility and general	10-15 years

Compensated Absences/Vision Benefits

Under the terms of the Authority's employment agreements, full-time employees are granted vacation leave after completing twelve months of employment. The amount of vacation days awarded is based on the number of continuous service years. Vacation is awarded to employees on their anniversary dates, rather than the year-end of the Authority. With few exceptions, employees may not accumulate any unused vacation leave.

Note 2. Adoption of New Accounting Standards – Deferred Outflows and Inflows of Resources/Restatement

In March 2012, the Government Accounting Standards Board ("GASB") issued Statement No. 65 *Items Previously Recognized as Assets and Liabilities*. The objective of this statement is to enhance the guidance to determine which balances being reported as assets and liabilities should be reported as deferred outflows of resources or deferred inflows of resources. The financial statements incorporate the changes required by Statement No. 65.

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement elements, deferred outflows of resources, represents consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Borough does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Borough has several items which qualify for reporting in this category. Unavailable revenue from taxes and deferred grant revenues recorded in the Small Communities Fund are considered deferred inflows of resources on both the Statement of Net Position and the Governmental Funds – Balance Sheet.

In June 2011, the GASB issued statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* The objective of this statement is to enhance the usefulness of reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of net position. This standard establishes a framework detailing how these elements should be reported, which results in standardizing the presentation of deferred balances and effect on net position. The reporting of deferred inflows and outflows also applies to the fund financial statements. The financial statements incorporate the changes required by Statement No. 63.

The statement of net position for the year ended December 31, 2012 has been restated to conform to the new requirements of GASB No. 65. Unrestricted net position as of January 1, 2012 has been reduced to reflect the impact of adopting the provisions of GASB No. 65. This restatement was necessary to properly account for certain bond issuance costs previously recorded as an asset and amortized over the life of the related bond issuance but are now expensed under GASB 65.

Additionally, amounts to be received per an agreement with the Steinwehr Avenue, Heart of Gettysburg Battlefield Neighborhood Improvement District (an unrelated third party) should have been recorded as receivable as of December 31, 2011.

These restatements occurred as follows:

	Governmental Activities	Component Unit Authority
Net Position as orignally reported - December 31, 2011	$ 11,616,169	$ 44,816,361
Restatement caused by adoption of new accouting standard	(29,843)	(215,722)
Restatement caused by recording of prior year receivable	89,590	0
Net Position as restated - December 31, 2011	$ 11,675,916	$ 44,600,639
Change in Net Position as originally reported - 2011	$ 2,195,842	$ 3,808,262
Restatement caused by adoption of new accouting standard	1,670	17,135
Restatement caused by recording of prior year receivable	89,590	0
Change in Net Position as restated - 2011	$ 2,287,102	$ 3,825,397

Note 3. Cash and Investments

Borough:

The Borough is authorized to invest in the following:

- U.S. Treasury Bills.
- Short-term obligations of the U.S. Government or its agencies.
- Deposits in savings accounts or certificates of deposit insured by the FDIC or NCUSIF to the extent that such accounts are so insured and for any amounts above the insured maximum, provided that approved collateral as provided by law shall be pledged by the depository.
- Obligations of the U.S. Government, Commonwealth of Pennsylvania, or any agency, instrumentality, or political subdivision thereof, backed by the full faith and credit of the applicable government.
- Shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Borough's deposits may not be returned to it. The Borough does not have a written policy for custodial credit risk. As of December 31, 2012, $ 1,554,183 of the Borough's bank balance of $ 2,028,723 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	$ 0
Collateralized with securities held by the pledging financial institution	0
Uninsured and collateral held by the pledging bank's trust department but not in the Borough's name	1,554,183
	$ 1,554,183

Included in the Governmental Activities investments on the statement of net position is a certificate of deposit of $ 6,894, with a maturity of less than one year. Included in the Fiduciary investments on the statement of fiduciary net position is a certificate of deposit of $ 8,576, with a maturity of less than one year. Both are considered deposits for purposes of this disclosure.

Municipal Pension Plans

Investments held by the trustees of the Borough's pension plans are as follows:

	Value
Money Market Funds (cash equivalents)	$ 495,892
Mutual Funds	5,869,838
	$ 6,365,730

These funds have no defined maturity dates, and can be liquidated on a daily basis.

Note 3. Cash and Investments (Continued)

Credit Risk

The Borough does not have a policy to limit investment in fixed income securities to a particular credit quality rating. Approximately 34% of total mutual fund investments are fixed income investments that include an investment in bonds that are given a credit quality rating. For these rated bonds, approximately 52% received a credit quality rating of AAA or better.

Discretely Presented Municipal Authority:

The Authority is authorized to invest funds as detailed above for the Borough.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a written policy for custodial credit risk. As of December 31, 2012, $ 4,845,673 of the Authority's bank balance of $ 5,121,106 is exposed to custodial credit risk. Included in this amount is $ 1,612,131 of certificates of deposit, which are classified as investments on the statement of net position. Deposits of $ 4,845,673 were uninsured and collateralized with securities held by the pledging bank's trust department, but not in the Authority's name.

Credit Risk

The Authority does not have a formal policy pertaining to credit risk.

Note 4. Taxes Receivable and Deferred Revenues

Property taxes are levied on March 1 for the tax year. Taxes are payable at a 2% discount if paid before May 1 and at a 10% penalty if paid after the due date of June 30. Outstanding real estate taxes are turned over to Adams County, which handles collections and placement of liens, if necessary. Taxes are recorded as revenue by the Borough when received from the tax collector, and accruals are recorded at year-end for taxes expected to be received within 60 days of December 31 in accordance with the modified accrual basis of accounting. The Borough has established an allowance for uncollectible taxes based on the evaluation of historical collections. The total assessed valuation as of December 31, 2012 is $ 521,110,900.

Taxes receivable in the fund financial statements consists of the following as of December 31, 2012:

Real Estate and Real Estate transfer	$ 121,790
Per Capita	12,680
Earned Income	67,244
Occupational	25,838
Local Services Tax	51,634
Admission	4,338
Allowance for uncollectible accounts	(14,200)
Total taxes receivable	269,324
Taxes collected within sixty days, recorded as revenues in governmental funds	(148,671)
Taxes estimated to be collected after sixty days, recorded as deferred inflows in governmental funds	$ 120,653

Note 5. Interfund Receivables and Payables and Transfers

Borough:

Due from/to other funds consist of the following as of December 31, 2012:

Due From	Due To				
	General Fund	Capital Projects Fund	Capital Reserve Fund	Small Communities Fund	Total
General	$ 0	$ 570,109	$ 230,000	$ 46,161	$ 846,270
Capital Projects Fund	50,000	0	0	0	50,000
Capital Reserve Fund	8,500	0	0	0	8,500
Total	$ 58,500	$ 570,109	$ 230,000	$ 46,161	$ 904,770

At December 31, 2012, the Small Communities Fund owed the General Fund $ 46,161 for expenses paid during the year by the General Fund on behalf of the Small Communities Fund.

At December 31, 2012, the Capital Projects Fund owed the General Fund $ 563,169. These funds were deposited in the Capital Projects Fund checking accounts to take advantage of higher interest rates and establish operating reserves. However, management has determined this operating reserve will be moved back to the General Fund. Also as of December 31, 2012 the Capital Projects Fund owed the General Fund $ 6,940 for expenses related to the parking garage paid by the General Fund on behalf of the Capital Projects Fund.

At December 31, 2012, the General Fund owed the Capital Reserve Fund $ 8,500. This balance represents street excavation degradation fees collected by the General Fund on behalf of the Capital Reserve Fund.

At December 31, 2012, the Capital Reserve Fund owes the General Fund $ 230,000 for monies that were intended to establish a maintenance reserve. These funds will be paid back to the General Fund until appropriate action is taken to establish this reserve.

Interfund operating transfers were as follows in 2012:

Transfer To	Transfer From	Amount
Capital Reserve	Capital Projects	$ 223,000

In 2012 the Capital Projects Fund recorded a transfer of $ 223,000 to the Capital Reserve Fund. This transfer included unspent bond proceeds which are required to be spent on future capital expenditures but as of December 31, 2012 was not reserved for a specific project.

Note 6. Capital Assets

Borough:

Capital asset activity for the Borough consists of the following as of and for the year ended December 31, 2012:

	Beginning Balance	Additions	Retirements	Ending Balance
Cost:				
Land improvements	$ 455,753	$ 650,423	$ 0	$ 1,106,176
Infrastructure	7,865,797	550,459	0	8,416,256
Buildings and improvements	11,291,198	13,549	0	11,304,747
Machinery and equipment	2,380,596	127,791	0	2,508,387
Furniture and fixtures	84,900	0	0	84,900
Collections	14,150	0	0	14,150
Construction in progress	64,991	0	(64,991)	0
Total cost	22,157,385	1,342,222	(64,991)	23,434,616
Less accumulated depreciation:				
Land improvements	(158,471)	(34,772)	0	(193,243)
Infrastructure	(4,431,968)	(218,090)	0	(4,650,058)
Buildings and improvements	(2,633,651)	(290,096)	0	(2,923,747)
Machinery and equipment	(1,622,534)	(154,639)	0	(1,777,173)
Furniture and fixtures	(84,900)	0	0	(84,900)
Total accumulated depreciation	(8,931,524)	(697,597)	0	(9,629,121)
Capital assets, net	$ 13,225,861	$ 644,625	($ 64,991)	$ 13,805,495

Depreciation expense for the year ended December 31, 2012 was charged as follows:

General Government	$ 186,995
Public Safety	312,773
Highways	120,105
Parking	39,746
Culture and Recreation	37,978
	$ 697,597

Note 6. Capital Assets (Continued)

Discretely Presented Municipal Authority:

Capital asset activity for the Authority consists of the following as of and for the year ended December 31, 2012:

	Beginning Balance	Additions	Retirements	Ending Balance
Cost:				
Land	$ 250,360	$ 142,000	$ 0	$ 392,360
Building and plant	21,807,612	17,771,637	(839,839)	38,739,410
Wells	2,296,255	0	0	2,296,255
Lift stations	775,711	0	0	775,711
Utility and general equipment	44,292,348	52,233	(1,471,138)	42,873,443
Construction in progress	11,499,099	7,863,004	(17,802,983)	1,559,120
Total cost	80,921,385	25,828,874	(20,113,960)	86,636,299
Less accumulated depreciation:				
Building and plant	(14,112,384)	(971,887)	674,080	(14,410,191)
Wells	(1,063,135)	(84,929)	0	(1,148,064)
Lift stations	(438,044)	(30,498)	0	(468,542)
Utility and general equipment	(16,043,659)	(993,776)	1,423,549	(15,613,886)
Total accumulated depreciation	(31,657,222)	(2,081,090)	2,097,629	(31,640,683)
Capital assets, net	$ 49,264,163	$ 23,747,784	($ 18,016,331)	$ 54,995,616

Note 7. Mortgages and Notes Receivable

The following is a summary of changes in mortgages receivable for the year ended December 31, 2012:

	Beginning Balance	Additions	Reductions	Ending Balance	Accrued Interest	Current Portion	Long-term Portion
Mortgages receivable							
(A) Scattered Sites 3rd Mortgage	$ 59,718	$ 0	$ 0	$ 59,718	$ 8,012	$ 0	$ 59,718
(B) Scattered Sites 4th Mortgage	150,000	0	0	150,000	19,500	0	150,000
(C) Scattered Sites 5th Mortgage	40,000	0	0	40,000	5,200	0	40,000
Subtotal - mortgages	249,718	0	0	249,718	32,712	0	249,718
Allowance for uncollectible accounts	(249,718)	0	0	(249,718)	(32,712)	0	(249,718)
Net mortgages receivable	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

(A) Scattered Sites 3rd Mortgage - On January 6, 1993 Gettysburg Scattered Sites Associates entered into a mortgage with the Borough. The principal amount of $ 44,235 was raised to $ 59,718 on July 28, 1999 and accrues interest at a rate of 1% per annum. All payments of principal and interest are deferred until the low-income housing project is sold and to the extent that funds are available after repayment of prior liens.

(B) Scattered Sites 4th Mortgage - On January 6, 1993 Gettysburg Scattered Sites Associates entered into a mortgage with the Borough. The principal amount of $ 150,000 accrues interest at a rate of 1% per annum. All payments of principal and interest are deferred until the low-income housing project is sold and to the extent that funds are available after repayment of prior liens. Accrued interest as of December 31, 2012 totaled $ 28,500 with interest through December 31, 1999 totaling $ 10,500 being forgiven.

Note 7. Mortgages and Notes Receivable (Continued)

(C) Scattered Sites 5th Mortgage - On January 6, 1993 Gettysburg Scattered Sites Associates entered into a mortgage with the Borough. The principal amount of $ 40,000 accrues interest at

a rate of 1% per annum. All payments of principal and interest are deferred until the low-income housing project is sold and to the extent that funds are available after repayment of prior liens. Accrued interest as of December 31, 2012 totaled $ 4,800 after the accrued interest was rolled into principal during 1999.

An allowance for uncollectible accounts has been established for the entire amount of the mortgage and interest receivable because it is probable that the Borough will not receive these funds.

The following is a summary of changes in notes receivable for the year ended December 31, 2012:

	Beginning Balance	Additions	Reductions	Ending Balance
Notes Receivable				
(A) Kennies Market	$ 63,034	$ 0	($ 63,034)	$ 0
Total Notes Receivable	$ 63,034	$ 0	($ 63,034)	$ 0

(A) On August 8, 2007, Kennie's Market, Inc. signed a promissory note to pay the Borough principal of $ 300,000 plus interest at a rate of 2.5% per annum. As of December 31, 2012 this note receivable was paid in full.

Note 8. Long-term Liabilities

Borough:

The changes in long-term liabilities during the year ended December 31, 2012 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Long-term Portion
Bonds and notes payable						
(A) 2004 GO Bond	$ 295,000	$ 0	($ 295,000)	$ 0	$ 0	$ 0
(B) 2008 GO Bond	358,737	0	(34,467)	324,270	37,039	287,231
(C) 2010 GO Bond	3,855,000	0	(5,000)	3,850,000	305,000	3,545,000
(D) 2009 PIB Loan	277,605	0	(30,664)	246,941	31,164	215,777
Bond Discount	(28,167)	0	4,294	(23,873)	(1,414)	(22,459)
Subtotal - bonds and notes	4,758,175	0	(360,837)	4,397,338	371,789	4,025,549
Compensated absences/vision benefit	245,456	48,186	(42,600)	251,042	41,617	209,425
Termination benefit payable	17,724	0	(6,155)	11,569	3,779	7,790
Total long-term liabilities	$ 5,021,355	$ 48,186	($ 409,592)	$ 4,659,949	$ 417,185	$ 4,242,764

Bond, Notes, and Loans Payable

(A) General Obligation Bond - Series of 2004 - On March 15, 2004, the Borough issued General Obligation Bonds in the principal amount of $ 2,485,000 to currently refund the General Obligation Bonds - Series of 1999. As of December 31, 2012 these bonds were paid in full.

(B) General Obligation Bond – Series of 2008 – On January 31, 2008, the Borough issued General Obligation Bonds in the principal amount of $ 435,000 to currently refund the General Obligation Note – 2006. Interest only shall be paid on February 1, 2009, thereafter semiannual installments of $ 29,945 are due February 1 and August 1 through August 1, 2019; the interest rate is fixed at 7.25%.

Note 8. Long-term Liabilities (Continued)

Bond, Notes, and Loans Payable (Continued)

(C) General Obligation Bond – Series of 2010 – On May 15th, 2010, the Borough issued $ 10,045,000 of General Obligation Bonds, Series of 2010. The purpose of the issuances is to (1) refinance the 2004A and 2004B General Obligation Bonds of the Borough (issued on behalf of the Authority), and (2) finance numerous capital projects of the Borough. The portion of the bonds used to refinance the 2004A and 2004B bonds was $ 6,185,000. These bonds were issued to finance the Municipal Authority operations and, therefore, this portion will be repaid by the Authority. The portion of the bonds issued by the Borough for future projects was $ 3,860,000. For the Borough's portion, annual principal installments varying from $ 5,000 to $ 495,000 are due through November 14, 2023 and fixed interest rates vary from 2.00% to 3.85%.

(D) Pennsylvania Infrastructure Bank Loan of 2009 - On December 30, 2009, the Borough signed a note in the principal amount of $300,000 to fund various infrastructure improvements within the Borough. This note was drawn down during 2009 and the final draw was received in February 2011. Semiannual installments of $ 16,312 are due February 8th and August 8th through February 8, 2020 with an interest rate of 1.625%.

The Borough has a signed agreement with the Steinwehr Avenue, Heart of Gettysburg Battlefield Neighborhood Improvement District ("District") (an unrelated third party) in which the Borough is to be reimbursed for 30% of the loan obligation by the District. The total amount to be reimbursed by the District is $ 104,405. Per the agreement the District is to make biannual payments to the Borough of $ 5,600 beginning in 2010 through 2019. As of December 31, 2012 the total amount reimbursed by the District was $ 26,015.

The following is a schedule by years and in the aggregate of future minimum debt principal and interest payments.

	2008 GO Bond		PIB Loan		2010 GO Bond (Borough Portion)		Governmental Activities Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	$ 37,039	$ 22,852	$ 31,164	$ 3,880	$ 305,000	$ 122,163	$ 373,203	$ 148,895
2014	39,773	20,118	31,672	3,371	310,000	116,063	381,445	139,552
2015	42,709	17,183	32,189	2,854	315,000	108,313	389,898	128,350
2016	45,861	14,030	32,714	2,329	325,000	101,068	403,575	117,427
2017	49,246	10,644	33,248	1,795	335,000	91,968	417,494	104,407
2018-2022	109,642	10,115	85,954	2,096	345,000	81,583	540,596	93,794
2023-2027	0	0	0	0	1,915,000	198,358	1,915,000	198,358
	$ 324,270	$ 94,942	$ 246,941	$ 16,325	$ 3,850,000	$ 819,516	$ 4,421,211	$ 930,783

Interest Expense

For the year ended December 31, 2012 the Borough incurred interest expense of $ 170,889.

Termination Benefit Payable

The Borough offered termination benefits to an employee to cover health care costs. The following details the future estimated payments, which are based on expected increases in health care costs, for the fiscal years ended December 31:

2013	$ 3,779
2014	3,856
2015	3,934
	$ 11,569

The estimated liability shown above is discounted at a rate of 1.0%.

Note 8. Long-term Liabilities (Continued)

Discretely Presented Municipal Authority

The changes in long-term liabilities during the year ended December 31, 2012 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Long-term Portion
Bonds and notes payable						
(D) 2010 Sewer revenue bonds	$ 6,330,000	$ 0	($ 15,000)	6,315,000	$ 10,000	6,305,000
Unamortized bond discount/loss	($ 55,139)	$ 0	$ 3,088	(52,051)	($ 3,089)	(48,962)
	6,274,861	0	(11,912)	6,262,949	6,911	6,256,038
(A) 2007 GO Bonds - Sewer	7,800,000	0	(7,800,000)	0	0	0
(B) 2010 GO Bonds - Sewer	705,000	0	(570,000)	135,000	135,000	0
(E) 2012 GO Bonds - Sewer	0	8,135,000		8,135,000	60,000	8,075,000
Other bond related costs	(7,526)	(85,355)	245,134	152,253	97,147	55,106
	8,497,474	8,049,645	(8,124,866)	8,422,253	292,147	8,130,106
(C) 2010 GO Bonds - Water	3,405,000	0	(505,000)	2,900,000	510,000	2,390,000
Other bond related costs	(105,857)	0	18,041	(87,816)	(9,721)	(78,095)
	3,299,143	0	(486,959)	2,812,184	500,279	2,311,905
Total long-term liabilities	$ 18,071,478	$ 8,049,645	($ 8,623,737)	$ 17,497,386	$ 799,337	$ 16,698,049

The general obligation bonds listed below are issued by the Borough on behalf of the Authority. All proceeds are utilized by the Authority and the related debt service is paid by the Authority. Therefore, this debt and unspent bond proceeds at year end is only shown within the discretely presented component unit column on the government-wide statements.

(A) General Obligation Bond – Series of 2007 – In 2007, the Borough issued General Obligation Bonds in the principal amount of $ 8,285,000 to be used for future Authority projects. Annual installments varying from $ 185,000 to $ 840,000 are due through August 15, 2023; interest varying from 4.00% to 4.25%.

(B) General Obligation Bond Sewer– Series of 2010 – On May 15, 2010, the Borough issued General Obligation Bonds in the principal amount of $ 1,815,000 to currently refund the General Obligation Bonds – Series of 2004A and 2004B and fund various capital projects of the Borough. Annual principal installments varying from $ 135,000 to $ 570,000 are due through November 15, 2013; fixed interest rates vary from 1.00% to 2.00%.

(C) General Obligation Bond Water– Series of 2010 – On May 15, 2010, the Borough issued General Obligation Bonds in the principal amount of $ 4,370,000 to currently refund the General Obligation Bonds – Series of 2004A and 2004B and fund various capital projects of the Borough. Annual principal installments varying from $ 200,000 to $ 570,000 are due through November 15, 2018; fixed interest rates vary from 1.00% to 3.30%.

(D) Sewer Revenue Bonds – Series of 2010 – On December 1, 2010, the Authority issued Revenue Bonds in the principal amount of $ 6,355,000 to fund capital construction improvements to the Authority's public sewer system and to pay the costs and expenses related to the issuance of the Bonds. The Borough has guaranteed the payment of the bonds by pledging its full faith, credit and taxing power. Annual principal installments range from $ 10,000 to $ 1,130,000 through November 15, 2029 with interest ranging from 3% to 4%.

(E) General Obligation Bonds Sewer – Series of 2012 – In May 2012, the Authority issues General Obligation Bonds in the principal amount of $ 8,135,000 to advance the General Obligation Bonds – Series of 2007. The bonds are ultimately payable from the revenues of the Authority. Annual principal installments range from $ 60,000 to $ 865,000 through August 15, 2023 with interest ranging from 0.50% to 2.50%.

Note 8. Long-term Liabilities (Continued)

Discretely Presented Municipal Authority

Cash flow gain represents the difference between the cash flow required to service the old debt and the new debt, less bond issue costs. As a result of refunding the 2007 Bonds with the 2012 issuance the Authority realized a cash flow gain of $ 709,682.

Economic gain represents the difference in present values of the old debt and new debt, less bond issue costs. As a result of refunding the 2007 Bonds with the 2012 issuance the Authority realized an economic gain of $ 701,057.

The following is a schedule by years and in the aggregate of future minimum debt principal and interest payments required at December 31, 2012.

	2010 GO Bonds Sewer		2010 GO Bonds Water		2010 Sewer Revenue Bonds		2012 GO Bonds Water		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	$ 135,000	$ 2,700	$ 510,000	$ 75,554	$ 10,000	$ 251,876	$ 60,000	$ 197,649	$ 715,000	$ 527,779
2014	0	0	525,000	65,354	10,000	251,474	740,000	167,914	1,275,000	484,742
2015	0	0	540,000	52,230	10,000	251,076	755,000	153,112	1,305,000	456,418
2016	0	0	555,000	39,810	10,000	250,674	770,000	138,012	1,335,000	428,496
2017	0	0	570,000	24,270	10,000	250,276	785,000	122,612	1,365,000	397,158
2018-2022	0	0	200,000	6,600	65,000	1,245,700	4,175,000	370,764	4,440,000	1,623,064
2023-2027	0	0	0	0	3,985,000	1,003,550	850,000	21,250	4,835,000	1,024,800
2028-2029	0	0	0	0	2,215,000	133,800	0	0	2,215,000	133,800
	$ 135,000	$ 2,700	$ 2,900,000	$ 263,818	$ 6,315,000	$ 3,638,426	$ 8,135,000	$ 1,171,313	$ 17,485,000	$ 5,076,257

Interest Expense

For the year ended December 31, 2012 the Authority incurred interest expense of $523,451.

Note 9. Operating Leases

Borough:

Lease Expense

The Borough entered into a long-term land lease with PNC Bank, N.A. Beginning on November 1, 1990, the Borough began paying a monthly rental payment of $ 1,200 for ten years. For years eleven through twenty-five, the Borough pays $ 1,700 per month. Subsequently, the lease is renewable for an additional fifteen years at $ 2,250 per month through October 31, 2030.

The scheduled non-cancelable lease commitments for the next five years are as follows:

2013	$ 20,400
2014	20,400
2015	20,400
	$ 61,200

Note 10. Employee Retirement Systems

The Borough of Gettysburg contributes to two single-employer defined benefit pension plans: Police Pension Plan and Non-Uniformed Pension Plan.

A. Summary of Significant Accounting Policies

Basis of Accounting – The Borough of Gettysburg's financial statements, in connection with its pension plans, are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Note 10. Employee Retirement Systems (Continued)

Method Used to Value Investments – Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value.

B. Plan Descriptions and Contributions

Police Pension Plan

Plan Description – The Plan is a single-employer defined benefit pension plan that covers all full-time members of the police force. The plan provides retirement benefits as well as death benefits. If a participant is eligible for retirement, a death benefit is payable. Employees are entitled to an annual cost-of-living increase not to exceed 4% per year. The plan is established and administered by the Borough through trust agents (local banks).

Contributions – Plan members are not required to contribute to the plan. The State is required to contribute at an actuarially determined rate. The Borough is responsible for contributing funds after accounting for the state contribution in order to meet the minimum municipal obligation for each year. The contribution requirements of the plan members and the State are established and may be amended by the Borough and State legislature, respectively. Administrative costs of the Police Pension Plan are financed through investment earnings.

Non-Uniformed Pension Plan

Plan Description – The Plan is a single-employer defined benefit pension plan that covers all full-time non-uniformed employees as of the first day of a participant's employment. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. The plan is established and administered by the Borough through trust agents (local banks).

Contributions – Plan members are not required to contribute to the plan. The State is required to contribute at an actuarially determined rate. The Borough is responsible for contributing funds after accounting for the state contribution in order to meet the minimum municipal obligation for each year. The contribution requirements of the plan members and the State are established and may be amended by the Borough and State legislature, respectively. Administrative costs of the Non-Uniformed Pension Plan are financed through investment earnings.

Membership of the plans consisted of the following at January 1, 2011, the date of the latest actuarial valuation:

	Police	**Non-Uniformed**
Retirees and beneficiaries receiving benefits	8	11
Terminated plan members entitled to but not yet receiving benefits	3	9
Active plan members	13	23
Totals	24	43

Note 10. Employee Retirement Systems (Continued)

C. *Annual Pension Cost and Net Pension Obligation*

The Borough's annual pension cost and net pension obligation to the police pension plan and the non-uniformed pension plan were as follows as of and for the year ended December 31, 2012:

	Police	Non-Uniformed
Annual required contribution	$ 147,041	$ 117,307
Interest on net pension obligation	0	0
Adjustment to annual required contribution	0	0
Annual pension cost	147,041	117,307
Contributions made	147,041	117,307
Increase in net pension obligation	0	0
Net pension obligation beginning of year	0	0
Net pension obligation end of year	$ 0	$ 0

	Police Pension Plan			Non-Uniformed Pension Plan		
Year Ended December 31,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2012	$ 147,041	100%	$ 0	$ 117,307	100%	$ 0
2011	$ 169,042	100%	$ 0	$ 124,109	100%	$ 0
2010	$ 109,453	100%	$ 0	$ 123,907	100%	$ 0

D. *Funded Status and Funding Progress*

The funded status of each plan as of January 1, 2011, the most recent actuarial valuation date, is as follows:

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
Police Pension Plan	$ 3,926,514	$ 4,003,774	$ 77,260	98.1%	$ 740,093	10.4%
Non-Uniformed Pension Plan	1,891,984	2,065,235	173,251	91.6%	941,363	18.4%

Note 10. Employee Retirement Systems (Continued)

E. *Actuarial Methods and Assumptions*

The information presented was determined as part of the actuarial valuations at the dates indicated.

	Police Pension Plan	Non-Uniformed Pension Plan
Valuation Date:	01/01/11	01/01/11
Actuarial Cost Method:	Entry age normal	Entry age normal
Amortization Method	Level Dollar	Level Dollar
Remaining Amortization Period	15 years	13 years
Asset Valuation Method	Smoothed Asset Valuation Method	Smoothed Asset Valuation Method
Actuarial Assumptions:		
Investment rate of return *	7.5%	7.5%
Projected salary increases *	5.0%	5.0%
* Included Inflation at Cost-of-Living Adjustments	3.0%	3.0%

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Note 10 Employee Retirement Systems (Continued)

F. Financial Statements

The following are financial statements as of December 31, 2012 for the individual pension plans maintained by the Borough:

STATEMENT OF FIDUCIARY NET POSITION
PENSION TRUST FUNDS

	Police	Non Uniformed	Total
ASSETS			
Cash and cash equivalents	$ 307,517	$ 188,375	$ 495,892
Investments	3,796,052	2,073,786	5,869,838
Total assets	$ 4,103,569	$ 2,262,161	$ 6,365,730
NET POSITION			
Held in trust for:			
Emloyees' pension benefits	$ 4,103,569	$ 2,262,161	$ 6,365,730
Total net position	$ 4,103,569	$ 2,262,161	$ 6,365,730

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PENSION TRUST FUNDS

	Police	Non Uniformed	Total
ADDITIONS			
Contributions			
Employer	$ 0	$ 92,695	$ 92,695
Employer - state funded	147,041	24,612	171,653
Total contributions	147,041	117,307	264,348
Investment income			
Net appreciation (depreciation) in fair value of investments and gains (loss) on sale of investments	303,202	191,095	494,297
Interest, dividends, and other	99,859	50,956	150,815
Total investment income	403,061	242,051	645,112
Less investment expenses:			
Fiduciary fees	(21,051)	(11,300)	(32,351)
Total net investment income	382,010	230,751	612,761
Total additions	529,051	348,058	877,109
DEDUCTIONS			
Benefit payments	186,698	70,011	256,709
Administrative expense	6,237	5,506	11,743
Total deductions	192,935	75,517	268,452
Change in net position	336,116	272,541	608,657
NET POSITION			
Beginning	3,767,453	1,989,620	5,757,073
Ending	$ 4,103,569	$ 2,262,161	$ 6,365,730

Note 11. Risk Management

Borough:

The Borough is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Borough purchases commercial insurance coverage for these types of losses, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. In addition, the Borough provides unemployment compensation coverage through a risk pool sponsored by the Pennsylvania Association of Boroughs (PSAB).

Discretely Presented Municipal Authority:

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority purchases commercial insurance coverage for these types of losses, including workers' compensation and employee health and accident insurance. Settlement amounts resulting from these risks have not exceeded coverage in the current year or the three prior years.

During 2012, the Authority was a member of the Capital Region Insurance Trust (CRIT). This trust consists of a group of municipalities that have pooled their interests together in order to establish a self-funded insurance plan in order to better control insurance rates. The Authority pays a premium to CRIT that consists of a portion for actual claim expenses, administrative costs, reinsurance costs and a reserve account. At year end, the actual claims of the Authority are reviewed and the reserve account is used to fund any excess claims for the Authority over the premiums paid during the year. If any funds remain in the reserve account, 30% of the total reserve balance could possibly be used to fund claim overages of the other municipalities. After these reconciliations are performed for all municipalities, if there are any remaining claim overages for the trust, the reinsurance policy that is purchased through the Pennsylvania Municipal Health Insurance Cooperative is used to pay the claims. Therefore, the expense of the Authority is limited to the premiums paid during the year. Any potential refund of the reserve account is calculated and received by the Authority several months after year end. Total payments by the Authority to CRIT during the year were $ 451,854.

Note 12. Commitments and Contingencies

The Borough is subject to real estate tax assessment appeals on an ongoing basis. If tax appeals are successful, the result is a loss of tax revenue to the Borough. It is anticipated that any material loss of tax revenue on individual tax appeals will be offset with additional revenues from other properties or other sources of revenue and would not create a financial hardship to the Borough.

The Borough is involved with various lawsuits in the normal course of operations. Management cannot predict the outcome of the lawsuits or estimate the amount of any loss that may result. Accordingly, no provisions for any contingent liabilities that may result have been made in the financial statements. Management believes that losses resulting from these matters, if any, would be substantially covered under the Borough's professional liability insurance policy and would not have a material effect on the financial position of the Borough.

Note 13. Transactions between the Primary Government and Component Unit

The Authority utilizes the administrative services of the Borough of Gettysburg. The Authority reimburses the Borough for the costs and time associated with the assistance of the Authority. This reimbursement was $ 63,353 in 2012.

Also, see Note 8 for an explanation of the general obligation bonds issued by the Borough on behalf of the Authority.

Note 14. Governmental Funds – Fund Balance

The following table provides details of the fund balance classifications which are aggregated on the governmental funds balance sheet:

	General Fund	Capital Projects Fund	Capital Reserve Fund	Other Governmental Funds	Total Governmental Funds
FUND BALANCES					
Nonspendable					
Prepaids	$ 109,990	$ 0	$ 0	$ 0	$ 109,990
Inventory	11,689	0	0	0	11,689
Total nonspendable	121,679	0	0	0	121,679
Restricted for:					
Tree planting	2,096	0	0	0	2,096
Baseball fields	5,600	0	0	0	5,600
USS Gettysburg	0	0	1,829	0	1,829
Future capital expenditures	0	584,709	244,641	0	829,350
Bond requirements	0	0	250,000	0	250,000
Public safety	0	0	11,421	0	11,421
Company K maintenance	0	0	0	6,894	6,894
Highway Department	0	0	0	89,808	89,808
Community development	0	0	0	8,681	8,681
Total restricted	7,696	584,709	507,891	105,383	1,205,679
Assigned for:					
Subsequent year budget deficit	93,670	0	0	0	93,670
Unassigned	1,014,936	0	0	0	1,014,936
Total fund balances	$ 1,237,981	$ 584,709	$ 507,891	$ 105,383	$ 2,435,964

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION PLAN FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS
For the Year Ended December 31, 2012

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded Actuarial Liability AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
Borough of Gettysburg Police Pension Plan						
01/01/12	-	-	-	-	-	-
01/01/11	$ 3,926,514	$ 4,003,774	$ 77,260	98.1%	$ 740,093	10.4%
01/01/10	-	-	-	-	-	-
01/01/09	3,414,872	3,776,553	361,681	90.4%	592,136	61.1%
01/01/08	-	-	-	-	-	-
01/01/07	3,818,358	3,656,719	(161,639)	104.7%	725,697	(22.3%)
Borough of Gettysburg Non-Uniformed Pension Plan						
01/01/12	-	-	-	-	-	-
01/01/11	$ 1,891,984	$ 2,065,235	$ 173,251	91.6%	$ 941,363	18.4%
01/01/10	-	-	-	-	-	-
01/01/09	1,485,730	1,790,858	305,128	83.0%	897,677	34.0%
01/01/08	-	-	-	-	-	-
01/01/07	1,406,480	1,642,462	235,982	85.6%	1,038,137	22.7%

	Police Pension Plan		Non-Uniformed Pension Plan	
Year Ended December 31,	Annual Required Contribution	Percentage of APC Contributed	Annual Required Contribution	Percentage of APC Contributed
2012	$ 147,041	100%	$ 117,307	100%
2011	$ 169,042	100%	$ 124,109	100%
2010	$ 109,453	100%	$ 123,907	100%
2009	$ 123,062	100%	$ 122,320	100%
2008	$ 118,582	100%	$ 136,798	100%
2007	$ 106,244	100%	$ 135,636	100%

BOROUGH OF GETTYSBURG

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the year ended December 31, 2012

	Budgeted Amounts			
	Original	Final	Actual	Variance
REVENUES				
Taxes	$ 2,706,000	$ 2,706,000	$ 2,719,544	$ 13,544
Licenses and permits	74,350	74,350	75,095	745
Fines and forfeits	248,000	248,000	232,355	(15,645)
Interest earnings	2,000	2,000	874	(1,126)
Rents	12,000	12,000	12,025	25
Intergovernmental	290,100	290,100	286,385	(3,715)
Charges for services	942,615	942,615	1,006,726	64,111
Donations	7,800	7,800	21,265	13,465
Miscellaneous	12,000	12,000	19,372	7,372
Total revenues	4,294,865	4,294,865	4,373,641	78,776
EXPENDITURES				
General government	884,738	884,738	976,458	(91,720)
Public safety	1,979,978	1,979,978	2,093,572	(113,594)
Health and welfare	24,800	24,800	25,063	(263)
Public works	847,744	847,744	831,521	16,223
Culture and recreation	120,427	120,427	145,725	(25,298)
Community development	65,000	65,000	64,999	1
Debt service	491,594	491,594	491,593	1
Total expenditures	4,414,281	4,414,281	4,628,931	(214,650)
Excess (deficiency) of revenues over expenditures	(119,416)	(119,416)	(255,290)	(135,874)
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	70,000	70,000	0	(70,000)
Total other financing sources and uses	70,000	70,000	0	(70,000)
Net change in fund balances	($ 49,416)	($ 49,416)	($ 255,290)	($ 205,874)
Fund balances - beginning	1,493,271	1,493,271	1,493,271	0
Fund balances - ending	$ 1,443,855	$ 1,443,855	$ 1,237,981	($ 205,874)

OTHER SUPPLEMENTARY INFORMATION

BOROUGH OF GETTYSBURG

COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS (NONMAJOR)
December 31, 2012

	Highway Aid Fund	Company K Fund	Small Communities Program Fund	Total Other Governmental Funds
ASSETS				
Cash and cash equivalents	$ 99,787	$ 0	$ 8,035	$ 107,822
Investments	0	6,894	0	6,894
Accounts and grants receivable	0	0	52,194	52,194
Total assets	99,787	6,894	60,229	166,910
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES				
Liabilities				
Accounts payable	9,979	0	5,387	15,366
Due to other funds	0	0	46,161	46,161
Total liabilities	9,979	0	51,548	61,527
Fund balances				
Restricted	89,808	6,894	8,681	105,383
Unassigned	0	0	0	0
Total fund balances	89,808	6,894	8,681	105,383
Total liabilities, deferred inflows and fund balances	$ 99,787	$ 6,894	$ 60,229	$ 166,910

BOROUGH OF GETTYSBURG

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS (NONMAJOR)
For the Year Ended December 31, 2012

	Highway Aid Fund	Company K Fund	Small Communities Program Fund	Total Other Governmental Funds
REVENUES				
Investment earnings	$ 193	$ 17	$ 8	$ 218
Intergovernmental	144,041	0	69,687	213,728
Total revenues	144,234	17	69,695	213,946
EXPENDITURES				
Public works	152,446	0	0	152,446
Community development	0	0	69,687	69,687
Debt service	35,044	0	0	35,044
Total expenditures	187,490	0	69,687	257,177
Excess (deficiency) of revenues over expenditures / net change in fund balances	(43,256)	17	8	(43,231)
Fund balances - beginning	133,064	6,877	8,673	148,614
Fund balances - ending	$ 89,808	$ 6,894	$ 8,681	$ 105,383

BOROUGH OF GETTYSBURG

SCHEDULE OF EXPENSES OF FEDERAL AWARDS
For The Year Ended December 31, 2012

Grantor Program Title	Federal CFDA Number	Pass Through Grantor's Number	Total Receipts	Modified Accrual Basis Expenditures/ Revenues
Department of Transportation				
Passed through the Pennsylvania Department of Transportation				
Transportation Enhancements Program	20.205	80777	$ 187,726	$ 544,020
Department of Transportation				
Passed through the Pennsylvania Department of Transportation				
Surface Transportation Program	20.205	87044	22,181	0
Housing and Urban Development				
Passed through the Pennsylvania Dept. of Community & Economic Development				
Community Development Block Grant	14.218	N/A	23,024	69,686
Department of Justice				
Bulletproof Vest Partnership	16.607	N/A	0	194
Total Federal Receipts/Expenditures			**$ 232,931**	**$ 613,900**

BOROUGH OF GETTYSBURG

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2012

Note 1. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of the Federal awards program of Borough of Gettysburg, Pennsylvania. The reporting entity is defined in Note 1 to the Borough's financial statements.

Note 2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the Borough's financial statements.

Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT

Borough Council
Borough of Gettysburg
Gettysburg, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Borough of Gettysburg, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Borough of Gettysburg's basic financial statements, and issued our report thereon dated May 10, 2013. The financial statements of Gettysburg Municipal Authority, the discretely presented component unit, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Borough of Gettysburg's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Borough of Gettysburg's internal control. Accordingly, we do not express an opinion on the effectiveness of the Borough of Gettysburg's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

Borough Council
Borough of Gettysburg

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Borough of Gettysburg's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
May 10, 2013

Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

Borough Council
Borough of Gettysburg
Gettysburg, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited the Borough of Gettysburg's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Borough of Gettysburg's major federal programs for the year ended December 31, 2012. The Borough of Gettysburg's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Borough of Gettysburg's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Borough of Gettysburg's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe out audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Borough of Gettysburg's compliance.

Opinion on Each Major Federal Program

In our opinion, the Borough of Gettysburg complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Borough Council
Borough of Gettysburg

Report on Internal Control Over Compliance

Management of the Borough of Gettysburg is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Borough of Gettysburg's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Borough of Gettysburg's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
May 10, 2013

BOROUGH OF GETTYSBURG

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2012

A. Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on the financial statements of the Borough of Gettysburg.

2. No material weaknesses relating to the audit of the financial statements are reported.

3. No instances of noncompliance material to the financial statements of the Borough of Gettysburg were disclosed during the audit.

4. No significant deficiencies relating to the audit of the major federal award programs are reported in the "Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133".

5. The auditor's report on compliance for the major federal award programs for the Borough of Gettysburg expresses an unmodified opinion.

6. There were no audit findings that were required to be reported in accordance with Section 510(a) of OMB Circular A-133.

7. The programs tested as major programs include:

Transportation Enhancements Program	CFDA #20.205

8. The threshold for distinguishing Types A and B programs was $ 300,000.

9. The Borough of Gettysburg did not qualify as a low risk auditee.

B. Findings - Financial Statement Audit

None

C. Findings and Questioned Costs - Major Federal Award Programs Audit

None

BOROUGH OF GETTYSBURG
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
RELATED TO FEDERAL AWARDS
For the Year Ended December 31, 2012

Findings related to federal awards:

None