

Ford City Borough

Primary Government Financial
Statements (Cash Basis) and
Required Supplementary and
Supplementary Information

Year Ended December 31, 2010 with
Independent Auditor's Report

MaherDuessel
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

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FORD CITY BOROUGH

YEAR ENDED DECEMBER 31, 2010

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Independent Auditor's Report

Members of Council
Ford City Borough

We have audited the accompanying primary government financial statements – cash basis (financial statements) of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Ford City Borough (Borough), as of and for the year ended December 31, 2010, which collectively comprise the basic financial statements of the Borough's primary government as listed in the accompanying table of contents. These financial statements are the responsibility of the Borough's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The financial statements referred to above include only the primary government of the Borough, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the Borough's legal entity. The financial statements do not include financial data for the Borough's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the Borough's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the Borough, as of December 31, 2010, and the changes in its financial position, and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. In accordance with accounting principles generally accepted in the United States of America, the Borough has issued separate reporting entity financial statements for which we have issued our report dated March 31, 2011.

As described in Note 1, these financial statements were prepared substantially on the basis of cash receipts and cash disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, because of the omission of the discretely presented component units, as discussed above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component units of the Borough, as of December 31, 2010 or the changes in financial position thereof for the year then ended.

In addition, in our opinion, except for the effects of omitting blended component units as discussed above, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate

remaining fund information of the primary government of the Borough as of December 31, 2010 and its cash receipts, cash disbursements, and changes in fund balance for the year then ended on the basis of accounting described in Note 1.

During 2010, the Borough received notification from the United States Department of Commerce, Economic Development Administration (EDA) that the EDA considered the Borough to be in default under the terms of a prior year EDA award. The EDA has reserved the right to establish debt in the amount of the award, \$581,000, and refer the debt to the Department of Justice for litigation. The Borough has submitted evidence to the EDA for reconsideration of this action, but has not received notification back from the EDA. In addition, during 2010, the Borough received a request for information from the Department of Conservation and Natural Resources (DCNR) concerning the use of funds of a DCNR grant. The potential claim in this matter is \$135,000 to reimburse the DCNR for funds expended under this grant. The ultimate outcome of these matters is unknown at this time.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the budgetary comparison, and pension information presented on pages i through vi, pages 28 through 30, and pages 31 through 33, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough's financial statements as a whole. The combining and individual nonmajor fund financial statements and budgetary comparison information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Maher Duessel

Pittsburgh, Pennsylvania
March 31, 2011

Ford City Borough
Management's Discussion and Analysis
Year Ended December 31, 2010

As the management of Ford City Borough (Borough), we offer our residents, elected officials, employees, and other interested parties this narrative overview and analysis of the financial activities of the Borough for the year ended December 31, 2010. The purpose of this Management's Discussion and Analysis (MD&A) is to 1) assist the reader in focusing on significant financial issues, 2) provide an overview of the Borough's financial activity, 3) identify changes in financial position, 4) identify any material deviations from the approved budget, and 5) identify individual fund issues and/or concerns.

The Borough's management encourages all readers to consider this information in conjunction with supplementary information that we have furnished in these financial statements and accompanying notes that follow in order to obtain a thorough understanding of the Borough's financial condition at December 31, 2010.

We are aware of various new accounting pronouncements and guidelines that will require further refinement of our controls and procedures. While the management is aware of the need for improvements in the Borough's procedural controls to protect the public's assets, we are confident that the controls currently in place are adequate to prevent and/or detect material misstatements in the financial statements which reflect the financial activities of the Borough.

FINANCIAL HIGHLIGHTS:

- The Borough prepares its financial statements on the cash basis of accounting as described in the notes to the primary government financial statements.
- Unrestricted net assets on the cash basis were \$176,064 government wide. These assets may be used to meet the Borough's ongoing obligations to residents and creditors.
- The Borough is permitted to levy real estate taxes up to 30 mills for general purposes. The General Fund levy is only 9.25 mills in 2010.
- At December 31, 2010, the Borough had direct long-term debt of \$790,232 outstanding which includes obligations under a long-term lease agreement for the purchase of equipment for the police department, a non-revolving term loan for the purchase of a new furnace for the Borough's municipal building, a line of credit, and the unsecured obligation to the Internal Revenue Service.

OVERVIEW OF FINANCIAL STATEMENTS:

This MD&A is intended to serve as an introduction to the Borough's basic financial statements. The Borough's financial statements are made up of three components: 1) Government-Wide Financial Statements, 2) Fund Financial Statements; which include the notes to the primary government financial statements, and 3) Required Supplementary Information. Supplementary information is provided for your understanding.

The basic financial statements present two different views of the Borough through the use of government-wide financial statements and fund financial statements. In addition to these required reports, a section with combining statements is presented to provide details about the other government funds. The following outlines the presentation of the financial report:

I. Primary Government Financial Statements

a. Government-Wide Financial Statements

b. Fund Financial Statements

c. Notes to the Primary Government Financial Statements

a. Government-Wide Financial Statements - The government-wide financial statements are designed to provide all interested parties with a broad overview of the Borough in a manner similar to a private sector business.

- *The Statement of Net Assets (Cash Basis)* - This report presents information on the Borough's cash and net assets. Over time, changes in the net assets may serve as a useful indicator of the Borough's financial condition. This indicator is noted for changes that are necessary in the Borough's revenues.
- *The Statement of Activities (Cash Basis)* - This report shows how the Borough's net assets have changed during the most recent reporting period. This report shows expenses by function and how, if necessary, the deficit from each function is funded.

The government-wide financial statements report separately, functions that are principally supported by taxes and intergovernmental revenues from other functions that are funded by user fees and charges. The governmental activities of the Borough include general governmental, public safety, health and sanitation, highways, streets and roads, community development, parks and recreation, and debt service.

The government-wide financial statements can be found on pages 1 and 2 of this report.

b. Fund Financial Statements - A fund is a group of accounts that is used to control resources that have been separated for specific activities or objectives. The Borough utilizes fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the Borough, with the exception of the Utility Fund, can be divided into two categories: 1) Governmental Funds and 2) Fiduciary Funds.

The Fund Financial Statements can be found on pages 3 through 8 of this report.

- Governmental Funds - are used to account for essentially the same functions reported as the governmental activities reported in the government-wide financial statements.

The Borough maintains individual governmental funds. Information is presented separately in the governmental fund statements for the General Fund, the Highway Aid Fund (Liquid Fuels Fund), the Community Development Fund, and the Fire Equipment Fund. Data for the Landfill Fund and Street Lighting Fund is reported under the "Other Governmental Fund" heading.

The Borough adopts an annual budget for all funds. A budgetary comparison statement has been provided for all funds, except for the Community Development Fund, to compare actual revenues and expenses to budgeted amounts in the Required Supplementary Information and the Supplementary Information.

The basic governmental funds financial statements can be found on pages 3 and 4 of this report.

- Proprietary Fund – is used to account for all business-type activities including the operating of providing municipal services to the community. These municipal services include water, sanitation, and sewage services. The Borough acts as the administrator of the sewage services in that the Ford City Borough Municipal Sewage Disposal Authority (FCBMSDA) pays a monthly fee to the Borough for billing and collection of the sewage fees. The Borough operates and maintains the water and sanitation services as well as the billing and collection of the fees for service.

The basic proprietary fund financial statements can be found of pages 5 and 6 of this report.

- Fiduciary Funds - are those funds used to account for resources held for the benefit of parties outside of the government. The Borough is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of these funds are not available to finance operations of the Borough but are held by the Borough in a fiduciary capacity.

The basic fiduciary funds financial statements can be found on pages 7 and 8 of this report.

- c. Notes to the Primary Government Financial Statements - The notes to the primary government financial statements provide information that is necessary for the full understanding of the data provided in the report.

The notes to the primary government financial statements can be found starting on page 9 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents certain Required Supplementary Information concerning the Borough's progress in funding its obligation to provide pension benefits to its employees and its budgeting activities.

The Required Supplementary Information can be found on pages 28 through 33 of this report. Supplementary Information, not required to be reported, can be found on pages 34 through 41.

GOVERNMENT-WIDE FINANCIAL ANALYSIS:

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Borough increased municipal rates for 2011 to continue to improve this position.

STATEMENTS OF NET ASSETS - CASH BASIS

DECEMBER 31, 2010 AND 2009

TOTAL GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES

		December 31	
		2010	2009
Assets:	Total assets	\$ 239,160	\$ 192,275
Liabilities:	Internal balances	63,096	81,569
Net Assets:	Unrestricted	\$ 176,064	\$ 110,706

STATEMENT OF ACTIVITIES - CASH BASIS

DECEMBER 31, 2010 AND 2009

TOTAL GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES

		December 31	
		2010	2009
Revenues:			
	Charges for services	\$ 1,102,942	\$ 1,200,273
	Operating grants	-	6,950
	Capital grants	73,119	81,029
	General	968,566	1,324,225
	Total revenue	2,144,627	2,612,477
Expenses:			
	Governmental activities	1,596,876	2,065,354
	Business-type activities	482,393	593,304
	Total expenses	2,079,269	2,658,658
	Change in Net Assets	\$ 65,358	\$ (46,181)

As mentioned, the balance of the unrestricted net assets may be used to meet the Borough's ongoing obligations.

The change in net assets from 2009 to 2010 is an indicator that the Borough's attempt to maintain costs and funds the same has been successful. Total revenue, including all charges for services by department and operating grants and capital grants for 2010 total \$2,144,627. This amount includes revenues from liquid fuels tax, foreign fire insurance payments, all state, local, and federal grants. The Borough is operating at an excess of revenues over expenditures of \$65,358. The General Fund had a negative change in net assets for the year of \$1,311. The

Utility Fund had a positive change in net assets for the year in the amount of \$585. The operating income for the Utility Fund is \$122,842. The assets of other funds are used to support the cash flow of any funds that experience a deficit.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS:

The Borough uses fund accounting to ensure and demonstrate compliance with various legal requirements.

Governmental Funds - the focus of the Borough's governmental funds is to provide information on the activities and balances of available resources. Such information is useful in assessing the Borough's financial requirements. The unreserved fund balance may be used as a measure of resources available to fund the next fiscal year activity.

The total fund balance is unrestricted at December 31, 2010.

GENERAL FUND BUDGETARY HIGHLIGHTS:

The General Fund operating revenues have closely matched the actual indicating that budgeting techniques are becoming more accurate. The General Fund expenditures are over budget as a result of nonrecurring costs related largely to an old street project and emergency unbudgeted projects.

DEBT:

At the end of the current fiscal year, the Borough had outstanding long-term debt as defined by the Local Government Unit Debt Act in the amount of \$181,789. Additional debt is reported using the outstanding bonds and the Internal Revenue Service obligation. This amount is fully detailed and explained in the Notes to the Primary Government Financial Statements. The Borough is also obligated under one long-term lease agreements for the use of various safety, public service, and fire equipment.

A liability exists to the Internal Revenue Service for payroll taxes from 1997, 1998, and 1999. The Borough entered into a repayment arrangement with the Internal Revenue Service in September of 2005 whereby monthly payments of \$500 are made through the term of the statute of limitations; which would be 2011.

Please review the notes regarding the Borough's debt position to more fully understand the scope of liability.

ECONOMIC FACTORS AND PROJECTED 2011 BUDGET AND RATES:

The 2011 budget was prepared and approved with no increase in the general purpose real estate tax millage; however, special revenue taxes were increased to support a reinvestment in public safety capital equipment. Municipal rates were also increased in 2011 to allow for additional capital investment and improvements to existing assets.

Please refer to the financial statements of the Borough's separate component units to analyze the surrounding economic environment. The Borough continues to be one of the few government entities of its size to provide full public service including public safety, water, sewage, sanitation, and support for the local fire department, library, and other service programs. Every effort will be made to continue and improve these services for the benefit and enjoyment of the residents of the Borough.

REQUEST FOR INFORMATION:

This financial report is designed to provide a general overview of the Borough's finances. Questions concerning any of the information provided in this report or requests for additional information may be addressed to:

Ford City Borough
Audit Request
P.O. Box 112
Ford City, PA 16226

FORD CITY BOROUGH

STATEMENT OF NET ASSETS (CASH BASIS)

DECEMBER 31, 2010

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<hr/> Assets <hr/>			
Cash and cash equivalents	\$ 126,731	\$ 28,740	\$ 155,471
Accounts receivable	1,066	-	1,066
Internal balances	<u>-</u>	<u>82,623</u>	<u>82,623</u>
Total Assets	<u>127,797</u>	<u>111,363</u>	<u>239,160</u>
<hr/> Liabilities <hr/>			
Internal balances	<u>44,238</u>	<u>18,858</u>	<u>63,096</u>
<hr/> Net Assets <hr/>			
Unrestricted	<u>\$ 83,559</u>	<u>\$ 92,505</u>	<u>\$ 176,064</u>

See accompanying notes to the primary government financial statements (cash basis).

FORD CITY BOROUGH

STATEMENT OF ACTIVITIES (CASH BASIS)

YEAR ENDED DECEMBER 31, 2010

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants	Capital Grants	Governmental Activities	Primary Government Business-Type Activities	Total
Primary Government:							
Governmental activities:							
General government	\$ 273,107	\$ 47,314	\$ -	\$ -	\$ (225,793)	\$ -	\$ (225,793)
Health and human services	984	-	-	-	(984)	-	(984)
Public safety	453,375	61,080	-	-	(392,295)	-	(392,295)
Public works - highway and streets	361,986	-	-	73,119	(288,867)	-	(288,867)
Public works - sanitation	151,080	389,313	-	-	238,233	-	238,233
Culture and recreation	68,997	-	-	-	(68,997)	-	(68,997)
Community development	7,074	-	-	-	(7,074)	-	(7,074)
Miscellaneous	165,487	-	-	-	(165,487)	-	(165,487)
Debt service	114,786	-	-	-	(114,786)	-	(114,786)
Total governmental activities	1,596,876	497,707	-	73,119	(1,026,050)	-	(1,026,050)
Business-type activities:							
Water	482,393	547,441	-	-	-	65,048	65,048
Sewer	-	57,439	-	-	-	57,439	57,439
Miscellaneous	-	355	-	-	-	355	355
Total business-type activities	482,393	605,235	-	-	-	122,842	122,842
Total primary government	\$ 2,079,269	\$ 1,102,942	\$ -	\$ 73,119	\$ (1,026,050)	\$ 122,842	\$ (903,208)
General revenues:							
Taxes:							
Real estate					392,118	-	392,118
Occupation tax					575	-	575
Earned income					166,265	-	166,265
Real estate transfer					6,778	-	6,778
Local service tax					44,813	-	44,813
Per capita					494	-	494
Mechanical device					4,400	-	4,400
Business privilege					37,235	-	37,235
Investment income, rents, and royalties					58,129	24	58,153
Intergovernmental					111,407	-	111,407
Refunds of prior year expenditures					9,423	-	9,423
Miscellaneous					7,904	9,001	16,905
Debt proceeds					120,000	-	120,000
Transfers					(131,282)	-	-
Total general revenues and transfers					1,090,823	(122,257)	968,566
Change in Net Assets					64,773	585	65,358
Net assets - beginning of year					18,786	91,920	110,706
Net assets - end of year					\$ 83,559	\$ 92,505	\$ 176,064

See accompanying notes to the primary government financial statements (cash basis).

FORD CITY BOROUGH

BALANCE SHEET (CASH BASIS) GOVERNMENTAL FUNDS

DECEMBER 31, 2010

Assets	General	Liquid Fuels	Community Development	Fire Equipment	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 40,533	\$ 57,448	\$ -	\$ 22,837	\$ 5,913	\$ 126,731
Accounts receivable	1,066	-	-	-	-	1,066
Due from other funds	24,572	2,181	-	32,326	19,765	78,844
Total Assets	\$ 66,171	\$ 59,629	\$ -	\$ 55,163	\$ 25,678	\$ 206,641
Liabilities and Fund Balance						
Liabilities:						
Due to other funds	\$ 98,004	\$ -	\$ -	\$ -	\$ 25,078	\$ 123,082
Fund Balance:						
Unreserved:						
Undesignated, major governmental funds	(31,833)	59,629	-	55,163	-	82,959
Undesignated, other governmental funds	-	-	-	-	600	600
Total Fund Balance	(31,833)	59,629	-	55,163	600	83,559
Total Liabilities and Fund Balance	\$ 66,171	\$ 59,629	\$ -	\$ 55,163	\$ 25,678	\$ 206,641

See accompanying notes to the primary government financial statements (cash basis).

FORD CITY BOROUGH

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE (CASH BASIS) GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2010

	General	Liquid Fuels	Community Development	Fire Equipment	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes:						
Real estate	\$ 304,716	\$ -	\$ -	\$ 38,520	\$ 48,882	\$ 392,118
Occupation tax	575	-	-	-	-	575
Earned income	166,265	-	-	-	-	166,265
Real estate transfer	6,778	-	-	-	-	6,778
Local service tax	44,813	-	-	-	-	44,813
Per capita	494	-	-	-	-	494
Mechanical devices	4,400	-	-	-	-	4,400
Business privilege	37,235	-	-	-	-	37,235
Total taxes	565,276	-	-	38,520	48,882	652,678
Licenses, permits, and fees	46,359	-	-	-	-	46,359
Fines, forfeitures, and penalties	46,554	-	-	-	-	46,554
Investment income, rents, and royalties	57,810	292	-	21	6	58,129
Intergovernmental	111,407	73,119	-	-	-	184,526
Charges for services	395,095	-	-	-	9,699	404,794
Contributions	5,622	-	-	-	-	5,622
Miscellaneous	2,033	-	-	-	249	2,282
Total revenues	1,230,156	73,411	-	38,541	58,836	1,400,944
Expenditures:						
Current:						
General government	273,075	-	-	-	32	273,107
Health and human services	984	-	-	-	-	984
Public safety	445,305	-	-	8,070	-	453,375
Public works - highway and streets	223,399	82,937	-	-	55,650	361,986
Public works - sanitation	144,964	-	-	-	6,116	151,080
Culture and recreation	68,997	-	-	-	-	68,997
Community development	7,074	-	-	-	-	7,074
Miscellaneous	156,601	-	-	8,886	-	165,487
Debt service	114,786	-	-	-	-	114,786
Total expenditures	1,435,185	82,937	-	16,956	61,798	1,596,876
Excess (Deficiency) of Revenues over Expenditures	(205,029)	(9,526)	-	21,585	(2,962)	(195,932)
Other Financing Sources (Uses):						
Transfers in	131,282	-	49,584	-	7,403	188,269
Transfers out	(56,987)	-	-	-	-	(56,987)
Refunds of prior year expenditures	9,423	-	-	-	-	9,423
Proceeds of debt	120,000	-	-	-	-	120,000
Total other financing sources (uses)	203,718	-	49,584	-	7,403	260,705
Net Change in Fund Balance	(1,311)	(9,526)	49,584	21,585	4,441	64,773
Fund Balance:						
Beginning of year	(30,522)	69,155	(49,584)	33,578	(3,841)	18,786
End of year	\$ (31,833)	\$ 59,629	\$ -	\$ 55,163	\$ 600	\$ 83,559

See accompanying notes to the primary government financial statements (cash basis).

FORD CITY BOROUGH

STATEMENT OF NET ASSETS (CASH BASIS) PROPRIETARY FUND

DECEMBER 31, 2010

<u>Assets</u>	<u>Utility Fund</u>
Cash and cash equivalents	\$ 28,740
Due from other funds	<u>82,623</u>
Total Assets	<u>111,363</u>
<u>Liabilities</u>	
Due to other funds	<u>18,858</u>
<u>Net Assets</u>	
Unrestricted	<u><u>\$ 92,505</u></u>

See accompanying notes to the primary government financial statements (cash basis).

FORD CITY BOROUGH

STATEMENT OF OPERATING REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS (CASH BASIS) PROPRIETARY FUND

YEAR ENDED DECEMBER 31, 2010

	<u>Utility Fund</u>
Operating Revenues:	
<hr/>	
Charges for services:	
Water	\$ 547,441
Sewage - administrative fee	57,439
Miscellaneous	355
	<hr/>
Total operating revenues	605,235
	<hr/>
Operating Expenses:	
<hr/>	
Public works - water systems	453,255
Miscellaneous	18,342
Debt service	10,796
	<hr/>
Total operating expenses	482,393
	<hr/>
Operating Income	122,842
	<hr/>
Non-Operating Revenues:	
<hr/>	
Investment income	24
Refunds of prior year expenditures	9,001
	<hr/>
Total non-operating revenues	9,025
	<hr/>
Net income before transfers	131,867
Transfers out	(131,282)
	<hr/>
Change in Net Assets	585
<hr/>	
Net Assets:	
<hr/>	
Beginning of year	91,920
	<hr/>
End of year	\$ 92,505
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See accompanying notes to the primary government financial statements (cash basis).

FORD CITY BOROUGH

STATEMENT OF NET ASSETS (CASH BASIS) ALL TRUST FUNDS

DECEMBER 31, 2010

Assets	Pension Trust Funds	Agency Fund
Cash and cash equivalents	\$ 69	\$ 19,527
Investments (at fair value):		
Interest bearing cash fund	156,432	-
Corporate debt	84,535	-
U.S. Government and Agency Bonds	353,403	-
Equities	757,770	-
Mutual funds	237,182	-
Total Assets	1,589,391	19,527
Liabilities		
Due to other funds	-	19,527
Total Liabilities	-	19,527
Net Assets Held in Trust for Pension Benefits		
(A schedule of funding progress for each plan is presented on page 31)	\$ 1,589,391	\$ -

See accompanying notes to the primary government financial statements (cash basis).

FORD CITY BOROUGH

STATEMENT OF CHANGES IN NET ASSETS (CASH BASIS) ALL TRUST FUNDS

YEAR ENDED DECEMBER 31, 2010

Additions:

Contributions:

State aid	\$ 48,523
Employer	13,990
Employee	8,755

Total contributions	<u>71,268</u>
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Investment income:

Net increase in fair value of investments	123,245
Interest and dividends	56,243

Total investment income	<u>179,488</u>
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Total additions	<u>250,756</u>
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Deductions:

Benefits	119,827
Administrative expense	21,629

Total deductions	<u>141,456</u>
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Increase in Plan Net Assets	109,300
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Net Assets Held in Trust:

Beginning of year	<u>1,480,091</u>
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End of year	<u>\$ 1,589,391</u>
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See accompanying notes to the primary government financial statements (cash basis).

FORD CITY BOROUGH

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS (CASH BASIS)

YEAR ENDED DECEMBER 31, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Ford City Borough (Borough) operates under the Pennsylvania Borough Code, with an elected Mayor and six elected Council members. The Borough covers approximately 460 acres and has a population of approximately 3,400. The Borough provides services in many areas to its residents, including various general government services, public safety, public works, recreation, community development, water, and sanitation.

These financial statements include the primary government and do not reflect all component units which meet the criteria for inclusion under Governmental Accounting Standards Board (GASB) Statement No. 14, "*Financial Reporting Entity*."

In evaluating the Borough as a primary government in accordance with the GASB Statement No. 14, "*Financial Reporting Entity*," and GASB Statement No. 39, "*Determining Whether Certain Organizations Are Component Units*," management has addressed all potential component units. Consistent with applicable guidance, the criteria used by the Borough to evaluate the possible inclusion of related entities within its reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given situation, the Borough reviews the applicability of the following criteria:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or have the ability to otherwise access, are significant to that primary government.

FORD CITY BOROUGH

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS (CASH BASIS)

YEAR ENDED DECEMBER 31, 2010

The following separately administered organizations meet the criteria for inclusion in the Borough's reporting entity: the Ford City Borough Sanitary Authority, the Ford City Borough Public Library, and the Ford City Volunteer Fire Department. However, as described above, these financial statements include only the primary government. Separate financial statements for all the component units above are available at the offices of the various entities.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from services or privileges provided by a given function or segment and 2) grants that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

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

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

Basis of accounting refers to the timing of the recognition of amounts in the financial statements. The Borough maintains its financial statements on the cash basis, which is a comprehensive basis other than accounting principles generally accepted in the United States of America. Accordingly, amounts are generally recognized when received rather than when earned and when paid rather than when obligations are incurred. Inventories, principally supplies, are accounted for as expenditures when purchased. Encumbrance accounting, whereby fund balance is

FORD CITY BOROUGH

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS (CASH BASIS)

YEAR ENDED DECEMBER 31, 2010

reserved for commitments related to unperformed contracts for goods or services, is not used by the Borough.

The accounts of the Borough are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate.

The Borough reports the following major governmental funds:

The *General Fund* is the Borough's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

The *Liquid Fuels Fund* accounts for state aid revenues (liquid fuels tax) received from the Pennsylvania Department of Transportation for building and improving roads and bridges within the Borough.

The *Fire Equipment Fund* accounts for revenues received from property taxes for expenses related to fire equipment.

The Borough reports the following major proprietary fund:

The *Utility Fund* accounts for all financial resources associated with the operations of the water plant as well as the administrative fees associated with the collection of the sewage fees. These fees are then disbursed to the Ford City Borough Sanitary Authority.

Additionally, the government reports the following other fund information:

The *Other Governmental Funds* are composed of two Special Revenue Funds, the Street Lighting Fund and the Landfill Fund, which are used to account for the proceeds of a specific revenue source (other than major capital projects) that is restricted to expenditures for a specified purpose.

The *Pension Trust Funds* account for assets held by the Borough in a trustee capacity for the future payment of retirement benefits to employees. The Borough has two Pension Trust Funds: Police Pension Plan and General Employees Pension Plan.

FORD CITY BOROUGH

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS (CASH BASIS)

YEAR ENDED DECEMBER 31, 2010

The *Agency Fund* is custodial in nature and does not involve the measurement of results of operations. Agency funds are used to account for payroll withholdings that are subsequently disbursed to the entities for whom it was collected.

D. Interfund Activity in the Government-wide Statements

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Borough's governmental activities and business-type activities; and between the business-type activities and fiduciary activities. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

E. Revenue Classification on Government-wide Statement of Activities

Amounts reported as program revenues include 1) charges to customers for services provided, 2) operating grants, and 3) capital grants. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

F. Revenue Classification of Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenue of the Borough's Utility Fund includes charges to customers for sales and services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

G. Budgets and Budgetary Accounting

An annual appropriated budget was adopted in 2010 for the following funds on the cash basis of accounting: General, Liquid Fuels, Fire Equipment, Utility, Street Lighting, and Landfill.

The Borough uses the following procedures in establishing the budgetary data reflected in the financial statements.

FORD CITY BOROUGH

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS (CASH BASIS)

YEAR ENDED DECEMBER 31, 2010

- The proposed budget is published or made available for public inspection at least 20 days prior to the date set for the adoption of the budget.
- Final action shall not be taken on the proposed budget until after at least ten days' public notice.
- The Members of Council (Council) legally adopts the budget prior to December 31 each year.

Appropriations may be transferred between accounts within functions without approval of the Council. The Council has the authority to enact supplemental and emergency appropriations. No such appropriations were enacted in 2010. The measurement level of control over expenditures (level at which expenditures cannot legally exceed appropriations) is the surplus or deficit of the fund as a whole. Internal budgetary control, however, is maintained at the departmental level.

Unused appropriations lapse at year-end.

Expenditures exceeded total budgeted appropriations in the General Fund, Liquid Fuels Fund, and Street Lighting Fund. Overages in the Liquid Fuels Fund and Street Lighting Fund were covered by available fund balance. Overages in the General Fund were covered by budgeted debt proceeds.

H. Cash and Cash Equivalents

The Borough considers all investments with maturities of three months or less at the time of purchase to be cash equivalents.

I. Investments

Investments are reported at fair value. Funds are invested in accordance with the Borough's investment policy guidelines as described in Note 2.

J. Risk

The Borough is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded

FORD CITY BOROUGH

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS (CASH BASIS)

YEAR ENDED DECEMBER 31, 2010

commercial insurance coverage for the past year. There were no significant changes in insurance coverage since the prior year.

K. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

L. Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. The Borough had no reservations of fund balance at December 31, 2010.

M. Compensated Absences

Borough employees are granted vacation, personal days, and sick leave in varying amounts based on service and employment agreements. The Borough's vacation and personal day policy provides that employees are to take vacation within the year it is earned, with no carry forward provisions.

Accumulated sick leave can be carried forward to future years, provided the amount carried over does not exceed sixty days. Upon retirement full-time employees, may sell up to thirty days back to the Borough for \$20 a day. A liability for compensated absences is determined by the appropriate sick day payments that would be available to employees if they would retire from the Borough. This liability is estimated to be approximately \$9,000 at December 31, 2010.

N. Fixed Assets

Under the cash basis of accounting, fixed assets are not capitalized. Instead capital acquisition and construction are reflected as disbursements.

FORD CITY BOROUGH

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS (CASH BASIS)

YEAR ENDED DECEMBER 31, 2010

O. Interfund Receivables, Payables, and Transfers

Interfund accounts receivable are considered to be available, expendable resources, and are reported as assets in the “due from other fund” account. Interfund accounts payable are considered to be committed expendable resources and are reported as liabilities in the “due to other fund” accounts. Interfund transactions occur for various reasons and are eliminated from the government-wide financial statements. Differences between the summaries below and the government-wide statements relate to interfund transactions involving agency or pension funds. The balances at December 31, 2010 are as follows:

	Transfer In	Transfer Out
General Fund	\$ 131,282	\$ 56,987
Utility Fund	-	131,282
Community Development Fund	49,584	-
Street Lighting Fund	7,403	-
	\$ 188,269	\$ 188,269

	Due From Other Funds	Due To Other Funds
General Fund	\$ 24,572	\$ 98,004
Utility Fund	82,623	18,858
Liquid Fuels Fund	2,181	-
Landfill Fund	19,765	18,500
Fire Equipment Fund	32,326	-
Street Light Fund	-	6,578
Payroll Agency Fund	-	19,527
	\$ 161,467	\$ 161,467

P. Deficit Fund Balance

The General Fund and the Street Lighting Fund reflect a deficit fund balance on the fund financial statements at December 31, 2010 that will be made up in future years through increases in revenues and or decreases in expenditures.

FORD CITY BOROUGH

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS (CASH BASIS)

YEAR ENDED DECEMBER 31, 2010

Q. Pending Pronouncement

GASB issued Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*," effective for periods beginning after June 15, 2010. This statement provides clearer, more structured fund balance classifications, and clarifies the definitions of existing governmental fund types. The effect of implementation of this statement has not yet been determined by the Borough.

2. DEPOSITS AND INVESTMENTS

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, insured or collateralized time deposits, and certificates of deposit. The statutes allow pooling of governmental funds for investment purposes. The deposit and investment policy of the Borough adheres to state statutes. Deposits of the governmental funds are either maintained in demand deposits or savings accounts. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the Borough.

Deposits

The following is a description of the Borough's deposit risks:

Custodial Credit Risk - 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 formal deposit policy for custodial credit risk. As of December 31, 2010, the Borough's bank balance of \$164,385 was fully insured and not exposed to custodial credit risk. If the Borough does have deposits in excess of FDIC limits, the excess deposits are collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name. These deposits have carrying amounts of \$175,067 as of December 31, 2010. The carrying amount includes \$69 reported in the Trust Funds.

Investments

At December 31, 2010, the Borough's only investments were held by the Pension Trust Funds and are described below.

FORD CITY BOROUGH

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS (CASH BASIS)

YEAR ENDED DECEMBER 31, 2010

Pension Trust Funds

The Pension Trust Funds are used to account for assets held by the Borough in a trustee capacity for future payment of retirement benefits to employees or former employees. The Borough's Pension Committees determine the investment managers for the Pension Trust Funds and meet periodically with the trustees to discuss the general categories of investments to be made. Currently, the types of investments agreed upon include U.S. Government Obligations, debt, and equity investments. Investments were consistent with those authorized.

At December 31, 2010, the Borough had the following investments in its Pension Trust Funds:

<u>Cash and Cash Equivalents or Investment Type</u>	<u>Fair Market Value</u>	<u>Investment Maturities from December 31, 2010</u>			
		<u>Less than 1 year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>More than 10 years</u>
U.S. Government and Agency Bonds	\$ 353,403	\$ -	\$ -	\$ -	\$ 353,403
Corporate debt	84,535	-	53,623	-	30,912
Total debt-backed investments	437,938	\$ -	\$ 53,623	\$ -	\$ 384,315
Cash and cash equivalents	69				
Money Market Funds	156,432				
Bond Mutual Funds	237,182				
Equities	757,770				
Total cash and other investments	1,151,453				
Total cash, cash equivalents, and investments reported on statement of net assets (cash basis) - all trust funds	\$ 1,589,391				

The following is a description of the Pension Trust Funds' investment risks:

Credit risk - The risk that an issuer or other counterparty to an investment will not fulfill its obligations is called credit risk. The Pension Trust Funds do not have a formal deposit policy for credit risk. As of December 31, 2010, 100% of the Pension Trust Funds' investments in money market funds and bond mutual funds were unrated. As of December 31, 2010, the ratings of the corporate bonds were as follows:

FORD CITY BOROUGH

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS (CASH BASIS)

YEAR ENDED DECEMBER 31, 2010

<u>Investment Type</u>	<u>Standard & Poor's Rating</u>	<u>Percentage of Total Pension Trust Fund Corporate Bonds</u>
Corporate Bonds	AAA	36%
Corporate Bonds	A	32%
Corporate Bonds	BBB	32%
		<u>100%</u>

Custodial Credit Risk – For deposits and investments, custodial credit risk is the risk that in the event of the failure of the bank or counterparty to a transaction, the Borough may not be able to recover the value of their deposit, investment, or collateral securities that are in the possession of an outside party. The Borough does not have a formal policy for custodial credit risk. The Pension Trust Funds' investments in mutual funds and money market funds are not exposed to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the value of investments. The Pension Trust Funds do not have a formal deposit or investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. All money market funds have an average maturity of less than one year. The average maturities of the debt-backed investments are disclosed above.

3. PROPERTY TAXES

Real estate taxes are based on assessed valuations provided by Armstrong County (County) and were levied in February 2010. These taxes are billed and collected by an elected tax collector. Taxes paid through April 2010 were given a 2% discount. Amounts paid after June 2010 are assessed a 5% penalty. Any uncollected balances as of January in the year following the billing are collected and liened by the County.

Under the Borough Code, the Borough is permitted to levy real estate taxes up to 30 mills for general purposes. However, the Borough's general-purpose levy is 9.25 mills. In addition, the Borough has a .15 levy for funding the General Employees Pension Fund, a 1.65 levy for street lighting, a 1.3 levy for firefighting equipment, and a 1.0 levy for funding the Public Library. Property tax revenue is recognized when it is

FORD CITY BOROUGH

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS (CASH BASIS)

YEAR ENDED DECEMBER 31, 2010

received by the Borough. Assessed valuation was approximately \$30,177,559 for 2010.

4. LONG-TERM DEBT

Long-term debt consists of the following:

PennVest 1996 Loan

During 1996, the Borough obtained a \$183,666 loan from PennVest to payoff a line of credit at PFC Bank which was used for a waterline replacement project. The PennVest loan provides for a 1% interest rate for the first five years with a monthly payment of \$874 and for a 1.39% interest rate thereafter to the maturity date of October 1, 2016, with monthly payments of \$900. Payments of \$10,796 consisting of \$9,858 principal and \$938 interest were made and recorded in the Utility Fund in 2010. The remaining repayment schedule is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 10,019	\$ 777
2012	10,160	636
2013	10,302	494
2014	10,446	350
2015	10,592	204
2016	8,963	57
Totals	<u>\$ 60,482</u>	<u>\$ 2,518</u>

Non-Revolving Term Loan

In December 2010, the Borough obtained a \$45,000 loan from a local bank to purchase a new furnace for the Borough's municipal building. The loan provides for an interest rate of 3.30% with a monthly payment of \$816, beginning January 2011 and ending December 2015. The repayment schedule is as follows:

FORD CITY BOROUGH

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS (CASH BASIS)

YEAR ENDED DECEMBER 31, 2010

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 8,393	\$ 1,393
2012	8,660	1,127
2013	8,963	823
2014	9,277	509
2015	9,707	184
Totals	<u>\$ 45,000</u>	<u>\$ 4,036</u>

Tax Anticipation Note

During 2010, the Borough obtained a tax anticipation note in the amount of \$75,000 at a rate of 3.30%. Note proceeds were used for general operating expenses of the government in anticipation of current year tax revenues. The tax anticipation note was paid in full as of December 31, 2010.

Line of Credit

During 2008, the Borough obtained a non-revolving line of credit in the amount of \$125,000. The proceeds were used for road and street improvements. The loan provides for an interest rate of 4.45% with interest paid monthly for three months. Payments then convert to monthly principal and interest payments of \$2,328, beginning December 15, 2008 and ending November 15, 2013. During 2010, payments of \$27,971 were made, consisting of \$23,940 principal and \$4,031 interest. Annual debt service requirements are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 25,043	\$ 2,887
2012	26,181	1,750
2013	25,083	561
Totals	<u>\$ 76,307</u>	<u>\$ 5,198</u>

FORD CITY BOROUGH

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS (CASH BASIS)

YEAR ENDED DECEMBER 31, 2010

Summary of Changes in Long-Term Debt

	Balance at January 1, 2010	Additions	Deletions	Balance at December 31, 2010
PennVest 1996 Loan	\$ 70,340	\$ -	\$ (9,858)	\$ 60,482
Non-Revolving Term Loan	-	45,000	-	45,000
Tax Anticipation Note	-	75,000	(75,000)	-
Line of Credit	100,247	-	(23,940)	76,307
Internal Revenue Service	573,517	21,654	(6,000)	589,171
	<u>\$ 744,104</u>	<u>\$ 141,654</u>	<u>\$ (114,798)</u>	<u>\$ 770,960</u>

5. LEASES

In 2009, the Borough entered into a lease agreement with S&T Bank for a police vehicle. The total amount of the agreement was \$27,610. Lease terms call for annual payments of \$7,652 through May of 2013 with an interest rate of 5.479%. During 2010, the Borough paid \$4,151 in principal for this lease. Future minimum annual lease payments for this lease at December 31, 2010 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 6,400	\$ 1,252
2012	6,792	860
2013	6,080	443
Totals	<u>\$ 19,272</u>	<u>\$ 2,555</u>

6. PENSION PLANS

Plan Descriptions

The Borough has two single employer defined benefit pension plans covering substantially all full-time employees: the Police Pension Plan and the General Employees' Pension Plan (Plans).

The Police Pension Plan is a single employer defined benefit contributory plan available to all full-time Borough police officers. Normal retirement benefits are

FORD CITY BOROUGH

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS (CASH BASIS)

YEAR ENDED DECEMBER 31, 2010

provided with the attainment of age fifty-five and the completion of twenty-five years of service. There are no early retirement benefits. Vesting is 100% after twelve years of service. The retirement benefit is 50% of the employee's average salary of the last thirty-six months of the total W-2 salary. Survivor benefits include a post retirement benefit after January 1, 1979, upon the death of a member who has retired or who was eligible for retirement. An automatic 50% benefit is payable to the surviving spouse until death or remarriage, or if no spouse, 50% benefit is provided for the surviving children until age eighteen, or 23 if attending college. A survivor benefit for a pre-retirement individual is a return of contributions with interest. A disability benefit, which is service related, is 50% of base pay plus longevity increases determined at the date of disablement. No benefit is provided for non-service related disability.

The General Employees' Pension Plan covers Borough employees other than police officers. Normal retirement benefits are provided with the attainment of age sixty-five and the completion of ten years of service. An early retirement benefit is available at the age of sixty-two with ten years of service. Vesting is 100% after 10 years of service.

Plan provisions are established by municipal ordinance with the authority for municipal contributions required by Act 205 of the Commonwealth (Act).

At January 1, 2009, the date of the most recent valuation, participants in the Plans were as follows:

	<u>Police</u>	<u>General Employees</u>
Participants:		
Retirees and beneficiaries	6	9
Deferred vested	-	4
Active employees:		
Vested	3	9
	<u>9</u>	<u>22</u>

FORD CITY BOROUGH

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS (CASH BASIS)

YEAR ENDED DECEMBER 31, 2010

Summary of Significant Accounting Policies:

Basis of Accounting

The Plans maintain their accounts on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Accordingly, amounts are recognized when received rather than when earned and when paid rather than when obligations are incurred.

Investments

Investments of the Plans are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sales price.

There were no investments in the Plans that constituted more than 5% of any of the plan net assets available for benefits at December 31, 2010. In addition, the Plans did not have any investment transactions with related parties during the year.

Contributions and Funding Policy

The Act requires that annual contributions be based upon the calculation of the Minimum Municipal Obligation (MMO). The MMO calculation is based upon the biennial actuarial valuation. Employees are not required to contribute under the Act; such contributions are subject to collective bargaining. The Commonwealth of Pennsylvania allocates certain funds to assist in pension funding. Any financial requirement established by the MMO, which exceeds the Commonwealth of Pennsylvania allocation must be funded by the Borough.

Under the terms of Act 111 Arbitration Award in 2001, all police officers shall contribute up to 5%. If the actuary determines that some lesser amount is sufficient to maintain the actuarial soundness of the Plans without requiring the Borough to contribute any General Fund monies, then the Borough may reduce or eliminate employee contributions. Police were required to contribute \$8,755 in 2010. Under the General Employees' Plan, employees are not required nor permitted to contribute to the Plan. The millage of 0.15 is used to cover the additional contributions necessary to fund the Plan.

Administrative costs, including investment, custodial trustee, and actuarial services are charged to the appropriate plan and funded from investment earnings.

FORD CITY BOROUGH

NOTES TO THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS (CASH BASIS)

YEAR ENDED DECEMBER 31, 2010

The Borough's annual pension cost and related information for each of the Plans is as follows:

	Police	General Employees
Annual pension cost	\$ 58,858	\$ 2,958
Contributions made	\$ 57,808	\$ 4,705
Actuarial valuation date	1/1/2009	1/1/2009
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar Closed	Level Dollar Closed
Amortization period	10 years	17 years
Asset valuation method	Fair Value	4 Year Smoothing
Actuarial assumptions:		
Investment rate of return	7.0%	7.5%
Projected salary increases	5.0%	N/A
Underlying inflation rate	3.0%	3.0%

For each plan, the Borough's net pension obligation (asset) is determined below.

	Police	General Employees
Annual required contributions	\$ 57,808	\$ -
Interest on NPO	(651)	(7,110)
Adjustment to the ARC	1,701	10,068
Annual pension cost	58,858	2,958
Contributions made	57,808	4,705
Change in NPO	1,050	(1,747)
NPO, 12/31/2009	(9,294)	(94,798)
NPO, 12/31/2010	\$ (8,244)	\$ (96,545)