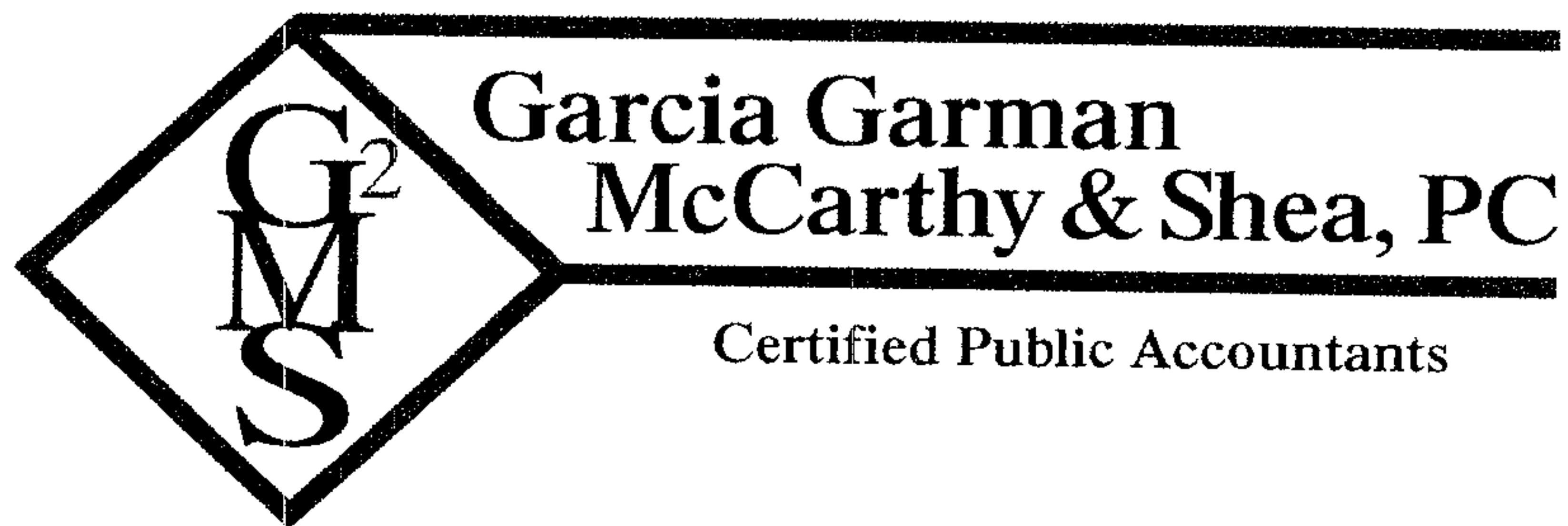


BOROUGH OF CLEONA
FINANCIAL STATEMENTS
DECEMBER 31, 2010

BOROUGH OF CLEONA
FINANCIAL STATEMENTS
DECEMBER 31, 2010

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INDEPENDENT AUDITORS' REPORT

Borough Council
Borough of Cleona
Cleona, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Borough of Cleona as of and for the year ended December 31, 2010, which collectively comprise the Borough's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Borough of Cleona's management. Our responsibility is to express an opinion 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 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 opinion.

As described in the Note 1, the Borough of Cleona prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements referred to above include only the primary government of the Borough of Cleona, 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 unit, which accounting principles generally accepted in the United States of America, as applied to the Borough's modified cash basis of accounting, 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 modified cash basis financial position of the reporting entity of the Borough of Cleona, as of December 31, 2010, and the changes in its modified cash basis financial position and its cash flows, where applicable, for the year then ended in conformity with the basis of accounting described in Note 1.

In our opinion, except for the effects of not including the Borough's legally separate component unit as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Borough of Cleona, as of December 31, 2010, and the respective changes in modified cash basis financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The budgetary comparison information on pages 21 through 22 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The Borough of Cleona has not presented management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Garcia Garman McCarthy & Shea, PC

Lebanon, Pennsylvania
March 23, 2011

BOROUGH OF CLEONA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
DECEMBER 31, 2010

ASSETS

	<u>Governmental Activities</u>
CURRENT ASSETS	
Cash and cash equivalents	<u>\$ 329,953</u>
 <u>LIABILITIES AND NET ASSETS</u> 	
CURRENT LIABILITIES	
Payroll tax liabilities	\$ 221
Current portion of long-term obligations	<u>48,169</u>
Total current liabilities	<u>48,390</u>
NON-CURRENT LIABILITIES	
Long-term obligations, net	271,681
Compensated absences	<u>23,224</u>
Total non-current liabilities	<u>294,905</u>
Total liabilities	<u>343,295</u>
NET ASSETS	
Unrestricted fund balance	(34,120)
Restricted for special revenue	<u>20,778</u>
Total net assets	<u>(13,342)</u>
Total liabilities and net assets	<u>\$ 329,953</u>

See accompanying notes to the financial statements

BOROUGH OF CLEONA
 STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Primary Government	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
Primary government						
Governmental activities						
General government	\$ 182,477	\$ 1,151	\$ 884	\$ -	\$ (180,442)	\$ (180,442)
Public safety	417,299	24,257	39,266	-	(353,776)	(353,776)
Public works						
Sanitation	-	-	4,323	-	4,323	4,323
Highways, roads and streets	349,274	-	53,929	-	(295,345)	(295,345)
Culture and recreation	21,591	-	-	-	(21,591)	(21,591)
Interest on long-term debt	4,167	-	-	-	(4,167)	(4,167)
Total primary government	\$ 974,808	\$ 25,408	\$ 98,402	\$ -	(850,998)	(850,998)
General revenues						
Taxes						
Property taxes, levied for general purpose					348,980	348,980
Earned income taxes, levied for general purpose					207,139	207,139
Other enabling taxes, levied for general purpose					70,073	70,073
Franchise taxes					26,849	26,849
Interest and rents					12,415	12,415
Refund of prior year expenses					(164)	(164)
Refund of prior year revenues					698	698
Proceeds from sale of assets					801	801
Miscellaneous					25,204	25,204
Total general revenues, special items, and transfers					691,995	691,995
Change in net assets					(159,003)	(159,003)
Net assets, beginning					145,661	145,661
Net assets, ending					\$ (13,342)	\$ (13,342)

See accompanying notes to the financial statements

See accompanying notes to the financial statements

BOROUGH OF CLEONA
BALANCE SHEET - GOVERNMENTAL FUND TYPES - MODIFIED CASH BASIS
DECEMBER 31, 2010

ASSETS

	General	Special Revenue	Capital Projects	Total Governmental Funds
CURRENT ASSETS				
Cash and cash equivalents	\$ 183,208	\$ 20,778	\$ 125,967	\$ 329,953
Due from other funds	-	-	-	-
Total assets	\$ 183,208	\$ 20,778	\$ 125,967	\$ 329,953

LIABILITIES AND FUND BALANCE

LIABILITIES				
Due to other funds	\$ -	\$ -	\$ -	\$ -
Payroll tax liabilities	221	-	-	221
Total liabilities	221	-	-	221
FUND BALANCE				
Unreserved	182,987	20,778	57,370	261,135
Reserved for Highway	-	-	68,597	68,597
Total fund balance	182,987	20,778	125,967	329,732
Total liabilities and fund balance	\$ 183,208	\$ 20,778	\$ 125,967	\$ 329,953

See accompanying notes to the financial statements

BOROUGH OF CLEONA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2010

Governmental funds balance total	\$ 329,732
Governmental funds do not include long-term liabilities; however, they are included in the government-wide statement of net assets	<u>(343,074)</u>
Net assets	<u><u>\$ (13,342)</u></u>

See accompanying notes to the financial statements

BOROUGH OF CLEONA
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 GOVERNMENTAL FUND TYPES - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2010

	General	Special Revenue	Capital Projects	Total Governmental Funds
REVENUES				
Taxes	\$ 576,614	\$ -	\$ 49,578	\$ 626,192
Licenses, permits and fees	27,035	-	-	27,035
Fines and penalties	15,999	-	-	15,999
Interest and rents	11,824	385	206	12,415
Intergovernmental revenue	77,815	44,948	-	122,763
Service fees	9,223	-	-	9,223
Miscellaneous	843	-	801	1,644
Total revenues	719,353	45,333	50,585	815,271
EXPENDITURES				
General government	168,250	-	14,420	182,670
Public safety	387,859	-	25,842	413,701
Public works				
Highways, roads and streets	76,146	273,128	-	349,274
Culture, recreation	21,591	-	-	21,591
Debt service				
Principal	19,201	11,562	3,728	34,491
Interest	1,767	2,031	371	4,169
Total expenditures	674,814	286,721	44,361	1,005,896
Excess (deficiency) of revenue over expenditures	44,539	(241,388)	6,224	(190,625)
OTHER FINANCING SOURCES (USES)				
Refund of prior year expenditures	698	-	-	698
Refund of prior year revenues	(164)	-	-	(164)
Proceeds from debt issuance	-	250,000	25,842	275,842
Transfers in	38,842	21,274	10,119	70,235
Transfers out	(10,119)	(38,842)	(21,274)	(70,235)
Total other financing sources (uses)	29,257	232,432	14,687	276,376
Net change in fund balance	73,796	(8,956)	20,911	85,751
Fund balance, beginning	109,191	29,734	105,056	243,981
Fund balance, ending	\$ 182,987	\$ 20,778	\$ 125,967	\$ 329,732

See accompanying notes to the financial statements

BOROUGH OF CLEONA
 RECONCILIATION OF THE CHANGES IN FUND BALANCES OF GOVERNMENTAL
 FUNDS TO THE STATEMENT OF ACTIVITIES
 DECEMBER 31, 2010

Net change in fund balances, governmental funds	\$	85,751
<p>Compensated absences are not recognized in the governmental funds, but these amounts are accrued as an expense in the statement of activities.</p>		
		(3,405)
<p>In the governmental fund statements, the incurrence of debt is considered a financing source and the payment of debt principal as an expenditure whereas on the government-wide statements they are considered as additions and reductions of liabilities, respectively:</p>		
Proceeds from debt issuances		(275,842)
Principal payments		34,493
		(241,349)
Change in net assets, statement of activities	\$	(159,003)

See accompanying notes to the financial statements

BOROUGH OF CLEONA
STATEMENT OF NET ASSETS - FIDUCIARY FUND
DECEMBER 31, 2010

	<u>Police Pension Fund</u>
ASSETS	
Investments	\$ 511,566
Receivable	-
	<hr/>
Total assets	<u>\$ 511,566</u>
LIABILITIES AND NET ASSETS	
Liabilities	
Insurance premium due	\$ -
Net Assets	
Net assets held in trust for pension benefits	<hr/> 511,566
	<hr/>
Total liabilities and fund equity	<u>\$ 511,566</u>

See accompanying notes to the financial statements

BOROUGH OF CLEONA
STATEMENT OF CHANGES IN NET ASSETS - FIDUCIARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Police Pension Fund</u>
ADDITIONS	
Contributions	
State aid	\$ 24,181
Municipal contributions	-
	<hr/>
Total contributions	24,181
	<hr/>
Investment income	
Net appreciation in fair value of investments	43,589
Interest and dividends	7,923
	<hr/>
	51,512
Less investment expense	5,095
	<hr/>
Net investment income	46,417
	<hr/>
Total additions	70,598
	<hr/>
DEDUCTIONS	
Benefit payments	13,573
Administrative expenses	5,990
	<hr/>
Total deductions	19,563
	<hr/>
Net increase	51,035
	<hr/>
Fund balance, beginning	460,531
	<hr/>
Fund balance, ending	<u>\$ 511,566</u>

See accompanying notes to the financial statements

BOROUGH OF CLEONA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Borough of Cleona is located in Lebanon County, Pennsylvania and was incorporated on March 22, 1929. The Borough operates under a council-manager form of government and provides the following services as authorized by its charter; public safety, public works, public health and welfare, culture and recreation.

Reporting Entity

The Borough defines its reporting entity based upon the criteria established by Governmental Accounting Standards Board (GASB) Statement No. 14 “The Financial Reporting Entity.” The Borough includes in its reporting entity organizations for which it is financially accountable and other organizations for which the nature and significance of the relationship with the Borough is such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

The definition of reporting entity is based primarily on the notion of financial accountability. The Borough is financially accountable to an organization if they 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 burdens on, the Borough. The Borough would include any organization fiscally dependent upon it.

The Cleona Borough Authority, excluded from these financial statements, has been determined by the above criteria as being a part of the reporting entity. The significant factors for including the Authority in the reporting entity of the Borough are; the appointment of Authority board members by Borough supervisors, and the Borough’s guaranty of outstanding Authority debts, if any. The Cleona Borough Authority is reported on separately. A copy of its audit report is held in the Borough’s office and is available for public review.

Basis of Presentation

The Borough’s policy is to prepare its financial statements on the modified cash basis; consequently, certain revenue is recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is incurred. The Borough does not accumulate the cost of fixed assets for any fund. Interfund receivables and payables are recorded when incurred.

Fund Accounting

The Borough accounts for all funds and account groups existing under its jurisdiction, 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 equity, revenue and expenditures. Borough resources are allocated to and accounted for in the individual funds, based on the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped into a fund type and account group as follows:

BOROUGH OF CLEONA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Governmental Fund Types

Governmental Funds are those through which most governmental functions of the Borough are financed. The measurement focus is upon determination of changes in financial resources, rather than upon net income determination. The major funds included in this category are:

- General Fund – The General Fund is used to account for all financial transactions not accounted for in another fund. Revenues are primarily derived from local property, per capita, and other taxes, user fees and other intergovernmental distributions.
- Special Revenue Fund – The Special Revenue Fund is used to account for the proceeds of specific revenues that are restricted to expenditures for specified purposes. The only Special Revenue Fund is the Highway Aid Fund. The Highway Aid Fund is used to account for specific revenues that are restricted to the expenditures for the improvement and maintenance of the Borough's roads, bridges, curbs and gutters.
- Capital Projects Fund – The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of capital facilities.

Fiduciary Fund Types

Fiduciary Funds are used to account for assets held by the Borough as a trustee or agent for other funds or governmental entities.

- Police Pension Fund – The Police Pension Fund is used to account for the retirement contributions of the Borough and its police employees. Pension Trust Funds are accounted for in a manner similar to private business enterprises since capital maintenance is critical.

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the Borough as a whole. These statements include the financial activities of the primary government. The government-wide statements account for long-term debt on the statement of financial position. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between government-wide statements and the statements for governmental funds.

The government-wide Statement of Activities presents a comparison between direct expense and program revenues for each function or program of the governmental activities of the Borough. 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 amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements for a particular program. All taxes and revenues not classified as program revenues are presented as general revenues of the Borough.

BOROUGH OF CLEONA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fund Financial Statements

Fund financial statements report detailed information about the Borough. Their focus is on major funds rather than reporting by fund type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column.

Budgets

Prior to the beginning of each fiscal year, an annual budget is adopted for the General Fund, Highway Aid Fund and Capital Projects Fund. Encumbrances and appropriations outstanding at December 31 are reported as reservations of fund balances and do not constitute expenditures, expenses or liabilities of the present year because the commitments will be honored in the subsequent year.

Tax Revenue

Real estate and per capita taxes are recorded at gross amounts collected with expenses and commissions paid recorded as an expenditure under tax collection. Real estate transfer, earned income, local services and delinquent real estate taxes are recorded at the net amount received from the collecting agency after deduction for fees and expenses.

Interfund Activity

Transfers between governmental and business-type activities on government-wide statements are reported in the same manner as general revenues. 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 and after non-operating revenues/expenses in proprietary funds. The purposes of the transfers were to fund current operations for the general and special revenue funds and for future capital outlays for the capital projects fund.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting periods. Actual results could differ from those estimates.

Compensated Absences

Borough employees are entitled to certain compensated absences, sick leave, and vacation time as more fully described in Note 7.

General Fixed Assets

General fixed assets purchased are reported as expenditures in the respective fund at the time of purchase. The Borough has not maintained a record of its general fixed assets.

BOROUGH OF CLEONA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Infrastructure

The cost of constructing or acquiring Infrastructure Assets is reported as expenditures in the respective fund at the time of purchase. The Borough has not maintained a record of its Infrastructure Assets.

Restricted Funds

In the event that both restricted and unrestricted funds are available for the same purpose, the Borough utilizes the restricted funds first.

Memorandum Only – Total Columns

Total columns on these financial statements are included for analysis purposes only. Data in these columns does not present financial position or results of operations in conformity with generally accepted accounting principles. This data does not represent a consolidation. Inter-fund eliminations were not made in the aggregation of this data.

NOTE 2 – DEPOSITS AND INVESTMENTS

The Borough is permitted to invest funds consistent with sound business practices in the following types of investments:

- Obligations of (a) the United States of America, (b) the Commonwealth of Pennsylvania, or (c) of any political subdivision of the Commonwealth of Pennsylvania or any of their agencies or instrumentalities backed respectively by their full faith and credit.
- Deposits in savings, time deposit or share accounts of institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation 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 therefore shall be pledged by the depository.

The deposit and investment policy of the Borough adheres to state statutes and prudent business practice. There were no deposit or investment transactions during the year that were in violation of either the state statutes or Borough policy.

At year end, the carrying amount of the Borough's cash and deposits in all fund types was \$329,953 and the bank balance was \$332,350, of which \$250,001 was fully insured and \$82,349 was collateralized by securities held by the pledging financial institutions' trust department or agent but not in the Borough's name. When collateral is required in excess of insurance limits, the requirements of Act 72 of 1971 are followed with respect to pooling, custody and type of collateral.

The Borough places no limit on the amounts invested in any one issuer. The Borough's investments in Metro Bank represented 99.99% Borough's total deposits.

The Borough considers cash equivalents as short-term, highly liquid investments that are readily convertible to known amounts of cash that mature within three months or less.

BOROUGH OF CLEONA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 3 – GENERAL OBLIGATION DEBT

General obligation notes payable consist of the following at December 31, 2010:

Note Payable – Fulton Bank

On December 12, 1994, the Borough borrowed \$260,000 from Fulton Bank, the proceeds of which were used to buy the current Borough building. The loan is payable in quarterly installments of \$5,242 including interest at a rate of 2.4375% per annum. The Note is currently scheduled to mature in September 2013.

Note Payable – PennDot

In April 2010, the Borough borrowed \$250,000 from the Pennsylvania Department of Transportation (PennDot), the proceeds of which were used for road paving. The loan is payable in semiannual installments of \$13,594 including interest at a rate of 1.625% per annum. The Note matures in April 2020.

General Obligation Note – Cleona Borough Authority

In March 2010, the Borough borrowed \$25,842 from the Cleona Borough Authority to purchase a new police cruiser. The note is payable in quarterly installments of \$1,366 including interest at a rate of 2.0% per annum. The Note matures in March 2015.

A summary of changes in general obligation debt is as follows:

	Balance 12/31/09	Additions	Payments	Balance 12/31/10	Current Portion
Note payable, Fulton Bank	\$ 78,501	\$ -	\$ (19,201)	\$ 59,300	\$ 19,701
Note payable, PennDot	-	250,000	(11,562)	238,438	23,408
General obligation note, Cleona Borough Authority	-	25,842	(3,730)	22,112	5,060
Total	\$ 78,501	\$ 275,842	\$ (34,493)	\$ 319,850	\$ 48,169

Scheduled interest and principal maturities are:

Year	Total	Principal	Interest
2011	\$ 53,619	\$ 48,169	\$ 5,450
2012	53,619	49,137	4,482
2013	52,326	48,857	3,469
2014	32,653	29,945	2,708
2015	28,445	26,224	2,221
2016-2020	122,344	117,518	4,826
	\$ 343,006	\$ 319,850	\$ 23,156

BOROUGH OF CLEONA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2010

NOTE 4 – PROPERTY TAXES AND ASSESSMENTS

Based upon assessed valuations provided by the county, the tax collector bills and collects taxes on behalf of the Borough. The schedule for property taxes levied for 2010 is as follows:

Tax levy date	March 1, 2010
2% discount period	Through April 30, 2010
Face payment period	Through June 30, 2010
10% penalty period	Beginning July 1, 2010
Lien filing date	January 1, 2011

The Borough tax rate in 2010 was 20.8 mills (\$20.80 per \$1,000 assessed value).

NOTE 5 – DEFINED BENEFIT PENSION PLAN

Plan Descriptions

The Borough provides pension benefits for all of its full-time police employees through a single employer-defined benefit pension plan that covers members of the Borough's Police Department. The Police Pension Plan provides retirement, disability and death benefits. The Plan is governed by the Borough which is responsible for the management of Plan assets. The Borough has delegated the authority to manage Plan assets to the Pennsylvania State Association of Borough Municipal Retirement Trust. The Borough filed actuarial valuation report Form PC-201C with the Public Employment Retirement Commission for the Police Pension Plan. The report dated January 1, 2009 was the most recent certified by the municipality's chief administrative officer.

Plan Membership

As of January 1, 2009, the pension plan's membership consisted of:

Active employees	4
Retired beneficiaries currently receiving benefits	1
Terminated employees entitled to benefits, but not yet receiving them	-
	-
Total	5

Valuation of Investments

Investments are reported at fair value as reported by PSABMRT. Consequently, the investment accounts are adjusted for unrealized gains and losses.

Contributions

Act 205 requires that annual contributions to the Police Pension Plan be based upon the Plan's Minimum Municipal Obligation (MMO), which is based on the Plan's biennial actuarial valuation. Employees are not required to contribute to the Plan. The MMO includes the normal cost, estimated administrative expenses and an amortization contribution of the unfunded actuarial accrued liability, less estimated member contributions, and a credit equal to 10 percent of the excess (if any) of the actuarial value of assets over the actuarial accrued liability. The state provides an allocation of funds which must be used for pension funding. Any financial requirement established by the MMO which exceeds state and member contributions must be funded by the employer.

BOROUGH OF CLEONA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 5 – DEFINED BENEFIT PENSION PLAN *(continued)*

Contributions *(continued)*

Employees are required to contribute five percent of covered payroll to the Plan. This contribution is governed by the Plan's governing ordinances and collective bargaining. Contributions are currently waived.

Administrative costs, which may include but are not limited to investment management fees and actuarial services, are charged to the Plan and funded through the MMO and/or plan earnings.

The Cleona Borough Police Pension Plan received \$24,181 in State Aid, but did not require members' contributions during the 2010 plan year.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability	(3) Unfunded AAL (UAAL) (2-1)	(4) Funded Ratio (1/2)	(5) Annual Covered Payroll	(6) UAAL as a Percentage of Payroll ((2-1)/5)
2005	\$ 406,860	\$ 296,086	\$ (110,774)	137.4%	\$ 174,972	N/A
2007	472,909	311,356	(161,553)	151.9%	174,126	N/A
2009	470,992	360,584	(110,408)	130.6%	185,564	N/A

SCHEDULE OF CONTRIBUTIONS FROM THE BOROUGH
AND OTHER CONTRIBUTION ENTITIES

Plan Year Ended	Annual Required Contribution	Percentage Contributed
December 31, 2007	\$ 7,774	213%
December 31, 2008	13,776	100%
December 31, 2009	15,965	104%

BOROUGH OF CLEONA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 5 – DEFINED BENEFIT PENSION PLAN *(continued)*

NOTES TO SUPPLEMENTARY SCHEDULE

The information presented in the required supplementary schedule was determined as part of the actuarial valuation at the date indicated. Additional information as of the actuaries' latest valuation date used to determine the Annual Required Contribution (ARC) is as follows:

Actuarial Valuation Date	January 1, 2009
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar, Open
Remaining Amortization Period	17 Years
Asset Valuation Method	Fair Value
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Projected Salary Increases	5.0%
Underlying Inflation Rate	3.0%

SUMMARY OF ANNUAL PENSION COST AND NET PENSION
OBLIGATION (NPO) FOR PRIOR YEARS

	2010
Annual required contribution (ARC)	\$ 15,965
Interest on NPO	(1,510)
Adjustment to the ARC	2,164
Annual pension cost	16,619
Less: Contributions made	16,640
Change in NPO	(21)
NPO, beginning	(20,130)
NPO, ending	\$ (20,151)

BOROUGH OF CLEONA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 6 – CONTINGENCIES AND COMMITMENTS

The Borough provides unemployment compensation to eligible claimants through its own self-funded plan with the Commonwealth of Pennsylvania. The Borough is liable for unemployment compensation claims out of its general revenues.

The Borough has a contingent liability relating to the dissolution of the Lebanon County Earned Income Tax Bureau. As of December 31, 2010, an agreed-upon amount has not been reached.

NOTE 7 – COMPENSATED ABSENCES

The Borough allows non-uniformed and police employees to accumulate unused sick leave with no maximum. Sick leave is vested and paid to non-uniformed employees upon termination. Sick leave is vested and paid to their police officers who voluntarily terminate or retire at a rate of 30% of their accumulated sick leave and at a rate of 10% for police officers who are terminated.

The Borough allows non-uniformed and police employees to accumulate unused vacation leave with a maximum carryover of 40 hours for non-uniformed employees and 360 hours for police employees.

Vacation leave is vested and paid to non-uniformed employees upon termination up to the stated maximum of 40 hours. Vacation leave is vested and paid to police employees upon termination up to a maximum of 180 hours.

As of December 31, 2010, the liability for vested unused sick and vacation leave is approximately \$23,224. The amount expected to be paid from current resources is not significant.

REQUIRED SUPPLEMENTARY INFORMATION

BOROUGH OF CLEONA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY -
GOVERNMENTAL FUND TYPES - BUDGET TO ACTUAL - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2010

	General			Special Revenue		
	Budget	Actual	Variance	Budget	Actual	Variance
REVENUES						
Taxes	\$ 539,620	\$ 576,614	\$ 36,994	\$ -	\$ -	\$ -
Licenses, permits and fees	27,040	27,035	(5)	-	-	-
Fines and penalties	15,000	15,999	999	-	-	-
Interest and rents	11,475	11,824	349	60	385	325
Intergovernmental	58,666	77,815	19,149	43,574	44,948	1,374
Service fees	7,681	9,223	1,542	-	-	-
Miscellaneous	300	843	543	-	-	-
Total revenues	659,782	719,353	59,571	43,634	45,333	1,699
EXPENDITURES						
General government	178,198	168,250	9,948	-	-	-
Public safety	383,238	387,859	(4,621)	-	-	-
Sanitation	8,000	-	8,000	-	-	-
Highways, roads and streets	76,650	76,146	504	-	273,128	(273,128)
Culture, recreation	22,781	21,591	1,190	-	-	-
Debt service	20,967	20,968	(1)	13,594	13,593	1
Total expenditures	689,834	674,814	15,020	13,594	286,721	(273,127)
Excess (deficiency) of revenues over expenditures	(30,052)	44,539	74,591	30,040	(241,388)	(271,428)
OTHER FINANCING SOURCES (USES)						
Refund of prior year (revenues) expenditures	-	534	534	-	-	-
Proceeds from debt issuance	-	-	-	-	250,000	250,000
Transfers in	31,800	38,842	7,042	-	21,274	21,274
Transfers out	-	(10,119)	(10,119)	(31,800)	(38,842)	(7,042)
Total other financing sources (uses)	31,800	29,257	(2,543)	(31,800)	232,432	264,232
Net change in fund equity	\$ 1,748	73,796	\$ 72,048	\$ (1,760)	(8,956)	\$ (7,196)
Fund balance, beginning		109,191			29,734	
Fund balance, ending		<u>\$ 182,987</u>			<u>\$ 20,778</u>	

	Capital Projects			Totals		
	Budget	Actual	Variance	Budget	Actual	Variance
Taxes	\$ 49,906	\$ 49,578	\$ (328)	\$ 589,526	\$ 626,192	\$ 36,666
Licenses, permits and fees	-	-	-	27,040	27,035	(5)
Fines and penalties	-	-	-	15,000	15,999	999
Interest and rents	200	206	6	11,735	12,415	680
Intergovernmental	-	-	-	102,240	122,763	20,523
Service fees	-	-	-	7,681	9,223	1,542
Miscellaneous	-	801	801	300	1,644	1,344
Total revenues	50,106	50,585	479	753,522	815,271	61,749
General government	19,000	14,420	4,580	197,198	182,670	14,528
Public safety	-	25,842	(25,842)	383,238	413,701	(30,463)
Sanitation	-	-	-	8,000	-	8,000
Highways, roads and streets	68,000	-	68,000	144,650	349,274	(204,624)
Culture, recreation	-	-	-	22,781	21,591	1,190
Debt service	5,528	4,099	1,429	40,089	38,660	1,429
Total expenditures	92,528	44,361	48,167	795,956	1,005,896	(209,940)
Excess (deficiency) of revenues over expenditures	(42,422)	6,224	48,646	(42,434)	(190,625)	(148,191)
Refund of prior year (revenues) expenditures	-	-	-	-	534	534
Proceeds from debt issuance	-	25,842	25,842	-	275,842	275,842
Transfers in	-	10,119	10,119	31,800	70,235	38,435
Transfers out	-	(21,274)	(21,274)	(31,800)	(70,235)	(38,435)
Total other financing sources (uses)	-	14,687	14,687	-	276,376	276,376
Net change in fund equity	\$ (42,422)	20,911	\$ 63,333	\$ (42,434)	85,751	\$ 128,185
Fund balance, beginning		105,056			243,981	
Fund balance, ending		<u>\$ 125,967</u>			<u>\$ 329,732</u>	

See accompanying notes to the financial statements.

See accompanying notes to the financial statements.