

**REPORT ON
THE BOROUGH OF QUAKERTOWN
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015**

THE BOROUGH OF QUAKERTOWN

Financial Statements

For the Year Ended December 31, 2015

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THE BOROUGH OF QUAKERTOWN

Financial Statements

For the Year Ended December 31, 2015

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FINANCIAL SECTION



August 3, 2016

Borough Council
The Borough of Quakertown
35 North Third Street
Quakertown, PA 18951

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Quakertown, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Borough's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements, referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Quakertown at December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

BOROUGH OF QUAKERTOWN

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-10 be presented to supplement the basic financial statements. The Borough of Quakertown has presented the Schedule of Funding Progress for the Pension Funds and the modified approach to reporting infrastructure assets that accounting principles generally accepted in the United States of America has determined is required to be part of 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough of Quakertown's financial statements as a whole. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and related 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 the basis of accounting described in the notes to the financial statements. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards we have also issued our report on August 3, 2016, on our consideration of the Borough of Quakertown's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Borough of Quakertown's internal control over financial reporting and compliance.

Respectfully submitted,

Hutchinson, Gillahan & Freeh, P.C.

August 3, 2016

BOROUGH OF QUAKERTOWN
Quakertown, Pennsylvania

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
For the Year Ended December 31, 2015

The discussion and analysis of the Borough of Quakertown's financial performance provides an overall review of the Borough's financial activities for the year ended December 31, 2015. The intent of this discussion and analysis is to look at the Borough's financial performance as a whole. The reader should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Borough's financial performance.

The Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999.

FINANCIAL HIGHLIGHTS

The Borough's overall financial position, as reflected in total net assets, increased by \$1,786,752 including special and extraordinary items. The net assets increased in the governmental activities by \$592,084 and increased in the business-type activities and funds by \$1,194,668.

During the year, the Borough paid principal of \$738,972 resulting in ending outstanding debt as of December 31, 2015, of \$6,920,000.

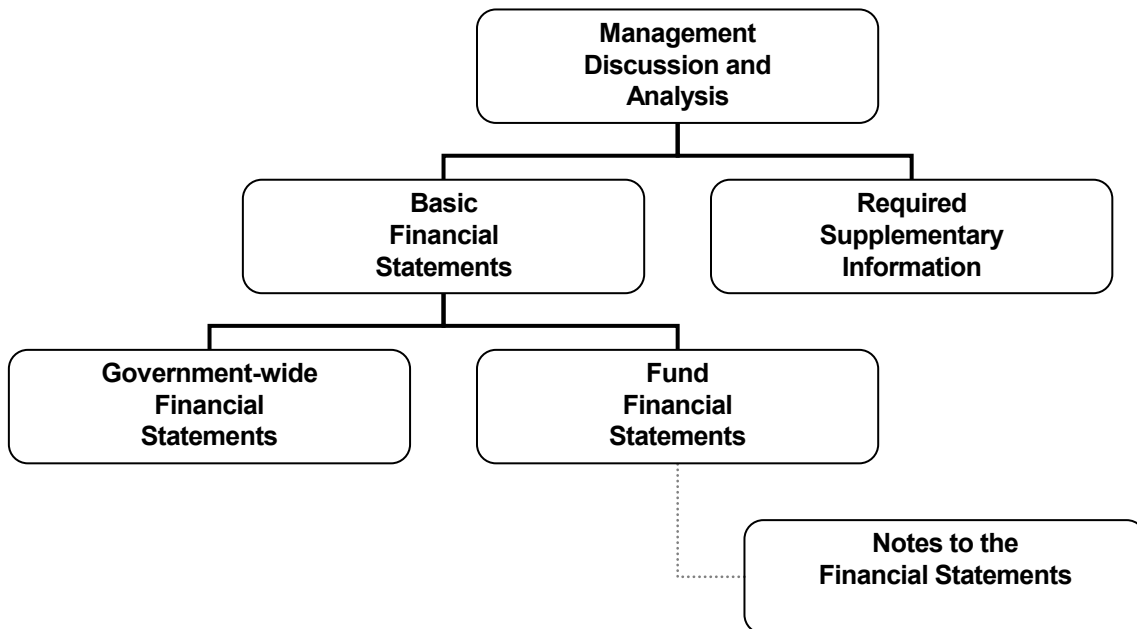
THE BOROUGH OF QUAKERTOWN
Management's Discussion and Analysis (MD&A)

The remaining statements are fund financial statements that focus on individual parts of the Borough's operations in more detail than the government-wide statements. The governmental funds statements tell how general Borough services were financed in the short term as well as what remains for future spending. Proprietary fund statements offer short- and long-term financial information about the activities that the Borough operates like a business. For this Borough, this is our Electric, Water, Sewer, Pool, and Park Funds. Fiduciary fund statements provide information about financial relationships where the Borough acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Figure A-1 shows how the required parts of the Financial Section are arranged and relate to one another:

Figure A-1
Required Components of
The Borough of Quakertown's
Financial Report



THE BOROUGH OF QUAKERTOWN
Management's Discussion and Analysis (MD&A)

Figure A-2 summarizes the major features of the Borough's financial statements, including the portion of the Borough they cover and the types of information they contain. The remainder of this overview section of management discussion and analysis explains the structure and contents of each of the statements.

Figure A-2
Major Features of the Borough of Quakertown's Government-wide and Fund Financial Statements

		Fund Statements		
	Government-wide Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire Borough (except proprietary and fiduciary funds)	The activities of the Borough that are not proprietary or fiduciary.	Activities the Borough operates similar to private business: <ul style="list-style-type: none"> • Electric • Water • Sewer • Pool • Park 	Instances in which the Borough is the trustee or agent to someone else's resources.
Required financial statements	Statement of net position, Statement of activities	Balance Sheet, Statement of revenues, expenditures, and changes in fund balance	Statement of net assets, Statement of revenues, expenses and changes in net assets, Statement of cash flows	Statement of fiduciary net position, Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow-outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods and services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

THE BOROUGH OF QUAKERTOWN
Management's Discussion and Analysis (MD&A)

OVERVIEW OF FINANCIAL STATEMENTS

Government-wide Statements

The government-wide statements report information about the Borough as a whole. The statement of net position includes all assets and liabilities, both financial and capital, short-term and long-term. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The government-wide statements report the Borough's net position and how they have changed. Net position, the difference between the Borough's assets and liabilities are one way to measure the Borough's financial health or position.

Over time, increases or decreases in the Borough's net position are an indication of whether its financial health is improving or deteriorating, respectively, based upon the basis of accounting used.

To assess the overall health of the Borough, you need to consider additional non-financial factors, such as changes in the Borough's property tax base and changes in the utility rates and usage.

The government-wide financial statements of the Borough are divided into two categories:

Governmental Activities

All of the Borough's basic services are included here, such as General Government, Public Safety, Public Works and Parks. Property Taxes, Earned Income Taxes and Other Public Taxes finance most of these activities.

Business-Type Activities

The Borough provides electric, water and sewer utilities as well as a recreation pool and park to residents of the Borough. Fees received for these utilities and pool/park use fees cover the costs of operations.

The Borough's fund financial statements, which begin on page 13, provide detailed information about the most significant funds - not the Borough as a whole.

Fund Financial Statements includes:

Governmental Funds

Most of the Borough's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. They are reported using an accounting method called modified accrual basis of accounting. Under this method revenues are recognized when cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon after. The governmental fund statements provide a detailed short-term view of the Borough's operations and services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Borough's programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is reconciled in the financial statements.

THE BOROUGH OF QUAKERTOWN
Management's Discussion and Analysis (MD&A)

Proprietary Funds

These funds are used to account for the Borough's activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the Borough charges customers for services it provides - these services are generally reported in proprietary funds. The electric, water, sewer, pool, and park funds, are the Borough's proprietary funds and is the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information such as cash flow.

Fiduciary Funds

The Borough is a fiduciary for the uniform and non-uniform pension funds as well as the escrow fund and the police health reimbursement arrangement fund. All of the Borough's activities are reported in separate statements or fiduciary net position on pages 21-22. These activities have been excluded from the Borough's financial statements because the Borough cannot use these assets to finance their operations.

FINANCIAL ANALYSIS OF THE BOROUGH AS A WHOLE

The Borough's total net position was \$56,408,785 at December 31, 2015.

Table A-1
Year Ended December 31, 2015 and 2014
Net Position

	2015			2014		
	Governmental Activities	Business Type Activities	Total	Governmental Activities	Business Type Activities	Total
Current and Other Assets	<u>\$ 25,029,110</u>	<u>\$ 44,088,402</u>	<u>\$ 69,117,512</u>	<u>\$ 24,283,096</u>	<u>\$ 44,034,137</u>	<u>\$ 68,022,546</u>
Current and Other Liabilities	<u>\$ 3,957,697</u>	<u>\$ 8,751,030</u>	<u>\$ 12,708,727</u>	<u>\$ 1,852,073</u>	<u>\$ 9,928,344</u>	<u>\$ 11,485,730</u>
Net Position						
Invested in Capital Assets, Net of Related Debt	\$ 22,291,042	\$ 23,493,570	\$ 45,784,612	\$ 21,997,798	\$ 22,300,069	\$ 44,297,867
Unrestricted	(1,219,629)	11,843,802	10,624,173	433,225	11,805,724	12,238,949
Total Net Position	<u>\$ 21,071,413</u>	<u>\$ 35,337,372</u>	<u>\$ 56,408,785</u>	<u>\$ 22,431,023</u>	<u>\$ 34,105,793</u>	<u>\$ 56,536,816</u>

The results of this year's operations as a whole are reported in the statement of activities on page 12. All expenses are reported in the first column. The two largest revenues are provided by utility services and general public taxes.

THE BOROUGH OF QUAKERTOWN
Management's Discussion and Analysis (MD&A)

Table A-2 takes the information from that statement, rearranges it slightly, so that you can see our total revenues and expenses for the year.

Table A-2
Year Ended December 31, 2015 and 2014
Changes in Net Position

	2015			2014		
	(Accrual Basis)			(Accrual Basis)		
	Govern- mental Activities	Business Type Activities	Total	Govern- mental Activities	Business Type Activities	Total
Revenues						
<i>Program Revenues</i>						
Charges for Services	\$ 503,169	\$ 20,353,973	\$ 20,857,142	\$ 588,012	\$ 20,839,860	\$ 21,427,872
Operating Grants and Contributions	617,373	94,100	711,473	364,254	85,199	449,453
Capital Grants and Contributions	192,159	365,672	557,831	175,371	681,491	856,862
<i>General Revenues</i>						
Property Taxes	125,972	-	125,972	127,924	-	127,924
Other Taxes	1,476,082	-	1,476,082	1,461,441	-	1,461,441
Grants, Subsidies and Contributions, Unrestricted	39,415	-	39,415	32,840	-	32,840
Investment Earnings	35,348	119,903	155,251	35,526	108,988	144,514
Other Revenue	20,390	24,951	45,341	45,442	27,002	72,444
Total Revenue	3,009,908	20,958,599	23,968,507	2,830,810	21,742,540	24,573,350
Expenses						
<i>Governmental Activities</i>						
General Government	784,692	-	784,692	823,047	-	823,047
Public Safety	2,113,585	-	2,113,585	2,382,394	-	2,382,394
Public Works	879,746	-	879,746	1,407,030	-	1,407,030
Culture and Recreation	283,945	-	283,945	305,309	-	305,309
Community Development	205,012	-	205,012	244,884	-	244,884
Non-Departmental	2,353,299	-	2,353,299	1,805,142	-	1,805,142
Depreciation	305,295	-	305,295	273,206	-	273,206
Transfers Between Activities	(4,507,750)	4,507,750	-	(3,899,243)	3,899,243	-
<i>Business-Type Activities</i>						
Electric	-	10,833,695	10,833,695	-	11,070,757	11,070,757
Water	-	1,680,972	1,680,972	-	1,701,966	1,701,966
Sewer	-	2,349,787	2,349,787	-	2,185,537	2,185,537
Pool	-	357,738	357,738	-	338,426	338,426
Park	-	33,989	33,989	-	927	927
Total Expenses	2,417,824	19,763,931	22,181,755	3,341,769	19,196,856	22,538,625
Increase in Net Position	\$ 592,084	\$ 1,194,668	\$ 1,786,752	\$ (510,959)	\$ 2,545,684	\$ 2,034,725

THE BOROUGH OF QUAKERTOWN
Management's Discussion and Analysis (MD&A)

DEBT ADMINISTRATION

As of January 1, 2015 the Borough had total outstanding debt of \$7,658,972. During the year, the Borough paid principal of \$738,972 resulting in ending outstanding debt as of December 31, 2015, of \$6,920,000.

Table A-3
Outstanding Debt

	2015	2014
2005 General Obligation Note – Water Fund	\$ -	\$ 238,972
2012 General Obligation Bonds	6,920,000	7,420,000

General Fund Budget

The Borough adopts an annual budget for its General Fund. This adoption, by law, occurs prior to December 31 of each year for the subsequent year. A comprehensive budgetary comparison, original to final is provided in this report. Below is a summarized version of the budget comparison.

Table A-4
Budgetary Comparison

2015				
	Budgeted Original	Budget Amounts Final	Actual (Budgetary Basis)	Variances with Final Budget Positive (Negative)
Revenues	\$ 3,284,881	\$ 3,284,881	\$ 2,892,501	\$ (392,380)
Expenditures	8,540,165	8,540,165	7,393,110	1,147,055
Excess (Deficiency) of Revenues over Expenditures	(5,255,284)	(5,255,284)	(4,500,609)	754,675
Other Financing Sources	4,507,750	4,507,750	4,507,750	-
Net Change in Fund Balance	(747,534)	(747,534)	7,141	754,675
Fund Balance – January 1, 2015	747,534	747,534	358,305	(389,229)
Fund Balance – December 31, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>365,446</u>	<u>\$ 365,446</u>
2014				
	Budgeted Original	Budget Amounts Final	Actual (Budgetary Basis)	Variances with Final Budget Positive (Negative)
Revenues	\$ 2,771,350	\$ 2,771,350	\$ 2,622,261	\$ (149,089)
Expenditures	8,067,203	8,067,203	7,230,803	836,400
Excess (Deficiency) of Revenues over Expenditures	(5,295,853)	(5,295,853)	(4,608,542)	687,311
Other Financing Sources	3,900,000	3,900,000	3,900,000	-
Net Change in Fund Balance	(1,395,853)	(1,395,853)	(708,542)	687,311
Fund Balance – January 1, 2014	1,395,853	1,395,853	1,066,847	(329,006)
Fund Balance – December 31, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 358,305</u>	<u>\$ 358,305</u>

THE BOROUGH OF QUAKERTOWN
Management's Discussion and Analysis (MD&A)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Borough of Quakertown has always been and will continue to be the core of Upper Bucks County. Although the neighboring municipalities continue to expand in population, the Borough of Quakertown remains the center of activity and focus. Quakertown is a "full service community" that provides a comprehensive complement of public services to our residents. Not only do we provide these services, but they are provided in an efficient and cost effective way. Many of the services are subtle, but are not provided by any other municipalities in our larger region. The list includes: police services, water, sewer, electric, leaf collection, brush clipping and branch drop-off, street lights, traffic light maintenance, street maintenance, community swimming pool, and park and recreation facilities. We look forward to our continued focus of Economic Development and the recruitment of new businesses. Creating and retaining jobs for our Borough will help stabilize our local economy as well as assist with maintaining a stable tax rate. Our water, sewer and electric rates are competitive compared to others in our region. Our property tax rate of 1.625 mills equates to the average property owner paying approximately \$40 in real estate taxes per year for the services we provide to residents and non-residents.

The 2016 Budget reflects cautious optimism about the local economy. The 2016 Budget is reflective of the economic situation faced by everyone. It is the universal belief by each department that we must continue to deliver core municipal services foremost. The budget responds to the challenge of balancing the preservation of our infrastructure and maintaining the community's high standards of quality of life. Each Department was instructed to be cautious when developing the 2016 budget, and instructed to:

- Maintain services while adhering to a budget freeze in 2016;
- Postpone or delay, where possible, the hiring or replacement of positions that are vacant;
- Limit unnecessary travel and training;
- Continue to review and implement streamlining and cost savings measures;
- Reduce all non-emergency overtime;

This relative strength allows the Borough of Quakertown to continue to focus resources on building the infrastructure to deliver core services while addressing community priorities. Although there is limited revenue growth, the 2016 budget responds to the challenge of continuing to provide exceptional municipal services.

CONTACTING THE BOROUGH FINANCIAL MANAGEMENT

The Borough's financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Borough's finances and to show Borough Council's accountability for the money it receives. If you have questions, please contact Borough Manager, Scott McElree, 35 North Third Street, Quakertown, PA 18951, phone 215.536.5001.

BASIC FINANCIAL STATEMENTS

THE BOROUGH OF QUAKERTOWN
Statement of Net Position
As of December 31, 2015

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
CURRENT ASSETS:			
Cash and Cash Equivalents	\$ 1,630,202	\$ 4,420,376	\$ 6,050,578
Investments	-	6,105,859	6,105,859
Taxes Receivable	13,474	-	13,474
Accounts Receivable (Net of Allowance for Doubtful Accounts)	128,061	2,668,020	2,796,081
Intergovernmental Receivable	-	223,590	223,590
Internal Balances	294,687	-	-
Other Receivables	2,112	-	2,112
TOTAL CURRENT ASSETS	2,068,536	13,417,845	15,191,694
NON-CURRENT ASSETS:			
Land	1,851,952	-	1,851,952
Buildings (Net of Depreciation)	1,478,331	14,464,315	15,942,646
Improvements other than Buildings (Net of Depreciation)	690,850	1,911,728	2,602,578
Machinery and Equipment (Net of Depreciation)	2,085,544	1,643,121	3,728,665
Sewer Lines Infrastructure (Net of Depreciation)	-	3,690,294	3,690,294
Water Lines Infrastructure (Net of Depreciation)	-	8,171,264	8,171,264
Infrastructure	16,045,900	-	16,045,900
Construction in Progress	138,465	532,848	671,313
TOTAL NON-CURRENT ASSETS	22,291,042	30,413,570	52,704,612
TOTAL ASSETS	\$ 24,359,578	\$ 43,831,415	\$ 67,896,306
DEFERRED OUTFLOWS OF RESOURCES	\$ 669,532	\$ 256,987	\$ 926,519
LIABILITIES			
CURRENT LIABILITIES:			
Internal Balances	\$ -	\$ 294,687	\$ -
Sales Tax Payable	-	9,783	9,783
Accounts Payable	19,173	825,266	844,439
Accrued Salaries and Benefits	55,164	26,451	81,615
Notes Payable	-	505,000	505,000
Accrued Compensated Absences	70,801	-	70,801
Other Payables	11,620	-	11,620
TOTAL CURRENT LIABILITIES	156,758	1,661,187	1,523,258
NON-CURRENT LIABILITIES:			
Accrued Compensated Absences	354,005	130,044	484,049
Net Pension Liability	3,376,446	544,799	3,921,245
Notes Payable	-	6,415,000	6,415,000
TOTAL NON-CURRENT LIABILITIES	3,730,451	7,089,843	10,820,294
TOTAL LIABILITIES	\$ 3,887,209	\$ 8,751,030	\$ 12,343,552
DEFERRED INFLOWS OF RESOURCES	\$ 70,488	\$ -	\$ 70,488
NET POSITION			
Invested in Capital Assets, Net of Related Debt	22,291,042	23,493,570	45,784,612
Unrestricted	(1,219,629)	11,843,802	10,624,173
TOTAL NET POSITION	\$ 21,071,413	\$ 35,337,372	\$ 56,408,785

(1) Internal balances represent the amount owed to or from the two types of activities within the Primary Government. Since internal balances do not represent assets or liabilities of the total Primary Government, their balances are eliminated in the "total" column (GASB Statement No. 34, para. 58).

The Accompanying Notes are an integral part of these financial statements.

THE BOROUGH OF QUAKERTOWN
Statement of Activities
For the Year Ended December 31, 2015

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
		CHARGES FOR SERVICES	GRANTS AND CONTRIBUTIONS	GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENTAL ACTIVITIES:							
General Government	\$ 784,692	\$ 214,027	\$ -	\$ -	\$ (570,665)	\$ -	\$ (570,665)
Public Safety	2,113,585	244,008	126,634	-	(1,742,943)	-	(1,742,943)
Public Works	879,746	-	252,410	192,159	(435,177)	-	(435,177)
Culture and Recreation	283,945	45,134	-	-	(238,811)	-	(238,811)
Community Development	205,012	-	7,000	-	(198,012)	-	(198,012)
Non-Departmental	2,353,299	-	231,329	-	(2,121,970)	-	(2,121,970)
Debt Service Payments	-	-	-	-	-	-	-
Depreciation	305,295	-	-	-	(305,295)	-	(305,295)
TOTAL GOVERNMENTAL ACTIVITIES	6,925,574	503,169	617,373	192,159	(5,612,873)	-	(5,612,873)
BUSINESS-TYPE ACTIVITIES:							
Electric	10,833,695	15,216,989	28,753	-	-	4,412,047	4,412,047
Water	1,680,972	2,159,245	28,753	-	-	507,026	507,026
Sewer	2,349,787	2,758,909	36,594	-	-	445,716	445,716
Pool	357,738	218,830	-	-	-	(138,908)	(138,908)
Park	33,989	-	-	365,672	-	331,683	331,683
TOTAL PRIMARY GOVERNMENT	\$ 22,181,755	\$ 20,857,142	\$ 711,473	\$ 557,831	\$ (5,612,873)	\$ 5,557,564	\$ (55,309)
GENERAL REVENUES:							
Property Taxes. Levied for General Purposes					\$ 125,972	\$ -	\$ 125,972
Other Taxes Levied for General Purposes					1,476,082	-	1,476,082
Grants, Subsidies, & Contributions Not Restricted					39,415	-	39,415
Investment and Rental Earnings					35,348	119,903	155,251
Miscellaneous Income					3,303	24,951	28,254
Insurance Refunds					17,087	-	17,087
Transfers					4,507,750	(4,507,750)	-
TOTAL GENERAL REVENUES, SPECIAL ITEMS, EXTRAORDINARY ITEMS, AND TRANSFERS					6,204,957	(4,362,896)	1,842,061
CHANGE IN NET POSITION					592,084	1,194,668	1,786,752
NET POSITION - BEGINNING (RESTATED)					20,479,329	34,142,704	54,622,033
NET POSITION - ENDING					\$ 21,071,413	\$ 35,337,372	\$ 56,408,785

The Accompanying Notes are an integral part of these financial statements.

THE BOROUGH OF QUAKERTOWN
Balance Sheet
All Governmental Funds
As of December 31, 2015

	<u>GENERAL</u>	<u>CAPITAL PROJECTS</u>	<u>NON-MAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 352,354	\$ 1,026,386	\$ 251,462	\$ 1,630,202
Investments	-	-	-	-
Taxes Receivable	13,474	-	-	13,474
Accounts Receivable	55,308	-	-	55,308
Intergovernmental Receivable	-	-	-	-
Due from Other Funds	160,420	134,267	-	294,687
Other Receivables	2,112	-	-	2,112
TOTAL ASSETS	<u>\$ 583,668</u>	<u>\$ 1,160,653</u>	<u>\$ 251,462</u>	<u>\$ 1,995,783</u>
<u>LIABILITIES AND FUND BALANCES</u>				
<u>LIABILITIES:</u>				
Due to Other Funds	\$ -	\$ -	\$ -	\$ -
Accounts Payable	19,173	-	-	19,173
Accrued Salaries and Benefits	55,164	-	-	55,164
Accrued Compensated Absences	70,801	-	-	70,801
Deferred Revenue	61,464	9,024	-	70,488
Other Payables	11,620	-	-	11,620
TOTAL LIABILITIES	<u>218,222</u>	<u>9,024</u>	<u>-</u>	<u>227,246</u>
<u>FUND BALANCES:</u>				
- Nonspendable	-	-	-	-
- Restricted	-	-	251,462	251,462
- Committed	-	-	-	-
- Assigned	-	1,151,629	-	1,151,629
- Unassigned	365,446	-	-	365,446
TOTAL FUND BALANCES	<u>365,446</u>	<u>1,151,629</u>	<u>251,462</u>	<u>1,768,537</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 583,668</u>	<u>\$ 1,160,653</u>	<u>\$ 251,462</u>	<u>\$ 1,995,783</u>

Reconciliation to Statement of Net Assets:

Amounts recorded for governmental activities in the statement of net assets are the same as the amounts recorded in all governmental funds, since both financial statements are prepared on the modified cash basis of accounting.

The Accompanying Notes are an integral part of these financial statements.

THE BOROUGH OF QUAKERTOWN
Reconciliation of the Governmental Funds Balance Sheet
To the Statement of Net Position
As of December 31, 2015

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS **\$ 1,768,537**

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$25,520,942 and the accumulated depreciation is \$3,229,900. 22,291,042

In the statement of activities, certain operating revenues are recognized when earned versus the revenues using the modified accrual basis of accounting in the fund statements that are recognized when the funds are available. As such, accounts receivable increased by this amount this year. 72,753

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Notes Payable	\$ -	
Accrued Interest on the Bonds	-	
Compensated Absences	(354,005)	
GASB 68 Liability	(2,706,914)	
Other Retirement Benefits	-	(3,060,919)

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES **\$ 21,071,413**

The Accompanying Notes are an integral part of these financial statements.

THE BOROUGH OF QUAKERTOWN
Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Funds
For the Year Ended December 31, 2015

	<u>GENERAL</u>	<u>CAPITAL PROJECTS</u>	<u>NON-MAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>REVENUES</u>				
Taxes	\$ 1,406,287	\$ -	\$ -	\$ 1,406,287
Licenses and Permits	183,706	-	-	183,706
Fines and Forfeits	91,533	-	-	91,533
Intergovernmental	639,755	-	192,158	831,913
Charges for Services	411,278	-	-	411,278
Investment and Rental Earnings	28,944	5,637	768	35,349
Miscellaneous	69,303	-	-	69,303
TOTAL REVENUES	2,830,806	5,637	192,926	3,029,369
<u>EXPENDITURES</u>				
CURRENT:				
General Government	831,511	171,486	-	1,002,997
Public Safety	2,602,702	38,705	-	2,641,407
Public Works	1,396,956	-	-	1,396,956
Culture and Recreation	283,945	-	-	283,945
Community Development	199,704	5,308	-	205,012
Non-Departmental	2,078,292	-	-	2,078,292
DEBT SERVICE:				
Principal	-	-	-	-
Interest	-	-	-	-
TOTAL EXPENDITURES	7,393,110	215,499	-	7,608,609
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(4,562,304)	(209,862)	192,926	(4,579,240)
OTHER FINANCING SOURCES				
Refund of Prior Year Expenditures	61,695	141,637	-	203,332
Sale of Fixed Assets	-	-	-	-
Interfund Transfers In	4,507,750	-	-	4,507,750
Interfund Transfers Out	-	-	-	-
TOTAL OTHER FINANCING SOURCES	4,569,445	141,637	-	4,711,082
NET CHANGE IN FUND BALANCES	7,141	(68,225)	192,926	131,842
FUND BALANCES - BEGINNING	358,305	1,219,854	58,536	1,636,695
FUND BALANCES - ENDING	\$ 365,446	\$ 1,151,629	\$ 251,462	\$ 1,768,537

Reconciliation to Statement of Activities:

Amounts recorded for governmental activities in the statement of activities are the same as the amounts recorded in the statement of revenues, expenditures, and changes in fund balances of all governmental funds, since both statements are prepared on the modified cash basis of accounting.

The Accompanying Notes are an integral part of these financial statements.

THE BOROUGH OF QUAKERTOWN
Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balance
To the Statement of Activities
For the Year Ended December 31, 2015

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS **\$ 131,842**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

	Depreciation Expense	\$ (305,295)	
	Asset Deletions	(193,026)	
	Capital Outlays	<u>791,565</u>	293,244

In the statement of activities, certain operating expenses--compensated absences and GASB 68 Pension Liabilities--are measured by the amounts earned during the year. In the governmental funds; however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used. 245,279

In the statement of activities, certain operating revenues are recognized when earned versus the revenues using the modified accrual basis of accounting in the fund statements that are recognized when the funds are available. As such, accounts receivable increased by this amount this year. (78,281)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 592,084**

The Accompanying Notes are an integral part of these financial statements.

THE BOROUGH OF QUAKERTOWN
Statement of Net Position
All Proprietary Funds
As of December 31, 2015

	MAJOR			NON-MAJOR		TOTAL
	ELECTRIC FUND	WATER FUND	SEWER FUND	POOL FUND	PARK FUND	
ASSETS						
CURRENT ASSETS:						
Cash and Cash Equivalents	\$ 1,843,017	\$ 1,328,145	\$ 1,008,186	\$ 164,224	\$ 76,804	\$ 4,420,376
Investments	3,052,373	-	3,053,486	-	-	6,105,859
Accounts Receivable (Net of Allowance for Doubtful Accounts)	2,070,774	323,522	273,724	-	-	2,668,020
Intergovernmental Receivable	-	-	-	-	223,590	223,590
Due from Other Funds	-	-	-	-	-	-
TOTAL CURRENT ASSETS	6,966,164	1,651,667	4,335,396	164,224	300,394	13,417,845
NON-CURRENT ASSETS:						
Buildings (Net of Depreciation)	5,661,957	2,129,089	5,093,506	639,158	940,605	14,464,315
Improvements other than Buildings (Net of Depreciation)	3,846	6,655	35,251	846,635	1,019,341	1,911,728
Machinery and Equipment (Net of Depreciation)	757,057	95,332	549,906	5,408	235,418	1,643,121
Construction in Progress	-	-	532,848	-	-	532,848
Sewer Lines Infrastructure (Net of Depreciation)	-	-	3,690,294	-	-	3,690,294
Water Lines Infrastructure (Net of Depreciation)	-	8,171,264	-	-	-	8,171,264
TOTAL NON-CURRENT ASSETS	6,422,860	10,402,340	9,901,805	1,491,201	2,195,364	30,413,570
TOTAL ASSETS	\$ 13,389,024	\$ 12,054,007	\$ 14,237,201	\$ 1,655,425	\$ 2,495,758	\$ 43,831,415
DEFERRED OUTFLOWS OF RESOURCES	\$ 97,193	\$ 64,028	\$ 95,766	\$ -	\$ -	\$ 256,987
LIABILITIES						
CURRENT LIABILITIES:						
Sales Tax Payable	\$ 9,783	\$ -	\$ -	\$ -	\$ -	\$ 9,783
Accounts Payable	696,565	38,478	67,326	-	22,897	825,266
Accrued Salaries and Benefits	9,545	6,610	10,296	-	-	26,451
Due to Other Funds	-	-	-	-	294,687	294,687
Notes Payable	-	315,000	190,000	-	-	505,000
TOTAL CURRENT LIABILITIES	715,893	360,088	267,622	-	317,584	1,661,187
NON-CURRENT LIABILITIES:						
Compensated Absences	43,497	41,017	45,530	-	-	130,044
Net Pension Liability	206,045	135,735	203,019	-	-	544,799
Notes Payable	-	3,995,000	2,420,000	-	-	6,415,000
TOTAL NON-CURRENT LIABILITIES	249,542	4,171,752	2,668,549	-	-	7,089,843
TOTAL LIABILITIES	965,435	4,531,840	2,936,171	-	317,584	8,751,030
DEFERRED INFLOWS OF RESOURCES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
NET POSITION						
Invested in Capital Assets, Net of Related Debt	6,422,860	6,092,340	7,291,805	1,491,201	2,195,364	23,493,570
Restricted	-	-	-	-	-	-
Unrestricted Net Position	6,097,922	1,493,855	4,104,991	164,224	(17,190)	11,843,802
TOTAL NET POSITION	\$ 12,520,782	\$ 7,586,195	\$ 11,396,796	\$ 1,655,425	\$ 2,178,174	\$ 35,337,372

The Accompanying Notes are an integral part of these financial statements.

THE BOROUGH OF QUAKERTOWN
Statement of Revenues, Expenses and Changes in Net Position –
All Proprietary Funds
For the Year Ended December 31, 2015

	MAJOR			NON-MAJOR		TOTAL
	ELECTRIC FUND	WATER FUND	SEWER FUND	POOL FUND	PARK FUND	
<u>OPERATING REVENUES</u>						
Charges for Services	\$ 14,868,583	\$ 1,626,397	\$ 2,732,897	\$ 218,830	\$ -	\$ 19,446,707
Debt Service Fees	-	456,015	-	-	-	456,015
Permits and Fees	140,078	47,044	-	-	-	187,122
Penalties	208,328	29,789	26,012	-	-	264,129
Rental Income	-	39,650	-	-	-	39,650
Other Income	16,362	6,402	2,367	570	-	25,701
TOTAL OPERATING REVENUES	15,233,351	2,205,297	2,761,276	219,400	-	20,419,324
<u>OPERATING EXPENSES</u>						
Costs of Furnishing Utility	10,116,846	928,607	1,379,872	-	-	12,425,325
Costs of Pool Operations	-	-	-	239,695	-	239,695
Costs of Park Operations	-	-	-	-	4,254	4,254
Employee Benefits	227,501	170,726	233,687	10,262	-	642,176
Employee Pension	203,050	131,608	218,277	-	-	552,935
Insurance	86,856	79,438	109,158	15,226	816	291,494
Debt Service	-	102,097	59,354	-	-	161,451
Depreciation	199,442	268,496	349,439	92,555	28,919	938,851
TOTAL OPERATING EXPENSES	10,833,695	1,680,972	2,349,787	357,738	33,989	15,256,181
OPERATING INCOME (LOSS)	4,399,656	524,325	411,489	(138,338)	(33,989)	5,163,143
<u>NON-OPERATING REVENUES (EXPENSES)</u>						
Interest Earned	39,599	4,086	35,264	705	599	80,253
Donations	-	-	-	-	157,507	157,507
DCED State Grant	-	-	-	-	208,165	208,165
State Aid - Pension	28,753	28,753	36,594	-	-	94,100
Gain (Loss) on Sale of Fixed Assets	-	-	(750)	-	-	(750)
Transfers from Other Funds	-	-	-	-	1,000,000	1,000,000
Transfers to Other Funds	(5,200,000)	(130,500)	(177,250)	-	-	(5,507,750)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(5,131,648)	(97,661)	(106,142)	705	1,366,271	(3,968,475)
CHANGES IN NET POSITION	(731,992)	426,664	305,347	(137,633)	1,332,282	1,194,668
NET POSITION (RESTATED), JANUARY 1, 2015	13,252,774	7,159,531	11,091,449	1,793,058	845,892	34,142,704
NET POSITION, DECEMBER 31, 2015	\$ 12,520,782	\$ 7,586,195	\$ 11,396,796	\$ 1,655,425	\$ 2,178,174	\$ 35,337,372

The Accompanying Notes are an integral part of these financial statements.

THE BOROUGH OF QUAKERTOWN
Statement of Cash Flows
Proprietary Funds
As of December 31, 2015

	MAJOR			NON-MAJOR		TOTAL
	ELECTRIC FUND	WATER FUND	SEWER FUND	POOL FUND	PARK FUND	
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>						
Cash Received from Users	\$ 15,385,740	\$ 2,236,062	\$ 2,777,616	\$ 218,830	\$ 1,410	\$ 20,619,658
Cash Received from Other Operating Revenue	16,362	6,402	2,367	570	-	25,701
Cash Payments to Employees for Services	(954,807)	(648,898)	(963,169)	(107,149)	-	(2,674,023)
Cash Payments to Suppliers for Goods and Services	(9,834,701)	(859,745)	(1,070,450)	(156,813)	(399,802)	(12,321,511)
Cash Payments to Other Operating Expenses	(14,867)	(11)	-	(2,247)	-	(17,125)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	4,597,727	733,810	746,364	(46,809)	(398,392)	5,632,700
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>						
State Sources	28,753	28,753	36,594	-	208,165	302,265
Donations	-	-	-	-	157,507	157,507
Operating Transfers In	-	-	-	-	1,000,000	1,000,000
Operating Transfers Out	(5,200,000)	(130,500)	(177,250)	-	-	(5,507,750)
NET CASH PROVIDED BY (USED) FOR NON-CAPITAL FINANCING ACTIVITIES	(5,171,247)	(101,747)	(140,656)	-	1,365,672	(4,047,978)
<u>CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES</u>						
Loan Principal Payments/Proceeds	-	(548,972)	(190,000)	-	-	(738,972)
Purchase of Fixed Assets	(360,150)	(7,399)	(132,611)	(6,145)	(891,075)	(1,397,380)
Sale of Fixed Assets	-	-	3,250	-	-	3,250
GASB 68 Adjustment	13,960	9,196	13,755	-	-	36,911
Interfund Loan Payments	-	-	-	-	-	-
NET CASH (USED) FOR CAPITAL FINANCING ACTIVITIES	(346,190)	(547,175)	(305,606)	(6,145)	(891,075)	(2,096,191)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>						
Sale of Investments	-	-	-	-	-	-
Purchase of Investments	(31,481)	-	(32,522)	-	-	(64,003)
Earnings on Investments	39,599	4,086	35,264	705	599	80,253
NET CASH PROVIDED BY INVESTING ACTIVITIES	8,118	4,086	2,742	705	599	16,250
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(911,592)	88,974	302,844	(52,249)	76,804	(495,219)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	2,754,609	1,239,171	705,342	216,473	-	4,915,595
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,843,017	\$ 1,328,145	\$ 1,008,186	\$ 164,224	\$ 76,804	\$ 4,420,376

The Accompanying Notes are an integral part of these financial statements.

THE BOROUGH OF QUAKERTOWN
Statement of Cash Flows
Proprietary Funds
As of December 31, 2015

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES

	<u>MAJOR</u>			<u>NON-MAJOR</u>		<u>TOTAL</u>
	<u>ELECTRIC FUND</u>	<u>WATER FUND</u>	<u>SEWER FUND</u>	<u>POOL FUND</u>	<u>PARK FUND</u>	
OPERATING INCOME (LOSS)	\$ 4,399,656	\$ 524,325	\$ 411,489	\$ (138,338)	\$ (33,989)	\$ 5,163,143
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES						
Depreciation	199,442	268,496	349,439	92,555	28,919	938,851
CHANGE IN ASSETS AND LIABILITIES:						
(Increase) Decrease in Accounts Receivable	168,751	37,167	18,707	-	1,410	226,035
(Increase) Decrease in Deferred Outflows	(97,193)	(64,028)	(95,766)	-	-	(256,987)
Increase (Decrease) in Accounts Payable	(78,862)	(36,639)	26,704	(1,026)	(394,732)	(484,555)
Increase (Decrease) in Accrued Salaries and Benefits	(9,912)	(7,135)	(10,737)	-	-	(27,784)
Increase (Decrease) in Sales Tax Payable	(3,888)	-	-	-	-	(3,888)
Increase (Decrease) in GASB 68 Pension Liability	206,045	135,735	203,019	-	-	544,799
Increase (Decrease) in Compensated Absences	(186,312)	(124,111)	(156,491)	-	-	(466,914)
TOTAL ADJUSTMENTS	<u>198,071</u>	<u>209,485</u>	<u>334,875</u>	<u>91,529</u>	<u>(364,403)</u>	<u>469,557</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 4,597,727</u>	<u>\$ 733,810</u>	<u>\$ 746,364</u>	<u>\$ (46,809)</u>	<u>\$ (398,392)</u>	<u>\$ 5,632,700</u>

The Accompanying Notes are an integral part of these financial statements.

THE BOROUGH OF QUAKERTOWN
Statement of Net Position
Fiduciary Funds
As of December 31, 2015

	<u>AGENCY FUNDS</u>		
	<u>PENSION BENEFIT TRUST FUNDS</u>	<u>ESCROW FUND</u>	<u>POLICE HEALTH REIMBURSEMENT ARRANGEMENT FUND</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 445,029	\$ 300,376	\$ 127,815
Investments	14,878,884	-	-
Accrued Investment Income	34,515	-	-
Accounts Receivable	2,159	-	-
TOTAL ASSETS	<u>\$ 15,360,587</u>	<u>\$ 300,376</u>	<u>\$ 127,815</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>LIABILITIES</u>			
Accounts Payable	\$ -	\$ -	\$ -
Advance Deposits	-	-	8,246
Due to Escrow Holders	-	300,376	-
Due to Police Officers	-	-	119,569
TOTAL LIABILITIES	<u>-</u>	<u>300,376</u>	<u>127,815</u>
DEFERRED INFLOWS OF RESOURCES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>NET POSITION</u>			
Restricted for Employee Benefits	15,360,587	-	-
TOTAL NET POSITION	<u>\$ 15,360,587</u>	<u>\$ -</u>	<u>\$ -</u>

The Accompanying Notes are an integral part of these financial statements.

THE BOROUGH OF QUAKERTOWN
Statement of Additions, Deductions and Changes in Net Position
Fiduciary Funds
For the Year Ended December 31, 2015

	<u>PENSION BENEFIT TRUST FUNDS</u>
ADDITIONS:	
Contributions - Employer	\$ 678,060
Contributions - Employee	46,186
Rollover Contributions	1,326
State Aid	325,430
Miscellaneous Income	661
INVESTMENT EARNINGS:	
Interest and Dividends	461,102
Change in Fair Value of Investments	<u>(503,116)</u>
TOTAL ADDITIONS	<u>1,009,649</u>
DEDUCTIONS:	
Administrative Charges	19,581
Investment Expenses	45,857
Miscellaneous	781
Employee Benefits	<u>596,593</u>
TOTAL DEDUCTIONS	<u>662,812</u>
CHANGES IN NET POSITION	346,837
NET POSITION - BEGINNING OF YEAR	<u>15,013,750</u>
NET POSITION - END OF YEAR	<u>\$ 15,360,587</u>

The Accompanying Notes are an integral part of these financial statements.

THE BOROUGH OF QUAKERTOWN
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
General Fund
For the Year Ended December 31, 2015

	BUDGETED AMOUNTS		ACTUAL (BUDGETARY BASIS)	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)	BUDGET TO GAAP DIFFERENCE	ACTUAL AMOUNTS GAAP BASIS
	ORIGINAL	FINAL				
RESOURCES (INFLOW):						
Taxes	\$ 1,463,000	\$ 1,463,000	\$ 1,406,287	\$ (56,713)	\$ -	\$ 1,406,287
Licenses and Permits	180,500	180,500	183,706	3,206	-	183,706
Fines and Forfeits	83,000	83,000	91,533	8,533	-	91,533
Intergovernmental	823,531	823,531	639,755	(183,776)	-	639,755
Charges for Services	680,000	680,000	411,278	(268,722)	-	411,278
Miscellaneous	27,850	27,850	54,349	26,499	-	54,349
Insurance Claim Refund	20,000	20,000	14,954	(5,046)	-	14,954
Investment and Rental Earnings	7,000	7,000	28,944	21,944	-	28,944
Refund of Prior Year Expenditures	-	-	61,695	61,695	-	61,695
Transfers from Other Funds	4,507,750	4,507,750	4,507,750	-	-	4,507,750
TOTAL RESOURCES	<u>7,792,631</u>	<u>7,792,631</u>	<u>7,400,251</u>	<u>(392,380)</u>	<u>-</u>	<u>7,400,251</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):						
General Government						
Legal	33,000	33,000	19,704	13,296	-	19,704
Mayor, Legislative, Borough Manager	259,000	259,000	245,130	13,870	-	245,130
Finance and Accounting	235,200	235,200	241,406	(6,206)	-	241,406
Tax Collection	7,000	7,000	6,956	44	-	6,956
IT-Networking Services-Data Processing	117,550	117,550	79,009	38,541	-	79,009
Engineering	170,000	170,000	53,885	116,115	-	53,885
Buildings and Plant	396,700	396,700	185,421	211,279	-	185,421
Public Safety						
Police	2,340,010	2,340,010	2,166,465	173,545	-	2,166,465
Fire Department	343,100	343,100	241,201	101,899	-	241,201
Inspections	158,200	158,200	195,036	(36,836)	-	195,036
Public Works						
Solid Waste and Collection	7,400	7,400	11,254	(3,854)	-	11,254
Street Maintenance and Lighting	1,531,805	1,531,805	1,385,702	146,103	-	1,385,702
Culture and Recreation						
Parks	409,950	409,950	283,945	126,005	-	283,945
Community Development						
	199,400	199,400	199,704	(304)	-	199,704
Non-Departmental						
Employer Paid Benefits and Withholding Items	2,000,895	2,000,895	1,901,891	99,004	-	1,901,891
Insurance	165,955	165,955	173,712	(7,757)	-	173,712
Miscellaneous	3,000	3,000	2,689	311	-	2,689
Budgetary Reserve	162,000	162,000	-	162,000	-	-
Transfer to Other Funds	-	-	-	-	-	-
TOTAL CHARGES TO APPROPRIATIONS	<u>8,540,165</u>	<u>8,540,165</u>	<u>7,393,110</u>	<u>1,147,055</u>	<u>-</u>	<u>7,393,110</u>
Excess (Deficiency) of Inflows Over Outflows	(747,534)	(747,534)	7,141	754,675	-	7,141
FUND BALANCE - JANUARY 1, 2015	<u>747,534</u>	<u>747,534</u>	<u>358,305</u>	<u>(389,229)</u>	<u>-</u>	<u>358,305</u>
FUND BALANCE - DECEMBER 31, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 365,446</u>	<u>\$ 365,446</u>	<u>\$ -</u>	<u>\$ 365,446</u>

The Accompanying Notes are an integral part of these financial statements.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2015

Note 1 - Description of the Borough and Reporting Entity

The Borough of Quakertown, Pennsylvania (Borough) was incorporated in 1855, under the provisions of the Laws of the Commonwealth of Pennsylvania. The Borough operates under a council-manager form of government and provides the following services as authorized by its charter: public safety (police), streets, sanitation, culture-recreation, public improvements, planning and zoning and general administrative services. Other services include providing water, sewer and electricity.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the Borough are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Borough.

The Borough of Quakertown is a municipal Corporation governed by an elected council. As required by generally accepted accounting principles, these financial statements are to present the Borough of Quakertown (the primary government) and organizations for which the primary government is financially accountable. The Borough is financially accountable for an organization if the Borough appoints a voting majority of the organization's governing board and (1) the Borough is able to significantly influence the programs or services performed or provided by the organization; or (2) the Borough is legally entitled to or can otherwise access the organization's resources; the Borough is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Borough is obligated for the debt of the organization. Component units may also include organizations that are financially dependent on the Borough in that the Borough approved the budget, the issuance of debt, or the levying of taxes. The Borough of Quakertown does not have any material component units.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the Borough have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. On June 15, 1987, the GASB issued a codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

A. Basis of Presentation

The Borough's basic financial statements consist of government-wide statements, including a statement of net assets, a statement of activities, and fund financial statements which provide a more detailed level of financial information.

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, except for fiduciary funds. The statements distinguish between those activities of the Borough that are governmental and those that are considered business-type activities.

The statement of net position presents the financial condition of the governmental and business-type activities of the Borough at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Borough's governmental activities and for four business-type 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.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2015

Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Borough, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business activity or governmental function is self-financing or draws from the general revenues of the Borough.

Fund Financial Statements During the year, the Borough segregates transactions related to certain government functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Borough at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

B. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Government funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-Exchange Transactions. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year.

Non-exchange transactions, in which the Borough receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used for a specified purpose, and expenditure requirements, in which the Borough must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Borough on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

C. Fund Accounting

The Borough uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2015

from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Borough's **major** governmental funds:

General Fund

The General Fund is the general operating fund of the Borough. Substantially all tax revenues, Federal and State aid (except aid restricted for use in Special Revenue Funds) and other operating revenues are accounted for in the General Fund. This Fund also accounts for expenditures and transfers as appropriated in the budget which provides for the Borough's day-to-day operations.

Capital Projects Fund

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary or trust funds. The Borough has two (2) capital project funds, consisting of the Capital Projects Fund and the Equipment Replacement Fund.

Proprietary Funds Proprietary funds focus on the determination of changes in net assets, financial position and cash flows and are classified as enterprise funds.

Enterprise Funds Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The Borough's **major** enterprise funds are:

Electric Fund This fund accounts for the financial transactions related to providing electricity to the residents of the Borough.

Water Fund This fund accounts for the financial transactions related to providing water services to the residents of the Borough.

Sewer Fund This fund accounts for the financial transactions related to providing waste water to the residents of the Borough.

The Borough applies Financial Accounting Standards Board (FASB) Statements and interpretations issued on or before November 30, 1989 to its proprietary funds, provided they do not conflict with or contradict GASB pronouncements.

Fiduciary Funds Fiduciary funds reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Borough under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Borough's own programs. The Borough has three (3) trust funds, consisting of a Police Pension Fund, a Non-Uniform Pension Fund, and a Defined Compensation Plan Fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Borough has two (2) agency funds, consisting of an Escrow Fund and a Police Health Reimbursement Arrangement Fund.

D. Measurement Focus

Government-wide Financial Statements. The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Borough are included on the statement of net assets.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2015

Fund Financial Statements. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

E. Budgets and Budgetary Accounting

The Borough follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with the Borough Code and Borough procedures, the Borough Manager submits to the Council, with whom the legal level of budgetary control resides, a proposed budget for the fiscal year commencing the following January 1. The budget must be advertised and available for public inspection before adoption. The budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year. Departments for budgetary purposes are general government, public safety, public works, culture and recreation, and insurance, employee benefits and miscellaneous.
2. Public hearings are conducted to obtain taxpayer comment.
3. By December 31, the budget is approved by motion of the Council. Expenditures for the budget may not legally exceed appropriations and prior year fund balance reserves. This is done as a level of budgetary control.
4. All modifications, transfers and amendments must be approved by the Council.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund.
6. The legally adopted budgets of the Borough are for the General Fund.
7. The budgets are adopted on the modified accrual basis of accounting discussed above. (The basis of accounting for budget purposes is the same as for financial statement reporting purposes.)
8. The Council may authorize supplemental appropriations during the year.

Encumbrances

Any encumbrances outstanding at year-end do not represent GAAP expenditures or liabilities but represent budgetary accounting controls. The General Fund Budget is maintained on the modified accrual basis of accounting, expect that budgetary basis expenditures include any encumbrances issued for goods or services not received at year-end and not terminated.

The actual results of operations are presented in accordance with GAAP and the Borough's accounting policies do not recognize encumbrances as expenditures until the period in which the goods or services are actually received and a liability is incurred. Any encumbrances are presented as a reservation for encumbrances on the balance sheet of the General Fund. If budgetary encumbrances exist at year-end, they are included in the fund financial statements to reflect actual revenues and expenditures on a budgetary basis consistent with the Borough's legally adopted budget.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2015

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

G. Assets, Liabilities and Net Assets

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Proprietary Fund type considers all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents.

Investments

In accordance with GASB Statement 31, investments are stated at fair value, except:

- a) Non-participating interest earning investment contracts are recorded at amortized cost;
- b) Money market investments and participating interest earning investment contracts that mature within one year of acquisition are recorded at amortized cost; and,
- c) Investments held in 2a7-like pools (Pennsylvania Local Government Investment Trust, and the Pennsylvania Treasurer's Invest Program) are recorded at the pool's share price.

Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Real Estate Taxes

The total taxable assessed real estate valuation for the year ended 2015 is \$79,135,130 at a rate of 1.625 mills. Real estate taxes are levied on March 1 and are payable by June 30.

Real estate taxes paid by April 30 are subject to a 2% discount and after June 30 are subject to a 10% penalty. Delinquent real estate taxes are generally lienied by January 1 of the following year.

Fund Balance Classifications

GASB Statement No 54, effective for financial statements for periods beginning after June 14, 2010, established accounting and financial reporting standards for all governments that report governmental funds. The statement established criteria for classifying fund balances into the following specifically defined classifications:

- **Non-spendable** fund balance includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2015

- **Restricted** fund balance includes amounts that are restricted externally by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- **Committed** fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally. The Borough's highest level of decision making is the Borough Council.
- **Assigned** fund balance comprises amounts *intended* to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- **Unassigned** fund balance is the residual classification for the general fund and includes all amounts not contained in the other classifications.

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Borough maintains a capitalization threshold of five thousand (\$5,000) dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land, certain land improvements, infrastructure and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives
Buildings and Improvements	20 - 50 years
Machinery and Equipment	5 - 20 years
Vehicles	10 - 30 years
Infrastructure	Modified Approach
Water Lines	30 - 50 years
Sewer Lines	50 - 90 years

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2015

Compensated Absences

The Borough reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Borough will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the Borough's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. In enterprise funds, the entire amount of compensated absences is reported as a fund liability.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets.

Reclassification

Certain amounts have been reclassified to conform to the December 31, 2015, presentation of government-wide financial statements on the accrual basis of accounting versus the governmental fund financial statements on the modified accrual basis of accounting.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Borough or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Borough applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Note 3 – Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.

The governmental fund balance sheet includes a reconciliation between "fund balance-total governmental funds" and "net assets – governmental activities" as reported in the government-wide statement of net assets. One element of that reconciliation explains that "capital assets used in government activities are not financial resources and therefore are not reported as assets in governmental funds". The cost of the capital assets net of depreciation totals \$22,291,042. Another element of the reconciliation explains that

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2015

“long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds”.

The details of this \$354,005 difference are:

Compensated Absences	\$ 354,005
Net adjustment to reduce “fund balance – total governmental funds” to arrive at “net assets – governmental activities”	<u>\$ 354,005</u>

B. Explanation of Differences between Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities

Due to the difference in the measurement focus and basis of accounting used on the governmental fund statements and borough-wide statements certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. Differences between the governmental funds statement of revenues, expenditures and changes in fund balance and the statement of activities fall into one of two broad categories. The amounts shown in the columns on the following page represent:

- a) Long-term revenue differences arise because governmental funds report revenues only when they are considered “available”, whereas the statement of activities reports revenues when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis whereas the accrual basis of accounting is used on the statement of activities.
- b) Capital related differences include: (1) the differences between proceeds for the sale of capital assets reported on governmental fund statements and the gain or loss on the sale of assets as reported on the statement of activities; and, (2) the difference between recording an expenditure for the purchase of capital items in the governmental fund statements, and capitalization and recording of depreciation expense on those items as recorded in the statement of activities.
- c) Long-term debt transaction differences occur because long-term debt proceeds are recorded as revenue and both interest and principal payments are recorded as expenditures in the governmental fund statements. In the statement of activities, long-term debt proceeds are recorded as a liability; principal payments are recorded as a reduction of liabilities.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2015

Explanation of Differences between Governmental Fund Statements and Borough-Wide Statements

	Total Govern- mental Funds	Long-Term Revenues/ Expenses	Capital Related Items	Long-Term Debt Trans- actions	Total for Statement of Activities
REVENUES AND OTHER SOURCES					
LOCAL SOURCES:					
Property Taxes	\$ 125,972	\$ -	\$ -	\$ -	\$ 125,972
Other Taxes Levied for General Purposes	1,052,566	16,646	-	-	1,069,212
Franchise Taxes	179,121	-	-	-	179,121
Local Service Taxes	227,749	-	-	-	227,749
Grants, Subsidies & Contributions Not Restricted	39,415	-	-	-	39,415
Investment and Rental Earnings	35,349	(1)	-	-	35,348
Miscellaneous	69,303	(66,000)	-	-	3,303
Charges for Services	502,811	358	-	-	503,169
Insurance Refunds	203,332	(186,245)	-	-	17,087
Transfers In	4,507,750	-	-	-	4,507,750
STATE SOURCES:					
Operating and Capital Grants & Contributions	797,083	12,449	-	-	809,532
FEDERAL SOURCES:					
Operating and Capital Grants & Contributions	-	-	-	-	-
TOTAL REVENUES	<u>7,740,451</u>	<u>(222,793)</u>	<u>-</u>	<u>-</u>	<u>7,517,658</u>
EXPENDITURES/EXPENSES AND OTHER USES					
General Government	1,002,997	(36,749)	(181,556)	-	784,692
Public Safety	2,641,407	(290,413)	(237,409)	-	2,113,585
Public Works	1,396,956	(117,189)	(400,021)	-	879,746
Culture and Recreation	283,945	-	-	-	283,945
Community Development	205,012	-	-	-	205,012
Non-Departmental	2,078,292	275,007	-	-	2,353,299
Debt Service Payments	-	-	-	-	-
Depreciation	-	-	305,295	-	305,295
Transfers Out	-	-	-	-	-
TOTAL EXPENDITURES/EXPENSES	<u>7,608,609</u>	<u>(169,344)</u>	<u>(513,691)</u>	<u>-</u>	<u>6,925,574</u>
NET CHANGE FOR THE YEAR	<u>\$ 131,842</u>	<u>\$ (53,449)</u>	<u>\$ 513,691</u>	<u>\$ -</u>	<u>\$ 592,084</u>

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2015

Note 4 - Cash

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Borough does not have a policy for custodial credit risk. As of December 31, 2015, \$11,974,170 of the Borough's bank balance of \$13,641,597 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ -
Collateralized with securities held by the pledging financial institution	-
Uninsured and collateral held by the pledging bank's trust department not in the Borough's name	11,974,170
TOTAL	<u>\$ 11,974,170</u>

Reconciliation to Financial Statements

Uncollateralized Amount Above	\$ 11,974,170
Plus: Insured Amount	1,667,427
Deposits in Transit	72,189
Less: Outstanding Checks	<u>(319,673)</u>
Carrying Amount – Bank Balances	13,394,113
Plus: Petty Cash	550
Deposits in Investment Pools Considered Cash Equivalents	107,467
Deposits in Money Market Mutual Funds Considered Cash Equivalents	362,528
Less: Certificates of Deposit Considered Investments	<u>(6,940,860)</u>
Total Cash per Financial Statements	<u>\$ 6,923,798</u>

Restricted Cash

The cash balance includes \$445,029 held for pension benefits, \$300,376 held as utility escrow funds and \$127,815 held in the Police Health Reimbursement Arrangement Fund. The utility escrow funds are security deposits from renters in the Borough.

Note 5 - Investments

The permitted investments for Pennsylvania Boroughs are defined in the Borough Code as:

1. United States Treasury Bills;
2. Short-term obligations of the United States Government or its agencies or instrumentalities;
3. Deposits in savings accounts or time deposits or share accounts of institutions insured by the F.D.I.C.; and,
4. Obligations of the United States of America or any of its agencies or instrumentalities, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities or any political subdivision of the Commonwealth of Pennsylvania, or any of its agencies or instrumentalities.

Pension Trust Funds – The uniform and non-uniformed pension funds may invest funds outside of those investments permitted for Pennsylvania Boroughs.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2015

As of December 31, 2015, the Borough had the following investments:

<i>Investments</i>	Maturities	Fair Value
PA Local Government Investment Trust		\$ 107,467
Federated Institutional Government Obligation Fund		362,528
Common Stocks		6,261,113
Corporate Bonds	1 mo. – 9 yrs. 11 mos.	1,919,760
U.S. Government Agency Bonds	11 mos. – 9 yrs. 11 mos.	1,832,950
Certificates of Deposit	7 mos. - 3 yrs. 10 mos.	6,940,859
Mutual Funds		4,030,061
TOTAL		\$ 21,454,738

Interest Rate Risk

The Borough does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Borough has no investment policy that would limit its investment choices to certain credit ratings. As of December 31, 2015, the Borough's significant investments were rated as:

<i>Investments</i>	Standard & Poor's
PLGIT	AAA
Common Stocks	Not Available
Corporate Bonds	Not Available
Federal Home Loan Bank Bonds	AAA
Federal Home Loan Mortgage Corp. Bonds	AAA
FNMA Bonds	AAA
Federal Agricultural Mortgage Co.	AAA
American Funds Europacific Growth Fund	Not Available
Vanguard Total International ETF	Not Available
Misc. Mutual Funds	AL/FL

Concentration of Credit Risk

The Borough places no limit on the amount the Borough may invest in any one issuer. More than 5% of the Borough's investments are in certificates of deposit at QNB Bank, TD Bank, and Penn Community Bank. These certificates of deposit represent 9.38%, 9.69% and 9.39%, respectively, of the Borough's investments. More than 5% of the Trust and Agency Funds' investments are in the American Funds Europacific Growth Fund and the Vanguard Total International ETF. These investments are 6.12% and 6.23%, respectively of the Trust and Agency Funds investments. The Proprietary Funds' investments are in certificates of deposit at QNB Bank, TD Bank, and Penn Community Bank. These certificates of deposit represent 32.96%, 34.06%, and 32.98%, respectively of the Proprietary Funds' investments.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Borough will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Borough has no investments subject to custodial credit risk.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2015

Foreign Currency Risk

As of December 31, 2015, the Borough had the following investments that were subject to foreign currency risk:

Name	Amount
Corporate Bonds:	
Barclays Bank PCL 4.00% due 4/28/17	\$ 51,169
Barclays Bank PCL 2.35% due 10/18/21	48,682
AstraZeneca PLC 5.90% due 9/15/17	53,552
AstraZeneca PLC 1.95% due 9/18/19	24,863
Mutual Funds:	
American Funds Europacific Growth Fund	932,487
Vanguard Total International ETF	948,844

Reconciliation to Financial Statements

Total Investments Above	\$ 21,454,738
Less: Deposits in Investment Pool Considered Cash Equivalents	(107,467)
Deposits in Money Market Mutual Funds Considered Cash Equivalents	(362,528)
Total Investments per Financial Statements	\$ 20,984,743

Restricted Investments

The investments include \$14,878,884 held for future pension obligation for the uniform and non-uniform pension plans.

Note 6 - Receivables

Receivables as of year-end for the government's individual major funds and non-major and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are:

	General Fund	Capital Project Funds	Non- Major Funds	Electric Fund	Water Fund	Sewer Fund	Pool Fund	Park Fund	Fiduciary Funds	Total
Receivables										
Taxes	\$ 13,474	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,474
Accounts	55,308	-	-	2,179,762	340,549	286,419	-	-	2,159	2,864,197
Intergovernmental	-	-	-	-	-	-	-	223,590	-	223,590
Other	2,112	-	-	-	-	-	-	-	-	2,112
Gross Receivables	70,894	-	-	2,179,762	340,549	286,419	-	223,590	2,159	3,103,373
Less: Allowance for Uncollectibles	-	-	-	(108,988)	(17,027)	(12,695)	-	-	-	(138,710)
Net Receivables	\$ 70,894	\$ -	\$ -	\$ 2,070,774	\$ 323,522	\$ 273,724	\$ -	\$ 223,590	\$ 2,159	\$ 2,964,663

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2015

Note 7 – Capital Assets

Capital asset balances and activity for the year ending December 31, 2015, were:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets not being depreciated:				
Land	\$ 1,851,952	\$ -	\$ -	\$ 1,851,952
Moose Building	298,957	-	-	298,957
Construction in Progress	-	138,465	-	138,465
Infrastructure	16,045,900	-	-	16,045,900
Total Capital Assets not being depreciated	18,196,809	138,465	-	18,335,274
Capital Assets being depreciated:				
Buildings	2,279,938	13,200	(4,300)	2,288,838
Improvements Other than Buildings	1,392,808	-	-	1,392,808
Machinery and Equipment	3,314,710	639,900	(450,588)	3,504,022
Total Capital Assets Being Depreciated	6,987,456	653,100	(454,888)	7,185,668
Less: Accumulated Depreciation for:				
Buildings	(1,072,512)	(38,107)	1,155	(1,109,464)
Improvements Other than Buildings	(653,803)	(48,155)	-	(701,958)
Machinery and Equipment	(1,460,152)	(219,033)	260,707	(1,418,478)
Total Accumulated Depreciation	(3,186,467)	(305,295)	261,862	(3,229,900)
Total Capital Assets Being Depreciated Net of Accumulated Depreciation	3,800,989	347,805	193,026	3,955,768
Governmental Activities Capital Assets, Net of Accumulated Depreciation	\$ 21,997,798	\$ 486,270	\$ (193,026)	22,291,042
Business-Type Activities:				
Capital Assets not being depreciated:				
Construction-In-Progress	1,509,633	109,882	(1,086,667)	532,848
Capital Assets being depreciated:				
Buildings	25,534,199	949,128	-	26,483,327
Improvements Other than Buildings	2,301,000	1,028,613	-	3,329,613
Machinery and Equipment	2,453,105	389,026	(40,000)	2,802,131
Sewer Lines Infrastructure	6,256,215	-	-	6,256,215
Water Lines Infrastructure	11,055,947	7,398	-	11,063,345
Less: Accumulated Depreciation	(19,151,058)	(938,851)	36,000	(20,053,909)
Business-Type Activities Capital Assets, Net of Accumulated Depreciation	\$ 29,959,041	\$ 1,545,196	\$ (1,090,667)	\$ 30,413,570

The depreciation was charged to the governmental activities as follows:

Depreciation – Unallocated **\$ 305,295**

The depreciation was charged to the business-type activities as follows:

Depreciation – Unallocated **\$ 938,851**

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2015

Long-Term Obligations

The Borough has the following construction commitments:

	Contract Amount	Expended to 12/31/14	Outstanding Commitment
<u>KRUPP PARK</u>			
Land-Tech Enterprises, Inc.	\$ 352,610	\$ 352,610	\$ -
Walter Brucker & Co.	504,200	504,200	-
TOTAL	<u>\$ 856,810</u>	<u>\$ 856,810</u>	<u>\$ -</u>

Note 8 – Short-Term Debt

Interfund Receivables and Payables

The following Interfund receivable and payables were in existence as of December 31, 2015.

	Interfund Receivables	Interfund Payables
General Fund	\$ 160,420	\$ -
Capital Projects Fund	134,267	-
Park (Proprietary) Fund	-	294,687
Police Pension (Trust) Fund	301	
Non-Uniformed Pension (Trust) Fund	-	301
TOTAL	<u>\$ 294,988</u>	<u>\$ 294,988</u>

Interfund Transfers

The Borough also made the following interfund transfers during the year ended December 31, 2015.

	Transfer In	Transfer Out
General Fund	\$ 4,507,750	\$ -
Enterprise (Electric) Fund	-	5,200,000
Enterprise (Water) Fund	-	130,500
Enterprise (Sewer) Fund	-	177,250
Enterprise (Park) Fund	1,000,000	-
TOTAL	<u>\$ 5,507,750</u>	<u>\$ 5,507,750</u>

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2015

Note 9 – Long-Term Debt Commitment

Long-Term Liability balances and activity for the year ended December 31, 2015, were:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Compensated Absences	\$ 1,625,405	\$ -	\$ 1,200,599	\$ 424,806	\$ 70,801
Total Governmental Activities Long-Term Liabilities	\$ 1,625,405	\$ -	\$ 1,200,599	\$ 424,806	70,801
Business-Type Activities:					
Guaranteed Revenue Notes and Bonds Payable					
Capital Projects	\$ 7,658,972	\$ -	\$ 738,972	\$ 6,920,000	\$ 505,000
Compensated Absences	596,958	-	466,914	130,044	-
Total Business-Type Activities Long-Term Liabilities	\$ 8,255,930	\$ -	\$ 1,205,886	\$ 7,050,044	\$ 505,000

Payments on bonds and notes are made by the Sewer Fund and Water Fund.

Total interest paid during the year:

Business-Type Activities	Paid
General Obligation Bonds	\$ 156,195
General Obligation Notes	5,256
Total Interest Paid By Business-Type Activities	\$ 161,451

The total interest cost incurred and charged to expense in 2015 was \$161,451.

General Obligation Bonds – Series of 2012 – Water Fund

On August 27, 2012, the Borough issued General Obligation Bonds – Series of 2012 in the amount of \$7,925,000. The portion of the bond issue pertaining to the Water Fund totaled \$4,935,000. The purpose of this issue is to provide funds to: (1) currently refund the Borough's Guaranteed Revenue Note to be outstanding as of the expected issuance date of the Bonds in the principal amount of \$4,872,385, issued to Pennvest, and (2) pay the cost of issuing the bonds. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from February 1, 2013 to February 1, 2028. Interest rates range from 0.40% to 2.70%.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2015

The outstanding debt service requirements at December 31, 2015, are:

Fiscal Year	Principal	Interest
2016	\$ 315,000	\$ 91,025
2017	320,000	84,675
2018	330,000	78,175
2019	335,000	71,525
2020	340,000	64,775
2021-2025	1,815,000	213,850
2026-2028	855,000	24,863
Total Outstanding	\$ 4,310,000	\$ 628,888

General Obligation Bonds – Series of 2012 – Sewer Fund

On August 27, 2012, the Borough issued General Obligation Bonds – Series of 2012 in the amount of \$7,925,000. The portion of the bond issue pertaining to the Sewer Fund totaled \$2,990,000. The purpose of this issue is to provide funds to: (1) currently refund the Borough's Guaranteed Revenue Note to be outstanding as of the expected issuance date of the Bonds in the principal amount of \$2,952,936, issued to Pennvest, and (2) pay the cost of issuing the bonds. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from February 1, 2013 to February 1, 2028. Interest rates range from 0.40% to 2.70%. The outstanding debt service requirements at December 31, 2015, are:

Fiscal Year	Principal	Interest
2016	\$ 190,000	\$ 55,120
2017	195,000	51,270
2018	200,000	47,320
2019	205,000	43,270
2020	205,000	39,170
2021-2025	1,100,000	129,302
2026-2028	515,000	14,998
Total Outstanding	\$ 2,610,000	\$ 380,450

Compensated Absences

Vacation, Sick and Personal Days

Under the Borough's various agreements and plans, professional and eligible support personnel accumulate unused vacation days and sick days from year to year based on their classification. These accumulated vacation and sick days are non-vesting during the employee's tenure. An estimate based upon a Paychex Benefit Accrual Report valuing these accumulated vacation and sick days has been recorded in these financial statements.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2015

Combined Long-Term Debt

The combined general long-term debt obligations for subsequent years are:

<u>PRINCIPAL REQUIREMENTS</u>	<u>G.O.B.</u>	<u>G.O.B.</u>	<u>TOTAL</u>
<u>FISCAL YEAR</u>	<u>SERIES 2012</u> <u>WATER FUND</u>	<u>SERIES 2012</u> <u>SEWER FUND</u>	<u>PAYMENTS</u>
2016	\$ 315,000	\$ 190,000	\$ 505,000
2017	320,000	195,000	515,000
2018	330,000	200,000	530,000
2019	335,000	205,000	540,000
2020	340,000	205,000	545,000
2021-2025	1,815,000	1,100,000	2,915,000
2026-2028	<u>855,000</u>	<u>515,000</u>	<u>1,370,000</u>
TOTAL	4,310,000	2,610,000	6,920,000
LESS PAYABLE WITHIN ONE YEAR	<u>315,000</u>	<u>190,000</u>	<u>505,000</u>
LONG-TERM PRINCIPAL DUE AFTER ONE YEAR	<u>\$ 3,995,000</u>	<u>\$ 2,420,000</u>	<u>\$ 6,415,000</u>

<u>PRINCIPAL AND INTEREST REQUIREMENTS</u>	<u>SERIES 2012</u>	<u>SERIES 2012</u>	<u>TOTAL</u>
<u>FISCAL YEAR</u>	<u>WATER FUND</u>	<u>SEWER FUND</u>	<u>PAYMENTS</u>
2016	\$ 406,025	\$ 245,120	\$ 651,145
2017	404,675	246,270	650,945
2018	408,175	247,320	655,495
2019	406,525	248,270	654,795
2020	404,775	244,170	648,945
2021-2025	2,028,850	1,229,302	3,258,152
2026-2028	<u>879,863</u>	<u>529,998</u>	<u>1,409,861</u>
TOTAL	<u>\$ 4,938,888</u>	<u>\$ 2,990,450</u>	<u>\$ 7,929,338</u>

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2015

Note 10 – Change in Accounting Estimate

During the current year the Borough changed the method in the way accrued compensated absences are recorded. Prior to the 2015 reporting year, the Borough reported the Compensated Absences based on the total time available for carryover to each employee based on the terms and conditions provided in the various personnel manuals. During the current year, the Borough changed the method that it reports compensated absences to a method based on a termination payout. This change in accounting estimate is being reported on a prospective basis and is included in the current year financial results. The resulting changes to the fund financial statements are as follows:

	Increase in Fund Balance
General Fund	\$ 209,444
Electric Fund	212,328
Water Fund	134,377
Sewer Fund	182,148

For the financial statements reported under the full accrual method under Government Accounting Standards Board Opinion 34, which included the Statement of Net Position and the Statement of Activities included on pages 11 and 12, the resulting change was an increase in fund balance of \$1,785,525.

Note 11 - Pension Plan Obligations

Non-Uniformed Pension Plan

Plan Description

The Borough of Quakertown Non-Uniformed Pension Plan is a single-employer defined benefit pension plan controlled by the provisions of Ordinance 1006. Act 205, the Municipal Pension Plan Funding Standard and Recovery Act, provides the authority for the Borough to establish and amend the plan.

All full-time non-police employees who were hired prior to 2008 are eligible to participate in the plan. The plan provides vesting, normal and early retirement, and survivor benefits to plan members and their beneficiaries. Cost of living allowances are provided at the discretion of the Borough.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: The financial statements for the Pension Plan for Non-Uniformed Employees of the Borough of Quakertown are prepared using an accrual basis of accounting. Plan member contributions are recognized in the period in which they are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments: All investments of the pension trust fund are reported by the custodian at fair value. Investments that do not have an established market value are reported at estimated fair value.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2015

Plan Description and Membership Information

Plan Description: The Pension Plan for Non-Uniformed Employees of the Borough of Quakertown is a contributory, single-employer retirement plan that covers all full-time uniformed police officers of the Borough. The plan provides retirement, termination, disability and death benefits to plan members and their beneficiaries, pursuant to Act 600 of 1956, as amended.

Plan Membership: As of January 1, 2015, the date of the most recent actuarial valuation and December 31, 2015, the plan-year end, plan membership consisted of the following:

	1/1/2015	12/31/2015
Retirees and Beneficiaries Receiving Benefits (including DROP members)	31	30
Terminated Members Entitled to Benefits but not yet receiving them	18	18
Active Plan Members	30	30
TOTAL	79	78

Deferred Retirement Option Program (DROP)

The plan does not offer a Deferred Retirement Option Program (DROP).

Employees who are members in the plan are required to contribute 1.0% of their salaries to the plan. Interest is credited to each member's account each year at 5% per year. Administrative costs and investment costs of the plan are financed through an addition to the Actuarially Determined Employer Contribution.

The plan's funding policy provides for periodic employer contributions, determined actuarially, that are sufficient to accumulate assets to pay benefits when due. The Borough is required to contribute each year the Minimum Municipal Obligation (MMO), which is determined the previous year based on the most recent actuarial valuation. The Borough may allocate General Municipal Pension System State Aid toward the Minimum Municipal Obligation; however, the Borough is ultimately responsible for funding the MMO.

Net Pension Liability

The net pension liability was measured as of December 31, 2015, and the total pension liability was determined by rolling forward the liabilities from the January 1, 2015 actuarial valuation to the measurement date. No significant events or changes in assumptions occurred between the valuation date and the fiscal year end.

Actuarial Assumptions

The total pension liability as of January 1, 2015 was determined using the following economic assumptions, applied to all periods included in the measurement.

Inflation: 2.0%

Salary Increases: 5.0%

Investment Return: 7.5% (including inflation)

Mortality rates were based on the RP-2000 Mortality tables for males and females.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which the best-estimate ranges of expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These ranges are combined to produce the

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2015

long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class is summarized in the following table. This information was provided by the plan's investment consultants, Univest.

Determination of Long-Term Expected Rate of Return

Asset Class	Target Allocation	Long-Term Expected Rate of Return	Contribution to Rate of Return
Domestic Equity-Large Cap	41.60%	5.35%	2.23%
Domestic Equity-Mid Cap	5.20%	5.75%	0.30%
Domestic Equity-Small Cap	5.20%	6.20%	0.32%
International Equity	13.00%	5.75%	0.75%
Fixed Income	35.00%	3.00%	1.05%
TOTAL	100.00%		4.65%
Inflation			2.00%
Long-Term Expected Rate of Return			6.65%

Discount Rate: The discount rate used to measure the total pension liability was 7.5%. The pension plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The employer's funding policy requires the full funding of the entry age normal cost plus plan expenses, as well as an amortization of the unfunded liability.

Changes in the Net Pension Liability

The schedule below shows the changes in the Net Pension Liability during the most recent year.

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balances at 1/1/2015	\$ 9,060,340	\$ 8,480,054	\$ 580,286
Changes during 2015:			
Service Cost	215,614		215,614
Interest	681,521		681,521
Differences between expected and actual experience	-		-
Employer Contributions	-	401,064	(401,064)
Employee Contributions	-	19,881	(19,881)
Net Investment Income	-	(19,358)	19,358
Benefit Payments (including contribution refunds)	(378,021)	(378,021)	-
Insurance Premiums	-	-	-
Administrative Expenses	-	(36,070)	36,070
Other Changes	-	-	-
Net Changes	519,114	(12,504)	531,618
Balance at 12/31/2015	\$ 9,579,454	8,467,550	1,111,904

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2015

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The schedule below shows the impact on the pension liability if it were calculated using a discount rate that is 1% higher and lower than the current discount rate.

	1% Decrease in Discount Rate 6.50%	Current Discount Rate 7.50%	1% Increase in Discount Rate 8.50%
Total Pension Liability	\$ 10,746,197	\$ 9,579,454	\$ 8,683,259
Plan Fiduciary Net Position	(8,467,550)	(8,467,550)	(8,467,550)
TOTAL NET PENSION LIABILITY	\$ 2,278,647	\$ 1,111,904	\$ 215,709

Components of Pension Expense for Fiscal Year Ended December 31, 2015

Service Cost	\$ 215,614
Interest on the Total Pension Liability	681,521
Differences between Expected and Actual Experience	-
Changes in Assumptions	-
Employee Contributions	(19,881)
Projected Earnings on Pension Plan Investments	(636,261)
Difference between Projected and Actual Earnings on Investments ¹	131,124
Pension Plan Administrative Expense	36,070
Insurance Premiums	-
Other Charges in Net Fiduciary Position	-
TOTAL PENSION EXPENSE	\$ 408,187

¹Each year's gain or loss is recognized over a five-year period.

Amortization of Investment (Gains)/Losses

Year	Difference in Projected and Actual Earnings on Pension Plan Investments	Recognition Period	2015	2016	2017	2018	2019
2015	655,619	\$ 131,124	\$ 131,124	\$ 131,124	\$ 131,124	\$ 131,124	\$ 131,123
Increase/(Decrease) in Pension Expense		\$ 131,124	\$ 131,124	\$ 131,124	\$ 131,124	\$ 131,124	\$ 131,123

Determination of Difference in Projected and Actual Earnings on Pension Plan Investments

Expected Return	\$ 636,261
Actual Return	(19,358)
Difference	\$ 655,619

Pension Expense and Deferred Outflows and Inflows of Resources

For the year ended December 31, 2015, the actuarially determined pension expense is \$408,187. The Borough has deferred outflows and inflows of resources related to the pension plan from the following sources at December 31, 2015:

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2015

Deferred Outflows and Inflows of Resources Related to Pension

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in Projected and Actual Experience	\$ -	\$ -
Net Difference in Projected and Actual Earnings on Plan Investments	524,495	-
Changes in Actuarial Assumptions	-	-
TOTALS	\$ 524,495	\$ -

Actuarially Determined Deferred Outflows and (Inflows) of Resources Related to Pensions for Years Ending December 31:

2016	\$ 131,124
2017	131,124
2018	131,124
2019	131,123

Reconciliation of Pension Expense with Net Pension Liability

Change in Net Pension Liability	\$ 531,618
Change in Deferred (Outflows) of Resources	(524,495)
Change in Deferred Inflows of Resources	-
Employer Contributions	401,064
TOTAL PENSION EXPENSE	\$ 408,187

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Contributions Required and Contributions Made: The actuarially determined employer contribution, (ADEC) to the retirement fund for 2015 and the 2015 Minimum Municipal Obligation of \$401,064. The Borough contributed \$401,064 toward the plan's ADEC for 2015, including General Municipal Pension System State aid allocated to the plan. Employee contributions in 2015 totaled \$19,811.

The schedule below shows the ten-year history of employer contributions, including General Municipal Pension System State Aid, compared to the Actuarially Determined Contribution (ADEC).

Year	ADEC	Employer Contribution	Contribution Deficiency (Excess)
2006	\$ 287,837	\$ 287,837	\$ -
2007	370,635	370,635	-
2008	274,564	274,564	-
2009	274,607	274,607	-
2010	269,428	269,428	-
2011	307,724	307,724	-
2012	294,984	294,984	-
2013	287,384	287,384	-
2014	290,322	290,322	-
2015	401,064	401,064	-

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2015

Covered Payroll for 2015	\$ 1,972,003
ADEC as a Percentage of Payroll	20.34%

DETERMINATION OF ACTUARIALLY DETERMINED EMPLOYER CONTRIBUTION (ADEC)

The ADEC is equal to the Minimum Municipal Obligation determined for the fiscal year, based on the most recent actuarial valuation report. The Minimum Municipal Obligation for 2015 was determined as follows:

Determination of Minimum Municipal Obligation:

Based on Actuarial Valuation as of:	1/1/2013
Normal Cost Percentage	6.5%
Administrative Expense Percentage	1.7%
 Estimated W-2 Payroll for Previous Year	 \$ 1,963,157
 Normal Cost	 \$ 127,605
Administrative Expense	33,374
Annual Cost	160,979
Amortization Payment	259,717
Total Financial Requirement	\$ 420,696
Member Contributions Anticipated	(19,632)
Funding Adjustment	-
Minimum Municipal Obligation	\$ 401,064

The funding of the Municipal Obligation is shown below:

Municipal Contributions:

State Aid Portion	\$ 133,309
Local Portion	267,755
Total Municipal Contributions	\$ 401,064

Police Pension Plan

Plan Description

The Borough of Quakertown Police Pension Plan is a single-employer defined benefit pension plan controlled by the provisions of Section 2 of the code of Ordinances, Act 600. The Police Pension Act is the authority for the Borough to establish and amend the plan.

All full-time police employees are eligible to participate in the plan. The plan provides vesting, normal and early retirement, and survivor benefits to plan members and their beneficiaries. Cost-of-living allowances are provided at the discretion of the Borough.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: The financial statements for the Borough of Quakertown Police Pension Plan are prepared using an accrual basis of accounting. Plan member contributions are recognized in the period in which they are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments: All Investments of the pension trust fund are reported by the custodian at fair value. Investments that do not have an established market value are reported at estimated fair value.

PLAN DESCRIPTION AND MEMBERSHIP INFORMATION

Plan Description: The Borough of Quakertown Police Pension Plan is a contributory, single-employer retirement plan that covers all full-time uniformed police officers of the Borough. The plan provides retirement, termination, disability and death benefits to plan members and their beneficiaries, pursuant to Act 600 of 1956, as amended.

Plan Membership: As of January 1, 2015, the date of the most recent actuarial valuation and December 31, 2015, the plan-year end, plan membership consisted of the following:

	1/1/2015	12/31/2015
Retirees and Beneficiaries Receiving Benefits (including DROP members)	10	11
Terminated Members Entitled to Benefits but not yet receiving them	3	3
Active Plan Members	17	18
TOTAL	30	32

Officers who are members in the plan are required to contribute 5.0% of their salaries to the plan. Interest is credited to each member's account each year at the rate earned by the Pension fund. Administrative costs and investment costs of the plan are financed through an addition to the Actuarially Determined Employer Contribution.

The plan's funding policy provides for periodic employer contributions, determined actuarially, that are sufficient to accumulate assets to pay benefits when due. The Borough is required to contribute each year the Minimum Municipal Obligation (MMO), which is determined the previous year based on the most recent actuarial valuation. The Borough may allocate General Municipal Pension System State Aid toward the Minimum Municipal Obligation; however, the Borough is ultimately responsible for funding the MMO.

Net Pension Liability

The net pension liability was measured as of January 1, 2015, and the total pension liability was determined by rolling forward the liabilities from the January 1, 2015 actuarial valuation. No significant events or changes in assumptions occurred between the valuate date and the fiscal year end.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2015

Actuarial Assumptions

The total pension liability as of January 1, 2015 was determined using the following economic assumptions, applied to all periods included in the measurement.

Inflation: 3.0%

Salary Increases: 5.0%

Investment Return: 7.5% (including inflation)

Mortality rates were based on the RP-2000 Mortality tables for males and females.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which the best-estimate ranges of expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class is summarized in the following table. This information was provided by the plan's investment consultants, Univest.

Determination of Long-Term Expected Rate of Return

Asset Class	Target Allocation	Long-Term Expected Rate of Return	Contribution to Rate of Return
Domestic Equity-Large Cap	41.60%	5.35%	2.23%
Domestic Equity-Mid Cap	5.20%	5.75%	0.30%
Domestic Equity-Small Cap	5.20%	6.20%	0.32%
International Equity	13.00%	5.75%	0.75%
Fixed Income	35.00%	3.00%	1.05%
TOTAL	100.00%		4.65%
Inflation			3.00%
Long-Term Expected Rate of Return			7.65%

Discount Rate: The discount rate used to measure the total pension liability was 7.5%. The pension plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The employer's funding policy requires the full funding of the entry age normal cost plus plan expenses, as well as an amortization of the unfunded liability.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2015

Changes in the Net Pension Liability

The schedule below shows the changes in the Net Pension Liability during the most recent year.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at 1/1/2015	\$ 8,793,425	\$ 6,300,780	\$ 2,492,645
Changes during 2015:			
Service Cost	163,083	-	163,083
Interest	663,552	-	663,552
Differences between expected and actual experience	-	-	-
Employer Contributions	-	536,145	(536,145)
Employee Contributions	-	18,461	(18,461)
Net Investment Income	-	(18,346)	18,346
Benefit Payments (including contribution refunds)	(218,288)	(218,288)	-
Insurance Premiums	-	-	-
Administrative Expenses	-	(26,320)	26,320
Other Charges	-	-	-
Net Charges	<u>\$ 608,347</u>	<u>\$ 291,652</u>	<u>\$ 316,695</u>
Balance at 12/31/2015	<u>\$ 9,401,772</u>	<u>\$ 6,592,432</u>	<u>\$ 2,809,340</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The schedule below shows the impact on the pension liability if it were calculated using a discount rate that is 1% higher and lower than the current discount rate.

	1% Decrease in Discount Rate 6.50%	Current Discount Rate 7.50%	1% Increase in Discount Rate 8.50%
Total Pension Liability	\$ 10,756,270	\$ 9,401,772	\$ 8,288,535
Plan Fiduciary Net Position	(6,592,432)	(6,592,432)	(6,592,432)
TOTAL NET PENSION LIABILITY	<u>\$ 4,163,838</u>	<u>\$ 2,809,340</u>	<u>\$ 1,696,103</u>

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2015

Components of Pension Expense for Fiscal Year Ended December 31, 2015

Service Cost	\$ 163,083
Interest on the Total Pension Liability	663,552
Differences between Expected and Actual Experience	-
Changes in Assumptions	-
Employee Contributions	(18,461)
Projected Earnings on Pension Plan Investments	(484,183)
Difference between Projected and Actual Earnings on Investments ¹	100,506
Pension Plan Administrative Expense	26,320
Insurance Premiums	-
Other Charges in Net Fiduciary Position	-
TOTAL PENSION EXPENSE	\$ 450,817

¹Each year's gain or loss is recognized over a five-year period.

Amortization of Investment (Gains)/Losses

Year	Difference in Projected and Actual Earnings on Pension Plan Investments	Recognition Period	2015	2016	2017	2018	2019
2015	502,529	\$ 100,506	\$ 100,506	\$ 100,506	\$ 100,506	\$ 100,505	\$ 100,505
Increase/(Decrease) in Pension Expense			<u>\$ 100,506</u>	<u>\$ 100,506</u>	<u>\$ 100,506</u>	<u>\$ 100,505</u>	<u>\$ 100,505</u>

Determination of Difference in Projected and Actual Earnings on Pension Plan Investments

Expected Return	\$ 484,183
Actual Return	(18,346)
Difference	\$ 502,529

Pension Expense and Deferred Outflows and Inflows of Resources

For the year ended December 31, 2015, the actuarially determined pension expense is \$450,817. The Borough has deferred outflows and inflows of resources related to the pension plan from the following sources at December 31, 2015:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in Projected and Actual Experience	\$ -	\$ -
Net Difference in Projected and Actual Earnings on Plan Investments	402,023	-
Changes in Actuarial Assumptions	-	-
TOTALS	\$ 402,023	\$ -

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2015

Actuarially Determined Deferred Outflows and (Inflows) of Resources Related to Pensions for Years Ending December 31:

2016	\$ 100,506
2017	100,506
2018	100,506
2019	100,505

Reconciliation of Pension Expense with Net Pension Liability

Change in Net Pension Liability	\$ 316,695
Change in Deferred (Outflows) of Resources	(402,023)
Change in Deferred Inflows of Resources	-
Employer Contributions	536,145
TOTAL PENSION EXPENSE	\$ 450,817

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Contributions Required and Contributions Made: The actuarially determined employer contribution, (ADEC) to the retirement fund for 2015 and the 2015 Minimum Municipal Obligation of \$536,145. The Borough contributed \$536,145 toward the plan's ADEC for 2015, including General Municipal Pension System State aid allocated to the plan. Employee contributions in 2015 totaled \$18,461.

The schedule below shows the ten-year history of employer contributions, including General Municipal Pension System State Aid, compared to the Actuarially Determined Contribution (ADEC).

Year	ADEC	Employer Contribution	Contribution Deficiency (Excess)
2006	\$ 163,571	\$ 163,571	\$ -
2007	246,697	246,697	-
2008	320,583	320,583	-
2009	349,600	349,600	-
2010	354,154	354,154	-
2011	347,966	347,966	-
2012	406,593	406,593	-
2013	402,008	402,008	-
2014	403,613	403,613	-
2015	536,145	536,145	-
Covered Payroll for 2015			\$ 1,821,078
ADEC as a Percentage of Payroll			29.44%

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2015

DETERMINATION OF ACTUARIALLY DETERMINED EMPLOYER CONTRIBUTION (ADEC)

The ADEC is equal to the Minimum Municipal Obligation determined for the fiscal year, based on the most recent actuarial valuation report. The Minimum Municipal Obligation for 2015 was determined as follows:

Determination of Minimum Municipal Obligation:

Based on Actuarial Valuation as of:	1/1/2013
Normal Cost Percentage	9.1%
Administrative Expense Percentage	1.5%
 Estimated W-2 Payroll for Previous Year	 \$ 1,703,615
 Normal Cost	 \$ 155,029
Administrative Expense	25,554
Annual Cost	180,583
Amortization Payment	372,598
Total Financial Requirement	\$ 553,181
Member Contributions Anticipated	(17,036)
Funding Adjustment	-
Minimum Municipal Obligation	<u>\$ 536,145</u>

The funding of the Municipal Obligation is shown below:

Municipal Contributions:

State Aid Portion	\$ 141,150
Local Portion	394,995
Total Municipal Contributions	<u>\$ 536,145</u>

Plan for Administrative Improvement

As a result of the pension plan being classed as moderately distressed municipality the Borough of Quakertown has approved the following plan for administrative improvement for the Borough's Pension Plan to be effective for January 1, 2013.

Data for Form AG-385

The Borough has trained its employees in applicable Act 205 guidelines for the certification of eligible employees.

In addition, the Borough has been having its actuary review the form for accuracy and compliance with the applicable Act 205 guidelines.

This improvement will help to avoid underpayments and overpayments of State aid and therefore avoid lost interest on underpayments and the administrative costs of repaying overpayments with interest.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2015

Review of Actuarial Assumptions

Salary increases among the uniformed and non-uniformed employees have decreased in recent years from 6-7% per year to 2-3% per year. This was reviewed with our actuary during the process of preparing the January 1, 2013 actuarial valuation to see if the 5.0% annual salary increase assumption is still valid going forward. The January 1, 2013 valuations retained the 5% annual salary increases.

In addition, we will review our investment return assumption, in light of recent history; to make sure that we use a rate going forward that reflects expected future fund experience.

Member Contributions

Historically, the Borough has funded the pension plan contributions with State aid and Borough contributions.

Since 2010, members of the non-uniformed pension plan have been contributing 1% of their salary to the plan. Since 2011, the police officers were required to contribute 1% of their compensation to the plan.

The Borough plans to increase member contributions to both plans where possible, given the collective bargaining agreements.

Investment Performance

The Borough will meet regularly with their investment advisors to ensure that the strategy has the best chance of maximizing our returns while paying the lowest possible expenses.

Other Voluntary Remedies Elected by the Borough

The Borough has elected not to use the specific member contribution provisions of Sec. 607 (i) of Act 205. The Borough has elected not to use its option to exceed otherwise applicable limitations on municipal contributions to its pension funds under Sec. 607(d) of Act 205.

The Borough has elected to reduce its amortization payment by 25% for the current biannual reporting period. The Borough has elected to use an actuarial asset smoothing method that results in an actuarial value of assets of between 70% and 130% of the market value of the assets.

Deferred Retirement Option Plan

On November 29, 2006, the Borough adopted a Deferred Retirement Option Program (DROP) for Borough police officers.

Under the plan an active participant who has satisfied the eligibility requirements for normal retirement may elect to participate in the DROP plan, defer receipt of his normal retirement benefit, and continue employment with the Borough by filing a written application with the Borough. Participation in the DROP shall be for a period of not less than 12 months or more than 60 months.

Prior to participation in the DROP plan, an eligible participant must:

- a) Identify a binding and irrevocable resignation date from employment from the borough that also disclosed the date on which employee will begin participation in the DROP plan.
- b) Execute an irrevocable written election to participate in the DROP plan.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2015

- c) Complete all other required documents requested by the Pension Committee.

Effective with the participant's date of participation in the DROP plan, the participant's normal retirement benefit under the Plan, effective date of participation in the DROP plan, and effective date of termination of participation in the DROP plan shall be fixed.

The participant's normal retirement benefit shall be calculated as of his effective date of participation in the DROP plan. The participant's normal retirement may be increased by cost-of-living increases.

If a DROP plan participant becomes eligible for a disability pension benefit and terminates employment, the monthly normal retirement benefit of the DROP plan participant shall cease.

During the period of the DROP plan, the participant's monthly normal retirement benefit shall be credited to his DROP account on the first day of each month. Interest shall be credited on the balance in the DROP account at the rate of 1% per annum. The monthly normal retirement benefit credited to the DROP account during the month of the participant's death or termination of the DROP, if earlier, shall be a fraction of the final monthly normal retirement benefit credited to the DROP account pro-rated for the month.

A participant may not draw from nor access his DROP account during the period of participation in the DROP plan.

Upon termination from the DROP plan, the participant shall be separated from employment with the Borough. The participant shall receive distribution of the balance in his DROP account in a lump sum within 30 days following the participant's separation from employment with the Borough. The normal retirement benefit shall commence to the participant.

Upon the death of a participant during his participation in the DROP plan, the participant's named beneficiary shall be entitled to payment of the balance in the participant's account in a lump sum.

401(a) Pension Plan

All employees of the Borough hired after January 1, 2008, are ineligible for the Borough's Non-Uniformed Defined Benefit Pension Plan. The Borough has started a new 401(a) plan known as the Borough of Quakertown 401(a) Plan. The plan provides retirement benefits for the participants. This plan is in accordance with Internal Revenue Code Section 401(a). This plan provides for employer and employee contribution at the election of the Borough. For 2014, the Borough elected to require both employee and employer contributions. In 2015, contributions totaling \$76,111 were contributed to the plan by the Borough and Borough employees.

All contributions made to the plan, all property and rights purchased with those amounts, and all income attributable to such amounts, are solely the property of and rights of the participants. Participant's rights created under the plan are equivalent and in an amount equal to the market value of the participant's account maintained for each participant.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2015

Deferred Compensation Plan

The Borough has adopted the Deferred Compensation Plan for voluntary participation of eligible municipal employees. The plan is in accordance with Internal Revenue Code Section 457 and permits the employees to defer a portion of their current salary until future years. The deferred amounts are not available to employees until termination, retirement, death or unforeseeable emergency.

All compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to such amounts, are solely the property and rights of the participants. Participants' rights created under the plan are equivalent and in an amount equal to the fair market value of the deferred account maintained with respect to each participant.

Note 12 – Deferred Inflows of Resources

The Borough received a Safe School Targeted Grant for School Resource Officer in the amount of \$90,000. As of December 31, 2015, \$28,536 of these funds have been expended resulting in a balance of \$61,464. The Borough also received donations to the Main Street Park renovation project in the amount of \$9,024. As of December 31, 2015, none of these funds have been expended.

Note 13 - Contingencies

Litigation

The Borough of Quakertown is currently not involved in any material litigation proceedings.

Note 14 – Risk Management

The Borough is subject to risk of loss from employee risks, property damage, personal injury, auto accidents, etc. The Borough lowers these risks through the purchase of commercial insurance. The Borough workers' compensation policy is a retrospectively rated policy. The final premium is based on actual payroll for the policy year and is determined by the insurance company. Any settlements received by the Borough or its employees did not exceed insurance coverage in the last three years.

Note 15 – Fund Balances

Detailed information about aggregated fund balances;

Assigned Fund Balances

Capital Projects Fund	\$ 1,151,629
Equipment Replacement Fund	-
TOTAL	<u>\$ 1,151,629</u>

Restricted Fund Balances

The restricted fund balance represents contributions that are externally restricted for specific purposes;

State Liquid Fuels Fund	\$ 251,462
TOTAL	<u>\$ 251,462</u>

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2015

Note 16 – Restated Fund Balance

During the current year, the Borough of Quakertown implemented GASB 68 which resulted in a restatement of the net assets in January 1, 2015. The adjustment was recorded to the Electric, Water and Sewer Funds as well as the Governmental Activities relating to GASB-68.

Fund	Original Fund Balances/ Net Position Jan. 1, 2015	Fund Balance/ Net Position Change	Restated Fund Balance/ Net Position Jan. 1, 2015
Electric (Proprietary) Fund	\$ 13,238,814	\$ 13,960	\$ 13,252,774
Water (Proprietary) Fund	7,150,335	9,196	7,159,531
Sewer (Proprietary) Fund	11,077,694	13,755	11,091,449
	<u>\$ 31,466,843</u>	<u>\$ 36,911</u>	<u>\$ 31,503,754</u>
Governmental Activities	\$ 22,431,023	\$ (1,951,694)	\$ 20,479,329
Business-Type Activities	34,105,793	36,911	34,142,704
TOTAL	<u>\$ 56,536,816</u>	<u>\$ (1,914,783)</u>	<u>\$ 54,622,033</u>

Note 17 – Subsequent Events

During the spring of 2016, the Borough will begin construction on a sewer interceptor project at a cost of approximately \$6.3 million. The Borough will be responsible for payment of the project cost, however, under the terms and conditions of the project, Bucks County Water and Sewer Authority will reimburse the Borough the full amount for those project costs. The project is expected to be completed by the fall of 2016.

The subsequent events have been evaluated through August 3, 2016, which is the date of the financial statements were available to be issued.



Borough Council
The Borough of Quakertown
35 North Third Street
Quakertown, PA 18951

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Quakertown, Bucks County, PA, as of and for the year ended December 31, 2015, which collectively comprise the Borough of Quakertown's basic financial statements, and have issued our report thereon dated August 3, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Borough of Quakertown's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Borough of Quakertown's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Borough of Quakertown's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

BOROUGH COUNCIL

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Borough of Quakertown in a separate letter dated August 3, 2016.

This report is intended solely for the information and use of management, the Borough Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Hutchinson, Gillahan & Freeh, P.C.

August 3, 2016



REQUIRED SUPPLEMENTAL INFORMATION

THE BOROUGH OF QUAKERTOWN
Modified Approach to Reporting Infrastructure Assets
Required Supplemental Information
December 31, 2015

As permitted by GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments, the Borough has adopted the modified approach for reporting infrastructure assets. Under the modified approach, depreciation is not reported and certain preservation and maintenance costs are expenses.

The modified approach requires that the Borough:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.
- Perform condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale in order to document that the eligible infrastructure assets are being preserved approximately at (or above) the condition level established and disclosed by the government, and
- Estimate each fiscal year the annual amount needed to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government.

Condition Assessments

The Borough performs yearly condition assessments through its Maintenance Assessment Program. Under this program, visual inspections are conducted on the infrastructure asset. For each section of highway observed, various factors are assessed scores from 0 to 5 (0 = N/A, 1 = Failed, 2 = Poor, 3 = Fair, 4 = Good, 5 = Excellent) in order to determine the condition of the highways. Each factor within a component is weighted according to importance and each component is weighted according to importance to determine the overall condition of the System. The overall score is converted to a percentage measurement for reporting (1 = 20%, 2 = 40%, 3 = 60%, 4 = 80% and 5 = 100%).

Assessed Conditions

The Borough has adopted a minimum condition level of 80% for the System based on the condition assessments. Fiscal year 2010 was the first year that a condition assessment was conducted.

Fiscal Year	Condition Assessment (Minimum 80%)
2015	82%
2014	82%
2013	78%
2012	74%
2011	74%
2010	70%

THE BOROUGH OF QUAKERTOWN
Modified Approach to Reporting Infrastructure Assets
Required Supplemental Information
December 31, 2015

Estimated and Actual Costs for Maintenance

The table below provides a comparison between the Borough's estimate of maintenance expenditures required to maintain the System at or above the adopted condition level and the actual expenditures.

	Year 2015	Year 2014	Year 2013	Year 2012	Year 2011	Year 2010
Estimate	\$1,218,666	\$ 919,057	\$ 1,142,093	\$ 744,528	\$ 913,674	\$1,064,558
Actual	\$ -0-	279,792	337,757	53,214	211,433	300,359

Factors Affecting Condition Assessments

The Borough continues to develop its methods for determining such estimates. As additional experience is acquired in the estimation and reporting processes, the Borough hopes to achieve a greater correlation between the estimated maintenance expenditures needed to maintain the System at or above the adopted condition levels and the condition level of the System. In comparing actual expenditures to estimated expenditures, factors such as increases in traffic, legislative mandates, budgetary constraints, and environmental effects (rainfall, drought, hurricane, freeze thaw, etc.) should be considered as they may have a major impact on needed funds and the condition of system roads.

OTHER SUPPLEMENTAL INFORMATION

THE BOROUGH OF QUAKERTOWN
Combining Balance Sheet
All Capital Project Funds
For the Year Ended December 31, 2015

	CAPITAL PROJECTS FUND	EQUIPMENT REPLACEMENT FUND	TOTAL CAPITAL PROJECT FUNDS
ASSETS			
Cash and Cash Equivalents	\$ 1,026,386	\$ -	\$ 1,026,386
Investments	-	-	-
Due from Other Funds	134,267	-	134,267
TOTAL ASSETS	\$ 1,160,653	\$ -	\$ 1,160,653
 LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Due to Other Funds	\$ -	\$ -	\$ -
Deferred Revenue	9,024	-	9,024
Accounts Payable	-	-	-
TOTAL LIABILITIES	9,024	-	9,024
 FUND BALANCES:			
Restricted for Capital Projects	1,151,629	-	1,151,629
TOTAL FUND BALANCES	1,151,629	-	1,151,629
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,160,653	\$ -	\$ 1,160,653

THE BOROUGH OF QUAKERTOWN
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
All Capital Project Funds
For the Year Ended December 31, 2015

	CAPITAL PROJECTS FUND	EQUIPMENT REPLACEMENT FUND	TOTAL CAPITAL PROJECT FUNDS
REVENUES			
Donations	\$ -	\$ -	\$ -
Investment Earnings	5,625	12	5,637
TOTAL REVENUES	5,625	12	5,637
EXPENDITURES			
General Government	171,486	-	171,486
Public Safety	-	38,705	38,705
Public Works	-	-	-
Culture and Recreation	-	-	-
Community Development	5,308	-	5,308
Debt Service	-	-	-
TOTAL EXPENDITURES	176,794	38,705	215,499
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(171,169)	(38,693)	(209,862)
OTHER FINANCING SOURCES (SOURCES)			
Sale of Fixed Assets	-	-	-
Refund of Prior Year Expenditures	141,637	-	141,637
Transfers In	-	-	-
Transfers Out	-	-	-
TOTAL OTHER FINANCING SOURCES	141,637	-	141,637
NET CHANGES IN FUND BALANCE	(29,532)	(38,693)	(68,225)
FUND BALANCES - BEGINNING	1,181,161	38,693	1,219,854
FUND BALANCES - ENDING	\$ 1,151,629	\$ -	\$ 1,151,629

THE BOROUGH OF QUAKERTOWN
Combining Statement of Net Position
All Pension Trust Funds
As December 31, 2015

	POLICE PENSION TRUST FUND	NON- UNIFORMED PENSION TRUST FUND	DEFERRED COMPENSATION PLAN FUND	TOTAL TRUST FUNDS
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 184,528	\$ 221,767	\$ 38,734	\$ 445,029
Investments	6,393,399	8,225,071	260,414	14,878,884
Accrued Investment Income	13,873	20,642	-	34,515
Due from Other Funds	301	-	-	301
Accounts Receivable	331	371	1,457	2,159
TOTAL ASSETS	<u>\$ 6,592,432</u>	<u>\$ 8,467,851</u>	<u>\$ 300,605</u>	<u>\$ 15,360,888</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>LIABILITIES</u>				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Due to Other Funds	-	301	-	301
Due to Police Officers	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>301</u>	<u>-</u>	<u>301</u>
DEFERRED INFLOWS OF RESOURCES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>NET POSITION</u>				
Restricted for Employee Benefits	6,592,432	8,467,550	300,605	15,360,587
TOTAL NET POSITION	<u>\$ 6,592,432</u>	<u>\$ 8,467,851</u>	<u>\$ 300,605</u>	<u>\$ 15,360,888</u>

THE BOROUGH OF QUAKERTOWN
Combining Statement of Additions, Deductions and Changes in Net Position
All Pension Trust Funds
For the Year Ended December 31, 2015

THE BOROUGH OF QUAKERTOWN
Combining Statement of Additions, Deductions and Changes in Net Position
All Pension Trust Funds
For the Year Ended December 31, 2015

	POLICE PENSION TRUST FUND	NON- UNIFORMED PENSION TRUST FUND	DEFERRED COMPENSATION PLAN FUND	TOTAL TRUST FUNDS
ADDITIONS:				
Contributions - Employer	\$ 395,016	\$ 267,755	\$ 15,289	\$ 678,060
Contributions - Employee	18,128	19,533	8,525	46,186
Rollover Contributions	-	-	1,326	1,326
State Aid	141,150	133,309	50,971	325,430
Miscellaneous	313	348	-	661
INVESTMENT EARNINGS:				
Interest and Dividends	194,093	255,054	11,955	461,102
Change in Fair Value of Investments	(212,439)	(274,412)	(16,265)	(503,116)
TOTAL ADDITIONS	<u>536,261</u>	<u>401,587</u>	<u>71,801</u>	<u>1,009,649</u>
DEDUCTIONS:				
Administrative Charges	6,700	9,900	2,981	19,581
Investment Expenses	19,620	26,171	66	45,857
Miscellaneous	-	-	781	781
Employee Benefits	218,288	378,021	284	596,593
TOTAL DEDUCTIONS	<u>244,608</u>	<u>414,092</u>	<u>4,112</u>	<u>662,812</u>
CHANGES IN NET POSITION	291,653	(12,505)	67,689	346,837
NET POSITION - BEGINNING OF YEAR	<u>6,300,779</u>	<u>8,480,055</u>	<u>232,916</u>	<u>15,013,750</u>
NET POSITION - END OF YEAR	<u>\$ 6,592,432</u>	<u>\$ 8,467,550</u>	<u>\$ 300,605</u>	<u>\$ 15,360,587</u>

THE BOROUGH OF QUAKERTOWN
Combining Statement of Net Position
All Proprietary Funds
As of December 31, 2015

	MAJOR			NON-MAJOR		TOTAL
	ELECTRIC FUND	WATER FUND	SEWER FUND	POOL FUND	PARK FUND	
ASSETS						
CURRENT ASSETS:						
Cash and Cash Equivalents	\$ 1,843,017	\$ 1,328,145	\$ 1,008,186	\$ 164,224	\$ 76,804	\$ 4,420,376
Investments	3,052,373	-	3,053,486	-	-	6,105,859
Accounts Receivable (Net of Allowance for Doubtful Accounts)	2,070,774	323,522	273,724	-	-	2,668,020
Intergovernmental Receivable	-	-	-	-	223,590	223,590
Due from Other Funds	-	-	-	-	-	-
TOTAL CURRENT ASSETS	6,966,164	1,651,667	4,335,396	164,224	300,394	13,417,845
NON-CURRENT ASSETS:						
Buildings (Net of Depreciation)	5,661,957	2,129,089	5,093,506	639,158	940,605	14,464,315
Improvements other than Buildings (Net of Depreciation)	3,846	6,655	35,251	846,635	1,019,341	1,911,728
Machinery and Equipment (Net of Depreciation)	757,057	95,332	549,906	5,408	235,418	1,643,121
Construction In Progress	-	-	532,848	-	-	532,848
Sewer Lines Infrastructure (Net of Depreciation)	-	-	3,690,294	-	-	3,690,294
Water Lines Infrastructure (Net of Depreciation)	-	8,171,264	-	-	-	8,171,264
TOTAL NON-CURRENT ASSETS	6,422,860	10,402,340	9,901,805	1,491,201	2,195,364	30,413,570
TOTAL ASSETS	\$ 13,389,024	\$ 12,054,007	\$ 14,237,201	\$ 1,655,425	\$ 2,495,758	\$ 43,831,415
DEFERRED OUTFLOWS OF RESOURCES	\$ 97,193	\$ 64,028	\$ 95,766	\$ -	\$ -	\$ 256,987
LIABILITIES						
CURRENT LIABILITIES:						
Sales Tax Payable	\$ 9,783	\$ -	\$ -	\$ -	\$ -	\$ 9,783
Accounts Payable	696,565	38,478	67,326	-	22,897	825,266
Accrued Salaries and Benefits	9,545	6,610	10,296	-	-	26,451
Due to Other Funds	-	-	-	-	294,687	294,687
Notes Payable	-	315,000	190,000	-	-	505,000
TOTAL CURRENT LIABILITIES	715,893	360,088	267,622	-	317,584	1,661,187
NON-CURRENT LIABILITIES:						
Compensated Absences	43,497	41,017	45,530	-	-	130,044
Net Pension Liability	206,045	135,735	203,019	-	-	544,799
Notes Payable	-	3,995,000	2,420,000	-	-	6,415,000
TOTAL NON-CURRENT LIABILITIES	249,542	4,171,752	2,668,549	-	-	7,089,843
TOTAL LIABILITIES	965,435	4,531,840	2,936,171	-	317,584	8,751,030
DEFERRED INFLOWS OF RESOURCES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
NET POSITION						
Invested in Capital Assets, Net of Related Debt	6,422,860	6,092,340	7,291,805	1,491,201	2,195,364	23,493,570
Restricted	-	-	-	-	-	-
Unrestricted Net Position	6,097,922	1,493,855	4,104,991	164,224	(17,190)	11,843,802
TOTAL NET POSITION	\$ 12,520,782	\$ 7,586,195	\$ 11,396,796	\$ 1,655,425	\$ 2,178,174	\$ 35,337,372

THE BOROUGH OF QUAKERTOWN
Combining Statement of Revenues, Expenses and Changes in Net Position
All Proprietary Funds
For the Year Ended December 31, 2015

	MAJOR			NON-MAJOR		TOTAL
	ELECTRIC FUND	WATER FUND	SEWER FUND	POOL FUND	PARK FUND	
<u>OPERATING REVENUES</u>						
Charges for Services	\$ 14,868,583	\$ 1,626,397	\$ 2,732,897	\$ 218,830	\$ -	\$ 19,446,707
Debt Service Fees	-	456,015	-	-	-	456,015
Permits and Fees	140,078	47,044	-	-	-	187,122
Penalties	208,328	29,789	26,012	-	-	264,129
Rental Income	-	39,650	-	-	-	39,650
Other Income	16,362	6,402	2,367	570	-	25,701
TOTAL OPERATING REVENUES	15,233,351	2,205,297	2,761,276	219,400	-	20,419,324
<u>OPERATING EXPENSES</u>						
Costs of Furnishing Utility	10,116,846	928,607	1,379,872	-	-	12,425,325
Costs of Pool Operations	-	-	-	239,695	-	239,695
Cost of Park Operations	-	-	-	-	4,254	4,254
Employee Benefits	227,501	170,726	233,687	10,262	-	642,176
Employee Pension	203,050	131,608	218,277	-	-	552,935
Insurance	86,856	79,438	109,158	15,226	816	291,494
Debt Service	-	102,097	59,354	-	-	161,451
Depreciation	199,442	268,496	349,439	92,555	28,919	938,851
TOTAL OPERATING EXPENSES	10,833,695	1,680,972	2,349,787	357,738	33,989	15,256,181
OPERATING INCOME (LOSS)	4,399,656	524,325	411,489	(138,338)	(33,989)	5,163,143
<u>NON-OPERATING REVENUES (EXPENSES)</u>						
Interest Earned	39,599	4,086	35,264	705	599	80,253
Donations	-	-	-	-	157,507	157,507
DCED State Grant	-	-	-	-	208,165	208,165
State Aid - Pension	28,753	28,753	36,594	-	-	94,100
Gain (Loss) on Sale of Fixed Assets	-	-	(750)	-	-	(750)
Transfers from Other Funds	-	-	-	-	1,000,000	1,000,000
Transfers to Other Funds	(5,200,000)	(130,500)	(177,250)	-	-	(5,507,750)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(5,131,648)	(97,661)	(106,142)	705	1,366,271	(3,968,475)
CHANGES IN NET POSITION	(731,992)	426,664	305,347	(137,633)	1,332,282	1,194,668
NET POSITION (RESTATED), JANUARY 1, 2015	13,252,774	7,159,531	11,091,449	1,793,058	845,892	34,142,704
NET POSITION, DECEMBER 31, 2015	\$ 12,520,782	\$ 7,586,195	\$ 11,396,796	\$ 1,655,425	\$ 2,178,174	\$ 35,337,372

**INDIVIDUAL FUND STATEMENTS
AND SCHEDULES**

THE BOROUGH OF QUAKERTOWN
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2015

REVENUES

TAXES:

Real Estate Taxes - Current	\$ 123,155	
Real Estate Taxes - Prior	2,817	
Real Estate Transfer Tax	157,079	
Earned Income Tax	895,487	
Local Services Tax	<u>227,749</u>	\$ 1,406,287

FINES AND FORFEITS:

Motor Vehicle Violations	78,990	
Fines	4,588	
Parking Tickets	<u>7,955</u>	91,533

LICENSES AND PERMITS:

Franchise Fee Cable	179,121	
Permits/Reports	<u>4,585</u>	183,706

INTERGOVERNMENTAL:

Public Utility Realty Tax	1,646	
In Lieu of Taxes	15,000	
Beverage Licenses	1,650	
Pension State Aid	231,329	
Allotment - Fireman's Relief	60,592	
Local Government Units	4,086	
State Grants	<u>325,452</u>	639,755

CHARGES FOR SERVICES:

General Government	66,694	
Public Safety	280,091	
Parking Meters	6,048	
Culture and Recreation	<u>58,445</u>	411,278

INVESTMENT AND RENTAL EARNINGS:

Interest Income	2,694	
Rentals	<u>26,250</u>	28,944

MISCELLANEOUS:

Contributions and Donations	26,104	
Reimbursements	6,651	
Insurance Claim Refund	14,954	
Other	<u>-</u>	47,709

TOTAL REVENUES **\$ 2,809,212**

THE BOROUGH OF QUAKERTOWN
General Fund (Cont'd)
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2015

EXPENDITURES

GENERAL GOVERNMENT

LEGAL:

Solicitor	\$	19,704
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MAYOR, LEGISLATIVE, BOROUGH MANAGER:

Salary		188,731
Materials and Supplies		4,441
Contracted Services		3,910
Association Dues and Conventions		16,717
Advertising, Printing and Postage		5,968
Gasoline		3,385
Telephone		11,842
Bonding		3,041
Small Tools and Equipment		7,095

FINANCE AND ACCOUNTING:

Salary		182,172
Auditing		24,380
Office Supplies		218
Bonding		1,217
Association Dues and Conventions		2,951
Contracted Services		30,468

TAX COLLECTION:

Salary		6,000
Contracted Services		956

IT-NETWORKING SERVICES-DATA PROCESSING:

Computer Hardware and Software		52,357
Computer Parts and Supplies		-
Internet Service		2,347
Contracted IT Services		23,887
Web Design and Maintenance		418

ENGINEERING:

Engineering Fees		53,885
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BUILDINGS AND PLANT:

Building Supplies		3,638
Cleaning Supplies		17,908
Repairs and Maintenance		151,961
Capital Purchase		10,070
Contracted Services		1,844

TOTAL GENERAL GOVERNMENT	\$	831,511
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THE BOROUGH OF QUAKERTOWN
General Fund (Cont'd)
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2015

PUBLIC SAFETY

POLICE:

Salaries and Benefits	\$ 1,758,761
Office Supplies	3,413
Postage	285
Fuel and Oil	31,770
Uniforms	31,172
K9	12,165
Vice	112
Ammunition	10,462
National Night Out	1,623
Shop with a Cop	10,997
Vehicle Maintenance and Repair	10,943
Small Tools and Equipment	13,327
Telephone	15,938
Towing	10,596
Advertising and Printing	3,295
Asset Forfeiture	12,208
Association Dues and Conventions	37,708
Contracted Services	29,276
Capital Purchases	172,414

FIRE:

Contribution to Fire Co.	65,000
Fireman's Relief	60,592
Fire Marshal	56,839
Insurance	40,585
Telephone	1,742
Gasoline	15,721
Fire Truck Repairs	722

INSPECTIONS:

Zoning and Administration	77,813
Salary of Clerical	33,510
Office Supplies	1,845
Fuel and Oil	1,564
Uniforms	1,000
Small Tools and Equipment	5,468
Advertising and Printing	7,489
Association Dues and Conventions	5,354
Vehicle Purchase	26,290
Contracted Services	34,703

TOTAL PUBLIC SAFETY \$ 2,602,702

THE BOROUGH OF QUAKERTOWN
General Fund (Cont'd)
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2015

PUBLIC WORKS

STREET MAINTENANCE AND LIGHTING:

Salaries - Highways and Streets	\$ 722,827
Sanitation	11,254
Office Supplies	1,028
Fuel and Oil	30,542
Uniforms	3,768
Street and Traffic Signs	15,609
Road Materials	46,952
Vehicle Maintenance and Repairs	74,097
Small Tools and Equipment	16,413
Telephone	6,384
Association Dues and Conventions	199
CDL Drug and Alcohol Testing	662
Equipment	400,021
Contracted Services	100
Snow Removal Materials	67,100
	67,100

TOTAL PUBLIC WORKS \$ 1,396,956

CULTURE AND RECREATION

PARKS AND POOL:

Salary	100,340
Supplies	983
Discount Tickets	17,920
QSAA	67
Vehicle Maintenance and Repairs	1,255
Small Tools and Equipment	15,151
Summer Concert Series	3,599
Kids Program	7,008
Events	5,092
Contracted Services	117,785
Field Improvements	1,841
Advertising and Printing	3,326
Capital Maintenance	9,578
Capital Equipment	-
	-

TOTAL CULTURE AND RECREATION 283,945

COMMUNITY DEVELOPMENT

Quakertown Alive	77,000
Senior Center	8,400
Dues	192
Small Tools and Equipment	370
Contracted Services	113,742
Office Supplies	-
	-

TOTAL COMMUNITY DEVELOPMENT 199,704

THE BOROUGH OF QUAKERTOWN
General Fund (Cont'd)
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2015

EMPLOYER BENEFITS AND WITHHOLDING ITEMS

Police Pension	\$	536,145	
Non-Uniformed Pension		172,852	
Employee Benefits		<u>1,192,894</u>	

TOTAL EMPLOYER BENEFITS AND WITHHOLDING ITEMS \$ 1,901,891

INSURANCE

Insurance, Casualty, and Surety	173,712
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UNCLASSIFIED EXPENDITURES 2,689

TOTAL EXPENDITURES 7,393,110

DEFICIENCY OF REVENUES OVER EXPENDITURES (4,583,898)

OTHER FINANCING SOURCES AND OTHER FINANCING USES

Sale of Fixed Assets	21,594	
Refund of Prior Year Expenditures	61,695	
Interfund Transfers In	4,507,750	
Interfund Transfers Out	<u>-</u>	<u>4,591,039</u>

NET CHANGE IN FUND BALANCES 7,141

FUND BALANCE - JANUARY 1, 2015 358,305

FUND BALANCE - DECEMBER 31, 2015 **\$ 365,446**

THE BOROUGH OF QUAKERTOWN
Electric Fund
Statement of Revenues, Expenditures, and Changes in Net Position
For the Year Ended December 31, 2015

	BUDGET	ACTUAL
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 15,001,000	\$ 14,868,583
Permits and Fees	83,725	140,078
Penalties	200,000	208,328
Other Income	51,800	16,362
TOTAL OPERATING REVENUES	15,336,525	15,233,351
<u>OPERATING EXPENSES</u>		
Costs of Furnishing Utility	11,983,535	10,116,846
Employee Benefits	276,945	227,501
Employee Pension	81,208	203,050
Insurance	93,625	86,856
Depreciation	-	199,442
Contingency	769,000	-
TOTAL OPERATING EXPENSES	13,204,313	10,833,695
OPERATING INCOME	2,132,212	4,399,656
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest Earned	16,000	39,599
Gain (Loss) on Sale of Fixed Assets	1,000	-
State Aid - Pension	29,691	28,753
State Grant	12,500	-
Transfers to Other Funds	(4,925,000)	(5,200,000)
TOTAL NON-OPERATING (EXPENSES)	(4,865,809)	(5,131,648)
CHANGES IN NET POSITION	(2,733,597)	(731,992)
NET POSITION (RESTATED), JANUARY 1, 2015	2,733,597	13,252,774
NET POSITION, DECEMBER 31, 2015	\$ -	\$ 12,520,782

THE BOROUGH OF QUAKERTOWN
Water Fund
Statement of Revenues, Expenditures, and Changes in Net Position
For the Year Ended December 31, 2015

	BUDGET	ACTUAL
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 1,530,000	\$ 1,626,397
Penalties	33,000	29,789
Debt Service Fee	500,000	456,015
Other Fees	102,600	47,044
Rental Income	40,600	39,650
Other Income	2,000	6,402
TOTAL OPERATING REVENUES	2,208,200	2,205,297
<u>OPERATING EXPENSES</u>		
Costs of Furnishing Utility	1,927,750	928,607
Employee Benefits	180,175	170,726
Employee Pension	52,325	131,608
Insurance	86,960	79,438
Debt Service	646,042	102,097
Depreciation	-	268,496
Contingency	87,000	-
TOTAL OPERATING EXPENSES	2,980,252	1,680,972
OPERATING INCOME (LOSS)	(772,052)	524,325
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest Earned	2,500	4,086
State Aid - Pension	25,818	28,753
Note Proceeds	-	-
Gain (Loss) on Sale of Fixed Assets	1,000	-
Transfers from Other Funds	500,000	-
Transfers to Other Funds	(130,500)	(130,500)
TOTAL NON-OPERATING REVENUES (EXPENSES)	398,818	(97,661)
CHANGES IN NET POSITION	(373,234)	426,664
NET POSITION (RESTATED), JANUARY 1, 2015	373,234	7,159,531
NET POSITION, DECEMBER 31, 2015	\$ -	\$ 7,586,195

THE BOROUGH OF QUAKERTOWN
Sewer Fund
Statement of Revenues, Expenditures, and Changes in Net Position
For the Year Ended December 31, 2015

	BUDGET	ACTUAL
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 2,982,100	\$ 2,732,897
Penalties	24,000	26,012
Other Income	6,000	2,367
TOTAL OPERATING REVENUES	3,012,100	2,761,276
<u>OPERATING EXPENSES</u>		
Costs of Furnishing Utility	2,223,755	1,379,872
Employee Benefits	256,860	233,687
Employee Pension	97,517	218,277
Insurance	119,530	109,158
Debt Service	248,920	59,354
Depreciation	-	349,439
Contingency	153,000	-
TOTAL OPERATING EXPENSES	3,099,582	2,349,787
OPERATING INCOME	(87,482)	411,489
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest Earned	10,000	35,264
Gain (Loss) on Sale of Fixed Assets	1,000	(750)
State Aid - Pension	37,436	36,594
Sewage Facilities Grant	-	-
Transfers to Other Funds	(677,250)	(177,250)
TOTAL NON-OPERATING (EXPENSES)	(628,814)	(106,142)
CHANGES IN NET POSITION	(716,296)	305,347
NET POSITION (RESTATED), JANUARY 1, 2015	716,296	11,091,449
NET POSITION, DECEMBER 31, 2015	\$ -	\$ 11,396,796

THE BOROUGH OF QUAKERTOWN
Pool Fund
Statement of Revenues, Expenditures, and Changes in Net Position
For the Year Ended December 31, 2015

	BUDGET	ACTUAL
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 205,250	\$ 218,830
Other Income	1,000	570
TOTAL OPERATING REVENUES	206,250	219,400
	-----	-----
<u>OPERATING EXPENSES</u>		
Costs of Pool Operations	281,850	239,695
Employee Benefits	9,600	10,262
Insurance	17,360	15,226
Debt Service	-	-
Depreciation	-	92,555
Contingency	10,500	-
TOTAL OPERATING EXPENSES	319,310	357,738
OPERATING (LOSS)	(113,060)	(138,338)
<u>NON-OPERATING REVENUES</u>		
Interest Earned	600	705
Transfers from Other Funds	-	-
TOTAL NON-OPERATING REVENUES	600	705
CHANGES IN NET POSITION	(112,460)	(137,633)
NET POSITION, JANUARY 1, 2015	112,460	1,793,058
NET POSITION, DECEMBER 31, 2015	\$ -	\$ 1,655,425

THE BOROUGH OF QUAKERTOWN
Park Fund
Statement of Revenues, Expenditures, and Changes in Net Position
For the Year Ended December 31, 2015

	BUDGET	ACTUAL
<u>OPERATING REVENUES</u>		
Charges for Services	\$ -	\$ -
Other Income	-	-
TOTAL OPERATING REVENUES	-	-
	-----	-----
<u>OPERATING EXPENSES</u>		
Costs of Park Operations	25,000	4,254
Engineering Services	50,000	-
Insurance	-	816
Amphitheater	600,000	-
Concession Stand	125,000	-
Depreciation	-	28,919
Contingency	-	-
TOTAL OPERATING EXPENSES	800,000	33,989
OPERATING (LOSS)	(800,000)	(33,989)
<u>NON-OPERATING REVENUES</u>		
Interest Earned	10,000	599
Donations	1,688,250	157,507
State Grants	433,165	208,165
Transfer from Other Funds	725,000	1,000,000
TOTAL NON-OPERATING REVENUES	2,856,415	1,366,271
CHANGES IN NET POSITION	2,056,415	1,332,282
NET POSITION, JANUARY 1, 2015	(2,056,415)	845,892
NET POSITION, DECEMBER 31, 2015	\$ -	\$ 2,178,174

**The Borough of Quakertown
Liquid Fuels Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2015**

FUND BALANCE - JANUARY 1, 2015	\$	58,536
 <u>REVENUES AND OTHER FINANCING SOURCES</u>		
INTERGOVERNMENTAL:		
Liquid Fuels Tax	\$ 186,678	
Highway/Turnback Income	5,480	
INVESTMENT EARNINGS:		
Interest Earnings	768	192,926
TOTAL FUNDS AVAILABLE		251,462
 <u>EXPENDITURES AND OTHER FINANCING USES</u>		
PUBLIC WORKS:		
Highway Construction	\$ -	
OTHER FINANCING USES:		
Transfer To Other Funds	-	-
FUND BALANCE - DECEMBER 31, 2015	\$	<u>251,462</u>

**Capital Projects Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2015**

**The Borough of Quakertown
Liquid Fuels Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2015**

FUND BALANCE - JANUARY 1, 2015	\$	1,181,161
 <u>REVENUES AND OTHER FINANCING SOURCES</u>		
Interest Earnings	\$	5,625
OTHER FINANCING SOURCES:		
Refund of Prior Year Expenditures	141,637	<u>147,262</u>
TOTAL FUNDS AVAILABLE		1,328,423
 <u>EXPENDITURES AND OTHER FINANCING USES</u>		
GENERAL GOVERNMENT:		
Sally Port Construction	138,465	
Shed Fire	33,021	
COMMUNITY DEVELOPMENT:		
Moose Building Taxes	5,308	
OTHER FINANCING USES:		
Transfer To Other Funds	<u>-</u>	<u>176,794</u>
FUND BALANCE - DECEMBER 31, 2015	\$	<u>1,151,629</u>

THE BOROUGH OF QUAKERTOWN
Equipment Replacement Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2015

FUND BALANCE - JANUARY 1, 2015	\$	38,693
 <u>REVENUES AND OTHER FINANCING SOURCES</u>		
Interest Earnings	\$ 12	
Transfer From Other Funds	-	<u>12</u>
 TOTAL FUNDS AVAILABLE		 38,705
 <u>EXPENDITURES AND OTHER FINANCING USES</u>		
GENERAL GOVERNMENT:		
Equipment	\$ -	
PUBLIC SAFETY:		
Equipment	38,705	
PUBLIC WORKS:		
Equipment	-	
OTHER FINANCING USES:		
Refund of Prior Year Revenues	-	<u>38,705</u>
 FUND BALANCE - DECEMBER 31, 2015	 \$	 <u><u>-</u></u>

Escrow Fund
Statement of Additions Received and Deductions Paid
For the Year Ended December 31, 2015

ASSETS		
Escrow Checking	\$ 300,376	
 TOTAL ASSETS		 \$ <u><u>300,376</u></u>
 LIABILITIES		
Due to Escrow Holders	\$ 300,376	
 TOTAL LIABILITIES		 \$ <u><u>300,376</u></u>

THE BOROUGH OF QUAKERTOWN
Police Health Reimbursement Arrangement Fund
Statement of Additions Received and Deductions Paid
For the Year Ended December 31, 2015

ASSETS		
Cash	\$	<u>127,815</u>
TOTAL ASSETS		<u>\$ 127,815</u>
LIABILITIES		
Due to Police Officers	\$	119,569
Advance Deposits		<u>8,246</u>
TOTAL LIABILITIES		<u>\$ 127,815</u>

Defined Compensation Plan Fund
Statement of Additions Received and Deductions Paid
For the Year Ended December 31, 2015

NET POSITION - BEGINNING OF YEAR		\$ 232,916
ADDITIONS:		
Contributions - Employer	\$	15,289
Contributions - Employee		8,525
Rollover Contributions		1,326
State Aid		50,971
INVESTMENT EARNINGS:		
Interest and Dividends		11,955
Change in Fair Value of Investments		<u>(16,265)</u>
TOTAL ADDITIONS		71,801

DEDUCTIONS:		
Administrative Charges		2,981
Employee Benefits		284
Miscellaneous		781
Investment Expenses		<u>66</u>
TOTAL DEDUCTIONS		<u>4,112</u>
CHANGE IN NET POSITION		<u>67,689</u>
NET POSITION - END OF YEAR		<u>\$ 300,605</u>

BOROUGH OF QUAKERTOWN
Police Pension Trust Fund
Statement of Additions and Deductions
For the Year Ended December 31, 2015

NET POSITION - BEGINNING OF YEAR		\$	6,300,779
ADDITIONS:			
Contributions - Employer	\$		395,016
Contributions - Employee			18,128
State Aid			141,150
Miscellaneous			313
INVESTMENT EARNINGS:			
Interest and Dividends			194,093
Change in Fair Value of Investments			<u>(212,439)</u>
TOTAL ADDITIONS			<u>536,261</u>
DEDUCTIONS:			
Administrative Charges			6,700
Investment Expenses			19,620
Employee Benefits			<u>218,288</u>
TOTAL DEDUCTIONS			<u>244,608</u>
CHANGE IN NET POSITION			<u>291,653</u>
NET POSITION - END OF YEAR		\$	<u>6,592,432</u>

Non-Uniformed Pension Trust Fund
Statement of Additions and Deductions
For the Year Ended December 31, 2015

NET POSITION - BEGINNING OF YEAR		\$	8,480,055
ADDITIONS:			
Contributions - Employer			267,755
Contributions - Employee			19,533
State Aid			133,309
Miscellaneous			348
INVESTMENT EARNINGS:			
Interest and Dividends			255,054
Change in Fair Value of Investments			<u>(274,412)</u>
TOTAL ADDITIONS			<u>401,587</u>
DEDUCTIONS:			
Administrative Charges			9,900
Investment Expenses			26,171
Employee Benefits			<u>378,021</u>
TOTAL DEDUCTIONS			<u>414,092</u>
CHANGE IN NET POSITION			<u>(12,505)</u>
NET POSITION - END OF YEAR		\$	<u>8,467,550</u>