

**REPORT ON
THE BOROUGH OF QUAKERTOWN
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017**

THE BOROUGH OF QUAKERTOWN

Financial Statements

For the Year Ended December 31, 2017

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THE BOROUGH OF QUAKERTOWN

Financial Statements

For the Year Ended December 31, 2017

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FINANCIAL SECTION



July 27, 2018

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, 2017, and the related notes to the financial statements, which collectively comprise the Borough's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller general of 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, 2017, 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 July 7, 2018, 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.

July 27, 2018

BOROUGH OF QUAKERTOWN
Quakertown, Pennsylvania

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
For the Year Ended December 31, 2017

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, 2017. 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 \$2,742,220 including special and extraordinary items. The net assets decreased in the governmental activities by \$556,083 and increased in the business-type activities and funds by \$3,298,303.

During the year, the Borough paid principal of \$515,000 resulting in ending outstanding debt as of December 31, 2017, of \$5,900,000.

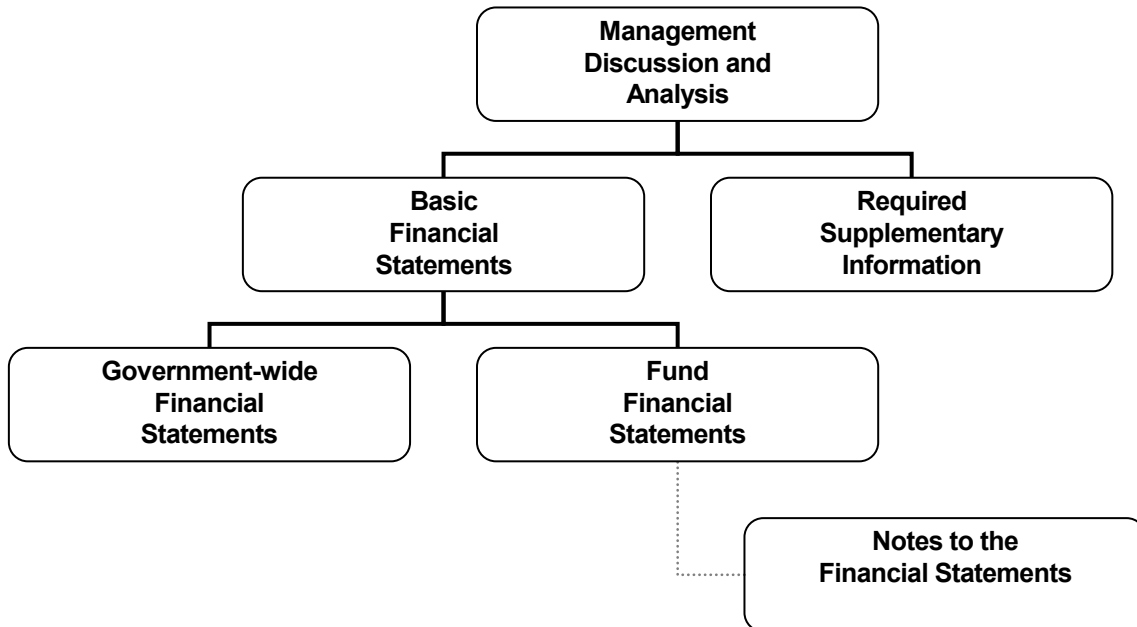
THE BOROUGH OF QUAKERTOWN
Management's Discussion and Analysis (MD&A)

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 \$63,432,636 at December 31, 2017.

Table A-1
Year Ended December 31, 2017 and 2016
Net Position

	2017			2016		
	Governmental Activities	Business- type Activities	Total	Governmental Activities	Business- type Activities	Total
Current and Other Assets	\$ 24,728,938	\$ 49,729,099	\$ 74,458,037	\$ 25,909,719	\$ 47,921,125	\$ 73,830,844
Current and Other Liabilities	3,406,667	7,618,734	11,025,401	4,031,365	9,109,063	13,140,428
Net Position						
Invested in Capital Assets,						
Net of Related Debt	\$ 22,397,563	\$ 30,541,993	\$ 52,939,556	\$ 22,331,978	\$ 27,918,683	\$ 50,250,661
Unrestricted	(1,075,292)	11,568,372	10,493,080	(453,624)	10,893,379	10,439,755
TOTAL NET POSITION	\$ 21,322,271	\$ 42,110,365	\$ 63,432,636	\$ 21,878,354	\$ 38,812,062	\$ 60,690,416

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, 2017 and 2016
Changes in Net Position

	2017			2016		
	(Accrual Basis)			(Accrual Basis)		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
REVENUES						
Program Revenues						
Charges for Services	\$ 591,346	\$ 19,327,326	\$ 19,918,672	\$ 546,283	\$ 19,969,247	\$ 20,515,530
Operating Grants and Contributions	396,597	121,589	518,186	572,774	109,367	682,141
Capital Grants and Contributions	233,704	21,275	254,979	223,681	25,570	249,251
General Revenues:						
Properties Taxes	128,577	-	128,577	130,667	-	130,667
Other Taxes Levied for General Purposes	1,571,342	-	1,571,342	1,696,892	-	1,696,892
Grant, Subsidies and Contributions						
Unrestricted	61,076	-	61,076	50,378	-	50,378
BCWS Project Reimbursement	-	2,838,560	2,838,560	-	4,400,073	4,400,073
Investment Earnings	25,107	161,524	186,631	22,528	139,913	162,441
Other Revenue	57,799	129,410	187,209	65,383	37,347	102,730
TOTAL REVENUES	3,065,548	22,599,684	25,665,232	3,308,586	24,681,517	27,990,103
EXPENSES						
Governmental Activities						
General Government	920,929	-	920,929	1,057,728	-	1,057,728
Public Safety	2,575,128	-	2,575,128	2,663,061	-	2,663,061
Public Works	1,667,152	-	1,667,152	1,253,980	-	1,253,980
Culture and Recreation	277,816	-	277,816	306,846	-	306,846
Community Development	210,108	-	210,108	230,782	-	230,782
Non-Departmental	1,944,510	-	1,944,510	2,005,467	-	2,005,467
Depreciation	384,188	-	384,188	341,781	-	341,781
Transfers Between Activities	(4,358,200)	4,358,200	-	(5,358,000)	5,358,000	-
Business-Type Activities						
Electric	-	9,973,412	9,973,412	-	10,868,544	10,868,544
Water	-	1,777,161	1,777,161	-	1,780,212	1,780,212
Sewer	-	2,464,566	2,464,566	-	2,708,179	2,708,179
Pool	-	366,170	366,170	-	368,270	368,270
Park	-	361,872	361,872	-	123,622	123,622
TOTAL EXPENSES	3,621,631	19,301,381	22,923,012	2,501,645	21,206,827	23,708,472
Increase in Net Position	\$ (556,083)	\$ 3,298,303	\$ 2,742,220	\$ 806,941	\$ 3,474,690	\$ 4,281,631

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

DEBT ADMINISTRATION

As of January 1, 2016 the Borough had total outstanding debt of \$6,415,000. During the year, the Borough paid principal of \$515,000 resulting in ending outstanding debt as of December 31, 2017, of \$5,900,000.

Table A-3
Outstanding Debt

	2017	2016
2012 General Obligation Bonds	<u>\$ 5,900,000</u>	<u>\$ 6,415,000</u>

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

	2017			Variances with
	Budgeted	Budget	Actual	Final Budget
	Original	Amounts Final	(Budgetary Basis)	Positive (Negative)
Revenues	\$ 2,729,195	\$ 2,729,195	\$ 2,848,803	\$ 119,608
Expenditures	<u>8,177,793</u>	<u>8,177,793</u>	<u>7,677,871</u>	<u>499,922</u>
Excess (Deficiency) of Revenues over Expenditures	(5,448,598)	(5,448,598)	(4,829,068)	619,530
Other Financing Sources	<u>5,358,200</u>	<u>5,358,200</u>	<u>4,358,200</u>	<u>1,000,000</u>
Net Change in Fund Balance	(90,398)	(90,398)	(470,868)	(380,470)
Fund Balance - January 1, 2017	<u>90,398</u>	<u>90,398</u>	<u>1,504,435</u>	<u>1,414,037</u>
Fund Balance - December 31, 2017	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,033,567</u>	<u>\$ 1,033,567</u>

	2016			Variances with
	Budgeted	Budget	Actual	Final Budget
	Original	Amounts Final	(Budgetary Basis)	Positive (Negative)
Revenues	\$ 2,739,700	\$ 2,739,700	\$ 3,250,467	\$ 510,767
Expenditures	<u>7,781,937</u>	<u>7,781,937</u>	<u>7,469,478</u>	<u>312,459</u>
Excess (Deficiency) of Revenues over Expenditures	(5,042,237)	(5,042,237)	(4,219,011)	823,226
Other Financing Sources	<u>5,358,000</u>	<u>5,358,000</u>	<u>5,358,000</u>	<u>-</u>
Net Change in Fund Balance	315,763	315,763	1,138,989	823,226
Fund Balance - January 1, 2016	<u>(315,763)</u>	<u>(315,763)</u>	<u>365,446</u>	<u>681,209</u>
Fund Balance - December 31, 2016	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,504,435</u>	<u>\$ 1,504,435</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 2018 Budget reflects cautious optimism about the local economy. The 2018 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 2018 budget, and instructed to:

- Maintain services while adhering to a budget freeze in 2018;
- 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 2018 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, 2017

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
CURRENT ASSETS:			
Cash and Cash Equivalents	\$ 1,817,401	\$ 6,518,985	\$ 8,336,386
Investments	-	4,219,878	4,219,878
Taxes Receivable	25,184	-	25,184
Accounts Receivable (Net of Allowance for Doubtful Accounts)	129,077	2,548,243	2,677,320
Intergovernmental Receivable	-	-	-
Internal Balances	294,687	-	-
Other Receivables	13,606	-	13,606
TOTAL CURRENT ASSETS	2,279,955	13,287,106	15,272,374
NON-CURRENT ASSETS:			
Land	1,851,952	-	1,851,952
Buildings (Net of Depreciation)	1,376,975	13,562,469	14,939,444
Improvements other than Buildings (Net of Depreciation)	636,526	1,716,297	2,352,823
Machinery and Equipment (Net of Depreciation)	2,486,210	2,061,940	4,548,150
Sewer Lines Infrastructure (Net of Depreciation)	-	11,293,028	11,293,028
Water Lines Infrastructure (Net of Depreciation)	-	7,808,259	7,808,259
Infrastructure	16,045,900	-	16,045,900
Construction in Progress	-	-	-
TOTAL NON-CURRENT ASSETS	22,397,563	36,441,993	58,839,556
TOTAL ASSETS	\$ 24,677,518	\$ 49,729,099	\$ 74,111,930
DEFERRED OUTFLOWS OF RESOURCES	\$ 51,420	\$ -	\$ 51,420
LIABILITIES			
CURRENT LIABILITIES:			
Internal Balances	\$ -	\$ 294,687	\$ -
Sales Tax Payable	-	9,965	9,965
Accounts Payable	161,754	789,543	951,297
Accrued Salaries and Benefits	81,650	53,743	135,393
Notes Payable	-	530,000	530,000
Accrued Compensated Absences	128,289	-	128,289
Other Payables	716	-	716
TOTAL CURRENT LIABILITIES	372,409	1,677,938	1,755,660
NON-CURRENT LIABILITIES:			
Accrued Compensated Absences	641,446	544,901	1,186,347
Net Pension Liability	1,602,891	(317,317)	1,285,574
Notes Payable	-	5,370,000	5,370,000
TOTAL NON-CURRENT LIABILITIES	2,244,337	5,597,584	7,841,921
TOTAL LIABILITIES	\$ 2,616,746	\$ 7,275,522	\$ 9,597,581
DEFERRED INFLOWS OF RESOURCES	\$ 789,921	\$ 343,212	\$ 1,133,133
NET POSITION			
Invested in Capital Assets, Net of Related Debt	22,397,563	30,541,993	52,939,556
Unrestricted	(1,075,292)	11,568,372	10,493,080
TOTAL NET POSITION	\$ 21,322,271	\$ 42,110,365	\$ 63,432,636

(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, 2017

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	\$ 920,929	\$ 305,625	\$ -	\$ -	\$ (615,304)	\$ -	\$ (615,304)
Public Safety	2,575,128	226,910	90,936	-	(2,257,282)	-	(2,257,282)
Public Works	1,667,152	-	37,248	233,704	(1,396,200)	-	(1,396,200)
Culture and Recreation	277,816	58,811	-	-	(219,005)	-	(219,005)
Community Development	210,108	-	-	-	(210,108)	-	(210,108)
Non-Departmental	1,944,510	-	268,413	-	(1,676,097)	-	(1,676,097)
Debt Service Payments	-	-	-	-	-	-	-
Depreciation	384,188	-	-	-	(384,188)	-	(384,188)
TOTAL GOVERNMENTAL ACTIVITIES	7,979,831	591,346	396,597	233,704	(6,758,184)	-	(6,758,184)
BUSINESS-TYPE ACTIVITIES:							
Electric	9,973,412	13,896,141	39,000	-	-	3,961,729	3,961,729
Water	1,777,161	2,150,209	34,412	-	-	407,460	407,460
Sewer	2,464,566	2,992,485	48,177	-	-	576,096	576,096
Pool	366,170	205,931	-	-	-	(160,239)	(160,239)
Park	361,872	82,560	-	21,275	-	(258,037)	(258,037)
TOTAL PRIMARY GOVERNMENT	\$ 22,923,012	\$ 19,918,672	\$ 518,186	\$ 254,979	\$ (6,758,184)	\$ 4,527,009	\$ (2,231,175)
GENERAL REVENUES:							
Property Taxes. Levied for General Purposes					\$ 128,577	\$ -	\$ 128,577
Other Taxes Levied for General Purposes					1,571,342	-	1,571,342
Grants, Subsidies, & Contributions Not Restricted					61,076	-	61,076
BCWS Reimbursement					-	2,838,560	2,838,560
Investment and Rental Earnings					27,632	161,524	189,156
Miscellaneous Income					34,342	97,737	132,079
Insurance Refunds					20,932	31,673	52,605
Transfers					4,358,200	(4,358,200)	-
TOTAL GENERAL REVENUES, SPECIAL ITEMS, EXTRAORDINARY ITEMS, AND TRANSFERS					6,202,101	(1,228,706)	4,973,395
CHANGE IN NET POSITION					(556,083)	3,298,303	2,742,220
NET POSITION - BEGINNING					21,878,354	38,812,062	60,690,416
NET POSITION - ENDING					\$ 21,322,271	\$ 42,110,365	\$ 63,432,636

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

THE BOROUGH OF QUAKERTOWN
Balance Sheet
All Governmental Funds
As of December 31, 2017

	<u>GENERAL</u>	<u>CAPITAL PROJECTS</u>	<u>LIQUID FUELS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 1,108,115	\$ 654,626	\$ 54,660	\$ 1,817,401
Investments	-	-	-	-
Taxes Receivable	25,184	-	-	25,184
Accounts Receivable	98,651	-	-	98,651
Intergovernmental Receivable	-	-	-	-
Due from Other Funds	160,420	134,267	-	294,687
Other Receivables	13,606	-	-	13,606
TOTAL ASSETS	<u>\$ 1,405,976</u>	<u>\$ 788,893</u>	<u>\$ 54,660</u>	<u>\$ 2,249,529</u>
<u>LIABILITIES AND FUND BALANCES</u>				
<u>LIABILITIES:</u>				
Due to Other Funds	\$ -	\$ -	\$ -	\$ -
Accounts Payable	161,754	-	-	161,754
Accrued Salaries and Benefits	81,650	-	-	81,650
Accrued Compensated Absences	128,289	-	-	128,289
Deferred Revenue	-	70,813	-	70,813
Other Payables	716	-	-	716
TOTAL LIABILITIES	<u>372,409</u>	<u>70,813</u>	<u>-</u>	<u>443,222</u>
<u>FUND BALANCES:</u>				
- Nonspendable	-	-	-	-
- Restricted	-	-	54,660	54,660
- Committed	-	-	-	-
- Assigned	-	718,080	-	718,080
- Unassigned	1,033,567	-	-	1,033,567
TOTAL FUND BALANCES	<u>1,033,567</u>	<u>718,080</u>	<u>54,660</u>	<u>1,806,307</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,405,976</u>	<u>\$ 788,893</u>	<u>\$ 54,660</u>	<u>\$ 2,249,529</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, 2017

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 1,806,307

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 \$26,224,870 and the accumulated depreciation is \$3,827,307. 22,397,563

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. 30,426

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	(641,446)	
GASB 68 Liability	(2,270,579)	
Other Retirement Benefits	-	(2,912,025)

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES **\$ 21,322,271**

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, 2017

	GENERAL	CAPITAL PROJECTS	LIQUID FUELS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Taxes	\$ 1,505,263	\$ -	\$ -	\$ 1,505,263
Licenses and Permits	178,985	-	-	178,985
Fines and Forfeits	73,356	-	-	73,356
Intergovernmental	423,548	-	233,704	657,252
Charges for Services	494,968	-	-	494,968
Investment and Rental Earnings	17,451	5,326	4,855	27,632
Miscellaneous	124,815	-	-	124,815
TOTAL REVENUES	<u>2,818,386</u>	<u>5,326</u>	<u>238,559</u>	<u>3,062,271</u>
EXPENDITURES				
CURRENT:				
General Government	850,325	27,941	-	878,266
Public Safety	3,035,346	-	-	3,035,346
Public Works	1,141,867	-	629,839	1,771,706
Culture and Recreation	275,678	-	-	275,678
Community Development	295,855	37,139	-	332,994
Non-Departmental	2,078,800	-	-	2,078,800
DEBT SERVICE:				
Principal	-	-	-	-
Interest	-	-	-	-
TOTAL EXPENDITURES	<u>7,677,871</u>	<u>65,080</u>	<u>629,839</u>	<u>8,372,790</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(4,859,485)</u>	<u>(59,754)</u>	<u>(391,280)</u>	<u>(5,310,519)</u>
OTHER FINANCING SOURCES				
Refund of Prior Year Expenditures	7,648	-	-	7,648
Sale of Fixed Assets	22,769	-	-	22,769
Interfund Transfers In	4,358,200	-	-	4,358,200
Interfund Transfers Out	-	-	-	-
TOTAL OTHER FINANCING SOURCES	<u>4,388,617</u>	<u>-</u>	<u>-</u>	<u>4,388,617</u>
NET CHANGE IN FUND BALANCES	(470,868)	(59,754)	(391,280)	(921,902)
FUND BALANCES - BEGINNING	<u>1,504,435</u>	<u>777,834</u>	<u>445,940</u>	<u>2,728,209</u>
FUND BALANCES - ENDING	<u>\$ 1,033,567</u>	<u>\$ 718,080</u>	<u>\$ 54,660</u>	<u>\$ 1,806,307</u>

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 a 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, 2017

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (921,902)

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	\$ (384,188)		
	Asset Deletions	(47,764)		
	Capital Outlays	<u>497,537</u>		65,585

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. 306,656

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 decreased by this amount this year. (6,422)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ (556,083)**

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

THE BOROUGH OF QUAKERTOWN
Combining Statement of Net Position
All Proprietary Funds
As of December 31, 2017

	MAJOR			NON-MAJOR		TOTAL
	ELECTRIC FUND	WATER FUND	SEWER FUND	POOL FUND	PARK FUND	
ASSETS						
CURRENT ASSETS:						
Cash and Cash Equivalents	\$ 2,994,627	\$ 1,878,241	\$ 1,398,307	\$ 166,163	\$ 81,647	\$ 6,518,985
Investments	1,080,263	-	3,139,615	-	-	4,219,878
Accounts Receivable (Net of Allowance for Doubtful Accounts)	1,959,144	297,450	229,464	-	62,185	2,548,243
Intergovernmental Receivable	-	-	-	-	-	-
Due from Other Funds	-	-	-	-	-	-
TOTAL CURRENT ASSETS	6,034,034	2,175,691	4,767,386	166,163	143,832	13,287,106
NON-CURRENT ASSETS:						
Buildings (Net of Depreciation)	5,388,767	1,985,202	4,665,644	610,142	912,714	13,562,469
Improvements other than Buildings (Net of Depreciation)	2,217	4,684	35,130	692,015	982,251	1,716,297
Machinery and Equipment (Net of Depreciation)	917,727	232,806	660,851	37,385	213,171	2,061,940
Construction in Progress	-	-	-	-	-	-
Sewer Lines Infrastructure (Net of Depreciation)	-	-	11,293,028	-	-	11,293,028
Water Lines Infrastructure (Net of Depreciation)	-	7,808,259	-	-	-	7,808,259
TOTAL NON-CURRENT ASSETS	6,308,711	10,030,951	16,654,653	1,339,542	2,108,136	36,441,993
TOTAL ASSETS	\$ 12,342,745	\$ 12,206,642	\$ 21,422,039	\$ 1,505,705	\$ 2,251,968	\$ 49,729,099
DEFERRED OUTFLOWS OF RESOURCES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
LIABILITIES						
CURRENT LIABILITIES:						
Sales Tax Payable	\$ 9,965	\$ -	\$ -	\$ -	\$ -	\$ 9,965
Accounts Payable	663,124	40,926	85,026	-	467	789,543
Accrued Salaries and Benefits	27,430	10,318	14,896	-	1,099	53,743
Due to Other Funds	-	-	-	-	294,687	294,687
Notes Payable	-	330,000	200,000	-	-	530,000
TOTAL CURRENT LIABILITIES	700,519	381,244	299,922	-	296,253	1,677,938
NON-CURRENT LIABILITIES:						
Compensated Absences	240,016	177,261	127,624	-	-	544,901
Net Pension Liability	(139,740)	(65,629)	(111,948)	-	-	(317,317)
Notes Payable	-	3,345,000	2,025,000	-	-	5,370,000
TOTAL NON-CURRENT LIABILITIES	100,276	3,456,632	2,040,676	-	-	5,597,584
TOTAL LIABILITIES	800,795	3,837,876	2,340,598	-	296,253	7,275,522
DEFERRED INFLOWS OF RESOURCES	\$ 137,383	\$ 80,088	\$ 125,741	\$ -	\$ -	\$ 343,212
NET POSITION						
Invested in Capital Assets, Net of Related Debt	6,308,711	6,355,951	14,429,653	1,339,542	2,108,136	30,541,993
Restricted	-	-	-	-	-	-
Unrestricted Net Position	5,095,856	1,932,727	4,526,047	166,163	(152,421)	11,568,372
TOTAL NET POSITION	\$ 11,404,567	\$ 8,288,678	\$ 18,955,700	\$ 1,505,705	\$ 1,955,715	\$ 42,110,365

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

THE BOROUGH OF QUAKERTOWN
Combining Statement of Revenues, Expenses and Changes in Net Position –
All Proprietary Funds
For the Year Ended December 31, 2017

	MAJOR			NON-MAJOR		TOTAL
	ELECTRIC FUND	WATER FUND	SEWER FUND	POOL FUND	PARK FUND	
OPERATING REVENUES						
Charges for Services	\$ 13,584,511	\$ 1,595,936	\$ 2,970,702	\$ 205,931	\$ 82,560	\$ 18,439,640
Debt Service Fees	-	456,732	-	-	-	456,732
Permits and Fees	138,916	71,486	-	-	-	210,402
Penalties	172,714	26,055	21,783	-	-	220,552
Rental Income	-	44,285	-	-	-	44,285
Other Income	59,382	28,672	8,341	1,245	97	97,737
TOTAL OPERATING REVENUES	<u>13,955,523</u>	<u>2,223,166</u>	<u>3,000,826</u>	<u>207,176</u>	<u>82,657</u>	<u>19,469,348</u>
OPERATING EXPENSES						
Costs of Furnishing Utility	9,339,913	1,155,405	1,622,104	-	-	12,117,422
Costs of Pool Operations	-	-	-	247,011	-	247,011
Costs of Park Operations	-	-	-	-	290,219	290,219
Employee Benefits	331,790	195,617	313,207	9,444	20,271	870,329
Employee Pension	(1,240)	3,751	19,831	-	-	22,342
Insurance	72,741	62,196	95,577	13,234	4,417	248,165
Debt Service	-	84,471	51,474	-	-	135,945
Depreciation	230,208	275,721	362,373	96,481	46,965	1,011,748
TOTAL OPERATING EXPENSES	<u>9,973,412</u>	<u>1,777,161</u>	<u>2,464,566</u>	<u>366,170</u>	<u>361,872</u>	<u>14,943,181</u>
OPERATING INCOME (LOSS)	<u>3,982,111</u>	<u>446,005</u>	<u>536,260</u>	<u>(158,994)</u>	<u>(279,215)</u>	<u>4,526,167</u>
NON-OPERATING REVENUES (EXPENSES)						
Interest Earned	49,703	12,968	53,378	737	453	117,239
Donations	-	-	-	-	21,275	21,275
BCWS Project Reimbursement	-	-	2,838,560	-	-	2,838,560
Insurance Claim Refund	-	-	-	-	31,673	31,673
State Aid - Pension	39,000	34,412	48,177	-	-	121,589
Gain (Loss) on Sale of Fixed Assets	-	-	-	-	-	-
Transfers from Other Funds	-	-	-	150,000	100,000	250,000
Transfers to Other Funds	(4,250,000)	(157,200)	(201,000)	-	-	(4,608,200)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(4,161,297)</u>	<u>(109,820)</u>	<u>2,739,115</u>	<u>150,737</u>	<u>153,401</u>	<u>(1,227,864)</u>
CHANGES IN NET POSITION	<u>(179,186)</u>	<u>336,185</u>	<u>3,275,375</u>	<u>(8,257)</u>	<u>(125,814)</u>	<u>3,298,303</u>
NET POSITION, JANUARY 1, 2017	<u>11,583,753</u>	<u>7,952,493</u>	<u>15,680,325</u>	<u>1,513,962</u>	<u>2,081,529</u>	<u>38,812,062</u>
NET POSITION, DECEMBER 31, 2017	<u>\$ 11,404,567</u>	<u>\$ 8,288,678</u>	<u>\$ 18,955,700</u>	<u>\$ 1,505,705</u>	<u>\$ 1,955,715</u>	<u>\$ 42,110,365</u>

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, 2017

	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	\$ 14,064,924	\$ 2,213,715	\$ 3,588,904	\$ 205,732	\$ 103,691	\$ 20,176,966
Cash Received from Other Operating Revenue	59,382	25,260	8,341	1,444	97	94,524
Cash Payments to Employees for Services	(1,145,685)	(669,714)	(1,069,719)	(126,339)	(75,612)	(3,087,069)
Cash Payments to Suppliers for Goods and Services	(8,815,256)	(801,612)	(1,624,132)	(138,524)	(249,334)	(11,628,858)
Cash Payments to Other Operating Expenses	(140)	(1,944)	-	(4,826)	-	(6,910)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	4,163,225	765,705	903,394	(62,513)	(221,158)	5,548,653
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>						
State Sources	39,000	34,412	48,177	-	-	121,589
Donations	-	-	-	-	21,275	21,275
BCWS Project Reimbursement	-	-	2,838,560	-	-	2,838,560
Insurance Claim Refund	-	-	-	-	31,673	31,673
Operating Transfers In	-	-	-	150,000	100,000	250,000
Operating Transfers Out	(4,250,000)	(157,200)	(201,000)	-	-	(4,608,200)
NET CASH PROVIDED BY (USED) FOR NON-CAPITAL FINANCING ACTIVITIES	(4,211,000)	(122,788)	2,685,737	150,000	152,948	(1,345,103)
<u>CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES</u>						
Loan Principal Payments/Proceeds	-	(320,000)	(195,000)	-	-	(515,000)
Purchase of Fixed Assets	(137,558)	(108,858)	(2,878,889)	-	(6,450)	(3,131,755)
Sale of Fixed Assets	-	7,097	4,600	-	-	11,697
Interfund Loan Payments	-	-	-	-	-	-
NET CASH (USED) FOR CAPITAL FINANCING ACTIVITIES	(137,558)	(421,761)	(3,069,289)	-	(6,450)	(3,635,058)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>						
Sale of Investments	-	-	-	-	-	-
Purchase of Investments	(20,176)	-	(45,582)	-	-	(65,758)
Earnings on Investments	49,703	12,968	53,378	737	453	117,239
NET CASH PROVIDED BY INVESTING ACTIVITIES	29,527	12,968	7,796	737	453	51,481
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(155,806)	234,124	527,638	88,224	(74,207)	619,973
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	3,150,433	1,644,117	870,669	77,939	155,854	5,899,012
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,994,627	\$ 1,878,241	\$ 1,398,307	\$ 166,163	\$ 81,647	\$ 6,518,985

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, 2017

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

	MAJOR			NON-MAJOR		TOTAL
	ELECTRIC FUND	WATER FUND	SEWER FUND	POOL FUND	PARK FUND	
OPERATING INCOME (LOSS)	\$ 3,982,111	\$ 446,005	\$ 536,260	\$ (158,994)	\$ (279,215)	\$ 4,526,167
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES						
Depreciation	230,208	275,721	362,373	96,481	46,965	1,011,748
CHANGE IN ASSETS AND LIABILITIES:						
(Increase) Decrease in Accounts Receivable	168,783	19,221	596,419	-	13,215	797,638
(Increase) Decrease in Deferred Outflows	70,070	48,119	70,241	-	-	188,430
Increase (Decrease) in Accounts Payable	(125,283)	(934)	(448,577)	-	(3,221)	(578,015)
Increase (Decrease) in Accrued Salaries and Benefits	11,415	560	(2,615)	-	1,098	10,458
Increase (Decrease) in Sales Tax Payable	(3,663)	-	-	-	-	(3,663)
Increase (Decrease) in GASB 68 Pension Liability	(232,483)	(134,910)	(208,357)	-	-	(575,750)
Increase (Decrease) in Deferred Inflows	78,883	45,776	70,697	-	-	195,356
Increase (Decrease) in Compensated Absences	(16,816)	66,147	(73,047)	-	-	(23,716)
TOTAL ADJUSTMENTS	<u>181,114</u>	<u>319,700</u>	<u>367,134</u>	<u>96,481</u>	<u>58,057</u>	<u>1,022,486</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 4,163,225</u>	<u>\$ 765,705</u>	<u>\$ 903,394</u>	<u>\$ (62,513)</u>	<u>\$ (221,158)</u>	<u>\$ 5,548,653</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, 2017

	PENSION BENEFIT TRUST FUNDS	AGENCY FUNDS	
		ESCROW FUND	POLICE HEALTH REIMBURSEMENT ARRANGEMENT FUND
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 548,009	\$ 327,600	\$ 174,161
Investments	19,595,123	-	-
Accrued Investment Income	87,282	-	-
Accounts Receivable	3,130	-	-
TOTAL ASSETS	<u>\$ 20,233,544</u>	<u>\$ 327,600</u>	<u>\$ 174,161</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>LIABILITIES</u>			
Accounts Payable	\$ -	\$ -	\$ -
Advance Deposits	-	-	16,032
Due to Escrow Holders	-	327,600	-
Due to Police Officers	-	-	158,129
TOTAL LIABILITIES	<u>-</u>	<u>327,600</u>	<u>174,161</u>
DEFERRED INFLOWS OF RESOURCES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>NET POSITION</u>			
Restricted for Employee Benefits	20,233,544	-	-
TOTAL NET POSITION	<u>\$ 20,233,544</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, 2017

	PENSION BENEFIT TRUST FUNDS
ADDITIONS:	
Contributions - Employer	\$ 599,179
Contributions - Employee	69,227
Rollover Contributions	-
State Aid	390,001
Miscellaneous Income	-
INVESTMENT EARNINGS:	
Interest and Dividends	829,695
Change in Fair Value of Investments	2,143,799
TOTAL ADDITIONS	<u>4,031,901</u>
DEDUCTIONS:	
Administrative Charges	53,906
Investment Expenses	27,304
Miscellaneous	4,667
Employee Benefits	672,726
TOTAL DEDUCTIONS	<u>758,603</u>
CHANGES IN NET POSITION	3,273,298
NET POSITION - BEGINNING OF YEAR	<u>16,960,246</u>
NET POSITION - END OF YEAR	<u>\$ 20,233,544</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, 2017

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH	BUDGET TO	ACTUAL
	ORIGINAL	FINAL	(BUDGETARY BASIS)	FINAL BUDGET POSITIVE (NEGATIVE)	GAAP DIFFERENCE	AMOUNTS GAAP BASIS
RESOURCES (INFLOW):						
Taxes	\$ 1,388,000	\$ 1,388,000	\$ 1,505,263	\$ 117,263	\$ -	\$ 1,505,263
Licenses and Permits	183,500	183,500	178,985	(4,515)	-	178,985
Fines and Forfeits	92,500	92,500	73,356	(19,144)	-	73,356
Intergovernmental	419,795	419,795	423,548	3,753	-	423,548
Charges for Services	481,400	481,400	494,968	13,568	-	494,968
Miscellaneous	56,000	56,000	126,652	70,652	-	126,652
Insurance Claim Refund	100,000	100,000	20,932	(79,068)	-	20,932
Investment and Rental Earnings	8,000	8,000	17,451	9,451	-	17,451
Refund of Prior Year Expenditures	-	-	7,648	7,648	-	7,648
Transfers from Other Funds	5,358,200	5,358,200	4,358,200	(1,000,000)	-	4,358,200
TOTAL RESOURCES	8,087,395	8,087,395	7,207,003	(880,392)	-	7,207,003
CHARGES TO APPROPRIATIONS (OUTFLOWS):						
General Government						
Legal	31,000	31,000	24,783	6,217	-	24,783
Mayor, Legislative, Borough Manager	297,460	297,460	302,225	(4,765)	-	302,225
Finance and Accounting	256,100	256,100	276,979	(20,879)	-	276,979
Tax Collection	7,500	7,500	7,057	443	-	7,057
IT-Networking Services-Data Processing	52,600	52,600	65,506	(12,906)	-	65,506
Engineering	50,000	50,000	51,715	(1,715)	-	51,715
Buildings and Plant	209,350	209,350	122,060	87,290	-	122,060
Public Safety						
Police	2,597,150	2,597,150	2,649,153	(52,003)	-	2,649,153
Fire Department	232,625	232,625	228,518	4,107	-	228,518
Inspections	136,200	136,200	157,675	(21,475)	-	157,675
Public Works						
Solid Waste and Collection	8,500	8,500	-	8,500	-	-
Street Maintenance and Lighting	1,353,100	1,353,100	1,141,867	211,233	-	1,141,867
Culture and Recreation						
Parks	324,100	324,100	275,678	48,422	-	275,678
Community Development						
	259,800	259,800	295,855	(36,055)	-	295,855
Non-Departmental						
Employer Paid Benefits and Withholding Items	2,049,908	2,049,908	1,960,020	89,888	-	1,960,020
Insurance	167,100	167,100	112,822	54,278	-	112,822
Miscellaneous	5,300	5,300	5,958	(658)	-	5,958
Budgetary Reserve	140,000	140,000	-	140,000	-	-
Transfer to Other Funds	-	-	-	-	-	-
TOTAL CHARGES TO APPROPRIATIONS	8,177,793	8,177,793	7,677,871	499,922	-	7,677,871
Excess (Deficiency) of Inflows Over Outflows	(90,398)	(90,398)	(470,868)	(380,470)	-	(470,868)
FUND BALANCE - JANUARY 1, 2017	90,398	90,398	1,504,435	1,414,037	-	1,504,435
FUND BALANCE - DECEMBER 31, 2017	\$ -	\$ -	\$ 1,033,567	\$ 1,033,567	\$ -	\$ 1,033,567

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

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2017

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. Program revenues include charges paid by the recipient of the goods or services offered by the program,

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2017

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 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:

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2017

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.

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.

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.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2017

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.

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.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2017

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 2017 is \$79,349,070 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.
- **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.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2017

- **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

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.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2017

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, 2017, 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.

Inventory

Inventory type items for the Borough are recorded using the purchase method; that is, they are charged as an expense when purchased; therefore, there is no inventory shown on the Balance Sheet.

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 \$22,397,563. Another element of the reconciliation explains that “long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds”.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2017

The details of this \$2,912,025 difference are:

Compensated Absences	\$ 641,446
GASB 68 Pension Liability	<u>2,270,579</u>
Net adjustment to reduce "fund balance - total governmental funds" to arrive at "net assets - governmental activities"	<u>\$ 2,912,025</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, 2017

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

	Total Governmental Funds	Long-Term Revenues/ Expenses	Capital Related Items	Long-Term Debt Trans- actions	Total For Statement of Activities
<u>REVENUES AND OTHER SOURCES</u>					
<u>LOCAL SOURCES</u>					
Properties Taxes	\$ 128,577	\$ -	\$ -	\$ -	\$ 128,577
Other Taxes Levied for General Purposes	1,139,016	16,636	-	-	1,155,652
Franchises Taxes	178,020	-	-	-	178,020
Local Service Taxes	237,670	-	-	-	237,670
Grant, Subsidies and Contributions					
Not Restricted	61,076	-	-	-	61,076
Investment and Rental Earnings	27,632	-	-	-	27,632
Miscellaneous	147,584	(113,242)	-	-	34,342
Charges to Services	569,289	22,057	-	-	591,346
Insurance Refunds	7,648	13,284	-	-	20,932
Transfers In	4,358,200	-	-	-	4,358,200
<u>STATE SOURCES</u>					
Operating and Capital Grants & Contributions	596,176	34,125	-	-	630,301
<u>FEDERAL SOURCES</u>					
Operating and Capital Grants & Contributions	-	-	-	-	-
TOTAL REVENUES	7,450,888	(27,140)	-	-	7,423,748
<u>EXPENDITURES / EXPENSES AND OTHER USES</u>					
General Government	878,266	77,510	(34,847)	-	920,929
Public Safety	3,035,346	(202,607)	(257,611)	-	2,575,128
Public Works	1,771,706	(22,659)	(81,895)	-	1,667,152
Culture and Recreation	275,678	2,138	-	-	277,816
Community Development	332,994	-	(122,886)	-	210,108
Non-Departmental	2,078,800	(134,290)	-	-	1,944,510
Debt Service Payments	-	-	-	-	-
Depreciation	-	-	384,188	-	384,188
Transfers Out	-	-	-	-	-
TOTAL EXPENDITURES / EXPENSES	8,372,790	(279,908)	(113,051)	-	7,979,831
NET CHANGE FOR THE YEAR	\$ (921,902)	\$ 252,768	\$ 113,051	\$ -	\$ (556,083)

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, 2017, \$12,029,956 of the Borough's bank balance of \$13,500,531 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		12,029,956
TOTAL		\$ 12,029,956

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2017

Reconciliation to Financial Statements

Uncollateralized Amount Above	\$ 12,029,956
Plus: Insured Amount	1,470,575
Deposits in Transit	118,463
Less: Outstanding Checks	<u>(542,882)</u>
Carry Amount - Bank Balances	13,076,112
Plus: Petty Cash	2,550
Deposits in Investment Pools Considered Cash Equivalents	750,014
Deposits in Money Market Mutual Funds Considered Cash Equivalents	492,359
Less: Certificates in Deposit Considered Investments	<u>(4,934,879)</u>
Total Cash per Financial Statements	<u><u>\$ 9,386,156</u></u>

Restricted Cash

The cash balance includes \$548,009 held for pension benefits, \$327,600 held as utility escrow funds and \$174,161 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, participations or other instruments of any Federal Agency, instrumentality or United States government sponsored enterprise, including those issued or fully guaranteed as the principal and interest by Federal agencies, instrumentalities or United States government sponsored enterprises, if the debt obligations are rated at least "A" or its equivalent by at least two nationally recognized statistical ratings organizations.
5. Repurchase agreements with respect to United States Treasury bills or obligations, participations or other instruments of or guaranteed by the United States or any Federal agency, instrumentality or United States government sponsored enterprise.
6. Negotiable certificates of deposit or other evidences of deposit, with a remaining maturity of three years or less, issued by a nationally or State-chartered bank, a Federal or State savings and loan association or a State-licensed branch of a foreign bank. For obligations with a maturity of one year or less, the debt obligations of the issuing institution or its parent must be rated in the top short-term rating category by at least two nationally recognized statistical ratings organizations. For obligations with a maturity in excess of one year, the senior debt obligations of the issuing institution or its parent must be rated at least "A" or its equivalent by at least two nationally recognized statistical ratings organizations.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2017

7. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances, if the bankers' acceptances do not exceed 180 days maturity and the accepting bank is rated in the top short-term category by at least two nationally recognized statistical ratings organizations.
8. Commercial paper issued by corporations or other business entities organized in accordance with Federal or State law, with a maturity not to exceed 270 days, if the paper is rated in the top short-term category by at least two nationally recognized statistical ratings organizations.
9. Shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933 and, if all of the following conditions are met:
 - The investments of the company are the authorized investments listed above.
 - The investment company is managed in accordance with 17 CFR 270.2a-7 (related to money market funds).
 - The investment company is rated in the highest category by a nationally recognized rating agency.
10. Savings or demand deposits placed in accordance with the following conditions:
 - The money is initially deposited and invested through a federally insured institution having a place of business in this Commonwealth, which is selected by the public corporation or municipal authority.
 - The selected institution arranges for the redeposit of the money in savings or demand deposits in one or more financial institutions insured by the Federal Deposit Insurance Corporation, or the account of the public corporation or municipal authority.
 - The full amount of principal and any accrued interest of each such deposit is insured by the Federal Deposit Insurance Corporation.
 - On the same date that the money is redeposited pursuant to above, the selected institution receives an amount of deposits from customers of other financial institutions equal to or greater than the amount of money initially invested through the selected institution by the public corporation or municipal authority.

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

As of December 31, 2017, the Borough had the following investments:

Investments	Maturities	Fair Value
PA Local Government Investment Trust		\$ 750,014
Federal Institutional Government Obligation Fund		492,359
Common Stocks		8,465,903
Corporate Bonds	5 mo. - 9 yrs. 10 mos.	2,384,094
U.S. Government Agency Bonds	3 mos. - 9 yrs. 9 mos.	2,477,836
Certificates of Deposit	1 mos. - 5 yrs. 5 mos.	4,934,879
Mutual Funds		5,552,289
TOTAL		\$ 25,057,374

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2017

Fair Value Reporting

The Borough categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant observable inputs. All investments of the Borough are categorized as Level 1 inputs.

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, 2017, the Borough's significant investments were rated as:

Investments	Standard & Poor's
PLGIT	AAA
Common Stocks	Not Available
Corporate Bonds	Not Available
Federal Agricultural Mortgage Corp. Bonds	AAA
Federal Home Loan Bank Bonds	AAA
Federal Home Loan Mortgage Corp. Bonds	AAA
FNMA Bonds	AAA
Federal Farm Credit Bank Bonds	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 TD Bank and Penn Community Bank. These certificates of deposit represent 8.62% and 8.22%, 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 6.17% and 6.31%, respectively of the Trust and Agency Funds investments. The Proprietary Funds' investments are in certificates of deposit at TD Bank and Penn Community Bank. These certificates of deposit represent 51.20% and 48.80%, 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, 2017

Foreign Currency Risk

As of December 31, 2017, the Borough had the following investments that were subject to foreign currency risk:

Name	Amount
Corporate Bonds:	
Barclays Bank PLC 2.35% due 10/18/21	\$ 48,485
GlaxoSmithKline 5.650% due 5/15/18	76,032
Astrazeneca PLC 1.95% due 9/18/19	64,633
Mutual Funds:	
American Funds Europacific Growth Fund	1,239,252
Vanguard Total International ETF	1,267,942
Direct Equity Holdings:	
Suncor Energy Inc.	86,842
TE Connectivity Ltd.	217,832

Reconciliation to Financial Statements

Total Investments Above	\$ 25,057,374
Less: Deposits in Investment Pool Consideration Cash Equivalents	(750,014)
Deposits in Money Market Mutual Funds Considered Cash Equivalents	(492,359)
TOTAL	\$ 23,815,001

Restricted Investments

The investments include \$19,595,123 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	Liquid Fuels Fund	Electric Fund	Water Fund	Sewer Fund	Pool Fund	Park Fund	Fiduciary Funds	Total
Receivables										
Taxes	\$ 25,184	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,184
Accounts	98,651	-	-	2,060,767	313,105	242,159	-	62,185	3,130	2,779,997
Intergovernmental	-	-	-	-	-	-	-	-	-	-
Other	13,606	-	-	-	-	-	-	-	-	13,606
Gross Receivables	137,441	-	-	2,060,767	313,105	242,159	-	62,185	3,130	2,818,787
Less: Allowance for Uncollectibles	-	-	-	(101,623)	(15,655)	(12,695)	-	-	-	(129,973)
Net Receivables	\$ 137,441	\$ -	\$ -	\$ 1,959,144	\$ 297,450	\$ 229,464	\$ -	\$ 62,185	\$ 3,130	\$ 2,688,814

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2017

Note 7 – Capital Assets

Capital asset balances and activity for the year ending December 31, 2017, were:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets not being depreciated:				
Land	\$ 1,851,952	\$ -	\$ -	\$ 1,851,952
Construction-in-Progress	-	-	-	-
Infrastructure	16,045,900	-	-	16,045,900
Total Capital Assets not being depreciated	17,897,852	-	-	17,897,852
Capital Assets being depreciated:				
Buildings	2,573,820	-	-	2,573,820
Improvements Other than Buildings	1,412,367	17,885	-	1,430,252
Machinery and Equipment	3,996,221	479,652	(152,927)	4,322,946
Total Capital Assets Being depreciated	7,982,408	497,537	(152,927)	8,327,018
Less: Accumulated Depreciation for:				
Buildings	(1,151,967)	(44,878)	-	(1,196,845)
Improvements Other than Buildings	(748,337)	(45,389)	-	(793,726)
Machinery and Equipment	(1,647,978)	(293,921)	105,163	(1,836,736)
Total Accumulated Depreciation	(3,548,282)	(384,188)	105,163	(3,827,307)
Total Capital Assets Being depreciated Net of Accumulated Depreciation	4,434,126	113,349	(47,764)	4,499,711
Governmental Activities Capital Assets Net of Accumulated Depreciation	\$ 22,331,978	\$ 113,349	\$ (47,764)	\$ 22,397,563
Business-Type Activities				
Capital Assets not being depreciated:				
Construction-In-Progress	4,896,611	2,842,559	(7,739,170)	-
Capital Assets being depreciated:				
Buildings	26,532,150	6,450	-	26,538,600
Improvements Other than Buildings	3,329,613	-	-	3,329,613
Machinery and Equipment	3,249,975	282,745	(116,981)	3,415,739
Sewer Lines Infrastructure	6,284,045	7,739,170	-	14,023,215
Water Lines Infrastructure	11,075,945	-	-	11,075,945
Less: Accumulated Depreciation	(21,034,656)	(1,011,748)	105,285	(21,941,119)
Business-Type Activities Capital Assets Net of Accumulated Depreciation	\$ 34,333,683	\$ 9,859,176	\$ (7,750,866)	\$ 36,441,993

The depreciation was charged to the governmental activities as follows:

Depreciation – Unallocated **\$ 384,188**

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

Depreciation – Unallocated **\$1,011,748**

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2017

Note 8 – Short-Term Debt

Interfund Receivables and Payables

The following Interfund receivable and payables were in existence as of December 31, 2017.

	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	\$ 294,988	\$ 294,988

Interfund Transfers

The Borough also made the following interfund transfers during the year ended December 31, 2017.

	Transfer In	Transfer Out
General Fund	\$ 4,358,200	\$ -
Enterprise (Electric) Fund	-	4,250,000
Enterprise (Water) Fund	-	157,200
Enterprise (Sewer) Fund	-	201,000
Enterprise (Pool) Fund	150,000	-
Enterprise (Park) Fund	100,000	-
TOTAL	\$ 4,608,200	\$ 4,608,200

Note 9 – Long-Term Debt Commitment

Long-Term Liability balances and activity for the year ended December 31, 2017, were:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Yr
Governmental Activities:					
Compensated Absences	\$ 752,477	\$ 17,258	\$ -	\$ 769,735	\$ 128,289
Total Governmental Activities					
Long-Term Liabilities	\$ 752,477	\$ 17,258	\$ -	\$ 769,735	\$ 128,289
Business-Type Activities					
General Obligation Bonds Payable	\$ 6,415,000	\$ -	\$ 515,000	\$ 5,900,000	\$ 530,000
Compensated Absences	568,617	-	23,716	544,901	-
Total Business-Type Activities					
Long-Term Liabilities	\$ 6,983,617	\$ -	\$ 538,716	\$ 6,444,901	\$ 530,000

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

Total interest paid during the year:

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2017

Business-Type Activities	Paid
General Obligation Bonds Payable	\$ 135,945
Total Interest paid by Business-Type Activities	\$ 135,945

The total interest cost incurred and charged to expense in 2017 was \$135,945.

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 outstanding debt service requirements at December 31, 2017, are:

Fiscal Year	Principal	Interest
2018	\$ 330,000	\$ 78,175
2019	335,000	71,525
2020	340,000	64,775
2021	350,000	57,875
2022	355,000	50,825
2023-2027	1,900,000	129,135
2028	65,000	878
Total Outstanding	\$ 3,675,000	\$ 453,188

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, 2017, are:

Fiscal Year	Principal	Interest
2018	\$ 200,000	\$ 47,320
2019	205,000	43,270
2020	205,000	39,170
2021	210,000	35,020
2022	215,000	30,770
2023-2027	1,150,000	77,970
2028	40,000	540
Total Outstanding	\$ 2,225,000	\$ 274,060

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2017

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>FISCAL YEAR</u>	<u>SERIES 2012</u>	<u>SERIES 2012</u>	<u>TOTAL</u>
	<u>WATER FUND</u>	<u>SEWER FUND</u>	<u>PAYMENTS</u>
2018	\$ 330,000	\$ 200,000	\$ 530,000
2019	335,000	205,000	540,000
2020	340,000	205,000	545,000
2021	350,000	210,000	560,000
2022	355,000	215,000	570,000
2023-2027	1,900,000	1,150,000	3,050,000
2028	65,000	40,000	105,000
TOTAL	3,675,000	2,225,000	5,900,000
LESS PAYABLE WITHIN ONE YEAR	<u>330,000</u>	<u>200,000</u>	<u>530,000</u>
LONG-TERM PRINCIPAL DUE AFTER ONE YEAR	<u>\$ 3,345,000</u>	<u>\$ 2,025,000</u>	<u>\$ 5,370,000</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>
2018	\$ 408,175	\$ 247,320	\$ 655,495
2019	406,525	248,270	654,795
2020	404,775	244,170	648,945
2021	407,875	245,020	652,895
2022	405,825	245,770	651,595
2023-2027	2,029,135	1,227,970	3,257,105
2028	65,878	40,540	106,418
TOTAL	<u>\$ 4,128,188</u>	<u>\$ 2,499,060</u>	<u>\$ 6,627,248</u>

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, 2017

Note 10 - Pension Plan Obligations

Non-Uniformed Pension Plan

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.

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 non-uniformed employees of the Borough. The plan provides retirement, termination, disability and death benefits to plan members and their beneficiaries pursuant to the plan document. The plan can be amended by the municipality through its Ordinances and union contracts. The plan is administered by a Chief Administrative Officer appointed by the governing body of the municipality.

Plan Membership:

As of January 1, 2017, the beginning of the plan year and December 31, 2017, the plan year-end, plan membership consisted of the following:

	1/1/2017	12/31/2017
Retirees and Beneficiaries Receiving Benefits (including DROP members)	31	40
Terminated Members entitled to Benefits but not yet receiving them	18	13
Active Plan Members	29	25
TOTAL	78	78

Deferred Retirement Option Program (DROP)

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

Plan Funding

Employees who are members in the plan are required to contribute 2.0% of their salaries to the plan in 2017. This will increase to 2.5% in 2018 and 3.0% in 2019. 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 BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2017

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, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017 and by rolling forward the liabilities from the January 1, 2017 actuarial valuation through 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, 2017 and December 31, 2017 were 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 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%

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2017

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.

Deferred Retirement Option Program (DROP)

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

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 1/1/2017	\$ 9,728,185	\$ 9,164,002	\$ 564,183
Changes during 2017:			
Service Cost	208,628	-	208,628
Interest	727,464	-	727,464
Differences between expected and actual experience	(49,465)	-	(49,465)
Changes in Actuarial Assumptions	(18,853)	-	(18,853)
Employer Contributions	-	359,062	(359,062)
Employee Contributions	-	37,175	(37,175)
Net Investment Income	-	1,602,684	(1,602,684)
Benefit Payments (including contribution refunds)	(436,884)	(436,884)	-
Insurance Premiums	-	-	-
Administration Expenses	-	(43,851)	43,851
Other Changes	-	-	-
Net Changes	<u>430,890</u>	<u>1,518,186</u>	<u>(1,087,296)</u>
Balances at 12/31/2017	<u>\$ 10,159,075</u>	<u>\$ 10,682,188</u>	<u>\$ (523,113)</u>

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2017

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	\$ 11,271,613	\$ 10,159,075	\$ 9,195,967
Plan Fiduciary Net Position	(10,682,188)	(10,682,188)	(10,682,188)
Net Pension Liability	\$ 589,425	\$ (523,113)	\$ (1,486,221)

Components of Pension Expense for Fiscal Year Ended December 31, 2017

Service Cost	\$ 208,628
Interest on the Total Pension Liability	727,464
Differences between Expected and Actual Experience ¹	(158,194)
Changes in Assumptions ¹	(6,709)
Employee Contributions	(37,175)
Projected Earnings on Pension Plan Investments	(684,131)
Difference between Projected and Actual Earnings on Investments ²	(59,669)
Pension Plan Administrative Expense	43,851
Insurance Premiums	-
Other Changes in Net Fiduciary Position	-
Total Pension Expense	\$ 34,065

¹ Each year's gain or loss and/or changes in actuarial assumptions is recognized over a closed period, using the average of the expected remaining service lives off active and inactive employees that are provided pensions through this pension plan. This average is 2.81 years as of January 1, 2017.

² Each year's gain or loss is recognized over a five-year period.

Amortization of Experience (Gain)/Losses

Amortization of Investment (Gain)/Losses				
Year Established	2015	2016	2017	Total
Investment (Gain)/Loss	\$ 655,619	\$ (35,409)	\$ (918,553)	
Years Recognized:				
2015	\$ 131,124	\$ -	\$ -	\$ 131,124
2016	131,124	(7,082)	-	124,042
2017	131,124	(7,082)	(183,711)	(59,669)
2018	131,124	(7,082)	(183,711)	(59,669)
2019	131,123	(7,082)	(183,711)	(59,670)
2020		(7,081)	(183,711)	(190,792)
2021			(183,709)	(183,709)

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2017

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

Expected Return	\$ 684,131
Actual Return	(1,602,684)
(Gain)/Loss on Pension Plan Investments	\$ (918,553)

Amortization of Difference between Actual and Expected Experience

Year Established	2016	2017	Total
Experience (Gain)/Loss	\$ (395,062)	\$ (49,465)	
Amortization Period	2.81	2.81	
Years Recognized:			
2016	\$ (140,591)	\$ -	\$ (140,591)
2017	(140,591)	(17,603)	(158,194)
2018	(113,880)	(17,603)	(131,483)
2019	-	(14,259)	(14,259)

Determination of Difference in Expected and Actual Actuarial Accrued Liability

Actuarial Accrued Liability	\$ 10,159,075
Expected Actuarial Accrued Liability	(10,208,540)
Difference	\$ (49,465)

Amortization of Change in Actuarial Assumptions

Year Established	2017
Change in Actuarial Assumptions	\$ (18,853)
Amortization Period	2.81
Years Recognized:	
2017	\$ (6,709)
2018	(6,709)
2019	(5,435)

Determination of Change in Actuarial Assumptions

Actuarial Accrued Liability, Revised Assumptions	\$ 9,709,332
Actuarial Accrued Liability, Prior Assumptions	(9,728,185)
Difference	\$ (18,853)

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2017

Calculation of Expected Future Service

	Active	Terminated	Retired	Total
Total Expected Future Service	219.13	0.00	0.00	219.13
Plan-Members	29	18	31	78
Average Expected Future Service				<u><u>2.81</u></u>

Pension Expense and Deferred Outflows and Inflows of Resources

For the year ended December 31, 2017, the actuarially determined pension expense is \$34,065. The Borough had deferred outflows and inflows of resources related to the pension plan from the following sources at December 31, 2017:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in Projected and Actual Experience	\$ -	\$ (145,742)
Net Difference in Projected and Actual Earnings on Plan Investments	-	(493,840)
Changes in Actuarial Assumptions	-	(12,144)
Totals	<u><u>\$ -</u></u>	<u><u>\$ (651,726)</u></u>

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

2018	\$ (197,861)
2019	(79,364)
2020	(190,792)
2021	(183,709)

Reconciliation of Pension Expense with Net Pension Liability

Change in Net Pension Liability	\$ (1,087,296)
Change in Deferred (Outflows) of Resources	393,371
Change in Deferred Inflows of Resources	368,928
Employer Contributions	359,062
Total Pension Expense	<u><u>\$ 34,065</u></u>

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2017

Employer Contributions

Contributions Required and Contributions Made:

The actuarially determined employer contribution, (ADEC) to the retirement fund for 2017 was the 2017 Minimum Municipal Obligation of \$359,062. The Borough contributed \$359,062 toward the plan's ADEC for 2017, including General Municipal Pension System State aid allocated to the plan. Employee contributions in 2017 totaled \$37,175.

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 2017 was determined as follows:

Determination of Minimum Municipal Obligation:

Based on Actuarial Valuation as of:	1/1/2015
Normal Cost Percentage	11.4%
Administrative Expense Percentage	1.6%
 Estimated W-2 Payroll for Previous Year	 \$ 1,931,242
Normal Cost	220,162
Administrative Expense	<u>30,900</u>
Annual Cost	251,061
Amortization Payment	<u>146,626</u>
Total Financial Requirement	397,687
Member Contributions Anticipated	(38,625)
Funding Adjustment	<u>-</u>
Minimum Municipal Obligation	<u>\$ 359,062</u>

The funding of the Minimum Municipal Obligation is shown below:

Municipal Contributions:	
State Aid Portion	\$ 152,024
Local Portion	<u>207,038</u>
Total Municipal Contributions	<u>\$ 359,062</u>

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2017

Police Pension Plan

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.

Methods 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 156, as amended. The plan can be amended by the municipality through its Ordinances and union contracts. The plan is administered by a Chief Administrative Officer appointed by the governing body of the municipality.

Plan Membership:

As of January 1, 2017, the beginning of the plan year and December 31, 2017, the plan year end, plan membership consisted of the following:

	<u>1/1/2017</u>	<u>12/31/2017</u>
Retirees and Beneficiaries Receiving Benefits (including DROP members)	12	13
Terminated Members entitled to Benefits but not yet receiving them	2	2
Active Plan Members	<u>18</u>	<u>20</u>
TOTAL	<u>32</u>	<u>35</u>

Deferred Retirement Option Program (DROP)

The plan offers a Deferred Retirement Option Program (DROP) to officers who are eligible to retire. The maximum DROP period is 60 months.

Plan Funding

Officers who are members in the plan are required to contribute 1.0% of their salaries to the plan. This will increase to 1.25% in 2018. Interest is credited to each member's account each year at 5.0%. Administrative costs and investment costs of the plan are financed through an addition to the Actuarially Determined Employer Contribution.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2017

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, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017 and by rolling forward the liabilities from the January 1, 2017 actuarial valuation through 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 December 31, 2017 were 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%

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2017

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

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 1/1/2017	\$ 10,148,917	\$ 7,439,579	\$ 2,709,338
Changes during 2017:			
Service Cost	194,989	-	194,989
Interest	766,907	-	766,907
Differences between expected and actual experience	-	-	-
Changes in Actuarial Assumptions	-	-	-
Employer Contributions	-	563,018	(563,018)
Employee Contributions	-	19,963	(19,963)
Net Investment Income	-	1,315,273	(1,315,273)
Benefit Payments (including contribution refunds)	(235,880)	(235,880)	-
Insurance Premiums	-	-	-
Administration Expenses	-	(36,251)	36,251
Other Changes	(544)	-	(544)
Net Changes	<u>725,472</u>	<u>1,626,123</u>	<u>(900,651)</u>
Balances at 12/31/2017	<u>\$ 10,874,389</u>	<u>\$ 9,065,702</u>	<u>\$ 1,808,687</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	\$ 12,362,937	\$ 10,874,389	\$ 9,648,575
Plan Fiduciary Net Position	<u>(9,065,702)</u>	<u>(9,065,702)</u>	<u>(9,065,702)</u>
Net Pension Liability	<u>\$ 3,297,235</u>	<u>\$ 1,808,687</u>	<u>\$ 582,873</u>

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2017

Components of Pension Expense for Fiscal Year Ended December 31, 2017

Service Cost	\$ 194,989
Interest on the Total Pension Liability	766,907
Differences between Expected and Actual Experience	20,651
Changes in Assumptions	-
Employee Contributions	(19,963)
Projected Earnings on Pension Plan Investments	(569,625)
Difference between Projected and Actual Earnings on Investments	(53,653)
Pension Plan Administrative Expense	36,251
Insurance Premiums	-
Other Changes in Net Fiduciary Position	(544)
Total Pension Expense	\$ 375,013

Amortization of Investments (Gains)/Losses

Year Established	2015	2016	2017	Total
Investment (Gain)/Loss	\$ 502,529	\$ (25,145)	\$ (745,648)	
Years Recognized:				
2015	\$ 100,506	\$ -	\$ -	\$ 100,506
2016	100,506	(5,029)	-	95,477
2017	100,506	(5,029)	(149,130)	(53,653)
2018	100,506	(5,029)	(149,130)	(53,653)
2019	100,505	(5,029)	(149,130)	(53,654)
2020		(5,029)	(149,130)	(154,159)
2021			(149,128)	(149,128)

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

Expected Return	\$ 569,625
Actual Return	(1,315,273)
(Gain)/Loss on Pension Plan Investments	\$ (745,648)

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2017

Amortization of Difference between Actual and Expected Experience

Year Established	2016
Experience (Gain)/Loss	\$ 92,722
Amortization Period	4.49
Years Recognized:	
2016	\$ 20,651
2017	20,651
2018	20,651
2019	20,651
2020	10,118

Pension Expense and Deferred Outflows and Inflows of Resources

For the year ended December 31, 2017, the actuarially determined pension expense is \$375,013. The Borough has deferred outflows and inflows of resources related to the pension plan from the following sources at December 31, 2017:

Deferred Outflows and Inflows of Resources Related to Pension

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in Projected and Actual Experience	\$ 51,420	\$ -
Net Difference in Projected and Actual Earnings on Plan Investments	-	(410,594)
Changes in Actuarial Assumptions	-	-
Totals	\$ 51,420	\$ (410,594)

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

2018	\$ (33,002)
2019	(33,003)
2020	(144,041)
2021	(149,128)

Reconciliation of Pension Expense with Net Pension Liability

Change in Net Pension Liability, Net of Other Changes	\$ (900,651)
Change in Deferred (Outflows) of Resources	322,168
Change in Deferred Inflows of Resources	390,478
Employer Contributions	563,018
Total Pension Expense	\$ 375,013

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2017

Employer Contributions

Contributions Required and Contributions Made:

The actuarially determined employer contribution, (ADEC) to the retirement fund for 2017 was the 2017 Minimum Municipal Obligation of \$563,018. The Borough contributed \$563,018 toward the plan's ADEC for 2017, including General Municipal Pension System State aid allocated to the plan. Employee contributions in 2017 totaled \$19,963.

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 2017 was determined as follows:

Based on Actuarial Valuation as of:	1/1/2015
Normal Cost Percentage	9.6%
Administrative Expense Percentage	1.5%
 Estimated W-2 Payroll for Previous Year	 \$ 1,916,125
Normal Cost	183,948
Administrative Expense	<u>24,910</u>
Annual Cost	208,858
Amortization Payment	<u>373,321</u>
Total Financial Requirement	582,179
Member Contributions Anticipated (1.0% of Payroll)	(19,161)
Funding Adjustment	<u>-</u>
Minimum Municipal Obligation	<u>\$ 563,018</u>

The funding of the Minimum Municipal Obligation is shown below:

Municipal Contributions:	
State Aid Portion	\$ 165,177
Local Portion	<u>397,841</u>
Total Municipal Contributions	<u>\$ 563,018</u>

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.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2017

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.
- 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 2017, the Borough elected to require both employee and employer contributions. In 2017, contributions totaling \$79,490 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, 2017

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 11 – Deferred Inflows of Resources

The Borough received donations to the Main Street park renovation project in the amount of \$70,813. As of December 31, 2017, none of these funds have been expended. In addition, the Borough had a total of \$1,062,320 related to pension liabilities recorded as deferred inflows of resources. The amount related to pension liabilities recorded for deferred inflows of resources for governmental activities was \$719,108 and the amount related to pension liabilities recorded as deferred inflows of resources for business-type activities was \$343,212.

Note 12 – Deferred Outflows of Resources

The Borough had a total of \$51,420 related to pension liabilities recorded as deferred outflows of resources. The amount related to pension liabilities recorded for deferred outflows of resources recorded for governmental activities was \$51,420 and the amount related to pension liabilities recorded as deferred outflows for business-type activities was \$0.

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	\$ 718,080
TOTAL	\$ 718,080

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2017

Restricted Fund Balances

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

State Liquid Fuels Fund	\$	<u>54,660</u>
TOTAL	\$	<u>54,660</u>

Note 16 – Subsequent Events

The subsequent events have been evaluated through July 7, 2018, 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, 2017, which collectively comprise the Borough of Quakertown's basic financial statements, and have issued our report thereon dated July 27, 2018. 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 July 7, 2018.

Purposes of this Report

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

Respectfully submitted,

Hutchinson, Gillahan & Freeh, P.C.

July 27, 2018



REQUIRED SUPPLEMENTAL INFORMATION

THE BOROUGH OF QUAKERTOWN
Required Supplementary Information
December 31, 2017

Schedule of Changes in the Net Pension Liability and Related Ratios
Police Pension Plan

	<u>2017</u>	<u>2016</u>	<u>2015</u>
TOTAL PENSION LIABILITY			
Service Cost	\$ 194,989	\$ 115,844	\$ 163,083
Interest	766,907	709,275	663,552
Differences between Expected and Actual Expense	(544)	142,182	-
Benefits payments, including refunds of member contributions	(235,880)	(220,156)	(218,288)
NET CHANGE IN TOTAL PENSION LIABILITY	<u>725,472</u>	<u>747,145</u>	<u>608,347</u>
TOTAL PENSION LIABILITY, BEGINNING	<u>10,148,917</u>	<u>9,401,772</u>	<u>8,793,425</u>
TOTAL PENSION LIABILITY, ENDING	<u>\$ 10,874,389</u>	<u>\$ 10,148,917</u>	<u>\$ 9,401,772</u>
PLAN FIDUCIARY NET POSITION			
Contributions - Employer	563,018	545,802	536,145
Contributions - Member	19,963	18,602	18,461
Net Investment Income	1,315,273	531,417	(18,346)
Benefit Payments, including Refunds of Member Contributions	(235,880)	(220,156)	(218,288)
Administrative Expense	(36,251)	(28,518)	(26,320)
NET CHANGE IN PLAN FIDUCIARY NET POSITION	<u>1,626,123</u>	<u>847,147</u>	<u>291,652</u>
PLAN NET POSITION, BEGINNING	<u>7,439,579</u>	<u>6,592,432</u>	<u>6,300,780</u>
PLAN NET POSITION, ENDING	<u>\$ 9,065,702</u>	<u>\$ 7,439,579</u>	<u>\$ 6,592,432</u>
Borough's Net Pension Liability (Asset)	<u>\$ 1,808,687</u>	<u>\$ 2,709,338</u>	<u>\$ 2,809,340</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	83.37%	73.30%	70.12%
Covered Employee Payroll	<u>\$ 1,926,645</u>	<u>\$ 1,886,283</u>	<u>\$ 1,821,078</u>
Borough's Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll	<u>93.88%</u>	<u>143.63%</u>	<u>154.27%</u>

THE BOROUGH OF QUAKERTOWN
Required Supplementary Information
December 31, 2017

Schedule of Changes in the Net Pension Liability and Related Ratios
Non-Uniform Pension Plan

	<u>2017</u>	<u>2016</u>	<u>2015</u>
TOTAL PENSION LIABILITY			
Service Cost	\$ 208,628	\$ 193,770	\$ 215,614
Interest	727,464	719,150	681,521
Differences between Expected and Actual Expense	(68,318)	(395,062)	-
Benefits payments, including refunds of member contributions	(436,884)	(369,127)	(378,021)
NET CHANGE IN TOTAL PENSION LIABILITY	<u>430,890</u>	<u>148,731</u>	<u>519,114</u>
TOTAL PENSION LIABILITY, BEGINNING	<u>9,728,185</u>	<u>9,579,454</u>	<u>9,060,340</u>
TOTAL PENSION LIABILITY, ENDING	<u>\$ 10,159,075</u>	<u>\$ 9,728,185</u>	<u>\$ 9,579,454</u>
PLAN FIDUCIARY NET POSITION			
Contributions - Employer	359,062	398,790	401,064
Contributions - Member	37,175	28,924	19,881
Net Investment Income	1,602,684	671,414	(19,358)
Benefit Payments, including Refunds of Member Contributions	(436,884)	(369,127)	(378,021)
Administrative Expense	(43,851)	(33,549)	(36,070)
NET CHANGE IN PLAN FIDUCIARY NET POSITION	<u>1,518,186</u>	<u>696,452</u>	<u>(12,504)</u>
PLAN NET POSITION, BEGINNING	<u>9,164,002</u>	<u>8,467,550</u>	<u>8,480,054</u>
PLAN NET POSITION, ENDING	<u>\$ 10,682,188</u>	<u>\$ 9,164,002</u>	<u>\$ 8,467,550</u>
Borough's Net Pension Liability (Asset)	<u>\$ (523,113)</u>	<u>\$ 564,183</u>	<u>\$ 1,111,904</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	105.15%	94.20%	88.39%
Covered Employee Payroll	<u>\$ 1,720,472</u>	<u>\$ 1,934,886</u>	<u>\$ 1,972,003</u>
Borough's Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll	<u>(30.41%)</u>	<u>29.16%</u>	<u>56.38%</u>

THE BOROUGH OF QUAKERTOWN
Modified Approach to Reporting Infrastructure Assets
Required Supplemental Information
December 31, 2017

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%)
2017	82%
2016	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, 2017

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 2017	Year 2016	Year 2015	Year 2014	Year 2013	Year 2012	Year 2011	Year 2010
Estimate	\$ 1,937,325	\$ 2,303,675	\$ 1,218,666	\$ 919,057	\$ 1,142,093	\$ 744,528	\$ 913,674	\$ 1,064,558
Actual	629,840	-	-	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 Statement of Net Position
All Pension Trust Funds
For the Year Ended December 31, 2017

	POLICE PENSION TRUST FUND	NON- UNIFORMED PENSION TRUST FUND	DEFERRED COMPENSATION PLAN FUND	TOTAL TRUST FUNDS
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 278,430	\$ 269,226	\$ 353	\$ 548,009
Investments	8,747,876	10,364,158	483,089	19,595,123
Accrued Investment Income	39,382	47,900	-	87,282
Due from Other Funds	-	301	-	301
Accounts Receivable	389	641	2,100	3,130
TOTAL ASSETS	<u>\$ 9,066,077</u>	<u>\$ 10,682,226</u>	<u>\$ 485,542</u>	<u>\$ 20,233,845</u>
DEFERRED OUTFLOWS OF RESOURCES	\$ -	\$ -	\$ -	\$ -
<u>LIABILITIES</u>				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Due to Other Funds	301	-	-	301
Due to Police Officers	-	-	-	-
TOTAL LIABILITIES	<u>301</u>	<u>-</u>	<u>-</u>	<u>301</u>
DEFERRED INFLOWS OF RESOURCES	\$ -	\$ -	\$ -	\$ -
<u>NET POSITION</u>				
Restricted for Employee Benefits	9,065,776	10,682,226	485,542	20,233,544
TOTAL NET POSITION	<u>\$ 9,066,077</u>	<u>\$ 10,682,226</u>	<u>\$ 485,542</u>	<u>\$ 20,233,845</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, 2017

	POLICE PENSION TRUST FUND	NON- UNIFORMED PENSION TRUST FUND	DEFERRED COMPENSATION PLAN FUND	TOTAL TRUST FUNDS
ADDITIONS:				
Contributions - Employer	\$ 397,841	\$ 207,038	\$ (5,700)	\$ 599,179
Contributions - Employee	19,662	37,175	12,390	69,227
Rollover Contributions	-	-	-	-
State Aid	165,177	152,024	72,800	390,001
Miscellaneous	-	-	-	-
INVESTMENT EARNINGS:				
Interest and Dividends	364,150	456,131	9,414	829,695
Change in Fair Value of Investments	951,197	1,146,552	46,050	2,143,799
TOTAL ADDITIONS	<u>1,898,027</u>	<u>1,998,920</u>	<u>134,954</u>	<u>4,031,901</u>
DEDUCTIONS:				
Administrative Charges	23,575	29,100	1,231	53,906
Investment Expenses	12,375	14,750	179	27,304
Miscellaneous	-	-	4,667	4,667
Employee Benefits	235,880	436,846	-	672,726
TOTAL DEDUCTIONS	<u>271,830</u>	<u>480,696</u>	<u>6,077</u>	<u>758,603</u>
CHANGES IN NET POSITION	1,626,197	1,518,224	128,877	3,273,298
NET POSITION - BEGINNING OF YEAR	<u>7,439,579</u>	<u>9,164,002</u>	<u>356,665</u>	<u>16,960,246</u>
NET POSITION - END OF YEAR	<u>\$ 9,065,776</u>	<u>\$ 10,682,226</u>	<u>\$ 485,542</u>	<u>\$ 20,233,544</u>

THE BOROUGH OF QUAKERTOWN
Combining Statement of Net Position
All Proprietary Funds
As of December 31, 2017

	MAJOR			NON-MAJOR		TOTAL
	ELECTRIC FUND	WATER FUND	SEWER FUND	POOL FUND	PARK FUND	
ASSETS						
CURRENT ASSETS:						
Cash and Cash Equivalents	\$ 2,994,627	\$ 1,878,241	\$ 1,398,307	\$ 166,163	\$ 81,647	\$ 6,518,985
Investments	1,080,263	-	3,139,615	-	-	4,219,878
Accounts Receivable (Net of Allowance for Doubtful Accounts)	1,959,144	297,450	229,464	-	62,185	2,548,243
Intergovernmental Receivable	-	-	-	-	-	-
Due from Other Funds	-	-	-	-	-	-
TOTAL CURRENT ASSETS	6,034,034	2,175,691	4,767,386	166,163	143,832	13,287,106
NON-CURRENT ASSETS:						
Buildings (Net of Depreciation)	5,388,767	1,985,202	4,665,644	610,142	912,714	13,562,469
Improvements other than Buildings (Net of Depreciation)	2,217	4,684	35,130	692,015	982,251	1,716,297
Machinery and Equipment (Net of Depreciation)	917,727	232,806	660,851	37,385	213,171	2,061,940
Construction In Progress	-	-	-	-	-	-
Sewer Lines Infrastructure (Net of Depreciation)	-	-	11,293,028	-	-	11,293,028
Water Lines Infrastructure (Net of Depreciation)	-	7,808,259	-	-	-	7,808,259
TOTAL NON-CURRENT ASSETS	6,308,711	10,030,951	16,654,653	1,339,542	2,108,136	36,441,993
TOTAL ASSETS	\$ 12,342,745	\$ 12,206,642	\$ 21,422,039	\$ 1,505,705	\$ 2,251,968	\$ 49,729,099
DEFERRED OUTFLOWS OF RESOURCES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
LIABILITIES						
CURRENT LIABILITIES:						
Sales Tax Payable	\$ 9,965	\$ -	\$ -	\$ -	\$ -	\$ 9,965
Accounts Payable	663,124	40,926	85,026	-	467	789,543
Accrued Salaries and Benefits	27,430	10,318	14,896	-	1,099	53,743
Due to Other Funds	-	-	-	-	294,687	294,687
Notes Payable	-	330,000	200,000	-	-	530,000
TOTAL CURRENT LIABILITIES	700,519	381,244	299,922	-	296,253	1,677,938
NON-CURRENT LIABILITIES:						
Compensated Absences	240,016	177,261	127,624	-	-	544,901
Net Pension Liability	(139,740)	(65,629)	(111,948)	-	-	(317,317)
Notes Payable	-	3,345,000	2,025,000	-	-	5,370,000
TOTAL NON-CURRENT LIABILITIES	100,276	3,456,632	2,040,676	-	-	5,597,584
TOTAL LIABILITIES	800,795	3,837,876	2,340,598	-	296,253	7,275,522
DEFERRED INFLOWS OF RESOURCES	\$ 137,383	\$ 80,088	\$ 125,741	\$ -	\$ -	\$ 343,212
NET POSITION						
Invested in Capital Assets, Net of Related Debt	6,308,711	6,355,951	14,429,653	1,339,542	2,108,136	30,541,993
Restricted	-	-	-	-	-	-
Unrestricted Net Position	5,095,856	1,932,727	4,526,047	166,163	(152,421)	11,568,372
TOTAL NET POSITION	\$ 11,404,567	\$ 8,288,678	\$ 18,955,700	\$ 1,505,705	\$ 1,955,715	\$ 42,110,365

THE BOROUGH OF QUAKERTOWN
Combining Statement of Revenues, Expenses and Changes in Net Position
All Proprietary Funds
For the Year Ended December 31, 2017

	MAJOR			NON-MAJOR		TOTAL
	ELECTRIC FUND	WATER FUND	SEWER FUND	POOL FUND	PARK FUND	
OPERATING REVENUES						
Charges for Services	\$ 13,584,511	\$ 1,595,936	\$ 2,970,702	\$ 205,931	\$ 82,560	\$ 18,439,640
Debt Service Fees	-	456,732	-	-	-	456,732
Permits and Fees	138,916	71,486	-	-	-	210,402
Penalties	172,714	26,055	21,783	-	-	220,552
Rental Income	-	44,285	-	-	-	44,285
Other Income	59,382	28,672	8,341	1,245	97	97,737
TOTAL OPERATING REVENUES	<u>13,955,523</u>	<u>2,223,166</u>	<u>3,000,826</u>	<u>207,176</u>	<u>82,657</u>	<u>19,469,348</u>
OPERATING EXPENSES						
Costs of Furnishing Utility	9,339,913	1,155,405	1,622,104	-	-	12,117,422
Costs of Pool Operations	-	-	-	247,011	-	247,011
Cost of Park Operations	-	-	-	-	290,219	290,219
Employee Benefits	331,790	195,617	313,207	9,444	20,271	870,329
Employee Pension	(1,240)	3,751	19,831	-	-	22,342
Insurance	72,741	62,196	95,577	13,234	4,417	248,165
Debt Service	-	84,471	51,474	-	-	135,945
Depreciation	230,208	275,721	362,373	96,481	46,965	1,011,748
TOTAL OPERATING EXPENSES	<u>9,973,412</u>	<u>1,777,161</u>	<u>2,464,566</u>	<u>366,170</u>	<u>361,872</u>	<u>14,943,181</u>
OPERATING INCOME (LOSS)	<u>3,982,111</u>	<u>446,005</u>	<u>536,260</u>	<u>(158,994)</u>	<u>(279,215)</u>	<u>4,526,167</u>
NON-OPERATING REVENUES (EXPENSES)						
Interest Earned	49,703	12,968	53,378	737	453	117,239
Donations	-	-	-	-	21,275	21,275
Insurance Claim Refund	-	-	-	-	31,673	31,673
BCWS Project Reimbursement	-	-	2,838,560	-	-	2,838,560
State Aid - Pension	39,000	34,412	48,177	-	-	121,589
Gain (Loss) on Sale of Fixed Assets	-	-	-	-	-	-
Transfers from Other Funds	-	-	-	150,000	100,000	250,000
Transfers to Other Funds	(4,250,000)	(157,200)	(201,000)	-	-	(4,608,200)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(4,161,297)</u>	<u>(109,820)</u>	<u>2,739,115</u>	<u>150,737</u>	<u>153,401</u>	<u>(1,227,864)</u>
CHANGES IN NET POSITION	<u>(179,186)</u>	<u>336,185</u>	<u>3,275,375</u>	<u>(8,257)</u>	<u>(125,814)</u>	<u>3,298,303</u>
NET POSITION, JANUARY 1, 2017	<u>11,583,753</u>	<u>7,952,493</u>	<u>15,680,325</u>	<u>1,513,962</u>	<u>2,081,529</u>	<u>38,812,062</u>
NET POSITION, DECEMBER 31, 2017	<u>\$ 11,404,567</u>	<u>\$ 8,288,678</u>	<u>\$ 18,955,700</u>	<u>\$ 1,505,705</u>	<u>\$ 1,955,715</u>	<u>\$ 42,110,365</u>

**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, 2017

REVENUES

TAXES:

Real Estate Taxes - Current	\$ 125,518	
Real Estate Taxes - Prior	3,059	
Real Estate Transfer Tax	146,228	
Earned Income Tax	992,788	
Local Services Tax	<u>237,670</u>	\$ 1,505,263

FINES AND FORFEITS:

Motor Vehicle Violations	64,192	
Fines	5,364	
Parking Tickets	<u>3,800</u>	73,356

LICENSES AND PERMITS:

Franchise Fee Cable	178,020	
Permits/Reports	<u>965</u>	178,985

INTERGOVERNMENTAL:

Public Utility Realty Tax	1,636	
In Lieu of Taxes	15,000	
Beverage Licenses	1,800	
Pension State Aid	268,413	
Allotment - Fireman's Relief	54,879	
Local Government Units	8,515	
State Grants	<u>73,305</u>	423,548

CHARGES FOR SERVICES:

General Government	82,351	
Public Safety	343,624	
Parking Meters	3,885	
Culture and Recreation	<u>65,108</u>	494,968

INVESTMENT AND RENTAL EARNINGS:

Interest Income	8,926	
Rentals	<u>8,525</u>	17,451

MISCELLANEOUS:

Contributions and Donations	52,254	
Reimbursements	-	
Insurance Claim Refund	20,932	
Other	<u>51,629</u>	<u>124,815</u>

TOTAL REVENUES **\$ 2,818,386**

THE BOROUGH OF QUAKERTOWN
General Fund (Cont'd)
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2017

EXPENDITURES

GENERAL GOVERNMENT

LEGAL:

Solicitor	\$	24,783
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MAYOR, LEGISLATIVE, BOROUGH MANAGER:

Salary		218,322
Materials and Supplies		4,893
Contracted Services		31,754
Association Dues and Conventions		15,730
Advertising, Printing and Postage		7,775
Gasoline		3,606
Telephone		13,433
Small Tools and Equipment		6,712

FINANCE AND ACCOUNTING:

Salary		219,104
Auditing		26,175
Office Supplies		214
Bonding		1,217
Association Dues and Conventions		3,448
Contracted Services		26,821

TAX COLLECTION:

Salary		6,000
Contracted Services		1,057

IT-NETWORKING SERVICES-DATA PROCESSING:

Computer Hardware and Software		13,645
Computer Parts and Supplies		1,885
Internet Service		2,378
Contracted IT Services		43,989
Web Design and Maintenance		3,609

ENGINEERING:

Engineering Fees		51,715
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BUILDINGS AND PLANT:

Building Supplies		1,590
Cleaning Supplies		17,589
Repairs and Maintenance		85,346
Capital Purchase		14,719
Contracted Services		2,816

TOTAL GENERAL GOVERNMENT	\$	850,325
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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, 2017

PUBLIC SAFETY

POLICE:

Salaries and Benefits	\$ 2,113,926
Office Supplies	5,005
Postage	184
Fuel and Oil	26,836
Uniforms	31,113
K9	3,580
Ammunition	16,783
National Night Out	2,014
Shop with a Cop	32,143
Vehicle Maintenance and Repair	27,263
Small Tools and Equipment	47,948
Telephone	18,425
Towing	10,765
Advertising and Printing	2,260
Asset Forfeiture	9,915
Police Auxilliary	3,305
Association Dues and Conventions	52,762
Contracted Services	24,713
Capital Purchases	220,213

FIRE:

Contribution to Fire Co.	65,000
Fireman's Relief	54,879
Fire Marshal	58,804
Insurance	35,527
Gasoline	13,425
Fire Truck Repairs	883

INSPECTIONS:

Zoning and Administration	86,439
Salary of Clerical	44,167
Office Supplies	1,829
Fuel and Oil	1,165
Uniforms	584
Small Tools and Equipment	3,045
Advertising and Printing	3,903
Vehicle Purchase	10,846
Association Dues and Conventions	3,711
Contracted Services	1,986

TOTAL PUBLIC SAFETY	\$ 3,035,346
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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, 2017

PUBLIC WORKS

STREET MAINTENANCE AND LIGHTING:

Salaries - Highways and Streets	\$ 774,848
Office Supplies	726
Fuel and Oil	44,082
Uniforms	4,478
Street and Traffic Signs	36,256
Road Materials	36,464
Vehicle Maintenance and Repairs	64,767
Small Tools and Equipment	14,990
Telephone	7,845
Association Dues and Conventions	6,959
CDL Drug and Alcohol Testing	935
Equipment	82,265
Contracted Services	14,407
Snow Removal Materials	<u>52,845</u>

TOTAL PUBLIC WORKS \$ 1,141,867

CULTURE AND RECREATION

PARKS AND POOL:

Salary	82,809
Supplies	8,743
Discount Tickets	15,771
QSAA	1,408
Vehicle Maintenance and Repairs	1,053
Small Tools and Equipment	10,752
Kids Program	4,810
Events	7,195
Contracted Services	126,880
Field Improvements	610
Advertising and Printing	1,520
Capital Maintenance	<u>14,127</u>

TOTAL CULTURE AND RECREATION 275,678

COMMUNITY DEVELOPMENT

Quakertown Alive	70,000
UBCC	10,000
Senior Center	7,700
Triangle Park	1,135
Dues	2,500
Small Tools and Equipment	65
Contracted Services	94,485
Capital Purchase	<u>109,970</u>

TOTAL COMMUNITY DEVELOPMENT 295,855

THE BOROUGH OF QUAKERTOWN
General Fund (Cont'd)
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2017

EMPLOYER BENEFITS AND WITHHOLDING ITEMS		
Police Pension	\$	563,018
Non-Uniformed Pension		144,756
Employee Benefits		<u>1,252,246</u>
TOTAL EMPLOYER BENEFITS AND WITHHOLDING ITEMS	\$	1,960,020
INSURANCE		
Insurance, Casualty, and Surety		112,822
UNCLASSIFIED EXPENDITURES		<u>5,958</u>
TOTAL EXPENDITURES		<u>7,677,871</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES		(4,859,485)
OTHER FINANCING SOURCES AND OTHER FINANCING USES		
Sale of Fixed Assets		22,769
Refund of Prior Year Expenditures		7,648
Interfund Transfers In		4,358,200
Interfund Transfers Out		<u>-</u>
		<u>4,388,617</u>
NET CHANGE IN FUND BALANCES		(470,868)
FUND BALANCE - JANUARY 1, 2017		<u>1,504,435</u>
FUND BALANCE - DECEMBER 31, 2017	\$	<u>1,033,567</u>

THE BOROUGH OF QUAKERTOWN
Electric Fund
Statement of Revenues, Expenditures, and Changes in Net Position
For the Year Ended December 31, 2017

	BUDGET	ACTUAL
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 14,900,000	\$ 13,584,511
Permits and Fees	79,025	138,916
Penalties	176,000	172,714
Other Income	42,800	59,382
TOTAL OPERATING REVENUES	15,197,825	13,955,523
<u>OPERATING EXPENSES</u>		
Costs of Furnishing Utility	10,560,360	9,339,913
Employee Benefits	335,950	331,790
Employee Pension	84,525	(1,240)
Insurance	90,800	72,741
Depreciation	-	230,208
Contingency	764,000	-
TOTAL OPERATING EXPENSES	11,835,635	9,973,412
OPERATING INCOME	3,362,190	3,982,111
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest Earned	16,000	49,703
Gain (Loss) on Sale of Fixed Assets	26,000	-
State Aid - Pension	39,400	39,000
State Grant	-	-
Transfers to Other Funds	(5,000,000)	(4,250,000)
TOTAL NON-OPERATING (EXPENSES)	(4,918,600)	(4,161,297)
CHANGES IN NET POSITION	(1,556,410)	(179,186)
NET POSITION, JANUARY 1, 2017	1,556,410	11,583,753
NET POSITION, DECEMBER 31, 2017	\$ -	\$ 11,404,567

THE BOROUGH OF QUAKERTOWN
Water Fund
Statement of Revenues, Expenditures, and Changes in Net Position
For the Year Ended December 31, 2017

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 1,550,000	\$ 1,595,936
Penalties	25,000	26,055
Debt Service Fee	456,000	456,732
Other Fees	137,400	71,486
Rental Income	40,600	44,285
Other Income	4,000	28,672
TOTAL OPERATING REVENUES	<u>2,213,000</u>	<u>2,223,166</u>
<u>OPERATING EXPENSES</u>		
Costs of Furnishing Utility	1,507,660	1,155,405
Employee Benefits	192,532	195,617
Employee Pension	46,000	3,751
Insurance	85,150	62,196
Debt Service	404,675	84,471
Depreciation	-	275,721
Contingency	112,300	-
TOTAL OPERATING EXPENSES	<u>2,348,317</u>	<u>1,777,161</u>
OPERATING INCOME (LOSS)	<u>(135,317)</u>	<u>446,005</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest Earned	4,000	12,968
State Aid - Pension	28,200	34,412
Note Proceeds	-	-
Gain (Loss) on Sale of Fixed Assets	1,000	-
Transfers from Other Funds	-	-
Transfers to Other Funds	(157,200)	(157,200)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(124,000)</u>	<u>(109,820)</u>
CHANGES IN NET POSITION	(259,317)	336,185
NET POSITION, JANUARY 1, 2017	<u>259,317</u>	<u>7,952,493</u>
NET POSITION, DECEMBER 31, 2017	<u>\$ -</u>	<u>\$ 8,288,678</u>

THE BOROUGH OF QUAKERTOWN
Sewer Fund
Statement of Revenues, Expenditures, and Changes in Net Position
For the Year Ended December 31, 2017

	BUDGET	ACTUAL
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 2,800,200	\$ 2,970,702
Penalties	22,000	21,783
Other Income	4,500	8,341
TOTAL OPERATING REVENUES	2,826,700	3,000,826
<u>OPERATING EXPENSES</u>		
Costs of Furnishing Utility	4,623,250	1,622,104
Employee Benefits	364,862	313,207
Employee Pension	89,600	19,831
Insurance	111,550	95,577
Debt Service	246,270	51,474
Depreciation	-	362,373
Contingency	143,600	-
TOTAL OPERATING EXPENSES	5,579,132	2,464,566
OPERATING INCOME	(2,752,432)	536,260
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest Earned	3,000	53,378
Gain (Loss) on Sale of Fixed Assets	5,000	-
State Aid - Pension	37,500	48,177
BCWS Project Reimbursement	2,650,000	2,838,560
Transfers to Other Funds	(201,000)	(201,000)
TOTAL NON-OPERATING (EXPENSES)	2,494,500	2,739,115
CHANGES IN NET POSITION	(257,932)	3,275,375
NET POSITION, JANUARY 1, 2017	257,932	15,680,325
NET POSITION, DECEMBER 31, 2017	\$ -	\$ 18,955,700

THE BOROUGH OF QUAKERTOWN
Pool Fund
Statement of Revenues, Expenditures, and Changes in Net Position
For the Year Ended December 31, 2017

	BUDGET	ACTUAL
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 280,200	\$ 205,931
Other Income	600	1,245
TOTAL OPERATING REVENUES	280,800	207,176
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<u>OPERATING EXPENSES</u>		
Costs of Pool Operations	303,900	247,011
Employee Benefits	10,400	9,444
Insurance	15,750	13,234
Debt Service	-	-
Depreciation	-	96,481
Contingency	14,000	-
TOTAL OPERATING EXPENSES	344,050	366,170
OPERATING (LOSS)	(63,250)	(158,994)
<u>NON-OPERATING REVENUES</u>		
Interest Earned	700	737
Transfers from Other Funds	-	150,000
TOTAL NON-OPERATING REVENUES	700	150,737
CHANGES IN NET POSITION	(62,550)	(8,257)
NET POSITION, JANUARY 1, 2017	62,550	1,513,962
NET POSITION, DECEMBER 31, 2017	\$ -	\$ 1,505,705

THE BOROUGH OF QUAKERTOWN
Park Fund
Statement of Revenues, Expenditures, and Changes in Net Position
For the Year Ended December 31, 2017

	BUDGET	ACTUAL
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 321,000	\$ 82,560
Other Income	-	97
TOTAL OPERATING REVENUES	321,000	82,657
	-----	-----
<u>OPERATING EXPENSES</u>		
Costs of Park Operations	336,740	290,219
Employee Benefits	22,110	20,271
Insurance	1,450	4,417
Depreciation	-	46,965
Contingency	-	-
TOTAL OPERATING EXPENSES	360,300	361,872
OPERATING (LOSS)	(39,300)	(279,215)
<u>NON-OPERATING REVENUES</u>		
Interest Earned	500	453
Donations	1,264,900	21,275
Insurance Claim Refund	-	31,673
Transfer from Other Funds	-	100,000
TOTAL NON-OPERATING REVENUES	1,265,400	153,401
CHANGES IN NET POSITION	1,226,100	(125,814)
NET POSITION, JANUARY 1, 2017	(1,226,100)	2,081,529
NET POSITION, DECEMBER 31, 2017	\$ -	\$ 1,955,715

**The Borough of Quakertown
Liquid Fuels Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2017**

FUND BALANCE - JANUARY 1, 2017	\$	445,940
<u>REVENUES AND OTHER FINANCING SOURCES</u>		
INTERGOVERNMENTAL:		
Liquid Fuels Tax	\$	228,224
Highway/Turnback Income		5,480
INVESTMENT EARNINGS:		
Interest Earnings		4,855
		238,559
TOTAL FUNDS AVAILABLE		684,499
<u>EXPENDITURES AND OTHER FINANCING USES</u>		
PUBLIC WORKS:		
Highway Construction	\$	629,839
OTHER FINANCING USES:		
Transfer To Other Funds		-
		629,839
FUND BALANCE - DECEMBER 31, 2017	\$	<u>54,660</u>

**Capital Projects Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2017**

FUND BALANCE - JANUARY 1, 2017	\$	777,834
<u>REVENUES AND OTHER FINANCING SOURCES</u>		
Interest Earnings	\$	5,326
OTHER FINANCING SOURCES:		
Sale of Fixed Assets		-
		5,326
TOTAL FUNDS AVAILABLE		783,160
<u>EXPENDITURES AND OTHER FINANCING USES</u>		
GENERAL GOVERNMENT:		
Capital Purchases		8,900
Non-Capital Purchases		19,041
COMMUNITY DEVELOPMENT:		
Community Expenditures - Capital		17,886
Community Expenditures - Non-Capital		19,253
OTHER FINANCING USES:		
Transfer To Other Funds		-
		65,080
FUND BALANCE - DECEMBER 31, 2017	\$	<u>718,080</u>

THE BOROUGH OF QUAKERTOWN
Escrow Fund
Statement of Additions Received and Deductions Paid
For the Year Ended December 31, 2017

ASSETS

Escrow Checking \$ 327,600

TOTAL ASSETS **\$ 327,600**

LIABILITIES

Due to Escrow Holders \$ 327,600

TOTAL LIABILITIES **\$ 327,600**

THE BOROUGH OF QUAKERTOWN
Police Health Reimbursement Arrangement Fund
Statement of Additions Received and Deductions Paid
For the Year Ended December 31, 2017

ASSETS		
Cash	\$	174,161
		<u>174,161</u>
TOTAL ASSETS		\$ 174,161
LIABILITIES		
Due to Police Officers	\$	158,129
Advance Deposits		<u>16,032</u>
TOTAL LIABILITIES		\$ 174,161

Defined Compensation Plan Fund
Statement of Additions Received and Deductions Paid
For the Year Ended December 31, 2017

NET POSITION - BEGINNING OF YEAR		\$	356,665
ADDITIONS:			
Contributions - Employer	\$	(5,700)	
Contributions - Employee		12,390	
State Aid		72,800	
INVESTMENT EARNINGS:			
Interest and Dividends		9,414	
Change in Fair Value of Investments		<u>46,050</u>	
TOTAL ADDITIONS		134,954	

DEDUCTIONS:			
Administrative Charges		1,231	
Investment Expenses		179	
Miscellaneous		<u>4,667</u>	
TOTAL DEDUCTIONS		<u>6,077</u>	
CHANGE IN NET POSITION			<u>128,877</u>
NET POSITION - END OF YEAR			\$ 485,542

BOROUGH OF QUAKERTOWN
Police Pension Trust Fund
Statement of Additions and Deductions
For the Year Ended December 31, 2017

NET POSITION - BEGINNING OF YEAR		\$	7,439,579
ADDITIONS:			
Contributions - Employer	\$	397,841	
Contributions - Employee		19,662	
State Aid		165,177	
INVESTMENT EARNINGS:			
Interest and Dividends		364,150	
Change in Fair Value of Investments		951,197	
TOTAL ADDITIONS		<u>1,898,027</u>	
DEDUCTIONS:			
Administrative Charges		23,575	
Investment Expenses		12,375	
Employee Benefits		235,880	
TOTAL DEDUCTIONS		<u>271,830</u>	
CHANGE IN NET POSITION			<u>1,626,197</u>
NET POSITION - END OF YEAR		\$	<u>9,065,776</u>

Non-Uniformed Pension Trust Fund
Statement of Additions and Deductions
For the Year Ended December 31, 2017

NET POSITION - BEGINNING OF YEAR		\$	9,164,002
ADDITIONS:			
Contributions - Employer		207,038	
Contributions - Employee		37,175	
State Aid		152,024	
INVESTMENT EARNINGS:			
Interest and Dividends		456,131	
Change in Fair Value of Investments		1,146,552	
TOTAL ADDITIONS		<u>1,998,920</u>	
DEDUCTIONS:			
Administrative Charges		29,100	
Investment Expenses		14,750	
Employee Benefits		436,846	
TOTAL DEDUCTIONS		<u>480,696</u>	
CHANGE IN NET POSITION			<u>1,518,224</u>
NET POSITION - END OF YEAR		\$	<u>10,682,226</u>