

**REPORT ON
THE BOROUGH OF QUAKERTOWN
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009**

THE BOROUGH OF QUAKERTOWN
Financial Statements - Modified Cash Basis
For the Year Ended December 31, 2009

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Financial Statements - Modified Cash Basis
For the Year Ended December 31, 2009

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INTRODUCTORY SECTION



HUTCHINSON, GILLAHAN & FREEH, P.C.
ACCOUNTANTS, AUDITORS & CONSULTANTS

August 6, 2010

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

In planning and performing our audit of 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 as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Borough of Quakertown's internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the Borough of Quakertown's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Recommendations

In addition, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated August 6, 2010, on the financial statements of The Borough of Quakertown. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies.

The following recommendations are presented for your consideration:

Utilities Department Record Management

During our audit it was noted that, in the past, the utilities department maintained certain spreadsheets that showed the total consumption and billing adjustments for each month. These records provide a good tool to test the revenue for each of the utility funds. It was discovered during our audit, that the preparation of these spreadsheets was not up to date and contained errors. It is recommended that procedures be implemented to ensure the timely preparation and accuracy of these spreadsheets. In addition, these spreadsheets must be reconciled to what is recorded in the general ledger on at least a monthly basis.

Borough Council

Payroll

During our testing and reconciliation of the payroll accounts it was noted that certain payroll transactions were not properly recorded. It is recommended that management properly record and reconcile the payroll after each pay period to ensure that the correct amounts are recorded in the various expenditure and liability accounts.

Revenue and Supporting Documentation

During our audit, we discovered that some cash receipts lacked sufficient supporting documentation (excluding utility receipts). Improper deposit documentation could result in the improper recording and classification of Borough revenues. We recommend that **all** cash receipts be documented properly with a copy of the check received and invoice backup attached to the deposit slip in order to prevent any accounting irregularities.

Pool Fund

During our testing, it was discovered, that the revenue records for the Pool Fund were inadequate. All swimming pool ticket sales must be documented and summarized in order to support receipt records recorded in the general ledger. Each sale should be categorized by child, student, adult, senior, family, etc. A spreadsheet should then be created and that spreadsheet should be reconciled to the general ledger on a periodic basis in order to ensure proper revenue recognition.

This communication is intended solely for the information and use of management, those charged with governance and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Craig W. Gillahan II CPA

August 6, 2010

FINANCIAL SECTION



HUTCHINSON, GILLAHAN & FREEH, P.C.
ACCOUNTANTS, AUDITORS & CONSULTANTS

August 6, 2010

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, 2009, which collectively comprise the Borough's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Borough's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 2 (b), the Borough of Quakertown prepares its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements, referred to above, present fairly, in all material respects, the respective financial position - modified cash basis 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, 2009, and the respective changes in financial position and cash flows - modified cash basis, where applicable, thereof for the year then ended in conformity with the basis of accounting described in the notes to the financial statements.

In accordance with Government Auditing Standards we have also issued our report dated August 6, 2010, 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 and should be considered in assessing the results of our audit.

BOROUGH OF QUAKERTOWN

Management's Discussion and Analysis, on pages 5 to 12 and the schedule of funding progress on page 43, are not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough of Quakertown's basic financial statements. The accompanying combining and individual fund financial statements and schedules, listed in the table of contents, are presented for the purpose of additional analysis and are not a required part of the financial statements of the Borough of Quakertown. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Respectfully submitted,

Craig W. Gillahan^{CPA} CPA

August 6, 2010

BOROUGH OF QUAKERTOWN
Quakertown, Pennsylvania

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
For the Year Ended December 31, 2009

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, 2009. 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 new 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, decreased by \$31,276 including special and extraordinary items. The net assets decreased in the governmental activities and funds by \$1,492,890 and increased in the business-type activities and funds by \$1,461,614.

During the year the Borough paid principal of \$1,814,444 resulting in ending outstanding debt as of December 31, 2009, of \$11,466,369.

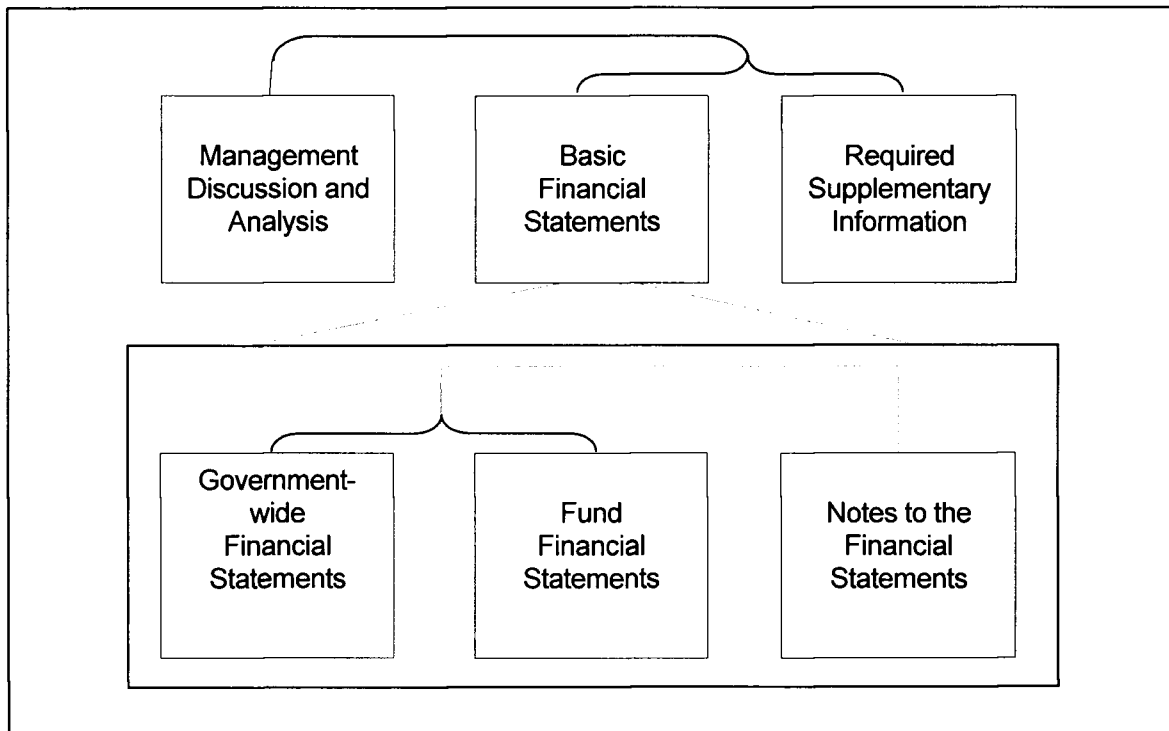
THE BOROUGH OF QUAKERTOWN
Management's Discussion and Analysis (MD&A)

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 and Pool 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 fiduciary funds)	The activities of the Borough that are not proprietary or fiduciary	Activities the Borough operates similar to private business	Instances in which the Borough is the trustee or agent to someone else's resources
Required financial statements	Statement of net assets 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 assets, Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Modified cash basis	Modified cash basis	Modified cash basis	Modified cash basis
Type of asset/liability information	Cash and Investments and Interfund receivables and payables	Cash and Investments and Interfund receivables and payables	Cash and Investments and Interfund receivables and payables	Cash and Investments and Interfund receivables and payables
Type of inflow- outflow information	All Revenues received and all expenses paid in the time period when cash is received or expenses paid	All Revenues received and all expenses paid in the time period when cash is received or expenses paid	All Revenues received and all expenses paid in the time period when cash is received or expenses paid	All Revenues received and all expenses paid in the time period when cash is received or expenses 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 using the modified cash basis, which is a comprehensive basis of accounting other than accounting principles, generally accepted in the United States of America. The statement of net assets includes only cash, investments and interfund receivables and payables. All of the current year's Revenues and expenses are accounted for in the statement of activities when revenue is received rather than earned and expenses are paid rather than when incurred.

The government-wide statements report the Borough's net assets and how they have changed. Net assets, 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 assets 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 to residents of the Borough. Fees received for these utilities and pool use fees cover the costs of operations.

The Borough's fund financial statements, which begin on page 15, 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 cash basis of accounting. Under this method revenues are recognized when received rather than earned and expenses are recognized when paid rather than when incurred. 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 and pool 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 police post retirement medical trust fund, the escrow fund and the police health reimbursement arrangement fund. All of the Borough's activities are reported in separate statements or fiduciary net assets on page 21. 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 assets were \$8,844,114 at December 31, 2009.

Table A-1
Year Ended December 31, 2009 and 2008
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and Other Assets	\$ 4,240,521	\$ 5,901,913	\$ 4,625,623	\$ 4,080,646	\$ 8,866,144	\$ 9,982,559
Current and Other Liabilities	\$ 1,979	\$ 170,481	\$ 20,051	\$ 936,688	\$ 22,030	\$ 1,107,169
Net Assets						
Capital Projects	\$ 4,027,260	\$ 4,503,596	\$ -	\$ -	\$ 4,027,260	\$ 4,503,596
Unrestricted	211,282	1,227,836	4,605,572	3,143,958	4,816,854	4,371,794
Total Net Assets	\$ 4,238,542	\$ 5,731,432	\$ 4,605,572	\$ 3,143,958	\$ 8,844,114	\$ 8,875,390

Most of the Borough's net assets are invested in cash and cash equivalents.

The results of this year's operations as a whole are reported in the statement of activities on page 14. 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, 2009 and 2008
Changes in Net Assets

	2009			2008		
	Govern- mental Activities	Business- Type Activities	Total	Govern- mental Activities	Business- Type Activities	Total
REVENUES						
<i>Program Revenues</i>						
Charges for Services	\$ 533,425	\$ 18,557,645	\$ 19,091,070	\$ 528,736	\$ 17,397,387	\$ 17,926,123
Operating Grants and Contributions	246,959	88,832	335,791	214,838	84,308	299,146
Capital Grants and Contributions	166,498	-	166,498	172,922	-	172,922
<i>General Revenues</i>						
Property Taxes	131,923	-	131,923	127,035	-	127,035
Other Taxes	1,278,114	-	1,278,114	1,634,606	-	1,634,606
Grants, Subsidies and Contributions, unrestricted	237,657	-	237,657	265,034	-	265,034
Investment Earnings	102,019	82,652	184,671	83,611	68,414	152,025
Insurance Proceeds from Destruction of Senior Citizens Center	-	-	-	1,289,913	-	1,289,913
Proceeds from Loans	-	-	-	-	1,098,550	1,098,550
Sale of Property	41,857	5,663	47,520	18,261	2,362	20,623
Other Revenue	74,062	26,322	100,384	52,757	31,269	84,026
TOTAL REVENUES	2,812,514	18,761,114	21,573,628	4,387,713	18,682,290	23,070,003
EXPENSES						
<i>Governmental Activities</i>						
General Government	777,204	-	777,204	749,427	-	749,427
Public Safety	2,229,647	-	2,229,647	2,258,024	-	2,258,024
Public Works	1,800,946	-	1,800,946	1,288,025	-	1,288,025
Culture and Recreation	285,955	-	285,955	254,795	-	254,795
Community Development	102,267	-	102,267	-	-	-
Non-Departmental	1,648,239	-	1,648,239	1,557,860	-	1,557,860
Debt Service Payments	115,456	-	115,456	206,568	-	206,568
Transfers Between Activities	(2,654,310)	2,654,310	-	(4,457,653)	4,457,653	-
<i>Business-Type Activities</i>						
Electric	-	9,806,055	9,806,055	-	9,293,967	9,293,967
Water	-	2,268,331	2,268,331	-	2,422,035	2,422,035
Sewer	-	2,023,569	2,023,569	-	1,962,101	1,962,101
Pool	-	547,235	547,235	-	562,488	562,488
TOTAL EXPENSES	4,305,404	17,299,500	21,604,904	1,857,046	18,698,244	20,555,290
INCREASE (DECREASE) IN NET ASSETS	\$ (1,492,890)	\$ 1,461,614	\$ (31,276)	\$ 2,530,667	\$ (15,954)	\$ 2,514,713

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

DEBT ADMINISTRATION

As of January 1, 2009, the Borough had total outstanding debt of \$13,280,813. During the year, the Borough paid principal of \$1,814,444 resulting in ending outstanding debt as of December 31, 2009, of \$11,466,369.

Table A-3
Outstanding Debt

	2009	2008
2003 General Obligation Note	\$ 1,270,757	\$ 1,563,596
2004 Guaranteed Revenue Note - Water Fund	5,548,157	5,781,763
2004 Guaranteed Revenue Note - Sewer Fund	3,362,492	3,504,069
2005 General Obligation Note	1,284,963	1,473,385
2006 General Obligation Note	-	958,000

General Fund Budget

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

Table A-4
Budgetary Comparison

	2009			Variances with Final Budget Positive (Negative)
	Budgeted Original	Budget Amounts Final	Actual (Budgetary Basis)	
Revenues	\$ 3,315,300	\$ 3,315,300	\$ 2,431,663	\$ (883,637)
Expenditures	6,230,231	6,230,231	5,820,616	409,615
Deficiency of Revenues over Expenditures	(2,914,931)	(2,914,931)	(3,388,953)	(474,022)
Other Financing Sources	2,153,000	2,153,000	2,353,000	200,000
Net Change in Fund Balance	(761,931)	(761,931)	(1,035,953)	(274,022)
Fund Balance - January 1, 2009	761,931	761,931	1,096,324	334,393
Fund Balance - December 31, 2009	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,371</u>	<u>\$ 60,371</u>
	2008			
	Budgeted Original	Budget Amounts Final	Actual (Budgetary Basis)	Variances with Final Budget Positive (Negative)
Revenues	\$ 2,686,800	\$ 2,686,800	\$ 2,783,956	\$ 97,156
Expenditures	5,910,478	5,910,478	5,899,956	10,522
Excess (Deficiency) of Revenues over Expenditures	(3,223,678)	(3,223,678)	(3,116,000)	107,678
Other Financing Sources	3,339,614	3,339,614	4,341,718	1,002,104
Net Change in Fund Balance	115,936	115,936	1,225,718	1,109,782
Fund Balance - January 1, 2008	(115,936)	(115,936)	(129,394)	(13,458)
Fund Balance - December 31, 2008	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,096,324</u>	<u>\$ 1,096,324</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 considered to be the core of Upper Bucks County. Although the neighboring municipalities continue to expand in population, the Borough of Quakertown will remain the center of activity and focus. The Borough continues to be perceived by the public as a very desirable place to live, work and play, and there are many reasons for this perception. 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 (for the Quakertown Community School District). We look forward to our continued focus of Economic Development and the recruitment of new businesses. Creating and retaining jobs for our citizens will help stabilize our local economy as well as assist with maintaining a stable tax rate. Our water, sewer and electric rates are extremely 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 2010 Budget reflects cautious optimism about the local economy, which continues to be resilient in spite of the declining national economy. The 2010 budget is reflective of the economic situation faced by everyone. This has yet again forced us to postpone several infrastructure projects to 2011. It is the universal belief by each department that we must continue to deliver core municipal services foremost. Within our revenue decline, this 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 2010 budget, and instructed to:

Maintain services while adhering to a budget freeze in 2009;

- 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 2010 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 Assets – Modified Cash Basis
As of December 31, 2009

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
CURRENT ASSETS:			
Cash and Cash Equivalents	\$ 2,188,113	\$ 3,325,909	\$ 5,514,022
Investments	2,052,408	1,299,714	3,352,122
Internal Balances	-	-	-
Other Receivables	-	-	-
TOTAL CURRENT ASSETS	4,240,521	4,625,623	8,866,144
NON-CURRENT ASSETS:			
Restricted Cash and Cash Equivalents	-	-	-
TOTAL NON-CURRENT ASSETS	-	-	-
TOTAL ASSETS	\$ 4,240,521	\$ 4,625,623	\$ 8,866,144
LIABILITIES			
CURRENT LIABILITIES:			
Internal Balances	\$ -	\$ -	\$ -
Other Payables	-	20,051	20,051
Other Current Liabilities	1,979	-	1,979
Total Current Liabilities	1,979	20,051	22,030
TOTAL LIABILITIES	1,979	20,051	22,030
NET ASSETS			
Restricted for Capital Projects	4,027,260	-	4,027,260
Unrestricted	211,282	4,605,572	4,816,854
TOTAL NET ASSETS	4,238,542	4,605,572	8,844,114
TOTAL LIABILITIES AND NET ASSETS	\$ 4,240,521	\$ 4,625,623	\$ 8,866,144

(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 – Modified Cash Basis
For the Year Ended December 31, 2009

FUNCTIONS/PROGRAMS	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENTAL ACTIVITIES:							
General Government	\$ 777,204	\$ 229,152	\$ 4,373	\$ -	\$ (543,679)	\$ -	\$ (543,679)
Public Safety	2,229,647	243,537	110,306	-	(1,875,804)	-	(1,875,804)
Public Works	1,800,946	36,000	45,127	166,498	(1,553,321)	-	(1,553,321)
Culture and Recreation	285,955	24,736	87,153	-	(174,066)	-	(174,066)
Community Development	102,267	-	-	-	(102,267)	-	(102,267)
Non-Departmental	1,648,239	-	-	-	(1,648,239)	-	(1,648,239)
Debt Service Payments	115,456	-	-	-	(115,456)	-	(115,456)
TOTAL GOVERNMENTAL ACTIVITIES	6,959,714	533,425	246,959	166,498	(6,012,832)	-	(6,012,832)
BUSINESS-TYPE ACTIVITIES:							
Electric	9,806,055	14,179,342	33,233	-	-	4,406,520	4,406,520
Water	2,268,331	1,332,517	22,798	-	-	(913,016)	(913,016)
Sewer	2,023,569	2,856,766	32,801	-	-	865,998	865,998
Pool	547,235	189,020	-	-	-	(358,215)	(358,215)
TOTAL PRIMARY GOVERNMENT	\$ 21,604,904	\$ 19,091,070	\$ 335,791	\$ 166,498	\$ (6,012,832)	\$ 4,001,287	\$ (2,011,545)
GENERAL REVENUES:							
Property Taxes. Levied for General Purposes					\$ 131,923	\$ -	\$ 131,923
Other Taxes Levied for General Purposes					1,278,114	-	1,278,114
Grants, Subsidies, & Contributions Not Restricted					237,657	-	237,657
Investment and Rental Earnings					102,019	82,652	184,671
Miscellaneous Income					15,729	26,322	42,051
Insurance Claim Refund					58,333	-	58,333
Proceeds from Sale of Property					41,857	5,663	47,520
Transfers					2,654,310	(2,654,310)	-
TOTAL GENERAL REVENUES, SPECIAL ITEMS, EXTRAORDINARY ITEMS, AND TRANSFERS					4,519,942	(2,539,673)	1,980,269
CHANGE IN NET ASSETS					(1,492,890)	1,461,614	(31,276)
NET ASSETS - BEGINNING					5,731,432	3,143,958	8,875,390
NET ASSETS - ENDING					\$ 4,238,542	\$ 4,605,572	\$ 8,844,114

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

THE BOROUGH OF QUAKERTOWN
Balance Sheet – Modified Cash Basis
All Governmental Funds
As of December 31, 2009

	GENERAL	CAPITAL PROJECTS	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and Cash Equivalents	\$ 62,350	\$ 1,974,852	\$ 150,911	\$ 2,188,113
Investments	-	2,052,408	-	2,052,408
Due from Other Funds	-	-	-	-
Other Receivables	-	-	-	-
TOTAL ASSETS	\$ 62,350	\$ 4,027,260	\$ 150,911	\$ 4,240,521
 LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Due to Other Funds	-	-	-	-
Other Payables	1,979	-	-	1,979
TOTAL LIABILITIES	1,979	-	-	1,979
 FUND BALANCES:				
- General Fund	60,371	-	-	60,371
- Liquid Fuels Fund	-	-	142,332	142,332
- Fire Company Capital Fund	-	-	8,579	8,579
- Capital Projects Funds	-	4,027,260	-	4,027,260
TOTAL FUND BALANCES	60,371	4,027,260	150,911	4,238,542
TOTAL LIABILITIES AND FUND BALANCES	\$ 62,350	\$ 4,027,260	\$ 150,911	\$ 4,240,521

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
Statement of Revenues Received, Expenditures Paid and Changes in Fund Balances – Modified Cash Basis
All Governmental Funds
For the Year Ended December 31, 2009

	<u>GENERAL</u>	<u>CAPITAL PROJECTS</u>	<u>NON-MAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES				
Taxes	\$ 1,279,822	-	-	\$ 1,279,822
Licenses and Permits	128,548	-	-	128,548
Fines and Forfeits	128,536	-	-	128,536
Intergovernmental	433,100	10,000	166,498	609,598
Charges for Services	390,249	-	-	390,249
Investment and Rental Earnings	13,006	86,766	2,247	102,019
Miscellaneous	40,295	33,257	-	73,552
TOTAL REVENUES	<u>2,413,556</u>	<u>130,023</u>	<u>168,745</u>	<u>2,712,324</u>
EXPENDITURES				
CURRENT:				
General Government	629,609	147,595	-	777,204
Public Safety	2,101,336	48,311	80,000	2,229,647
Public Works	969,120	692,484	139,342	1,800,946
Culture and Recreation	254,589	31,366	-	285,955
Community Development	102,267	-	-	102,267
Non-Departmental	1,648,239	-	-	1,648,239
DEBT SERVICE:				
Principal	113,505	-	-	113,505
Interest	1,951	-	-	1,951
TOTAL EXPENDITURES	<u>5,820,616</u>	<u>919,756</u>	<u>219,342</u>	<u>6,959,714</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(3,407,060)</u>	<u>(789,733)</u>	<u>(50,597)</u>	<u>(4,247,390)</u>
OTHER FINANCING SOURCES				
Sale of Fixed Assets	1,079	40,778	-	41,857
Insurance Claim Refund	17,028	41,305	-	58,333
Interfund Transfers In	2,353,000	231,314	69,996	2,654,310
Operating Transfers Out	-	-	-	-
TOTAL OTHER FINANCING SOURCES	<u>2,371,107</u>	<u>313,397</u>	<u>69,996</u>	<u>2,754,500</u>
NET CHANGE IN FUND BALANCES	<u>(1,035,953)</u>	<u>(476,336)</u>	<u>19,399</u>	<u>(1,492,890)</u>
FUND BALANCES - BEGINNING	<u>1,096,324</u>	<u>4,503,596</u>	<u>131,512</u>	<u>5,731,432</u>
FUND BALANCES - ENDING	<u>\$ 60,371</u>	<u>\$ 4,027,260</u>	<u>\$ 150,911</u>	<u>\$ 4,238,542</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 cash basis of accounting.

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

THE BOROUGH OF QUAKERTOWN
Statement of Net Assets – Modified Cash Basis
Proprietary Funds
As of December 31, 2009

	MAJOR		NON-MAJOR		TOTAL
	ELECTRIC FUND	SEWER FUND	WATER FUND	POOL FUND	
ASSETS					
CURRENT ASSETS:					
Cash and Cash Equivalents	\$ 1,737,976	\$ 1,316,156	\$ 240,134	\$ 31,643	\$ 3,325,909
Investments	685,698	519,274	94,742	-	1,299,714
Due from Other Funds	-	-	-	-	-
TOTAL ASSETS	\$ 2,423,674	\$ 1,835,430	\$ 334,876	\$ 31,643	\$ 4,625,623
LIABILITIES					
CURRENT LIABILITIES:					
Other Payables	\$ 20,051	-	-	-	\$ 20,051
Due to Other Funds	-	-	-	-	-
TOTAL LIABILITIES	20,051	-	-	-	20,051
NET ASSETS					
Unrestricted	2,403,623	1,835,430	334,876	31,643	4,605,572
TOTAL NET ASSETS	2,403,623	1,835,430	334,876	31,643	4,605,572
TOTAL LIABILITIES AND NET ASSETS	\$ 2,423,674	\$ 1,835,430	\$ 334,876	\$ 31,643	\$ 4,625,623

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

THE BOROUGH OF QUAKERTOWN
Statement of Revenues Received, Expenses Paid and Changes in Net Assets –
Modified Cash Basis – All Proprietary Funds
For the Year Ended December 31, 2009

	MAJOR			NON-MAJOR			TOTAL
	ELECTRIC FUND	SEWER FUND	WATER FUND	WATER FUND	POOL FUND	TOTAL	
OPERATING REVENUE							
Charges for Services	\$ 13,980,439	\$ 2,856,766	\$ 1,290,191	\$ 189,020	\$ 18,316,416		
Permits and Fees	65,529	-	42,326	-	107,855		
Penalties	133,374	-	-	-	133,374		
Rental Income	-	-	20,954	-	20,954		
Other Income	-	2,383	2,985	-	5,368		
TOTAL OPERATING REVENUE	14,179,342	2,859,149	1,356,456	189,020	18,583,967		
OPERATING EXPENSES							
Costs of Furnishing Utility	9,307,152	1,465,030	732,101	-	11,504,283		
Costs of Pool Operations	-	-	-	184,676	184,676		
Employee Benefits	200,746	189,631	147,568	7,461	545,406		
Employee Pension	57,406	56,660	39,381	-	153,447		
Insurance	59,331	77,941	47,749	14,550	199,571		
TOTAL OPERATING EXPENSES	9,624,635	1,789,262	966,799	206,687	12,587,383		
OPERATING INCOME (LOSS)	4,554,707	1,069,887	389,657	(17,667)	5,996,584		
NON-OPERATING REVENUE (EXPENSE)							
Interest Earned	45,104	23,493	12,843	1,212	82,652		
Loan Proceeds - Pennvest	-	-	-	-	-		
State Aid - Pensions	33,233	32,801	22,798	-	88,832		
Sale of Fixed Assets	4,966	68	629	-	5,663		
Debt Service	(181,420)	(234,307)	(1,301,532)	(340,548)	(2,057,807)		
TOTAL NON-OPERATING EXPENSE	(98,117)	(177,945)	(1,265,262)	(339,336)	(1,880,660)		
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	4,456,590	891,942	(875,605)	(357,003)	4,115,924		
CAPITAL CONTRIBUTIONS/TRANSFERS							
Transfers from Other Funds	-	-	-	375,000	375,000		
Transfers to Other Funds	(2,616,279)	(236,531)	(176,500)	-	(3,029,310)		
TOTAL CAPITAL CONTRIBUTIONS/TRANSFERS	(2,616,279)	(236,531)	(176,500)	375,000	(2,654,310)		
CHANGES IN NET ASSETS	1,840,311	655,411	(1,052,105)	17,997	1,461,614		
NET ASSETS - BEGINNING	563,312	1,180,019	1,386,981	13,646	3,143,958		
NET ASSETS - ENDING	\$ 2,403,623	\$ 1,835,430	\$ 334,876	\$ 31,643	\$ 4,605,572		

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

THE BOROUGH OF QUAKERTOWN
Statement of Cash Flows - Modified Cash Basis
Proprietary Funds
As of December 31, 2009

	MAJOR		NON-MAJOR		TOTAL
	ELECTRIC FUND	SEWER FUND	WATER FUND	POOL FUND	
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash Received from Users	\$ 14,179,342	\$ 2,856,767	\$ 1,332,517	\$ 189,020	\$ 18,557,646
Cash Received from Other Operating Revenue	-	2,382	23,939	-	26,321
Cash Payments to Employees for Services	(781,395)	(784,390)	(626,645)	(104,988)	(2,297,418)
Cash Payments to Suppliers for Goods and Services	(9,758,209)	(1,004,664)	(339,039)	(101,499)	(11,203,411)
Cash Payments to Other Operating Expenses	(1,668)	(208)	(1,115)	(200)	(3,191)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	3,638,070	1,069,887	389,657	(17,667)	5,079,947
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
State Sources	33,233	32,801	22,798	-	88,832
Sale of Fixed Assets	4,966	68	629	-	5,663
Operating Transfers In	-	-	-	375,000	375,000
Operating Transfers Out	(2,616,279)	(236,531)	(176,500)	-	(3,029,310)
NET CASH PROVIDED BY (USED) FOR NON-CAPITAL FINANCING ACTIVITIES	(2,578,080)	(203,662)	(153,073)	375,000	(2,559,815)
CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES					
Debt Service Payments	(181,420)	(234,307)	(1,301,532)	(340,548)	(2,057,807)
Loan Proceeds	-	-	-	-	-
Interfund Loan Payments	-	-	-	-	-
NET CASH USED FOR CAPITAL FINANCING ACTIVITIES	(181,420)	(234,307)	(1,301,532)	(340,548)	(2,057,807)
CASH FLOWS FROM INVESTING ACTIVITIES					
Sale of Investments	1,500,000	567,000	667,000	-	2,734,000
Purchase of Investments	-	-	-	-	-
Earnings on Investments	45,104	23,493	12,843	1,212	82,652
NET CASH PROVIDED BY INVESTING ACTIVITIES	1,545,104	590,493	679,843	1,212	2,816,652
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,423,674	1,222,411	(385,105)	17,997	3,278,977
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	-	613,019	719,981	13,646	1,346,646
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,423,674	\$ 1,835,430	\$ 334,876	\$ 31,643	\$ 4,625,623

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

THE BOROUGH OF QUAKERTOWN
Statement of Cash Flows - Modified Cash Basis
Proprietary Funds
As of December 31, 2009

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

	MAJOR		NON-MAJOR		
	ELECTRIC FUND	SEWER FUND	WATER FUND	POOL FUND	TOTAL
OPERATING INCOME (LOSS)	\$ 4,554,707	\$ 1,069,887	\$ 389,657	\$ (17,667)	5,996,584
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES					
CHANGE IN ASSETS AND LIABILITIES:					
Decrease in Other Payables	(916,637)	-	-	-	(916,637)
TOTAL ADJUSTMENTS	(916,637)	-	-	-	(916,637)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 3,638,070	\$ 1,069,887	\$ 389,657	\$ (17,667)	\$ 5,079,947

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

THE BOROUGH OF QUAKERTOWN
Statement of Net Assets - Modified Cash Basis
Fiduciary Funds
As of December 31, 2009

	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS	AGENCY FUNDS	
		ESCROW FUND	POLICE HEALTH REIMBURSEMENT ARRANGEMENT FUND
ASSETS			
Cash and Cash Equivalents	\$ 448,076	\$ 315,500	\$ 27,521
Investments	8,465,479	-	-
Due from Other Funds	-	-	-
Other Receivables	-	-	-
TOTAL ASSETS	\$ 8,913,555	\$ 315,500	\$ 27,521
LIABILITIES			
Due to Escrow Holders	\$ -	\$ 315,500	\$ -
Due to Police Officers	76,919	-	27,521
TOTAL LIABILITIES	76,919	315,500	27,521
NET ASSETS			
Restricted for Employee Benefits	8,836,636	-	-
TOTAL NET ASSETS	\$ 8,913,555	\$ -	\$ -

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

THE BOROUGH OF QUAKERTOWN
Statement of Changes in Net Assets - Modified Cash Basis
Fiduciary Funds
For the Year Ended December 31, 2009

	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS
ADDITIONS:	
Contributions - Employer	\$ 370,838
Contributions - Employee	25,189
State Aid	253,369
Miscellaneous Income	4,081
INVESTMENT EARNINGS:	
Interest and Dividends	234,662
Change in Fair Value of Investments	1,174,920
TOTAL ADDITIONS	<u>2,063,059</u> -----
 DEDUCTIONS:	
Administrative Charges	17,700
Trustee Fees	26,224
Investment Expenses	-
Insurance	4,120
Employee Benefits	356,702
TOTAL DEDUCTIONS	<u>404,746</u>
 CHANGE IN NET ASSETS	 1,658,313
 NET ASSETS - BEGINNING OF YEAR	 <u>7,178,323</u>
 NET ASSETS - END OF YEAR	 <u>\$ 8,836,636</u>

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

THE BOROUGH OF QUAKERTOWN
Statement of Revenues Received, Expenditures Paid and Changes in Fund Balance – Budget and Actual –
Modified Cash Basis
General Fund
For the Year Ended December 31, 2009

	BUDGETED AMOUNTS		ACTUAL (BUDGETARY BASIS)	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)	BUDGET TO MODIFIED CASH DIFFERENCE	ACTUAL AMOUNTS MODIFIED CASH BASIS
	ORIGINAL	FINAL				
RESOURCES (INFLOW):						
Taxes	\$ 1,610,000	\$ 1,610,000	\$ 1,279,822	\$ (390,178)	\$ -	\$ 1,279,822
Licenses and Permits	204,000	204,000	128,548	(75,452)	-	128,548
Fines and Forfeits	151,500	151,500	128,536	(22,964)	-	128,536
Intergovernmental	829,200	829,200	433,100	(396,100)	-	433,100
Charges for Services	414,850	414,850	390,249	(24,601)	-	390,249
Miscellaneous	75,250	75,250	41,374	(33,876)	-	41,374
Insurance Claim Refund	1,000	1,000	17,028	16,028	-	17,028
Investment and Rental Earnings	29,500	29,500	13,006	(16,494)	-	13,006
Transfers from Other Funds	2,153,000	2,153,000	2,353,000	200,000	-	2,353,000
TOTAL RESOURCES	5,468,300	5,468,300	4,784,663	(683,637)		4,784,663
CHARGES TO APPROPRIATIONS (OUTFLOWS):						
General Government						
Legal	55,000	55,000	22,833	32,167	-	22,833
Mayor, Legislative, Borough Manager	295,550	295,550	261,871	33,679	-	261,871
Finance and Accounting	219,350	219,350	242,738	(23,388)	-	242,738
Tax Collection	32,000	32,000	15,372	16,628	-	15,372
IT-Networking Services-Data Processing	31,900	31,900	35,159	(3,259)	-	35,159
Engineering	80,000	80,000	30,488	49,512	-	30,488
Buildings and Plant	12,200	12,200	21,148	(8,948)	-	21,148
Public Safety						
Police	1,691,875	1,691,875	1,729,670	(37,795)	-	1,729,670
Fire Department	278,500	278,500	268,065	10,435	-	268,065
Inspections	105,900	105,900	103,601	2,299	-	103,601
Public Works						
Solid Waste and Collection	52,000	52,000	35,312	16,688	-	35,312
Street Maintenance and Lighting	1,102,100	1,102,100	933,808	168,292	-	933,808
Culture and Recreation						
Parks	216,200	216,200	254,589	(38,389)	-	254,589
Community Development						
Debt Service	70,000	70,000	102,267	(32,267)	-	102,267
Principal	113,510	113,510	113,505	5	-	113,505
Interest	1,955	1,955	1,951	4	-	1,951
Non-Departmental						
Employer Paid Benefits and Withholding Items	1,526,891	1,526,891	1,444,439	82,452	-	1,444,439
Insurance	138,900	138,900	185,444	(46,544)	-	185,444
Miscellaneous	27,000	27,000	18,356	8,644	-	18,356
Budgetary Reserve	165,000	165,000	-	165,000	-	-
Transfer to Other Funds	14,400	14,400	-	14,400	-	-
TOTAL CHARGES TO APPROPRIATIONS	6,230,231	6,230,231	5,820,616	409,615		5,820,616
Deficiency of Inflows Over Outflows	(761,931)	(761,931)	(1,035,953)	(274,022)	-	(1,035,953)
FUND BALANCE - JANUARY 1, 2009	761,931	761,931	1,096,324	334,393		1,096,324
FUND BALANCE - DECEMBER 31, 2009	-	-	\$ 60,371	\$ 60,371	\$ -	\$ 60,371

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

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2009

Note 1 - Description of the Borough and Reporting Entity

The Borough of Quakertown, Pennsylvania (The 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

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 assets 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, 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.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2009

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

The Borough of Quakertown prepares its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles, generally accepted in the United States of America. Under the modified cash basis of accounting, revenues are recognized when received rather than when earned, and expenses are recognized when paid rather than when incurred, with the exception of certain receivables and liabilities. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

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:

General Fund

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

Capital Projects Fund

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary or trust funds. The Borough has three (3) capital project funds, consisting of the Water Capital Fund, the Capital Projects Fund, and the Equipment Replacement Fund.

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

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

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

THE BOROUGH OF QUAKERTOWN
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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 Post Retirement Medical Trust 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. 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 cash 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.

E. 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. Since these financial statements are prepared on the modified cash basis, no estimates have been used.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2009

F. 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.

G. 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.

H. 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.

I. Real Estate Taxes

The total taxable assessed real estate valuation for the year ended 2009 is \$80,448,780 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 lien by January 1 of the following year.

Note 3 - Stewardship, Compliance and Accountability

A. Compliance with Finance Related Legal and Contractual Provisions

The Borough has no material violations of finance related legal and contractual provisions.

B. Deficit Fund Balance or Retained Earnings of Individual Funds

There are no deficits in fund balances or net assets in any individual fund as of December 31, 2009.

C. Excess of Expenditures over Appropriations in Individual Funds

No individual fund, which had a legally adopted budget, had an excess of expenditures over appropriations.

D. Budgetary Compliance

The Borough has a legally adopted budget for the General Fund. The Borough does not make budget transfers between expenditure/expense accounts.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2009

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, 2009, \$8,883,159 of the Borough's bank balance of \$9,613,159 was exposed to custodial credit risk as:

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		8,883,159
TOTAL	\$	8,883,159

Reconciliation to Financial Statements

Uncollateralized Amount Above	\$	8,883,159
Plus: Insured Amount		730,000
Deposits in Transit		87,826
Less: Outstanding Checks		(262,552)
Carrying Amount - Bank balances		9,438,433
Plus: Petty Cash		550
Deposits in Investment Pools Considered Cash Equivalents		77,101
Deposits in Money Market Mutual Funds Considered Cash Equivalents		371,157
Less: Certificates of Deposit Considered Investment		(3,582,122)
Total Cash Per Financial Statements	\$	6,305,119

Note 5 - Investments

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

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

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

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2009

As of December 31, 2009, the Borough had the following investments:

<i>Investment</i>	Maturities	Fair Value
PA Local Government Investment Trust		\$ 77,101
Federated Institutional Government Obligation Fund		371,157
Common Stocks		4,618,079
Corporate Bonds	7.5 mos - 8 yrs. 4.5 mos	1,159,030
U.S. Government Agency Bonds	2 mos - 9 yrs 8 mos	1,008,565
Certificates of Deposit	3 mos - 3 yrs	3,582,122
Mutual Funds		1,449,805
TOTAL		\$ 12,265,859

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, 2009, the Borough's investments were rated as:

Investment	Standard & Poor's
PLGIT	AAA
Common Stocks	Not Available
Corporate Bonds	Not Available
Federal Home Loan Bank Bonds	AAA
Federal Home Loan Mortgage Corp. Bonds	AAA
FNMA Bonds	AAA
Federal Farm Credit Bank Bonds	AAA
Allianz CCM Mid Cap Fund	Not Available
Federated Kaufmann Fund #066	Not Available
Federal Short-Term Income Fund	Not Available
Federal Total Return Bond Fund	Not Available
Federated Institutional Government Obligation Fund	Not Available
Eagle Small Cap Fund	Not Available
Goldman Sachs Mid Cap Value Fund	Not Available
Oppenheimer Small Cap Value Fund	Not Available
Vanguard Explorer Fund	Not Available

Concentration of Credit Risk

The Borough places no limit on the amount the Borough may invest in any one issuer. Of the Borough's investments, 27.33% is in a certificate of deposit at QNB. The Proprietary Fund's investment is in a certificate of deposit at QNB. The Water Fund's investment is in a certificate of deposit at QNB. The Sewer Fund's investment is in a certificate of deposit at QNB. The Electric Fund's investment is in a certificate of deposit at QNB. Of the Governmental Activities' investments, 99.99% is in a certificate of deposit at QNB. The Capital Projects Funds' investment is in a certificate of deposit at QNB.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2009

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.

Reconciliation to Financial Statements

Total Investments Above	\$ 12,265,859
Less: Deposits in Investment Pool Considered Cash Equivalents	(77,101)
Deposits in Money Market Mutual Funds Considered Cash Equivalents	<u>(371,157)</u>
Total Investments Per Financial Statements	\$ 11,817,601

Note 6 – Short-Term Debt

Interfund Receivables and Payables

The Borough did not have any interfund receivables or payables as of December 31, 2009.

Interfund Transfers

The Borough also made the following interfund transfers during the year ended December 31, 2009.

	<u>TRANSFER IN</u>	<u>TRANSFER OUT</u>
General Fund	\$ 2,353,000	\$ -
Enterprise (Electric) Fund	-	2,616,279
Enterprise (Water) Fund	-	176,500
Enterprise (Sewer) Fund	-	236,531
Enterprise (Pool) Fund	375,000	-
Special Revenue (Fire Company Capital) Fund	69,996	-
Capital Projects (Equipment Replacement) Fund	231,314	-
TOTAL	\$ 3,029,310	\$ 3,029,310

Note 7 – Long-Term Debt Commitment

Long-Term Liability balances and activity for the year ended December 31, 2009, were:

	<u>BEGINNING</u>			<u>ENDING</u>	<u>AMOUNTS</u>
	<u>BALANCE</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>BALANCE</u>	<u>DUE WITHIN</u>
					<u>ONE YEAR</u>
<u>GOVERNMENTAL ACTIVITIES</u>					
<i>General Obligation Debt:</i>					
<i>Bonds and Notes Payable:</i>					
Capital Projects	\$ 3,994,981	\$ -	\$ 1,439,261	\$ 2,555,720	\$ 507,591
<u>BUSINESS-TYPE ACTIVITIES</u>					
<i>Other Liabilities:</i>					
Guaranteed Revenue Notes Payable					
Capital Projects	\$ 9,285,832	\$ -	\$ 375,183	\$ 8,910,649	\$ 385,529

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2009

Payments on bonds and notes are made by the General Fund, Pool Fund, Sewer Fund, Water Fund and Electric Fund.

Total interest paid during the year:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>PAID</u>
General Obligation Debt	\$ 65,377
TOTAL INTEREST PAID BY GOVERNMENTAL ACTIVITIES	\$ 65,377
<u>BUSINESS-TYPE ACTIVITIES</u>	
Guaranteed Revenue Notes	\$ 245,733
General Obligation Note	47,709
TOTAL INTEREST PAID BY BUSINESS-TYPE ACTIVITIES	\$ 293,442

The total interest cost incurred and charged to expense in 2009 was \$358,819.

General Obligation Promissory Note - Series 2003 – Pool Fund

On December 15, 2003, the Borough obtained \$2,900,000 of financing from TD Bank. The debt is payable in 40 quarterly installments beginning March 1, 2004 of \$85,137 (principal and interest) at an interest rate of 3.28%. During the current year, additional principal was paid by the Borough, which is reflected in their future debt service obligations. The debt matures December 1, 2013. The future debt service obligations are:

<u>FISCAL YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
2010	\$ 306,337	\$ 34,211
2011	312,736	27,812
2012	323,120	17,428
2013	328,564	6,698
TOTAL OUTSTANDING	\$ 1,270,757	\$ 86,149

Pennvest - Guaranteed Revenue Note - Water Fund

On May 26, 2004, the Borough issued a \$5,974,300 guaranteed revenue note purchased by QNB. The purpose of this note is for the replacement of its aging water lines beginning in the year 2004. The effective interest rate is 2.696% for the first one hundred five (105) months and 3.429% for the remaining one hundred eighty (180) months. The future debt service obligations are:

<u>FISCAL YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
2010	\$ 240,087	\$ 146,692
2011	246,640	140,139
2012	253,372	133,407
2013	248,459	155,171
2014	254,544	152,456
2015 to 2019	1,412,063	622,938
2020 to 2024	1,675,744	359,257
2025 to 2028	1,217,248	69,156
TOTAL OUTSTANDING	\$ 5,548,157	\$ 1,779,216

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2009

Pennvest - Guaranteed Revenue Note - Sewer Fund

On May 26, 2004, the Borough issued a \$3,712,608 guaranteed revenue note purchased by QNB. The purpose of this Note is for the replacement of its aging sewer lines beginning in the year 2004. The effective interest rate is 2.696% for the first one hundred five (105) months and 3.429% for the remaining one hundred eighty (180) months. The Borough subsequently requested that the principal amount of the Note be reduced from \$3,712,608 to \$3,632,743, which represents the actual amount drawn on the Note by the Borough since 2004. The future debt service obligations are:

FISCAL YEAR	PRINCIPAL	INTEREST
2010	\$ 145,442	\$ 88,865
2011	149,412	84,895
2012	153,491	80,816
2013	150,514	94,001
2014	154,200	92,357
2015 to 2019	855,414	377,370
2020 to 2024	1,015,150	217,634
2025 to 2028	738,869	41,894
TOTAL OUTSTANDING	\$ 3,362,492	\$ 1,077,832

General Obligation Note – Series of 2005

On November 16, 2005, the Borough issued a \$2,000,000 general obligation note purchased by Wachovia Bank. The purpose of this Note is for certain capital projects of the Borough including construction of a filter plant and replacement of a water system telemetry panel. The effective interest rate is 3.450% for ten (10) years with a quarterly payment of \$59,333.

The future debt service obligations are:

FISCAL YEAR	PRINCIPAL	INTEREST
2010	\$ 201,254	\$ 36,079
2011	202,555	34,778
2012	209,554	27,779
2013	216,958	20,375
2014	224,540	12,793
2015	230,102	4,945
TOTAL OUTSTANDING	\$ 1,284,963	\$ 136,749

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2009

Combined Long-Term Debt

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

FISCAL YEAR	G.O.N. SERIES 2003	PRINCIPAL REQUIREMENTS		G.O.N. SERIES 2005	TOTAL PAYMENTS
		REVENUE NOTE WATER FUND	REVENUE NOTE SEWER FUND		
2010	306,337	240,087	145,442	201,254	893,120
2011	312,736	246,640	149,412	202,555	911,343
2012	323,120	253,372	153,491	209,554	939,537
2013	328,564	248,459	150,514	216,958	944,495
2014	-	254,544	154,200	224,540	633,284
2015-2019	-	1,412,063	855,414	230,102	2,497,579
2020-2024	-	1,675,744	1,015,150	-	2,690,894
2025-2028	-	1,217,248	738,869	-	1,956,117
TOTAL	1,270,757	5,548,157	3,362,492	1,284,963	11,466,369
LESS PAYABLE WITHIN ONE YEAR	306,337	240,087	145,442	201,254	893,120
LONG-TERM PRINCIPAL DUE AFTER ONE YEAR	\$ 964,420	\$ 5,308,070	\$ 3,217,050	\$ 1,083,709	\$ 10,573,249

FISCAL YEAR	G.O.N. SERIES 2003	PRINCIPAL AND INTEREST REQUIREMENTS		G.O.N. SERIES 2005	TOTAL PAYMENTS
		REVENUE NOTE WATER FUND	REVENUE NOTE SEWER FUND		
2010	340,548	386,779	234,307	237,333	1,198,967
2011	340,548	386,779	234,307	237,333	1,198,967
2012	340,548	386,779	234,307	237,333	1,198,967
2013	335,262	403,630	244,515	237,333	1,220,740
2014	-	407,000	246,557	237,333	890,890
2015-2019	-	2,035,001	1,232,784	235,047	3,502,832
2020-2024	-	2,035,001	1,232,784	-	3,267,785
2025-2028	-	1,286,404	780,763	-	2,067,167
TOTAL	\$ 1,356,906	\$ 7,327,373	\$ 4,440,324	\$ 1,421,712	\$ 14,546,315

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2009

Note 8 - Pension Plan Obligations

The Borough maintains two pension plans, the Non-Uniformed Pension Plan and the Police Pension Plan. The Non-Uniformed Pension Plan covers substantially all full-time and permanently part-time non-police employees of the Borough and the Police Pension Plan covers the full-time police employees. The plans are single-employer defined benefit pension plans. The financial statements of the plans are part of the Borough's annual financial report which can be obtained from the Borough at 35 North Third St., Quakertown, PA 18951. The authority, under which the benefit provisions have been established or may be amended, remains with the Council of the Borough of Quakertown.

Non-Uniformed Pension Plan

Plan Description

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the plans are prepared on the modified cash basis of accounting. Employer contributions to the plan are recognized when received. Benefits and expenses are recognized when paid in accordance with the terms of the plan.

Method Used to Value Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities and mutual funds reported on a national exchange are valued at the last reported sales price at the end of the year.

Funding Policy

Act 205, of the Commonwealth of Pennsylvania, requires that the annual contributions be based on the plans' annual minimum municipal obligation (MMO). The MMO is based on the plans' biennial actuarial valuations, which were performed as of January 1, 2007. In accordance with the plan's governing resolution; members are not required to contribute any of their compensation to the plan.

The Plans may also be eligible to receive an allocation of state aid from the General Municipal Pension System Aid Program, which must be used for pension funding. Any funding requirements established by the MMO in excess of aid must be paid by the municipality in accordance with Act 205.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2009

Plan Membership

Plan membership of the plan consisted of the following at December 31, 2009:

Active plan members	50
Retirees and beneficiaries currently receiving benefits	20
Terminated plan members entitled to benefits but not yet receiving them	26
TOTAL	96

Annual Pension Cost and Net Pension Obligation

The Borough's annual pension cost and net pension obligation for the year are:

Annual Pension Cost per MMO	\$	274,607
Contributions Made		274,607

Three-Year Trend Information

THREE YEAR TREND INFORMATION			
Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension
12/31/2007	370,635	100.0%	\$ -
12/31/2008	274,564	100.0%	-
12/31/2009	274,607	100.0%	-

The annual contribution for the current year was determined as part of the January 1, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at January 1, 2007 included (a) 7.5% rate of return, (b) projected salary increases of 5.0% and (c) cost-of-living increases of 2.0%. The assumptions did not include post-retirement benefits. The actuarial value of the plan's assets was determined using market values as determined by the Administrator, using the 4 year smoothing method. The unfunded accrued liability (AAL) is being amortized on the level dollar method on a closed basis over 15 or 30 years. The remaining amortization periods at December 31, 2009, were 4-23 years.

Funded Status and Funding Progress

As of January 1, 2009, the most recent actuarial valuation date, the plan was 77.4% funded. The actuarial accrued liability for benefits was \$7,403,418 and the actuarial value of the assets was \$5,732,547, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,670,871. The covered payroll (annual payroll of active employees covered by the plan) was \$2,407,792 and the ratio of the UAAL to the covered payroll was 69.4%.

As a result of being 77.4% funded the plan is considered to be at the minimal distress level. There are certain voluntary remedies that the Borough may use to improve the funding level.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2009

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

Police Pension Plan

Plan Description

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the plan are prepared using the modified cash basis of accounting. Employer contributions to the plan are recognized when received. Benefits and expenses are recognized when paid in accordance with the terms of the plan.

Method Used to Value Investments

Investments are reported at fair value. Short-term investments are reported as cost, which approximates fair value. Securities and mutual funds reported on a national exchange are valued at the last reported sales price at the end of the year.

Funding Policy

Act 205, of the Commonwealth of Pennsylvania, requires that the annual contributions be based on the plans' annual minimum municipal obligation (MMO). The MMO is based on the plans' biennial actuarial valuations, which were performed as of January 1, 2007. In accordance with the plan's governing resolution, members are not required to contribute any of their compensation to the plan.

The Plans may also be eligible to receive an allocation of state aid from the General Municipal Pension System Aid Program which must be used for pension funding. Any funding requirements established by the MMO in excess of aid must be paid by the municipality in accordance with Act 205.

Plan Membership

Plan membership of the plan consisted of the following at December 31, 2009:

Active plan members	17
Retirees and beneficiaries currently receiving benefits	7
Terminated plan members entitled to benefits but not yet receiving them	3
TOTAL	27

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2009

Annual Pension Cost and Net Pension Obligation

The Borough's annual pension cost and net pension obligation for the year are:

Annual Pension Costs	\$ 349,600
Contributions Made	349,600

Three-Year Trend Information

THREE YEAR TREND INFORMATION			
Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Net Pension
12/31/2007	\$ 246,697	100.0%	\$ -
12/31/2008	320,583	100.0%	-
12/31/2009	349,600	100.0%	-

The annual contribution for the current year was determined as part of the January 1, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at January 1, 2007 included (a) 7.5% rate of return, (b) projected salary increases of 5.0% and (c) cost-of-living increases of 3.0%. The assumptions did not include post-retirement benefits. The actuarial value of the plan's assets was determined using market values as determined by the Administrator, using the 4 year smoothing method. The unfunded accrued liability (AAL) is being amortized on the level dollar method on a closed basis over 10-30 years. The remaining amortization periods at December 31, 2009, were 3-23 years.

Funded Status and Funding Progress

As of January 1, 2009, the most recent actuarial valuation date, the plan was 59.0% funded. The actuarial accrued liability for benefits was \$5,645,512 and the actuarial value of the assets was \$3,332,507, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,313,005. The covered payroll (annual payroll of active employees covered by the plan) was \$1,387,429 and the ratio of the UAAL to the covered payroll was 166.7%.

As a result of being 59% funded, the plan is considered to be at the moderate distress level. There are voluntary and mandatory remedies available that the Borough may use to improve the funding level.

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

Deferred Retirement Option Plan

On November 29, 2006, the Borough adopted the Deferred Retirement Option Plan (DROP) for the Borough's police officers. Police officers who have not retired prior to the implementation of the DROP plan may enter into DROP on the first day of any month following completion of twenty-five years of credited service and attaining the age of fifty.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2009

A police officer electing to participate in the DROP must complete and file with the Borough a DROP option form which shall evidence the member's participation in the DROP. The form must be submitted prior to the date on which the member wishes the DROP option to be effective. The DROP Option notice shall include an irrevocable notice to the Borough that the member shall resign from employment with the Borough Police Department effective on a specific date (the "Resignation Date"). In no event shall the Resignation date be shorter than twelve months or longer than sixty months from the execution of the DROP Option form. An officer shall cease to work as a police officer on the officer's Resignation Date, unless the Borough terminates or honorably discharges the officer prior to the Resignation Date.

After the effective date of the DROP Option, the police officer shall no longer earn or accrue additional years of continuous service for pension purposes.

The monthly benefit that would have been payable had the police officer elected to cease employment and receive a normal retirement benefit, shall be upon the police officer commencing participation in DROP, be paid into the separate account established to receive the participant's monthly pension payments. This account shall be designated the DROP account. An individual officer's DROP account shall be a self-directed investment vehicle with the officer having exclusive control over the investment of his or her DROP account monies.

After a police officer elects to participate in the DROP program, all other contractual benefits shall continue to accrue with the exception of those provisions relating to the Police Pension Plan and the buy back of accrued, but unused sick or vacation time. A police officer may utilize leave time during the DROP period, but the Borough shall not be required to buyback any such unused leave time at the end of the DROP period.

Upon the resignation date set forth in the police officer's DROP option notice or such date as the Borough separates the member from employment, the retirement benefits payable to the police officer's designated beneficiary, if applicable, shall be paid to the police officer or beneficiary and shall no longer be paid the police officer's deferred retirement option account. Within thirty days following termination of the police officer's employment pursuant to their participating in the DROP program, the balance in the police officer's DROP account shall be paid to the police officer in a single lump sum payment or at the police officer's option, in any manner permitted by the law.

If a police officer becomes temporarily incapacitated during this participation in DROP, that police officer shall continue to participate in the DROP program as if fully employed. The police officer shall receive disability pay in the same amount as a disabled police officer that is not participating in DROP. In no event shall a police officer on temporary disability have the ability to draw from his DROP account. However, notwithstanding any other provision in this paragraph, if a police officer is disabled and has not returned to work as of his required Resignation Date, then such resignation shall take precedence over all other provisions herein, and said officer shall be required to resign. If a police officer becomes permanently disabled during the DROP period, the officer shall be honorably discharged from employment, on the date that the police officer may obtain the contents of his DROP account, and thereafter, commence receiving his normal pension benefit.

If a DROP participant dies before the DROP account balances are paid, the participant member's designated beneficiary shall have the same rights as the police officer to withdraw the account balance. However, if a DROP participant dies during the DROP period and the Act 600 killed-in-service death benefit is payable to the deceased DROP participant, then the DROP election shall be revoked and the DROP account shall not be payable to any designated beneficiary of the deceased DROP participant. If death occurs during the DROP period but the Act 600 Killed-In-Service Death Benefit is not payable, the DROP participant's designated beneficiary shall be entitled to a lump sum payment of the DROP account balance and any applicable survivor benefit shall be paid by the fund.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2009

Notwithstanding a police officer's participation in the DROP plan, a police officer, who is convicted or pleads guilty to engaging in criminal misconduct, which constitutes a "Crime related to public office or public employment" as that phrase is defined in Pennsylvania's Pension Forfeiture Law and interpreted there under, forfeit his right to receive a pension, including any monies currently deposited in the DROP account. In such a case, the police officer shall only be entitled to receive the contributions, if any, by the police officer to the Fund, without interest.

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 9 - Contingencies

The Borough of Quakertown is currently involved in a litigation proceeding. The proceeding involves contractual litigation potentially totaling \$177,000. The Borough believes this matter is defensible and does not anticipate any loss from this litigation. Discovery is not yet complete. Upon completion of the same, a more reasonable evaluation can take place.

Note 10 – 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 11 – Subsequent Events

The subsequent events have been evaluated through August 6, 2010, which is the date of the financial statements were available to be issued.



HUTCHINSON, GILLAHAN & FREEH, P.C.
ACCOUNTANTS, AUDITORS & CONSULTANTS

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

**INDEPENDENT AUDITOR'S 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, as of and for the year ended December 31, 2009, which collectively comprise the Borough of Quakertown's basic financial statements and have issued our report thereon dated August 6, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily 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.

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 Borough of Quakertown in a separate letter dated August 6, 2010.

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

Respectfully submitted,

Craig W. Gillette # CPA

August 6, 2010

REQUIRED SUPPLEMENTAL INFORMATION

THE BOROUGH OF QUAKERTOWN
Pension Funds
Required Supplemental Information
December 31, 2009

SCHEDULE OF FUNDING PROGRESS

ACTUARIAL VALUATION DATE	ACTUARIAL VALUATION OF ASSETS	ACTUARIAL ACCRUED LIABILITY ENTRY AGE PENSION	UNFUNDED AAL		FUNDED RATIO	COVERED PAYROLL		UAAAL AS A % OF COVERED PAYROLL
			UNFUNDED AAL	FUNDED RATIO		COVERED PAYROLL	COVERED PAYROLL	
<u>NON-UNIFORMED PENSION PLAN</u>								
1/1/2005	\$ 4,342,242	\$ 6,131,389	\$ 1,789,147	70.82%	\$ 2,323,849	76.99%		
1/1/2007	5,126,573	6,368,201	1,241,628	80.50%	2,375,605	52.27%		
1/1/2009	5,732,547	7,403,418	1,670,871	77.43%	2,407,792	69.39%		
<u>POLICE PENSION FUND</u>								
1/1/2005	\$ 2,525,257	\$ 3,929,023	\$ 1,403,766	64.27%	\$ 927,123	151.41%		
1/1/2007	2,859,924	4,584,888	1,724,964	62.38%	1,121,934	153.75%		
1/1/2009	3,332,507	5,645,512	2,313,005	59.03%	1,387,429	166.71%		

SCHEDULES OF EMPLOYER CONTRIBUTIONS

YEAR ENDED DECEMBER 31	NON-UNIFORMED PENSION PLAN		POLICE PENSION PLAN	
	ANNUAL REQUIRED CONTRIBUTION	PERCENTAGE CONTRIBUTED	ANNUAL REQUIRED CONTRIBUTION	PERCENTAGE CONTRIBUTED
2004	\$ 218,682	100.00%	\$ 114,610	100.00%
2005	277,117	100.00%	149,186	100.00%
2006	287,837	100.00%	163,571	100.00%
2007	370,635	100.00%	246,697	100.00%
2008	274,564	100.00%	320,583	100.00%
2009	274,607	100.00%	349,600	100.00%

OTHER SUPPLEMENTAL INFORMATION

THE BOROUGH OF QUAKERTOWN
 Combining Balance Sheet – Modified Cash Basis
 All Non-Major Governmental Funds
 For the Year Ended December 31, 2009

	SPECIAL REVENUE	FIRE COMPANY CAPITAL FUND	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
\$	142,332	\$ 8,579	\$ 150,911
\$	142,332	\$ 8,579	\$ 150,911

ASSETS

Cash and Cash Equivalents

TOTAL ASSETS

LIABILITIES AND FUND BALANCES

FUND BALANCES:

Unreserved

TOTAL FUND BALANCES

TOTAL LIABILITIES AND FUND BALANCES

\$	142,332	\$ 8,579	\$ 150,911
	142,332	8,579	150,911
\$	142,332	\$ 8,579	\$ 150,911

THE BOROUGH OF QUAKERTOWN
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis
All Non-Major Governmental Funds
For the Year Ended December 31, 2009

	SPECIAL REVENUE			TOTAL
	LIQUID FUELS FUND	FIRE COMPANY CAPITAL FUND	NON-MAJOR GOVERNMENTAL FUNDS	
REVENUES				
Intergovernmental	\$ 166,498	\$ -		\$ 166,498
Investment Earnings	1,762	485		2,247
TOTAL REVENUES	168,260	485	-----	168,745
EXPENDITURES				
Public Safety	-	80,000		80,000
Public Works	139,342	-		139,342
TOTAL EXPENDITURES	139,342	80,000	-----	219,342
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	28,918	(79,515)	-----	(50,597)
OTHER FINANCING USES				
Transfers In/(Out)	-	69,996		69,996
TOTAL OTHER FINANCING USES	-	69,996	-----	69,996
NET CHANGE IN FUND BALANCES	28,918	(9,519)	-----	19,399
FUND BALANCES - BEGINNING	113,414	18,098	-----	131,512
FUND BALANCES - ENDING	\$ 142,332	\$ 8,579	\$ -----	\$ 150,911

THE BOROUGH OF QUAKERTOWN
Combining Balance Sheet – Modified Cash Basis
All Capital Project Funds
For the Year Ended December 31, 2009

	<u>CAPITAL PROJECT FUNDS</u>			<u>TOTAL CAPITAL PROJECT FUNDS</u>
	<u>WATER CAPITAL PROJECTS FUND</u>	<u>EQUIPMENT REPLACEMENT FUND</u>	<u>TOTAL CAPITAL PROJECT FUNDS</u>	
ASSETS				
Cash and Cash Equivalents	\$ 1,257,118	\$ 569,197	\$ 148,537	\$ 1,974,852
Investments	495,981	1,556,427	-	2,052,408
Due from Other Funds	-	-	-	-
TOTAL ASSETS	\$ 1,753,099	\$ 2,125,624	\$ 148,537	\$ 4,027,260

LIABILITIES AND FUND BALANCES

LIABILITIES:			
Due to Other Funds	\$ -	\$ -	\$ -
TOTAL LIABILITIES	-	-	-

FUND BALANCES:

Restricted for Capital Projects	1,753,099	2,125,624	148,537	4,027,260
TOTAL FUND BALANCES	1,753,099	2,125,624	148,537	4,027,260
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,753,099	\$ 2,125,624	\$ 148,537	\$ 4,027,260

THE BOROUGH OF QUAKERTOWN
Combining Statement of Revenues, Expenditures and Changes in Fund Balances -- Modified Cash Basis
All Capital Project Funds
For the Year Ended December 31, 2009

	CAPITAL PROJECT FUNDS			TOTAL CAPITAL PROJECT FUNDS
	WATER CAPITAL FUND	CAPITAL PROJECTS FUND	EQUIPMENT REPLACEMENT FUND	
REVENUES				
Food Bank Donation	\$ -	\$ 30,000	\$ -	\$ 30,000
Krupp Park Grant	-	10,000	-	10,000
Insurance Claim Refund	-	-	41,305	41,305
Miscellaneous	-	3,257	-	3,257
Investment Earnings	25,625	59,178	1,963	86,766
TOTAL REVENUES	<u>25,625</u>	<u>102,435</u>	<u>43,268</u>	<u>171,328</u>
EXPENDITURES				
General Government	17,775	129,820	-	147,595
Public Safety	-	-	48,311	48,311
Public Works	75	421,212	271,197	692,484
Community Development	-	31,366	-	31,366
TOTAL EXPENDITURES	<u>17,850</u>	<u>582,398</u>	<u>319,508</u>	<u>919,756</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>7,775</u>	<u>(479,963)</u>	<u>(276,240)</u>	<u>(748,428)</u>
OTHER FINANCING SOURCES				
Sale of Fixed Assets	-	-	40,778	40,778
Transfers In	-	-	231,314	231,314
Transfers Out	-	-	-	-
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>-</u>	<u>272,092</u>	<u>272,092</u>
NET CHANGE IN FUND BALANCE	<u>7,775</u>	<u>(479,963)</u>	<u>(4,148)</u>	<u>(476,336)</u>
FUND BALANCES - BEGINNING	<u>1,745,324</u>	<u>2,605,587</u>	<u>152,685</u>	<u>4,503,596</u>
FUND BALANCES - ENDING	<u>\$ 1,753,099</u>	<u>\$ 2,125,624</u>	<u>\$ 148,537</u>	<u>\$ 4,027,260</u>

THE BOROUGH OF QUAKERTOWN
Combining Statement of Net Assets – Modified Cash Basis
All Pension and Other Employee Trust Funds
As of December 31, 2009

	POLICE PENSION TRUST FUND	NON UNIFORMED PENSION TRUST FUND	POLICE POST RETIREMENT MEDICAL TRUST FUND	TOTAL TRUST FUNDS
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 148,340	\$ 222,817	\$ 76,919	\$ 448,076
Investments	3,267,392	5,198,087	-	8,465,479
TOTAL ASSETS	\$ 3,415,732	\$ 5,420,904	\$ 76,919	\$ 8,913,555
<u>LIABILITIES</u>				
Pension Fund Liability	\$ -	\$ -	\$ -	\$ -
Due to Police Officers	-	-	76,919	76,919
TOTAL LIABILITIES	-	-	76,919	76,919
<u>NET ASSETS</u>				
Restricted for Employee Benefits	3,415,732	5,420,904	-	8,836,636
TOTAL NET ASSETS	\$ 3,415,732	\$ 5,420,904	\$ -	\$ 8,913,555

THE BOROUGH OF QUAKERTOWN
Combining Statement of Changes in Net Assets – Modified Cash Basis
All Pension and Other Employee Trust Funds
For the Year Ended December 31, 2009

	POLICE PENSION TRUST FUND	NON UNIFORMED PENSION TRUST FUND	POLICE POST RETIREMENT MEDICAL TRUST FUND	TOTAL TRUST FUNDS
ADDITIONS:				
Contributions - Employer	\$ 255,205	\$ 115,633	\$ -	\$ 370,838
Contributions - Employee	-	25,189	-	25,189
State Aid	94,395	158,974	-	253,369
Miscellaneous	1,491	2,590	-	4,081
INVESTMENT EARNINGS:				
Interest and Dividends	89,987	144,675	-	234,662
Change in Fair Value of Investments	418,742	756,178	-	1,174,920
TOTAL ADDITIONS	<u>859,820</u>	<u>1,203,239</u>	<u>-</u>	<u>2,063,059</u>
DEDUCTIONS:				
Administrative Charges	7,300	10,400	-	17,700
Trustee Fees	9,614	16,610	-	26,224
Investment Expenses	-	-	-	-
Insurance	4,120	-	-	4,120
Employee Benefits	192,808	163,894	-	356,702
TOTAL DEDUCTIONS	<u>213,842</u>	<u>190,904</u>	<u>-</u>	<u>404,746</u>
CHANGE IN NET ASSETS	645,978	1,012,335	-	1,658,313
NET ASSETS - BEGINNING OF YEAR	<u>2,769,754</u>	<u>4,408,569</u>	<u>-</u>	<u>7,178,323</u>
NET ASSETS - END OF YEAR	<u>\$ 3,415,732</u>	<u>\$ 5,420,904</u>	<u>\$ -</u>	<u>\$ 8,836,636</u>

THE BOROUGH OF QUAKERTOWN
Combining Statement of Net Assets – Modified Cash Basis
All Enterprise Funds
As of December 31, 2009

	MAJOR		NON-MAJOR		TOTAL
	ELECTRIC FUND	SEWER FUND	WATER FUND	POOL FUND	
ASSETS					
Cash and Cash Equivalents	\$ 1,737,976	\$ 1,316,156	\$ 240,134	\$ 31,643	\$ 3,325,909
Investments	685,698	519,274	94,742	-	1,299,714
Due from Other Funds	-	-	-	-	-
TOTAL ASSETS	\$ 2,423,674	\$ 1,835,430	\$ 334,876	\$ 31,643	\$ 4,625,623
LIABILITIES					
Other Payables	\$ 20,051	-	\$ -	-	\$ 20,051
Due to Other Funds	-	-	-	-	-
TOTAL LIABILITIES	20,051	-	-	-	20,051
NET ASSETS					
Unrestricted Net Assets	2,403,623	1,835,430	334,876	31,643	4,605,572
TOTAL LIABILITIES AND NET ASSETS	\$ 2,423,674	\$ 1,835,430	\$ 334,876	\$ 31,643	\$ 4,625,623

THE BOROUGH OF QUAKERTOWN
Combining Statement of Revenues Received, Expenses Paid and Changes in Net Assets -
All Enterprise Funds – Modified Cash Basis
For the Year Ended December 31, 2009

	MAJOR		NON-MAJOR		TOTAL
	ELECTRIC FUND	SEWER FUND	WATER FUND	POOL FUND	
OPERATING REVENUE					
Charges for Services	\$ 13,980,439	\$ 2,856,766	\$ 1,290,191	\$ 189,020	\$ 18,316,416
Permits and Fees	65,529	-	42,326	-	107,855
Penalties	133,374	-	-	-	133,374
Rental Income	-	-	20,954	-	20,954
Other Income	-	2,383	2,985	-	5,368
TOTAL OPERATING REVENUE	14,179,342	2,859,149	1,356,456	189,020	18,583,967
OPERATING EXPENSES					
Costs of Furnishing Utility	9,307,152	1,465,030	732,101	-	11,504,283
Costs of Pool Operations	-	-	-	184,676	184,676
Employee Benefits	200,746	189,631	147,568	7,461	545,406
Employee Pension	57,406	56,660	39,381	-	153,447
Insurance	59,331	77,941	47,749	14,550	199,571
TOTAL OPERATING EXPENSES	9,624,635	1,789,262	966,799	206,687	12,587,383
OPERATING INCOME (LOSS)	4,554,707	1,069,887	389,657	(17,667)	5,996,584
NON-OPERATING REVENUE (EXPENSE)					
Debt Service	(181,420)	(234,307)	(1,301,532)	(340,548)	(2,057,807)
Sale of Fixed Assets	4,966	68	629	-	5,663
Loan Proceeds - Pennvest	-	-	-	-	-
Interest Earned	45,104	23,493	12,843	1,212	82,652
State Aid - Pensions	33,233	32,801	22,798	-	88,832
TOTAL NON-OPERATING REVENUE (EXPENSE)	(98,117)	(177,945)	(1,265,262)	(339,336)	(1,880,660)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	4,456,590	891,942	(875,605)	(357,003)	4,115,924
CAPITAL CONTRIBUTIONS/TRANSFERS					
Transfers from Other Funds	-	-	-	375,000	375,000
Transfers to Other Funds	(2,616,279)	(236,531)	(176,500)	-	(3,029,310)
TOTAL CAPITAL CONTRIBUTIONS/TRANSFERS	(2,616,279)	(236,531)	(176,500)	375,000	(2,654,310)
CHANGES IN NET ASSETS	1,840,311	655,411	(1,052,105)	17,997	1,461,614
NET ASSETS, JANUARY 1, 2009	563,312	1,180,019	1,386,981	13,646	3,143,958
NET ASSETS, DECEMBER 31, 2009	\$ 2,403,623	\$ 1,835,430	\$ 334,876	\$ 31,643	\$ 4,605,572

**INDIVIDUAL FUND STATEMENTS
AND SCHEDULES**

THE BOROUGH OF QUAKERTOWN
General Fund
Statement of Revenues Received, Expenditures Paid, and Changes in Fund Balance –
Modified Cash Basis
For the Year Ended December 31, 2009

REVENUES RECEIVED

TAXES:

Real Estate Taxes - Current	\$	123,307	
Real Estate Taxes - Interims		387	
Real Estate Taxes - Prior		8,229	
Real Estate Transfer Tax		109,036	
Earned Income Tax		806,240	
Local Services Tax		232,623	
		232,623	\$ 1,279,822

FINES AND FORFEITS:

Motor Vehicle Violations	120,723	
Fines	6,093	
Parking Tickets	1,720	
	1,720	128,536

LICENSES AND PERMITS:

Franchise Fee Cable	128,008	
Permits/Reports	540	
	540	128,548

INTERGOVERNMENTAL:

Public Utility Realty Tax	2,207	
In Lieu of Taxes	15,000	
Beverage Licenses	4,373	
Pension State Aid	164,536	
Allotment - Fireman's Relief	63,749	
Local Government Units	17,027	
Federal Grants	32,888	
State Grants	133,320	
	133,320	433,100

CHARGES FOR SERVICES:

General Government	119,746	
Public Safety	194,925	
Parking Meters	7,291	
Sale of Trash Bags	36,000	
Health	550	
Culture and Recreation	31,737	
	31,737	390,249

INVESTMENT AND RENTAL EARNINGS:

Interest Income	9,619	
Rentals	3,387	
	3,387	13,006

MISCELLANEOUS:

Contributions and Donations	23,749	
Overtime Reimbursement	-	
Insurance Claim Refund	17,028	
Sale of Fixed Assets	1,079	
Other	16,546	
	16,546	58,402

TOTAL REVENUE RECEIVED		\$ 2,431,663
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THE BOROUGH OF QUAKERTOWN
General Fund (Cont'd)
Statement of Revenues Received, Expenditures Paid, and Changes in Fund Balance –
Modified Cash Basis
For the Year Ended December 31, 2009

EXPENDITURES PAID

GENERAL GOVERNMENT

LEGAL:

Solicitor	\$	22,833
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MAYOR, LEGISLATIVE, BOROUGH MANAGER:

Salary		184,121
Materials and Supplies		6,809
Contracted Services		5,047
Association Dues and Conventions		15,949
Advertising, Printing and Postage		14,163
Gasoline		1,004
Telephone		12,175
Insurance		16,636
Small Tools and Equipment		5,967

FINANCE AND ACCOUNTING:

Salary		173,926
Auditing		27,438
Office Supplies		692
Bonding		1,214
Association Dues and Conventions		4,646
Contracted Services		34,822

TAX COLLECTION:

Salary		12,895
Contracted Services		2,477

IT-NETWORKING SERVICES-DATA PROCESSING:

Computer Hardware and Software		9,725
Computer Parts and Supplies		625
Internet Service		1,238
Contracted IT Services		23,282
Web Design and Maintenance		289

ENGINEERING:

Engineering Fees		30,488
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BUILDINGS AND PLANT:

Building Supplies		4,330
Cleaning Supplies		2,747
Repairs and Maintenance		8,197
Contracted Services		5,874

TOTAL GENERAL GOVERNMENT	\$	629,609
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THE BOROUGH OF QUAKERTOWN
General Fund (Cont'd)
Statement of Revenues Received, Expenditures Paid, and Changes in Fund Balance –
Modified Cash Basis
For the Year Ended December 31, 2009

PUBLIC SAFETY

POLICE:

Salary	\$ 1,450,447
Office Supplies	9,365
Postage	3,860
Fuel and Oil	29,107
Uniforms	30,283
K9	6,178
Ammunition	6,386
National Night Out	1,724
Vehicle Maintenance and Repair	19,711
Small Tools and Equipment	16,079
Telephone	17,393
Towing	19,130
Advertising and Printing	975
Police Professional Liability Insurance	18,445
Asset Forfeiture	4,143
Association Dues and Conventions	21,883
Contracted Services	15,339
Capital Purchases	59,222

FIRE:

Contribution to Fire Co.	65,000
Fireman's Relief	63,749
Fire Marshal	46,440
Insurance	38,606
Gasoline	51,381
Fire Truck Repairs	2,889
Capital Purchases	-

INSPECTIONS:

Zoning and Administration	60,450
Salary of Clerical	30,387
Office Supplies	2,762
Fuel and Oil	1,370
Uniforms	578
Vehicle Maintenance and Repair	2,074
Small Tools and Equipment	477
Advertising and Printing	1,809
Association Dues and Conventions	2,481
Contracted Services	1,213

TOTAL PUBLIC SAFETY

\$ 2,101,336

THE BOROUGH OF QUAKERTOWN
General Fund (Cont'd)
Statement of Revenues Received, Expenditures Paid, and Changes in Fund Balance –
Modified Cash Basis
For the Year Ended December 31, 2009

PUBLIC WORKS

SOLID WASTE AND COLLECTION:	\$	35,312	
STREET MAINTENANCE AND LIGHTING:			
Salaries - Highways and Streets		692,451	
Office Supplies		2,210	
Fuel and Oil		21,164	
Uniforms		2,026	
Street and Traffic Signs		16,638	
Road Materials		32,115	
Vehicle Maintenance and Repairs		52,321	
Small Tools and Equipment		16,679	
Telephone		9,828	
Association Dues and Conventions		1,707	
Contracted Services		525	
CDL Drug and Alcohol Testing		673	
Capital Purchases		18,380	
Snow Removal Materials		65,675	
Road Projects		<u>1,416</u>	
TOTAL PUBLIC WORKS			\$ 969,120

CULTURE AND RECREATION

PARKS AND POOL:			
Salary		38,129	
Supplies		13,748	
Discount Tickets		22,509	
QSAA		3,015	
Vehicle Maintenance and Repairs		5,797	
Small Tools and Equipment		14,391	
Summer Concert Series		4,832	
Kids Program		4,990	
Advertising and Printing		2,330	
Contracted Services		116,116	
Field Improvements		4,318	
Capital Maintenance		<u>24,414</u>	
TOTAL CULTURE AND RECREATION			254,589

COMMUNITY DEVELOPMENT

Professional Services		44,604	
Contracted Services		<u>57,663</u>	
TOTAL COMMUNITY DEVELOPMENT			102,267

THE BOROUGH OF QUAKERTOWN
General Fund (Cont'd)
Statement of Revenues Received, Expenditures Paid, and Changes in Fund Balance –
Modified Cash Basis
For the Year Ended December 31, 2009

DEBT SERVICE

Debt Principal	\$	113,505
Debt Interest		<u>1,951</u>

TOTAL DEBT SERVICE 115,456

EMPLOYER PAID BENEFITS AND WITHHOLDING ITEMS

Police Pension		350,583
Non-Uniformed Pension		121,160
Employee Benefits		<u>972,696</u>

TOTAL EMPLOYER PAID BENEFITS AND WITHHOLDING ITEMS \$ 1,444,439

INSURANCE

Insurance, Casualty, and Surety	185,444
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UNCLASSIFIED OPERATING EXPENDITURES 18,356

TOTAL EXPENDITURES PAID 5,820,616

DEFICIENCY OF REVENUES RECEIVED OVER EXPENDITURES PAID (3,388,953)

OTHER FINANCING SOURCES RECEIVED AND OTHER FINANCING USES PAID

Interfund Transfers In	2,353,000	
Interfund Transfers Out	<u>-</u>	<u>2,353,000</u>

NET CHANGE IN FUND BALANCES (1,035,953)

FUND BALANCE - JANUARY 1, 2009 1,096,324

FUND BALANCE - DECEMBER 31, 2009 \$ 60,371

THE BOROUGH OF QUAKERTOWN
Electric Fund
Statement of Revenues Received, Expenditures Paid, and Changes in Net Assets –
Modified Cash Basis
For the Year Ended December 31, 2009

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>OPERATING REVENUE</u>		
Charges for Services	\$ 14,000,000	\$ 13,980,439
Permits and Fees	42,600	65,529
Penalties	155,000	133,374
Pa Sales Tax	78,000	-
Other Income	14,000	-
TOTAL OPERATING REVENUE	<u>14,289,600</u>	<u>14,179,342</u>
<u>OPERATING EXPENSES</u>		
Costs of Furnishing Utility	10,172,600	9,307,152
Employee Benefits	184,200	200,746
Employee Pension	57,000	57,406
Insurance	73,100	59,331
Contingency	695,000	-
TOTAL OPERATING EXPENSES	<u>11,181,900</u>	<u>9,624,635</u>
OPERATING INCOME	<u>3,107,700</u>	<u>4,554,707</u>
<u>NON-OPERATING REVENUE (EXPENSE)</u>		
Interest Earned	60,000	45,104
Refunds	1,000	-
Sale of Fixed Assets	3,000	4,966
State Aid - Pension	27,500	33,233
Debt Service	(181,425)	(181,420)
TOTAL NON-OPERATING EXPENSE	<u>(89,925)</u>	<u>(98,117)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	<u>3,017,775</u>	<u>4,456,590</u>
<u>CAPITAL CONTRIBUTIONS/TRANSFERS</u>		
Transfers to Other Funds	(3,173,000)	(2,616,279)
TOTAL CAPITAL CONTRIBUTIONS/TRANSFERS	<u>(3,173,000)</u>	<u>(2,616,279)</u>
CHANGES IN NET ASSETS	(155,225)	1,840,311
NET ASSETS, JANUARY 1, 2009	<u>155,225</u>	<u>563,312</u>
NET ASSETS, DECEMBER 31, 2009	<u>\$ -</u>	<u>\$ 2,403,623</u>

THE BOROUGH OF QUAKERTOWN
Water Fund
Statement of Revenues Received, Expenditures Paid, and Changes in Net Assets –
Modified Cash Basis
For the Year Ended December 31, 2009

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>OPERATING REVENUE</u>		
Charges for Services	\$ 1,315,000	\$ 1,290,191
Fees	44,600	42,326
Rental Income	-	20,954
Other Income	21,000	2,985
TOTAL OPERATING REVENUE	<u>1,380,600</u>	<u>1,356,456</u>
<u>OPERATING EXPENSES</u>		
Costs of Furnishing Utility	967,900	732,101
Employee Benefits	155,075	147,568
Employee Pension	49,000	39,381
Insurance	67,000	47,749
Contingency	-	-
TOTAL OPERATING EXPENSES	<u>1,238,975</u>	<u>966,799</u>
OPERATING INCOME	<u>141,625</u>	<u>389,657</u>
<u>NON-OPERATING REVENUE (EXPENSE)</u>		
Debt Service	(1,301,720)	(1,301,532)
Interest Earned	20,000	12,843
State Aid - Pension	27,500	22,798
Sale of Fixed Assets	3,000	629
TOTAL NON-OPERATING EXPENSE	<u>(1,251,220)</u>	<u>(1,265,262)</u>
(LOSS) BEFORE CAPITAL CONTRIBUTIONS	<u>(1,109,595)</u>	<u>(875,605)</u>
<u>CAPITAL CONTRIBUTIONS/TRANSFERS</u>		
Transfers from Other Funds	750,000	-
Transfers to Other Funds	(248,500)	(176,500)
TOTAL CAPITAL CONTRIBUTIONS/TRANSFERS	<u>501,500</u>	<u>(176,500)</u>
CHANGES IN NET ASSETS	(608,095)	(1,052,105)
NET ASSETS, JANUARY 1, 2009	<u>608,095</u>	<u>1,386,981</u>
NET ASSETS, DECEMBER 31, 2009	<u>\$ -</u>	<u>\$ 334,876</u>

THE BOROUGH OF QUAKERTOWN
Sewer Fund
Statement of Revenues Received, Expenditures Paid, and Changes in Net Assets –
Modified Cash Basis
For the Year Ended December 31, 2009

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>OPERATING REVENUE</u>		
Charges for Services	\$ 2,251,000	\$ 2,856,766
Other Income	<u>2,000</u>	<u>2,383</u>
TOTAL OPERATING REVENUE	2,253,000	2,859,149
<u>OPERATING EXPENSES</u>		
Costs of Furnishing Utility	1,699,400	1,465,030
Employee Benefits	189,060	189,631
Employee Pension	60,000	56,660
Insurance	112,100	77,941
Contingency	<u>116,000</u>	<u>-</u>
TOTAL OPERATING EXPENSES	2,176,560	1,789,262
OPERATING INCOME	76,440	1,069,887
<u>NON-OPERATING REVENUE (EXPENSE)</u>		
Interest Earned	18,000	23,493
Sale of Fixed Assets	3,000	68
State Aid - Pension	33,900	32,801
Sewage Facilities Grant	39,250	-
Debt Service	<u>(240,360)</u>	<u>(234,307)</u>
TOTAL NON-OPERATING REVENUE (EXPENSE)	(146,210)	(177,945)
INCOME BEFORE CAPITAL CONTRIBUTIONS	(69,770)	891,942
<u>CAPITAL CONTRIBUTIONS/TRANSFERS</u>		
Transfers to Other Funds	<u>(236,531)</u>	<u>(236,531)</u>
TOTAL CAPITAL CONTRIBUTIONS/TRANSFERS	(236,531)	(236,531)
CHANGES IN NET ASSETS	(306,301)	655,411
NET ASSETS, JANUARY 1, 2009	306,301	1,180,019
NET ASSETS, DECEMBER 31, 2009	\$ -	\$ 1,835,430

THE BOROUGH OF QUAKERTOWN
Pool Fund
Statement of Revenues Received, Expenditures Paid, and Changes in Net Assets –
Modified Cash Basis
For the Year Ended December 31, 2009

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>OPERATING REVENUE</u>		
Charges for Services	\$ 227,000	\$ 189,020
Other Income	200	-
TOTAL OPERATING REVENUE	<u>227,200</u>	<u>189,020</u>
<u>OPERATING EXPENSES</u>		
Costs of Pool Operations	231,600	184,676
Employee Benefits	7,500	7,461
Insurance	19,800	14,550
Contingency	-	-
TOTAL OPERATING EXPENSES	<u>258,900</u>	<u>206,687</u>
OPERATING INCOME	<u>(31,700)</u>	<u>(17,667)</u>
<u>NON-OPERATING REVENUE (EXPENSE)</u>		
Interest Earned	100	1,212
Debt Service	(340,555)	(340,548)
TOTAL NON-OPERATING EXPENSE	<u>(340,455)</u>	<u>(339,336)</u>
(LOSS) BEFORE CAPITAL CONTRIBUTIONS	<u>(372,155)</u>	<u>(357,003)</u>
<u>CAPITAL CONTRIBUTIONS/TRANSFERS</u>		
Transfers from Other Funds	375,000	375,000
TOTAL CAPITAL CONTRIBUTIONS/TRANSFERS	<u>375,000</u>	<u>375,000</u>
CHANGES IN NET ASSETS	2,845	17,997
NET ASSETS, JANUARY 1, 2009	<u>(2,845)</u>	<u>13,646</u>
NET ASSETS, DECEMBER 31, 2009	<u>\$ -</u>	<u>\$ 31,643</u>

**The Borough of Quakertown
Liquid Fuels Fund
Statement of Revenues Received, Expenditures Paid, and Changes in Fund Balance –
Modified Cash Basis
For the Year Ended December 31, 2009**

FUND BALANCE - JANUARY 1, 2009	\$	113,414
 <u>REVENUES AND OTHER FINANCING SOURCES RECEIVED</u>		
INTERGOVERNMENTAL:		
Liquid Fuels Tax	\$ 161,018	
Highway/Turnback Income	5,480	
INVESTMENT EARNINGS:		
Interest Earnings	1,762	168,260
TOTAL FUNDS AVAILABLE		281,674
 <u>EXPENDITURES AND OTHER FINANCING USES PAID</u>		
PUBLIC WORKS:		
Salt Dome Construction	139,342	139,342
FUND BALANCE - DECEMBER 31, 2009	\$	<u>142,332</u>

**Fire Company Capital Fund
Statement of Revenues Received, Expenditures Paid and Changes in Fund Balance –
Modified Cash Basis
For the Year Ended December 31, 2009**

FUND BALANCE - JANUARY 1, 2009	\$	18,098
 <u>REVENUES AND OTHER FINANCING SOURCES RECEIVED</u>		
Interest Earnings	\$ 485	
Transfer From Other Funds	69,996	70,481
TOTAL FUNDS AVAILABLE		88,579
 <u>EXPENDITURES AND OTHER FINANCING USES PAID</u>		
PUBLIC SAFETY:		
Equipment Purchase		80,000
FUND BALANCE - DECEMBER 31, 2009	\$	<u>8,579</u>

THE BOROUGH OF QUAKERTOWN
Water Capital Fund
Statement of Revenues Received, Expenditures Paid, and Changes in Fund Balance –
Modified Cash Basis
For the Year Ended December 31, 2009

FUND BALANCE - JANUARY 1, 2009		\$ 1,745,324
<u>REVENUES AND OTHER FINANCING SOURCES RECEIVED</u>		
Interest Earnings	\$ 25,625	
Note Proceeds	-	25,625
TOTAL FUNDS AVAILABLE		1,770,949
<u>EXPENDITURES AND OTHER FINANCING USES PAID</u>		
GENERAL GOVERNMENT:		
Engineering and Design	17,775	
PUBLIC WORKS:		
Miscellaneous	75	17,850
FUND BALANCE - DECEMBER 31, 2009		<u>\$ 1,753,099</u>

Capital Projects Fund
Statement of Revenues Received, Expenditures Paid and Changes in Fund Balance –
Modified Cash Basis
For the Year Ended December 31, 2009

FUND BALANCE - JANUARY 1, 2009		\$ 2,605,587
<u>REVENUES AND OTHER FINANCING SOURCES RECEIVED</u>		
Interest Earnings	\$ 59,178	
Food Bank Donation	30,000	
Krupp Park Grant	10,000	
Miscellaneous	3,257	102,435
TOTAL FUNDS AVAILABLE		2,708,022
<u>EXPENDITURES AND OTHER FINANCING USES PAID</u>		
GENERAL GOVERNMENT:		
Equipment	8,207	
Professional Services	423	
Buildings and Plant	121,190	
PUBLIC WORKS:		
Electric Building	421,212	
COMMUNITY DEVELOPMENT:		
Civic Contributions	31,366	
Council Contingency	-	582,398
FUND BALANCE - DECEMBER 31, 2009		<u>\$ 2,125,624</u>

THE BOROUGH OF QUAKERTOWN
Equipment Replacement Fund
Statement of Revenues Received, Expenditures Paid, and Changes in Fund Balance –
Modified Cash Basis
For the Year Ended December 31, 2009

FUND BALANCE - JANUARY 1, 2009		\$	152,685
 <u>REVENUES AND OTHER FINANCING SOURCES RECEIVED</u>			
Interest Earnings	\$	1,963	
Sale of Fixed Assets		40,778	
Insurance Claim Refund		41,305	
Transfer From Other Funds		<u>231,314</u>	<u>315,360</u>
 TOTAL FUNDS AVAILABLE			 468,045
 <u>EXPENDITURES AND OTHER FINANCING USES PAID</u>			
PUBLIC SAFETY:			
Contribution to Fire Company		48,311	
PUBLIC WORKS:			
Equipment		<u>271,197</u>	<u>319,508</u>
 FUND BALANCE - DECEMBER 31, 2009		 \$	 <u>148,537</u>

Escrow Fund
Statement of Receipts and Disbursements – Modified Cash Basis
For the Year Ended December 31, 2009

ASSETS			
Escrow Checking	\$	315,500	
Escrow Plgit		<u>-</u>	
 TOTAL ASSETS			 \$ <u>315,500</u>
 LIABILITIES			
Due to Escrow Holders	\$	<u>315,500</u>	
 TOTAL LIABILITIES			 \$ <u>315,500</u>

THE BOROUGH OF QUAKERTOWN
Escrow Fund
Statement of Receipts and Disbursements – Modified Cash Basis
For the Year Ended December 31, 2009

Police Health Reimbursement Arrangement Fund
Statement of Receipts and Disbursements – Modified Cash Basis
For the Year Ended December 31, 2009

ASSETS

Cash	\$ <u>27,521</u>	
TOTAL ASSETS		\$ <u>27,521</u>

LIABILITIES

Due to Police Officers	\$ <u>27,521</u>	
TOTAL LIABILITIES		\$ <u>27,521</u>

Police Post Retirement Medical Trust Fund
Statement of Receipts and Disbursements – Modified Cash Basis
For the Year Ended December 31, 2009

ASSETS

Cash	\$ <u>76,919</u>	
TOTAL ASSETS		\$ <u>76,919</u>

LIABILITIES

Due to Police Officers	\$ <u>76,919</u>	
TOTAL LIABILITIES		\$ <u>76,919</u>

THE BOROUGH OF QUAKERTOWN
Police Pension Trust Fund
Statement of Additions and Deductions – Modified Cash Basis
For the Year Ended December 31, 2009

NET ASSETS - BEGINNING OF YEAR		\$ 2,769,754
ADDITIONS:		
Contributions - Employer	\$ 255,205	
State Aid	94,395	
Miscellaneous	1,491	
INVESTMENT EARNINGS:		
Interest and Dividends	89,987	
Change in Fair Value of Investments	418,742	
TOTAL ADDITIONS	859,820	
DEDUCTIONS:		
Administrative Charges	7,300	
Trustee Fees	9,614	
Insurance	4,120	
Employee Benefits	192,808	
TOTAL DEDUCTIONS	213,842	
CHANGE IN NET ASSETS		645,978
NET ASSETS - END OF YEAR		\$ 3,415,732

Non-Uniformed Pension Trust Fund
Statement of Additions and Deductions – Modified Cash Basis
For the Year Ended December 31, 2009

NET ASSETS - BEGINNING OF YEAR		\$ 4,408,569
ADDITIONS:		
Contributions - Employer	115,633	
Contributions - Employee	25,189	
State Aid	158,974	
Miscellaneous Income	2,590	
INVESTMENT EARNINGS:		
Interest and Dividends	144,675	
Change in Fair Value of Investments	756,178	
TOTAL ADDITIONS	1,203,239	
DEDUCTIONS:		
Administrative Charges	10,400	
Trustee Fees	16,610	
Employee Benefits	163,894	
TOTAL DEDUCTIONS	190,904	
CHANGE IN NET ASSETS		1,012,335
NET ASSETS - END OF YEAR		\$ 5,420,904