

**REPORT ON
THE BOROUGH OF QUAKERTOWN
SINGLE AUDIT REPORT
YEAR ENDED DECEMBER 31, 2011**

THE BOROUGH OF QUAKERTOWN

Single Audit Report

For the Year Ended December 31, 2011

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I N T R O D U C T O R Y S E C T I O N



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

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

We have performed the Single Audit of The Borough of Quakertown for the year ended December 31, 2011, and have enclosed the Single Audit reporting package.

The Single Audit was done to fulfill the requirements of OMB Circular A-133, which entailed:

1. An audit of the basic financial statements, and our opinion thereon;
2. A review of compliance and on internal control over financial reporting based on an audit of the financial statements performed in accordance with Governmental Auditing Standards, and our report thereon;
3. An examination of the Schedule of Expenditures of Federal Awards, and our report thereon; and,
4. An opinion on compliance with requirements that could have a direct and material effect on each major program and internal control over compliance in accordance with OMB Circular A-133, and our report thereon.

As part of our report, we have enclosed our management letter.

Respectfully submitted,

Craig W. Gillahan^{II} CPA

July 20, 2012



HUTCHINSON, GILLAHAN & FREEH, P.C.

ACCOUNTANTS, AUDITORS & CONSULTANTS

July 20, 2012

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, 2011, 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.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes our comments and suggestions regarding those matters. A separate letter dated July 20, 2012, as part of the audited financial statements, (pages 77 and 78), contains our communication of a significant deficiency in the Organization's internal control. This letter does not affect our report dated July 20, 2012, on financial statements of the Borough of Quakertown.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with Organization personnel, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

Interfund Billing

During 2011, the Sewer Fund recorded backwash fee revenue in the amount of \$48,052 received from the Water Fund. The recording of this revenue was done by journal entry only with no supporting documentation. In the future, all amounts billed from one fund to another fund should be documented by an formal invoice that is approved by management.

Utility Escrow Fund

The "Customer Open Deposit List" report generated by Casselle does not match what is recorded in the general ledger and bank balances for the electric and water/sewer escrow accounts. An attempt should be made to reconcile the open deposit list to the general ledger so the book and bank balances accurately reflect the actual customer deposit balances. Procedures should be put into place to ensure that the customer's open deposit listing ties out to the general ledger so the deposit liabilities are accurately reflected.

Borough Council

Infrastructure Management

Under the modified approach of infrastructure management, the Borough is required to establish a policy regarding infrastructure upkeep. The policy should include the assessed condition, performed at least every three years of the infrastructure (roads, curbing, bridges, etc). In addition, the Borough needs to calculate an estimated amount at the beginning of the fiscal year to maintain and preserve at (or above) the condition level of the infrastructure established and disclosed by the government. The basis for the condition measurement and the measurement scale used to assess and report conditions of the infrastructure needs to be documented by the Borough.

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

July 20, 2012

REPORT DISTRIBUTION LIST

The Borough of Quakertown has distributed copies of the Single Audit Act Package to the following:

ONE COPY TO: PENNSYLVANIA DEPT. OF TRANSPORTATION
DANIEL GLEASON, PENNDOT DISTRICT 6
P.O. BOX 69181
HARRISBURG, PA 17106

FILE ELECTRONICALLY: BUREAU OF THE CENSUS
DATA PREPARATION DIVISION
1201 E. 10TH STREET
JEFFERSON, INDIANA 47131
ATTN: SINGLE AUDIT CLEARING HOUSE

FILE ELECTRONICALLY: COMMONWEALTH OF PENNSYLVANIA
BUREAU OF AUDITS
SPECIAL AUDIT SERVICES DIVISION
FORUM PLACE – 8TH FLOOR
505 WALNUT STREET
HARRISBURG, PA 17101

FINANCIAL SECTION



HUTCHINSON, GILLAHAN & FREEH, P.C.

ACCOUNTANTS, AUDITORS & CONSULTANTS

July 20, 2012

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, 2011, 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.

In our opinion, the financial statements, referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Quakertown at December 31, 2011, and the respective changes in financial position, cash flows, and the budgetary comparison of the General Fund for the year ended in conformity with accounting principles, generally accepted in the United States of America.

In accordance with Government Auditing Standards we have also issued our report dated July 20, 2012, 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

The Borough of Quakertown has presented Management's Discussion and Analysis and the Schedule of Funding Progress for the Pension Funds that accounting principles generally accepted in the United States of America has determined is required to be part of the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Borough of Quakertown has not presented the required supplementary information or disclosures regarding the Borough's infrastructure assets under the modified approach deemed necessary by accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough of Quakertown's financial statements as a whole. The Other Supplemental Information and the Individual Fund Statements and Schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The other supplemental information and the individual fund statements and schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Respectfully submitted,

Craig W. Gilliland II CPA

July 20, 2012

**BOROUGH OF QUAKERTOWN
Quakertown, Pennsylvania**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
For the Year Ended December 31, 2011**

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, 2011. 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, increased by \$1,827,602 including special and extraordinary items. The net assets increased in the governmental activities and funds by \$1,105,276 and increased in the business-type activities and funds by \$722,326.

During the year, the Borough paid principal of \$910,416 resulting in ending outstanding debt as of December 31, 2011, of \$9,673,351.

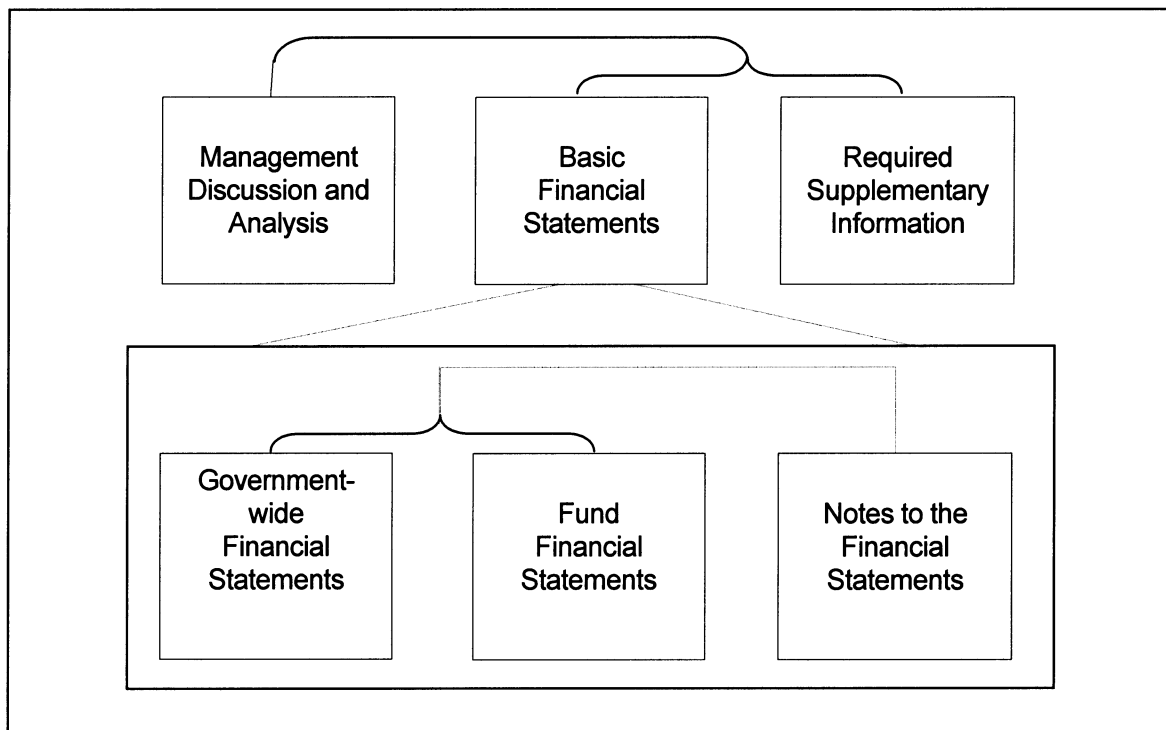
THE BOROUGH OF QUAKERTOWN
Management's Discussion and Analysis (MD&A)

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 proprietary and fiduciary funds)	The activities of the Borough that are not proprietary or fiduciary.	Activities the Borough operates similar to private business: <ul style="list-style-type: none"> • Electric • Water • Sewer • Pool 	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	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow-outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods and services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

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

OVERVIEW OF FINANCIAL STATEMENTS

Government-wide Statements

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

The government-wide statements report the Borough's net 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 17, provide detailed information about the most significant funds - not the Borough as a whole.

Fund Financial Statements includes:

Governmental Funds

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

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

Proprietary Funds

These funds are used to account for the Borough's activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the Borough charges customers for services it provides - these services are generally reported in proprietary funds. The electric, water, sewer 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 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 25. 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 \$50,026,162 at December 31, 2011.

Table A-1
Year Ended December 31, 2011 and 2010
Net Assets

	2011			2010		
	Govern- mental Activities	Business Type Activities	Total	Govern- mental Activities	Business Type Activities	Total
Current and Other Assets	<u>\$ 25,938,890</u>	<u>\$ 37,627,239</u>	<u>\$ 63,566,129</u>	<u>\$ 24,787,870</u>	<u>\$ 37,630,828</u>	<u>\$ 62,418,698</u>
Current and Other Liabilities	<u>\$ 3,408,774</u>	<u>\$ 10,131,193</u>	<u>\$ 13,539,967</u>	<u>\$ 3,363,030</u>	<u>\$ 10,857,108</u>	<u>\$ 14,220,138</u>
Net Assets						
Invested in Capital Assets, Net of Related Debt	\$ 20,264,533	\$ 19,120,902	\$ 39,385,435	\$ 19,440,654	\$ 19,199,506	\$ 38,640,160
Unrestricted	2,265,583	8,375,144	10,640,727	1,984,186	7,574,214	9,558,400
Total Net Assets	<u>\$ 22,530,116</u>	<u>\$ 27,496,046</u>	<u>\$ 50,026,162</u>	<u>\$ 21,424,840</u>	<u>\$ 26,773,720</u>	<u>\$ 48,198,560</u>

The results of this year's operations as a whole are reported in the statement of activities on page 16. 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, 2011 and 2010
Changes in Net Assets

	2011			2010		
	(Accrual Basis)			(Accrual Basis)		
	Govern- mental Activities	Business- Type Activities	Total	Govern- mental Activities	Business- Type Activities	Total
REVENUES						
<i>Program Revenues</i>						
Charges for Services	\$ 589,664	\$ 18,982,732	\$ 19,572,396	\$ 536,196	\$ 20,300,671	\$ 20,836,867
Operating Grants and Contributions	233,736	136,254	369,990	179,925	89,322	269,247
Capital Grants and Contributions	678,091	-	678,091	160,551	-	160,551
<i>General Revenues</i>						
Property Taxes	128,083	-	128,083	125,384	-	125,384
Other Taxes	1,347,747	-	1,347,747	1,213,822	-	1,213,822
Grants, Subsidies and Contributions, unrestricted	392,793	-	392,793	211,437	-	211,437
Investment Earnings	59,367	85,567	144,934	51,798	59,875	111,673
Other Revenue	72,732	5,262	77,994	33,510	8,878	42,388
TOTAL REVENUES	3,502,213	19,209,815	22,712,028	2,512,623	20,458,746	22,971,369
EXPENSES						
<i>Governmental Activities</i>						
General Government	813,648	-	813,648	817,810	-	817,810
Public Safety	2,461,600	-	2,461,600	2,284,125	-	2,284,125
Public Works	1,136,684	-	1,136,684	1,166,998	-	1,166,998
Culture and Recreation	233,136	-	233,136	245,569	-	245,569
Community Development	83,985	-	83,985	136,300	-	136,300
Non-Departmental	1,574,409	-	1,574,409	1,526,602	-	1,526,602
Debt Service Payments	35,498	-	35,498	42,443	-	42,443
Depreciation	172,312	-	172,312	174,940	-	174,940
Transfers Between Activities	(4,114,335)	4,114,335	-	(3,841,500)	3,841,500	-
<i>Business-Type Activities</i>						
Electric	-	10,093,848	10,093,848	-	10,296,552	10,296,552
Water	-	1,692,931	1,692,931	-	1,458,206	1,458,206
Sewer	-	2,233,250	2,233,250	-	2,147,054	2,147,054
Pool	-	353,125	353,125	-	325,105	325,105
TOTAL EXPENSES	2,396,937	18,487,489	20,884,426	2,553,287	18,068,417	20,621,704
INCREASE (DECREASE) IN NET ASSETS	\$ 1,105,276	\$ 722,326	\$ 1,827,602	\$ (40,664)	\$ 2,390,329	\$ 2,349,665

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

DEBT ADMINISTRATION

As of January 1, 2011, the Borough had total outstanding debt of \$10,583,767. During the year, the Borough paid principal of \$910,416 resulting in ending outstanding debt as of December 31, 2011, of \$9,673,351.

Table A-3
Outstanding Debt

	2011	2010
2003 General Obligation Note - Pool Fund	\$ 655,833	\$ 968,470
2004 Guaranteed Revenue Note - Water Fund	5,061,643	5,308,175
2004 Guaranteed Revenue Note - Sewer Fund	3,067,637	3,217,049
2005 General Obligation Note - Water Capital Fund	888,238	1,090,073

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

	2011			Variances with Final Budget Positive (Negative)
	Budgeted Original	Budget Amounts Final	Actual (Budgetary Basis)	
Revenues	\$ 2,224,209	\$ 2,224,209	\$ 3,171,411	\$ 947,202
Expenditures	6,213,440	6,213,440	6,487,027	(273,587)
Deficiency of Revenues over Expenditures	(3,989,231)	(3,989,231)	(3,315,616)	673,615
Other Financing Sources	3,797,000	3,797,000	3,877,000	80,000
Net Change in Fund Balance	(192,231)	(192,231)	561,384	753,615
Fund Balance - (Restated) January 1, 2011	192,231	192,231	100,701	(91,530)
Fund Balance - December 31, 2011	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 662,085</u>	<u>\$ 662,085</u>
	2010			
	Budgeted Original	Budget Amounts Final	Actual (Budgetary Basis)	Variances with Final Budget Positive (Negative)
Revenues	\$ 2,420,875	\$ 2,420,875	\$ 2,353,603	\$ (67,272)
Expenditures	6,099,270	6,099,270	5,740,138	359,132
Excess (Deficiency) of Revenues over Expenditures	(3,678,395)	(3,678,395)	(3,386,535)	291,860
Other Financing Sources	3,648,900	3,648,900	3,640,981	(7,919)
Net Change in Fund Balance	(29,495)	(29,495)	254,446	283,941
Fund Balance - (Restated) January 1, 2010	29,495	29,495	(154,003)	(183,498)
Fund Balance - December 31, 2010	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,443</u>	<u>\$ 100,443</u>

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Borough of Quakertown has always been and almost certainly will continue 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". Although this is a term not frequently used, it means that we provide 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. However, we have also assumed the leadership role that comes with this designation. Being the leader is not easy or inexpensive, but we continue to provide the responsible leadership to help (along with the other municipalities and the school district) make Quakertown the quality place it is, and will continue to be, to work and live.

The 2012 Budget reflects cautious optimism about the local economy, which continues to be resilient in spite of the declining national economy. The 2012 Budget is reflective of the economic situation faced by everyone. This has yet again forced us to postpone several infrastructure projects to 2013. 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 2012 budget, and instructed to:

- Maintain services while adhering to a budget freeze in 2012;
- 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. All though there is limited revenue growth, the 2012 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
As of December 31, 2011

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
CURRENT ASSETS:			
Cash and Cash Equivalents	\$ 3,656,449	\$ 5,888,918	\$ 9,545,367
Investments	946,812	-	946,812
Taxes Receivable	13,832	-	13,832
Accounts Receivable (Net of Allowance for Doubtful Accounts)	154,093	2,645,642	2,799,735
Intergovernmental Receivable	13,235	-	13,235
Internal Balances	-	1,186,663	-
Other Receivables	1,698	-	1,698
TOTAL CURRENT ASSETS	4,786,119	9,721,223	13,320,679
NON-CURRENT ASSETS:			
Land	1,851,952	-	1,851,952
Buildings (Net of Depreciation)	1,320,693	15,354,391	16,675,084
Improvements other than Buildings (Net of Depreciation)	873,466	1,213,183	2,086,649
Machinery and Equipment (Net of Depreciation)	924,632	773,850	1,698,482
Sewer Lines Infrastructure (Net of Depreciation)	-	4,053,139	4,053,139
Water Lines Infrastructure (Net of Depreciation)	-	6,511,453	6,511,453
Infrastructure	16,045,900	-	16,045,900
Construction in Progress	136,128	-	136,128
TOTAL NON-CURRENT ASSETS	21,152,771	27,906,016	49,058,787
TOTAL ASSETS	\$ 25,938,890	\$ 37,627,239	\$ 62,379,466
LIABILITIES			
CURRENT LIABILITIES:			
Internal Balances	\$ 1,186,663	\$ -	\$ -
Sales Tax Payable	-	12,601	12,601
Accounts Payable	55,025	815,777	870,802
Accrued Salaries and Benefits	72,983	37,007	109,990
Notes Payable	213,276	731,534	944,810
Accrued Compensated Absences	200,454	-	200,454
Deferred Revenues	-	19,540	19,540
Other Payables	3,141	-	3,141
TOTAL CURRENT LIABILITIES	1,731,542	1,616,459	2,161,338
NON-CURRENT LIABILITIES:			
Accrued Compensated Absences	1,002,270	461,154	1,463,424
Notes Payable	674,962	8,053,580	8,728,542
TOTAL NON-CURRENT LIABILITIES	1,677,232	8,514,734	10,191,966
TOTAL LIABILITIES	3,408,774	10,131,193	12,353,304
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	20,264,533	19,120,902	39,385,435
Unrestricted	2,265,583	8,375,144	10,640,727
TOTAL NET ASSETS	22,530,116	27,496,046	50,026,162
TOTAL LIABILITIES AND NET ASSETS	\$ 25,938,890	\$ 37,627,239	\$ 62,379,466

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

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

THE BOROUGH OF QUAKERTOWN
Statement of Activities
For the Year Ended December 31, 2011

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	\$ 813,648	\$ 366,720	\$ -	\$ -	\$(446,928)	\$ -	\$(446,928)
Public Safety	2,461,600	188,032	143,123	-	(2,130,445)	-	(2,130,445)
Public Works	1,136,684	-	90,613	163,416	(882,655)	-	(882,655)
Culture and Recreation	233,136	34,912	-	514,675	316,451	-	316,451
Community Development	83,985	-	-	-	(83,985)	-	(83,985)
Non-Departmental	1,574,409	-	328,249	-	(1,246,160)	-	(1,246,160)
Debt Service Payments	35,498	-	-	-	(35,498)	-	(35,498)
Depreciation	172,312	-	-	-	(172,312)	-	(172,312)
TOTAL GOVERNMENTAL ACTIVITIES	6,511,272	589,664	561,985	678,091	(4,681,532)	-	(4,681,532)
BUSINESS-TYPE ACTIVITIES:							
Electric	10,093,848	14,253,333	43,354	-	-	4,202,839	4,202,839
Water	1,692,931	2,143,829	37,160	-	-	488,058	488,058
Sewer	2,233,250	2,376,988	55,740	-	-	199,478	199,478
Pool	353,125	208,582	-	-	-	(144,543)	(144,543)
TOTAL PRIMARY GOVERNMENT	\$ 20,884,426	\$ 19,572,396	\$ 698,239	\$ 678,091	\$ (4,681,532)	\$ 4,745,832	\$ 64,300
GENERAL REVENUES:							
Property Taxes. Levied for General Purposes					\$ 128,083	\$ -	\$ 128,083
Other Taxes Levied for General Purposes					1,347,747	-	1,347,747
Grants, Subsidies, & Contributions Not Restricted					64,544	-	64,544
Investment and Rental Earnings					59,367	85,567	144,934
Miscellaneous Income					50,062	5,262	55,324
Insurance Claim Refund					22,670	-	22,670
Proceeds from Sale of Property					-	-	-
Transfers					4,114,335	(4,114,335)	-
TOTAL GENERAL REVENUES, SPECIAL ITEMS, EXTRAORDINARY ITEMS, AND TRANSFERS					5,786,808	(4,023,506)	1,763,302
CHANGE IN NET ASSETS					1,105,276	722,326	1,827,602
NET ASSETS - BEGINNING					21,424,840	26,773,720	48,198,560
NET ASSETS - ENDING					\$ 22,530,116	\$ 27,496,046	\$ 50,026,162

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

THE BOROUGH OF QUAKERTOWN
Balance Sheet
All Governmental Funds
As of December 31, 2011

	GENERAL	CAPITAL PROJECTS	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and Cash Equivalents	\$ 909,128	\$ 2,747,321	-	\$ 3,656,449
Investments	-	946,812	-	946,812
Taxes Receivable	13,832	-	-	13,832
Accounts Receivable	57,097	-	96	57,193
Intergovernmental Receivable	13,235	-	-	13,235
Due from Other Funds	-	-	3,150	3,150
Other Receivables	1,698	-	-	1,698
TOTAL ASSETS	\$ 994,990	\$ 3,694,133	\$ 3,246	\$ 4,692,369
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Due to Other Funds	3,150	1,186,663	-	1,189,813
Accounts Payable	53,177	-	1,848	55,025
Accrued Salaries and Benefits	72,983	-	-	72,983
Accrued Compensated Absences	200,454	-	-	200,454
Other Payables	3,141	-	-	3,141
TOTAL LIABILITIES	332,905	1,186,663	1,848	1,521,416
FUND BALANCES:				
- Nonspendable	-	-	-	-
- Restricted	-	-	1,398	1,398
- Committed	-	-	-	-
- Assigned	-	2,507,470	-	2,507,470
- Unassigned	662,085	-	-	662,085
TOTAL FUND BALANCES	662,085	2,507,470	1,398	3,170,953
TOTAL LIABILITIES AND FUND BALANCES	\$ 994,990	\$ 3,694,133	\$ 3,246	\$ 4,692,369

Reconciliation to Statement of Net Assets:

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

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

THE BOROUGH OF QUAKERTOWN
Reconciliation of the Governmental Funds Balance Sheet
To the Statement of Net Assets
As of December 31, 2011

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS **\$ 3,170,953**

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$23,719,015 and the accumulated depreciation is \$2,566,244. 21,152,771

In the statement of activities, certain operating revenues are recognized when earned versus the revenues using the modified accrual basis of accounting in the fund statements that are recognized when the funds are available. As such, accounts receivable increased by this amount this year. 96,900

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

Notes Payable	\$	(888,238)	
Accrued Interest on the Bonds		-	
Compensated Absences		(1,002,270)	
Other Retirement Benefits		-	(1,890,508)

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES **\$ 22,530,116**

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

THE BOROUGH OF QUAKERTOWN
Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Funds
For the Year Ended December 31, 2011

	GENERAL	CAPITAL PROJECTS	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Taxes	\$ 1,322,518	-	-	\$ 1,322,518
Licenses and Permits	151,601	-	-	151,601
Fines and Forfeits	99,394	-	-	99,394
Intergovernmental	1,097,181	-	163,416	1,260,597
Charges for Services	401,026	-	-	401,026
Investment and Rental Earnings	11,824	46,633	910	59,367
Miscellaneous	52,629	22,944	-	75,573
TOTAL REVENUES	<u>3,136,173</u>	<u>69,577</u>	<u>164,326</u>	<u>3,370,076</u>
EXPENDITURES				
CURRENT:				
General Government	810,725	176,420	-	987,145
Public Safety	2,326,719	-	-	2,326,719
Public Works	939,000	34,211	199,288	1,172,499
Culture and Recreation	233,136	20,653	-	253,789
Community Development	581,651	33,973	-	615,624
Non-Departmental	1,561,585	-	-	1,561,585
DEBT SERVICE:				
Principal	-	201,835	-	201,835
Interest	-	35,498	-	35,498
TOTAL EXPENDITURES	<u>6,452,816</u>	<u>502,590</u>	<u>199,288</u>	<u>7,154,694</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(3,316,643)</u>	<u>(433,013)</u>	<u>(34,962)</u>	<u>(3,784,618)</u>
OTHER FINANCING SOURCES (USES)				
Refund of Prior Year Expenditures	35,238	-	-	35,238
Interfund Transfers In	3,877,000	271,546	-	4,148,546
Interfund Transfers Out	(34,211)	-	-	(34,211)
TOTAL OTHER FINANCING SOURCES	<u>3,878,027</u>	<u>271,546</u>	<u>-</u>	<u>4,149,573</u>
NET CHANGE IN FUND BALANCES	561,384	(161,467)	(34,962)	364,955
FUND BALANCES (RESTATED) - BEGINNING	100,701	2,668,937	36,360	2,805,998
FUND BALANCES - ENDING	<u>\$ 662,085</u>	<u>\$ 2,507,470</u>	<u>\$ 1,398</u>	<u>\$ 3,170,953</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
Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balance
To the Statement of Activities
For the Year Ended December 31, 2011

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS **\$ 364,955**

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

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

	Depreciation Expense	\$ 172,312	
	Less - Capital Outlays	<u>794,356</u>	622,044

Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 201,835

In the statement of activities, certain operating expenses--compensated absences and special termination benefits --are measured by the amounts earned during the year. In the governmental funds; however, expenditures for the for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used. (180,458)

In the statement of activities, certain operating revenues are recognized when earned versus the revenues using the modified accrual basis of accounting in the fund statements that are recognized when the funds are available. As such, accounts receivable increased by this amount this year. 96,900

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 1,105,276**

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

THE BOROUGH OF QUAKERTOWN
Statement of Net Assets
All Proprietary Funds
As of December 31, 2011

	ELECTRIC FUND	MAJOR WATER FUND	SEWER FUND	NON-MAJOR POOL FUND	TOTAL
ASSETS					
CURRENT ASSETS:					
Cash and Cash Equivalents	\$ 3,339,133	\$ 204,432	\$ 2,257,410	\$ 87,943	\$ 5,888,918
Investments	-	-	-	-	-
Accounts Receivable (Net of Allowance for Doubtful Accounts)	2,090,664	341,847	213,131	-	2,645,642
Due from Other Funds	1,186,663	-	-	-	1,186,663
TOTAL CURRENT ASSETS	<u>5,429,797</u>	<u>1,732,942</u>	<u>2,470,541</u>	<u>87,943</u>	<u>9,721,223</u>
NON-CURRENT ASSETS:					
Buildings (Net of Depreciation)	6,291,108	2,416,862	5,949,231	697,190	15,354,391
Improvements other than Buildings (Net of Depreciation)	7,104	10,927	39,277	1,155,875	1,213,183
Machinery and Equipment (Net of Depreciation)	141,806	109,153	522,891	-	773,850
Sewer Lines Infrastructure (Net of Depreciation)	-	-	4,053,139	-	4,053,139
Water Lines Infrastructure (Net of Depreciation)	-	6,511,453	-	-	6,511,453
TOTAL NON-CURRENT ASSETS	<u>6,440,018</u>	<u>9,048,395</u>	<u>10,564,538</u>	<u>1,853,065</u>	<u>27,906,016</u>
TOTAL ASSETS	<u>\$ 11,869,815</u>	<u>\$ 10,781,337</u>	<u>\$ 13,035,079</u>	<u>\$ 1,941,008</u>	<u>\$ 37,627,239</u>
LIABILITIES					
CURRENT LIABILITIES:					
Sales Tax Payable	\$ 12,601	-	-	-	\$ 12,601
Accounts Payable	751,315	15,798	48,664	-	815,777
Accrued Salaries and Benefits	12,120	10,907	13,980	-	37,007
Deferred Revenues	-	-	-	19,540	19,540
Notes Payable	-	253,262	153,491	324,781	731,534
TOTAL CURRENT LIABILITIES	<u>776,036</u>	<u>279,967</u>	<u>216,135</u>	<u>344,321</u>	<u>1,616,459</u>
NON-CURRENT LIABILITIES:					
Compensated Absences	203,501	104,976	152,677	-	461,154
Notes Payable	-	4,808,381	2,914,146	331,053	8,053,580
TOTAL NON-CURRENT LIABILITIES	<u>203,501</u>	<u>4,913,357</u>	<u>3,066,823</u>	<u>331,053</u>	<u>8,514,734</u>
TOTAL LIABILITIES	<u>979,537</u>	<u>5,193,324</u>	<u>3,282,958</u>	<u>675,374</u>	<u>10,131,193</u>
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	6,440,018	3,986,752	7,496,901	1,197,231	19,120,902
Restricted	-	-	-	-	-
Unrestricted Net Assets	4,450,260	1,601,261	2,255,220	68,403	8,375,144
TOTAL NET ASSETS	<u>10,890,278</u>	<u>5,588,013</u>	<u>9,752,121</u>	<u>1,265,634</u>	<u>27,496,046</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,869,815</u>	<u>\$ 10,781,337</u>	<u>\$ 13,035,079</u>	<u>\$ 1,941,008</u>	<u>\$ 37,627,239</u>

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

THE BOROUGH OF QUAKERTOWN
Statement of Revenues, Expenses and Changes in Net Assets –
All Proprietary Funds
For the Year Ended December 31, 2011

	MAJOR			NON-MAJOR		TOTAL
	ELECTRIC FUND	WATER FUND	SEWER FUND	POOL FUND	FUND	
OPERATING REVENUES						
Charges for Services	\$ 14,056,111	\$ 1,276,395	\$ 2,360,165	\$	208,582	\$ 17,901,253
Debt Service Fees	-	815,701	-	-	-	815,701
Permits and Fees	51,498	26,728	-	-	-	78,226
Penalties	145,724	25,005	16,823	-	-	187,552
Rental Income	-	39,860	-	-	-	39,860
Other Income	485	2,963	998	-	816	5,262
TOTAL OPERATING REVENUES	14,253,818	2,186,652	2,377,986	209,398	-	19,027,854
OPERATING EXPENSES						
Costs of Furnishing Utility	9,628,058	1,061,817	1,442,937	-	-	12,132,812
Costs of Pool Operations	-	-	-	206,901	-	206,901
Employee Benefits	172,896	153,637	205,219	8,982	-	540,734
Employee Pension	61,796	48,500	69,290	-	-	179,586
Insurance	56,787	64,091	88,536	17,513	-	226,927
Debt Service	-	140,077	84,894	27,911	-	252,882
Depreciation	174,311	224,809	342,374	91,818	-	833,312
TOTAL OPERATING EXPENSES	10,093,848	1,692,931	2,233,250	353,125	-	14,373,154
OPERATING INCOME (LOSS)	4,159,970	493,721	144,736	(143,727)	-	4,654,700
NON-OPERATING REVENUES (EXPENSES)						
Interest Earned	23,727	2,245	17,760	1,975	-	45,707
Gain (Loss) on Sale of Fixed Assets	-	-	-	-	-	-
State Aid - Pension	43,354	37,160	55,740	-	-	136,254
Transfers from Other Funds	-	-	-	350,000	-	350,000
Transfers to Other Funds	(3,830,000)	(435,835)	(198,500)	-	-	(4,464,335)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(3,762,919)	(396,430)	(125,000)	351,975	-	(3,932,374)
CHANGES IN NET ASSETS	397,051	97,291	19,736	208,248	-	722,326
NET ASSETS, JANUARY 1, 2011	10,493,227	5,490,722	9,732,385	1,057,386	-	26,773,720
NET ASSETS, DECEMBER 31, 2011	10,890,278	5,588,013	9,752,121	1,265,634	\$	27,496,046

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

THE BOROUGH OF QUAKERTOWN
Statement of Cash Flows
Proprietary Funds
As of December 31, 2011

	MAJOR		NON-MAJOR		TOTAL
	ELECTRIC FUND	WATER FUND	SEWER FUND	POOL FUND	
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash Received from Users	\$ 14,439,304	\$ 2,166,249	\$ 2,356,251	\$ 228,122	\$ 19,189,926
Cash Received from Other Operating Revenue	485	2,963	998	816	5,262
Cash Payments to Employees for Services	(742,058)	(645,073)	(805,208)	(126,755)	(2,319,094)
Cash Payments to Suppliers for Goods and Services	(9,277,423)	(809,623)	(1,021,447)	(132,725)	(11,241,218)
Cash Payments to Other Operating Expenses	(737)	(397)	(323)	(1,827)	(3,284)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	4,419,571	714,119	530,271	(32,369)	5,631,592
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Slate Sources	43,354	37,160	55,740	-	136,254
Operating Transfers In	-	-	-	350,000	350,000
Operating Transfers Out	(3,830,000)	(435,835)	(198,500)	-	(4,464,335)
NET CASH PROVIDED BY (USED) FOR NON-CAPITAL FINANCING ACTIVITIES	(3,786,646)	(398,675)	(142,760)	350,000	(3,978,081)
CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES					
Loan Principal Payments	-	(246,532)	(149,412)	(312,636)	(708,580)
Purchase of Fixed Assets	-	(18,262)	(27,866)	-	(46,128)
Interfund Loan Payments	-	-	-	-	-
NET CASH USED FOR CAPITAL FINANCING ACTIVITIES	-	(264,794)	(177,278)	(312,636)	(754,708)
CASH FLOWS FROM INVESTING ACTIVITIES					
Sale of Investments	-	-	-	-	-
Purchase of Investments	-	-	-	-	-
Earnings on Investments	23,727	2,245	17,760	1,975	45,707
NET CASH PROVIDED BY INVESTING ACTIVITIES	23,727	2,245	17,760	1,975	45,707
NET INCREASE IN CASH AND CASH EQUIVALENTS	656,652	52,895	227,993	6,970	944,510
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	2,682,481	151,537	2,029,417	80,973	4,944,408
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 3,339,133	\$ 204,432	\$ 2,257,410	\$ 87,943	\$ 5,888,918

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

THE BOROUGH OF QUAKERTOWN
Statement of Cash Flows
Proprietary Funds
As of December 31, 2011

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

	ELECTRIC FUND	MAJOR WATER FUND	SEWER FUND	NON-MAJOR POOL FUND	TOTAL
OPERATING INCOME (LOSS)	\$ 4,159,970	\$ 493,721	\$ 144,736	\$ (143,727)	\$ 4,654,700
<hr/>					
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES					
Depreciation	174,311	224,809	342,374	91,818	833,312
CHANGE IN ASSETS AND LIABILITIES:					
(Increase) Decrease in Accounts Receivable	199,092	(17,440)	(20,737)	-	160,915
(Increase) Decrease in Advances from Other Funds	-	-	-	-	-
Increase (Decrease) in Accounts Payable	(130,794)	(855)	41,449	-	(90,200)
Increase (Decrease) in Accrued Salaries and Benefits	2,010	1,896	2,160	-	6,066
Increase (Decrease) in Sales Tax Payable	(13,121)	-	-	-	(13,121)
Increase (Decrease) in Deferred Revenue	-	-	-	19,540	19,540
Increase (Decrease) in Compensated Absences	28,103	11,988	20,289	-	60,380
TOTAL ADJUSTMENTS	259,601	220,398	385,535	111,358	976,892
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 4,419,571	\$ 714,119	\$ 530,271	\$ (32,369)	\$ 5,631,592

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

THE BOROUGH OF QUAKERTOWN
Statement of Net Assets
Fiduciary Funds
As of December 31, 2011

	<u>AGENCY FUNDS</u>		
	<u>PENSION BENEFIT TRUST FUNDS</u>	<u>ESCROW FUND</u>	<u>POLICE HEALTH REIMBURSEMENT ARRANGEMENT FUND</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 213,152	\$ 339,560	\$ 50,630
Investments	9,935,188	-	-
Accrued Investment Income	29,742	-	-
Accounts Receivable	1,004	-	-
TOTAL ASSETS	\$ 10,179,086	\$ 339,560	\$ 50,630
<u>LIABILITIES</u>			
Accounts Payable	\$ 3,000	\$ -	\$ -
Due to Escrow Holders	-	339,560	-
Due to Police Officers	-	-	50,630
TOTAL LIABILITIES	3,000	339,560	50,630
<u>NET ASSETS</u>			
Restricted for Employee Benefits	10,176,086	-	-
TOTAL NET ASSETS	\$ 10,176,086	\$ -	\$ -

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

THE BOROUGH OF QUAKERTOWN
Statement of Additions, Deductions and Changes in Net Assets
Fiduciary Funds
For the Year Ended December 31, 2011

	<u>PENSION BENEFIT TRUST FUNDS</u>
ADDITIONS:	
Contributions - Employer	\$ 231,191
Contributions - Employee	21,953
State Aid	464,504
Miscellaneous Income	5,778
INVESTMENT EARNINGS:	
Interest and Dividends	244,566
Change in Fair Value of Investments	<u>(309,429)</u>
TOTAL ADDITIONS	<u>658,563</u> -----
 DEDUCTIONS:	
Administrative Charges	27,728
Investment Expenses	34,530
Employee Benefits	<u>446,589</u>
TOTAL DEDUCTIONS	<u>508,847</u>
 CHANGE IN NET ASSETS	 149,716
 NET ASSETS - BEGINNING OF YEAR	 <u>10,026,370</u>
 NET ASSETS - END OF YEAR	 <u>\$ 10,176,086</u>

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

THE BOROUGH OF QUAKERTOWN
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual
General Fund
For the Year Ended December 31, 2011

	BUDGETED AMOUNTS		ACTUAL (BUDGETARY BASIS)	VARIANCE WITH FINAL BUDGET (NEGATIVE)	BUDGET TO GAAP DIFFERENCE	ACTUAL AMOUNTS GAAP BASIS
	ORIGINAL	FINAL				
RESOURCES (INFLOW):						
Taxes	\$ 1,161,000	\$ 1,161,000	\$ 1,322,518	\$ 161,518	\$ -	\$ 1,322,518
Licenses and Permits	203,000	203,000	151,601	(51,399)	-	151,601
Fines and Forfeits	133,000	133,000	99,394	(33,606)	-	99,394
Intergovernmental	164,059	164,059	1,097,181	933,122	-	1,097,181
Charges for Services	523,250	523,250	401,026	(122,224)	-	401,026
Miscellaneous	24,900	24,900	29,959	5,059	-	29,959
Insurance Claim Refund	1,000	1,000	22,670	21,670	-	22,670
Investment and Rental Earnings	14,000	14,000	11,824	(2,176)	-	11,824
Refund of Prior Year Expenditures	-	-	35,238	35,238	-	35,238
Transfers from Other Funds	3,797,000	3,797,000	3,877,000	80,000	-	3,877,000
TOTAL RESOURCES	6,021,209	6,021,209	7,048,411	1,027,202	-	7,048,411
CHARGES TO APPROPRIATIONS (OUTFLOWS):						
General Government						
Legal	75,000	75,000	49,529	25,471	-	49,529
Mayor, Legislative, Borough Manager	284,200	284,200	259,642	24,558	-	259,642
Finance and Accounting	270,800	270,800	282,293	(11,493)	-	282,293
Tax Collection	8,000	8,000	7,047	953	-	7,047
IT-Networking Services-Data Processing	148,700	148,700	105,740	42,960	-	105,740
Engineering	120,000	120,000	78,082	41,918	-	78,082
Buildings and Plant	33,000	33,000	28,392	4,608	-	28,392
Public Safety						
Police	1,839,750	1,839,750	1,776,777	62,973	-	1,776,777
Fire Department	287,350	287,350	434,060	(146,710)	-	434,060
Inspections	110,420	110,420	115,882	(5,462)	-	115,882
Public Works						
Solid Waste and Collection	6,000	6,000	12,681	(6,681)	-	12,681
Street Maintenance and Lighting	919,600	919,600	926,319	(6,719)	-	926,319
Culture and Recreation						
Parks	253,660	253,660	233,136	20,524	-	233,136
Community Development						
Non-Departmental						
Employer Paid Benefits and Withholding Items	1,450,160	1,450,160	1,403,087	47,073	-	1,403,087
Insurance	144,800	144,800	150,520	(5,720)	-	150,520
Miscellaneous	27,000	27,000	7,978	19,022	-	7,978
Budgetary Reserve	108,000	108,000	-	108,000	-	-
Transfer to Other Funds	35,000	35,000	34,211	789	-	34,211
TOTAL CHARGES TO APPROPRIATIONS	6,213,440	6,213,440	6,487,027	(273,587)	-	6,487,027
Excess (Deficiency) of Inflows Over Outflows	(192,231)	(192,231)	561,384	753,615	-	561,384
FUND BALANCE (RESTATED) - JANUARY 1, 2011	192,231	192,231	100,701	(91,530)	-	100,701
FUND BALANCE - DECEMBER 31, 2011	-	-	\$ 662,085	\$ 662,085	\$ -	\$ 662,085

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

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2011

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

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

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the Borough as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the Borough that are governmental and those that are considered business-type activities.

The statement of net 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.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2011

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

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

B. Basis of Accounting

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

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

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

C. Fund Accounting

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

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

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2011

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.

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

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

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

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

D. Measurement Focus

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

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2011

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

E. Budgets and Budgetary Accounting

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

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

Encumbrances

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

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

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2011

F. Use of Estimates

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

G. Assets, Liabilities and Net Assets

Cash and Cash Equivalents

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

Investments

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

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

Receivables and Payables

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

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

Real Estate Taxes

The total taxable assessed real estate valuation for the year ended 2011 is \$79,471,090 at a rate of 1.625 mills. Real estate taxes are levied on March 1 and are payable by June 30.

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

Fund Balance Classifications

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

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

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2011

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

Capital Assets

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

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

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

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

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2011

Compensated Absences

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

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

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

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

Long-Term Obligations

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

Reclassification

Certain amounts have been reclassified to conform to the December 31, 2011, presentation of government-wide financial statements on the accrual basis of accounting versus the governmental fund financial statements on the modified accrual basis of accounting.

Net Assets

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

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

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

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

The governmental fund balance sheet includes a reconciliation between "fund balance-total governmental funds" and "net assets – governmental activities" as reported in the government-wide statement of net assets. One element of that reconciliation explains that "capital assets used in government activities are not financial resources and therefore are not reported as assets in governmental funds". The cost of the capital assets net of depreciation totals \$21,152,771. Another element of the reconciliation explains that

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2011

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

The details of this \$1,890,508 difference are:

Notes Payable	\$ 888,238
Compensated Absences	1,002,270
Net adjustment to reduce "fund balance – total governmental funds" to arrive at "net assets – governmental activities"	<u>\$ 1,890,508</u>

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

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

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

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2011

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

	TOTAL GOVERN- MENTAL FUNDS	LONG-TERM REVENUES/ EXPENSES	CAPITAL RELATED ITEMS	LONG-TERM DEBT TRANS- ACTIONS	TOTAL FOR STATEMENT OF ACTIVITIES
<u>REVENUES AND OTHER SOURCES</u>					
<u>LOCAL SOURCES:</u>					
Property Taxes	\$ 128,083	\$ -	\$ -	\$ -	\$ 128,083
Other Taxes Levied for General Purposes	980,767	-	-	-	980,767
Franchise Taxes	151,601	-	-	-	151,601
Local Service Taxes	215,379	-	-	-	215,379
Grants, Subsidies & Contributions Not Restricted	64,544	-	-	-	64,544
Investment and Rental Earnings	59,367	-	-	-	59,367
Miscellaneous	72,732	-	-	-	72,732
Charges for Services	492,764	96,900	-	-	589,664
Transfers In	4,148,546	(34,211)	-	-	4,114,335
<u>STATE SOURCES:</u>					
Operating and Capital Grants and Contributions	725,401	-	-	-	725,401
<u>FEDERAL SOURCES:</u>					
Operating and Capital Grants and Contributions	514,675	-	-	-	514,675
<u>SPECIAL AND EXTRAORDINARY ITEMS:</u>					
Gain or (Loss) on Disposal of Assets	-	-	-	-	-
TOTAL REVENUES	7,553,859	62,689	-	-	7,616,548
<u>EXPENDITURES/EXPENSES AND OTHER USES</u>					
General Government	987,145	16,760	(190,257)	-	813,648
Public Safety	2,326,719	152,478	(17,597)	-	2,461,600
Public Works	1,172,499	(1,604)	(34,211)	-	1,136,684
Culture and Recreation	253,789	-	(20,653)	-	233,136
Community Development	615,624	-	(531,639)	-	83,985
Non-Departmental	1,561,585	12,824	-	-	1,574,409
Debt Service Payments	237,332	-	-	(201,834)	35,498
Depreciation	-	-	172,312	-	172,312
Transfers Out	34,211	(34,211)	-	-	-
TOTAL EXPENDITURES/EXPENSES	7,188,904	146,247	(622,045)	(201,834)	6,511,272
NET CHANGE FOR THE YEAR	\$ 364,955	\$ (83,558)	\$ 622,045	\$ 201,834	\$ 1,105,276

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, 2011, \$10,830,891 of the Borough's bank balance of \$11,574,020 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ -
Collateralized with securities held by the pledging financial institution	-
Uninsured and collateral held by the pledging bank's trust department not in the Borough's name	10,830,891
TOTAL	\$ 10,830,891

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2011

Reconciliation to Financial Statements

Uncollateralized Amount Above	\$ 10,830,891
Plus: Insured Amount	743,129
Deposits in Transit	58,683
Less: Outstanding Checks	<u>(270,348)</u>
Carrying Amount - Bank balances	11,362,355
Plus: Petty Cash	550
Deposits in Investment Pools Considered Cash Equivalents	13,529
Deposits in Money Market Mutual Funds Considered Cash Equivalents	206,087
Less: Certificates of Deposit Considered Investment	<u>(1,433,812)</u>
Total Cash Per Financial Statements	<u>\$ 10,148,709</u>

Restricted Cash

The cash balance includes \$290,369 held as utility escrow funds and \$49,191 held as construction escrow funds. The utility escrow funds are security deposits from renters in the Borough. The construction escrow is funds held by the Borough to guarantee the completion of various construction projects by the developers.

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.

As of December 31, 2011, the Borough had the following investments:

<i>Investment</i>	Maturities	Fair Value
PA Local Government Investment Trust		\$ 13,529
Federated Institutional Government Obligation Fund		204,799
Morgan Stanley Liquid Asset Fund		1,288
Common Stocks		4,252,500
Corporate Bonds	9.5 mos-11 yrs 6 mos	1,183,489
U.S. Government Agency Bonds	5 mos-9 yrs 11.5 mos	1,333,797
Certificates of Deposit	1 mo-3 yrs 10 mos	1,433,812
Mutual Funds		<u>2,678,402</u>
TOTAL		<u>\$ 11,101,616</u>

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2011

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, 2011, 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 Agricultural Mortgage Co.	AAA
American Funds Europacific Growth Fund	Not Available
Federated Short-Term Income Fund	Not Available
Federal Total Return Bond Fund	Not Available
Federated Institutional Government Obligation Fund	Not Available
Goldman Sachs Mid Cap Value Fund	Not Available
Heartland Value Plus Fund	Not Available
Prudential Jennison Mid. Cap Growth Fund	Not Available
Vanguard Explorer Fund	Not Available
Vanguard FTSE All World ETF	Not Available
Misc. Mutual Funds	AL/FL

FL indicates that the investments is on the CGR Focus list and have passed an in-depth review and possess the CGR's highest level of confidence. AL indicates that the investments is on the CGR approved list and have passed a less rigorous review and have been approved for recommendation to investors.

Concentration of Credit Risk

The Borough places no limit on the amount the Borough may invest in any one issuer. More than 5% of the Borough's investments are in a certificate of deposit at the QNB Bank, the American Funds Europacific Growth Fund and the Vanguard FTSE All World ETF. These investments are 8.53%, 5.63% and 5.51%, respectively, of the Borough's investments. More than 5% of the Trust and Agency Funds' investments are in the American Funds Europacific Growth Fund and the Vanguard FTSE All World ETF. These investments are 6.16% and 6.03%, respectively of the Trust and Agency Funds investments. Of the Governmental Funds' investments, 98.59% is in a certificate of deposit at the QNB Bank. The Capital Projects Funds' investment is in a certificate of deposit at the QNB Bank.

Custodial Credit Risk

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

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2011

Foreign Currency Risk

As of December 31, 2011, the Borough had the following investments that were subject to foreign currency risk:

Name	Amount
Common Stocks:	
Freeport-McMoran Copper and Gold	\$ 41,830
Teva Pharmaceutical Industries ADR	62,518
Potash Corporation Saskatchewan	44,252
Corporate Bonds:	
Barklays Bank PCL 4.00% due 4/28/17	46,539
AstraZeneca PLC 5.90% due 9/15/17	60,395
Mutual Funds:	
American Funds Europacific Growth Fund	625,079
Vanguard FTSE All World ETF	611,284
American Century International Bond Fund	4,098
Henderson International Opportunities Fund	5,707
Lazard Emerging Mkts Equity Port Inst. Shs Fund	5,611

Reconciliation to Financial Statements

Total Investments Above	\$ 11,101,616
Less: Deposits in Investment Pool Considered Cash Equivalents	(13,529)
Deposits in Money Market Mutual Funds Considered Cash Equivalents	(206,087)
Total Investments Per Financial Statements	\$ 10,882,000

Note 6 - Receivables

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

	GENERAL FUND	CAPITAL PROJECT FUNDS	NON- MAJOR FUNDS	ELECTRIC FUND	WATER FUND	SEWER FUND	POOL FUND	FIDUCIARY FUNDS	TOTAL
RECEIVABLES:									
Taxes	\$ 13,832	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,832
Accounts	57,097	-	96	2,200,699	359,839	223,256	-	1,004	2,841,991
Intergovernmental	13,235	-	-	-	-	-	-	-	13,235
Other	1,698	-	-	-	-	-	-	-	1,698
GROSS RECEIVABLES	85,862	-	96	2,200,699	359,839	223,256	-	1,004	2,870,756
Less: Allowance for Uncollectibles	-	-	-	110,035	17,992	10,125	-	-	138,152
NET RECEIVABLES	\$ 85,862	\$ -	\$ 96	\$ 2,090,664	\$ 341,847	\$ 213,131	\$ -	\$ 1,004	\$ 2,732,604

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2011

Note 7 – Capital Assets

Capital asset balances and activity for the year ending December 31, 2011, were:

	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
GOVERNMENTAL ACTIVITIES:				
Capital Assets not being depreciated:				
Land	\$ 1,851,952	\$ -	\$ -	\$ 1,851,952
Construction in Progress	-	136,128	-	136,128
Infrastructure	16,045,900	-	-	16,045,900
Total Capital Assets not being depreciated	17,897,852	136,128	-	18,033,980
Capital Assets being depreciated:				
Buildings	2,259,285	20,653	-	2,279,938
Improvements Other than Buildings	843,760	531,638	-	1,375,398
Machinery and Equipment	1,923,762	105,937	-	2,029,699
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>5,026,807</u>	<u>658,228</u>	<u>-</u>	<u>5,685,035</u>
Less Accumulated Depreciation for:				
Buildings	(921,582)	(37,663)	-	(959,245)
Improvements Other than Buildings	(468,665)	(33,267)	-	(501,932)
Machinery and Equipment	(1,003,685)	(101,382)	-	(1,105,067)
TOTAL ACCUMULATED DEPRECIATION	<u>(2,393,932)</u>	<u>(172,312)</u>	<u>-</u>	<u>(2,566,244)</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED NET OF ACCUMULATED DEPRECIATION	<u>2,632,875</u>	<u>485,916</u>	<u>-</u>	<u>3,118,791</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION	<u>\$ 20,530,727</u>	<u>\$ 622,044</u>	<u>\$ -</u>	<u>\$ 21,152,771</u>
BUSINESS-TYPE ACTIVITIES:				
Capital Assets being depreciated:				
Buildings	25,499,543	27,866	-	25,527,409
Improvements Other than Buildings	2,301,000	-	-	2,301,000
Machinery and Equipment	1,764,675	18,262	-	1,782,937
Sewer Lines Infrastructure	6,247,708	-	-	6,247,708
Water Lines Infrastructure	8,744,099	-	-	8,744,099
Less Accumulated Depreciation	(15,863,825)	(833,312)	-	(16,697,137)
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION	<u>\$ 28,693,200</u>	<u>\$ (787,184)</u>	<u>\$ -</u>	<u>\$ 27,906,016</u>

The Borough did not dispose of any capital assets during the year.

The depreciation was charged to the governmental activities as follows:

Depreciation – Unallocated \$ 172,312

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

Depreciation – Unallocated \$ 833,312

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2011

Long-Term Obligations

The Borough has the following construction commitment:

	<u>CONTRACT AMOUNT</u>	<u>EXPENDED TO 12/31/11</u>	<u>OUTSTANDING COMMITMENT</u>
TRIANGLE PARK			
S&H Landscaping Contractor	\$ 517,050	\$ 484,334	\$ 32,716
TOTAL	\$ 517,050	\$ 484,334	\$ 32,716

Note 8 – Short-Term Debt

Interfund Receivables and Payables

The following Interfund receivable and payables were in existence as of December 31, 2011.

	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ -	\$ 3,150
Special Revenue (Liquid Fuels) Fund	3,150	-
Enterprise (Water) Fund	1,186,663	-
Capital Projects (Water Capital) Fund	-	1,186,663
TOTAL	\$ 1,189,813	\$ 1,189,813

Interfund Transfers

The Borough also made the following interfund transfers during the year ended December 31, 2011.

	<u>TRANSFER IN</u>	<u>TRANSFER OUT</u>
General Fund	\$ 3,877,000	\$ 34,211
Enterprise (Electric) Fund	-	3,830,000
Enterprise (Water) Fund	-	435,835
Enterprise (Sewer) Fund	-	198,500
Enterprise (Pool) Fund	350,000	-
Capital Projects (Water Capital) Fund	237,335	-
Capital Projects (Equipment Replacement) Fund	34,211	-
TOTAL	\$ 4,498,546	\$ 4,498,546

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2011

Note 9 – Long-Term Debt Commitment

Long-Term Liability balances and activity for the year ended December 31, 2011, were:

	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	AMOUNTS DUE WITHIN ONE YEAR
<u>GOVERNMENTAL ACTIVITIES</u>					
Notes Payable					
Capital Projects	\$ 1,090,073	\$ -	\$ 201,835	\$ 888,238	\$ 213,276
Compensated Absences	986,174	216,550	-	1,202,724	200,454
TOTAL GOVERNMENTAL ACTIVITIES					
LONG-TERM LIABILITIES	\$ 2,076,247	\$ 216,550	\$ 201,835	\$ 2,090,962	\$ 413,730
<u>BUSINESS-TYPE ACTIVITIES</u>					
Guaranteed Revenue Notes Payable					
Capital Projects	9,493,694	-	708,581	8,785,113	538,944
Compensated Absences	400,774	60,380	-	461,154	-
TOTAL BUSINESS-TYPE ACTIVITIES					
LONG-TERM LIABILITIES	\$ 9,894,468	\$ 60,380	\$ 708,581	\$ 9,246,267	\$ 538,944

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

Total interest paid during the year:

	PAID
<u>GOVERNMENTAL ACTIVITIES</u>	
General Obligation Debt	\$ 35,498
TOTAL INTEREST PAID BY GOVERNMENTAL ACTIVITIES	\$ 35,498
<u>BUSINESS-TYPE ACTIVITIES</u>	
Guaranteed Revenue Notes	\$ 224,971
General Obligation Note	27,911
TOTAL INTEREST PAID BY BUSINESS-TYPE ACTIVITIES	\$ 252,882

The total interest cost incurred and charged to expense in 2011 was \$288,380.

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 BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2011

The debt matures December 1, 2013. The future debt service obligations are:

FISCAL YEAR	PRINCIPAL	INTEREST
2012	\$ 324,781	\$ 15,767
2013	331,052	6,800
TOTAL OUTSTANDING	\$ 655,833	\$ 22,567

Pennvest - Guaranteed Revenue Note - Water Fund

On May 26, 2004, the Borough issued a \$5,974,300 guaranteed revenue note purchased by QNB Bank. The purpose of this note was 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:

FISCAL YEAR	PRINCIPAL	INTEREST
2012	\$ 253,262	\$ 133,347
2013	248,350	155,103
2014	254,433	152,389
2015	263,296	143,526
2016	272,467	134,355
2017 to 2021	1,511,490	522,621
2022 to 2026	1,793,739	240,372
2027 to 2028	464,606	10,019
TOTAL OUTSTANDING	\$ 5,061,643	\$ 1,491,732

Pennvest - Guaranteed Revenue Note - Sewer Fund

On May 26, 2004, the Borough issued a \$3,712,608 guaranteed revenue note purchased by QNB Bank. The purpose of this Note was 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
2012	\$ 153,491	\$ 80,816
2013	150,514	94,001
2014	154,200	92,357
2015	159,572	86,985
2016	165,130	81,427
2017 to 2021	916,047	316,737
2022 to 2026	1,087,105	145,679
2027 to 2028	281,578	6,072
TOTAL OUTSTANDING	\$ 3,067,637	\$ 904,074

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2011

General Obligation Note – Series of 2005

On November 16, 2005, the Borough issued a \$2,000,000 general obligation note purchased by Wells Fargo 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
2012	\$ 213,276	\$ 24,057
2013	216,832	20,501
2014	224,410	12,923
2015	233,720	5,080
TOTAL OUTSTANDING	\$ 888,238	\$ 62,561

Compensated Absences

Vacation, Sick and Personal Days

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

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2011

Combined Long-Term Debt

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

<u>PRINCIPAL REQUIREMENTS</u>						
<u>FISCAL YEAR</u>	<u>G.O.N. SERIES 2003</u>	<u>REVENUE NOTE WATER FUND</u>	<u>REVENUE NOTE SEWER FUND</u>	<u>G.O.N. SERIES 2005</u>	<u>TOTAL PAYMENTS</u>	
2012	324,781	253,262	153,491	213,276	944,810	
2013	331,052	248,350	150,514	216,832	946,748	
2014	-	254,433	154,200	224,410	633,043	
2015	-	263,296	159,572	233,720	656,588	
2016	-	272,467	165,130	-	437,597	
2017-2021	-	1,511,490	916,047	-	2,427,537	
2022-2026	-	1,793,739	1,087,105	-	2,880,844	
2027-2028	-	464,606	281,578	-	746,184	
TOTAL	655,833	5,061,643	3,067,637	888,238	9,673,351	
LESS PAYABLE WITHIN ONE YEAR	324,781	253,262	153,491	213,276	944,810	
LONG-TERM PRINCIPAL DUE AFTER ONE YEAR	\$ 331,052	\$ 4,808,381	\$ 2,914,146	\$ 674,962	\$ 8,728,541	

<u>PRINCIPAL AND INTEREST REQUIREMENTS</u>						
<u>FISCAL YEAR</u>	<u>G.O.N. SERIES 2003</u>	<u>REVENUE NOTE WATER FUND</u>	<u>REVENUE NOTE SEWER FUND</u>	<u>G.O.N. SERIES 2005</u>	<u>TOTAL PAYMENTS</u>	
2012	340,548	386,609	234,307	237,333	1,198,797	
2013	337,852	403,453	244,515	237,333	1,223,153	
2014	-	406,822	246,557	237,333	890,712	
2015	-	406,822	246,557	238,800	892,179	
2016	-	406,822	246,557	-	653,379	
2017-2021	-	2,034,111	1,232,784	-	3,266,895	
2022-2026	-	2,034,111	1,232,784	-	3,266,895	
2027-2028	-	474,625	287,650	-	762,275	
TOTAL	\$ 678,400	\$ 6,553,375	\$ 3,971,711	\$ 950,799	\$ 12,154,285	

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2011

Note 10 - 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 who were hired prior to 2008 are eligible to participate in the plan. The plan provides vesting, normal and early retirement, and survivor benefits to plan members and their beneficiaries. Cost of living allowances are provided at the discretion of the Borough.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the plans are prepared on the accrual 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, 2009. In accordance with the Borough's resolution; all plan members are required to contribute 1% 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, 2011

Plan Membership

Plan membership of the plan consisted of the following at December 31, 2011:

Active plan members	39
Retirees and beneficiaries currently receiving benefits	24
Terminated plan members entitled to benefits but not yet receiving them	28
TOTAL	91

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	\$ 307,724
Contributions Made	307,724

Three-Year Trend Information

THREE YEAR TREND INFORMATION			
Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension
12/31/2009	\$ 274,607	100.00%	\$ -
12/31/2010	269,428	100.00%	-
12/31/2011	307,724	100.00%	-

The annual contribution for the current year was determined as part of the January 1, 2009 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at January 1, 2009 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 15-30 years. The remaining amortization periods at December 31, 2011, were 2-21 years.

Funded Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the plan was 77.1% funded. The actuarial accrued liability for benefits was \$7,886,686 and the actuarial value of the assets was \$6,078,785, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,807,901. The covered payroll (annual payroll of active employees covered by the plan) was \$2,151,885 and the ratio of the UAAL to the covered payroll was 84.01%.

As a result of being 77.1% funded at January 1, 2011, the plan is considered to be at the minimal distress level. As a result, the Borough has had to implement a plan for administrative improvements fund effective in 2011. (See administrative improvement plan note).

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2011

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 on the accrual 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, 2009. In accordance with the plan's governing resolution, members are required to contribute 1% of their compensation to the plan starting in 2011.

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, 2011:

Active plan members	18
Retirees and beneficiaries currently receiving benefits	8
Terminated plan members entitled to benefits but not yet receiving them	<u>2</u>
TOTAL	<u>28</u>

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2011

Annual Pension Cost and Net Pension Obligation

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

Annual Pension Costs	\$ 347,966
Contributions Made	347,966

Three-Year Trend Information

THREE YEAR TREND INFORMATION			
Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Net Pension
12/31/2009	\$ 349,600	100.00%	\$ -
12/31/2010	354,154	100.00%	-
12/31/2011	347,966	100.00%	-

The annual contribution for the current year was determined as part of the January 1, 2009 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at January 1, 2009 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, 2011, were 1-21 years.

Funded Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the plan was 59.7% funded. The actuarial accrued liability for benefits was \$6,506,558 and the actuarial value of the assets was \$3,883,347, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,623,211. The covered payroll (annual payroll of active employees covered by the plan) was \$1,473,176 and the ratio of the UAAL to the covered payroll was 178.07%.

As a result of being 59.7% funded at January 1, 2011, the plan is considered to be at the moderate distress level. As a result the Borough has had to implement a plan for administrative improvement fund effective in 2011. (See Administrative Improvement Plan Note).

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.

Plan for Administrative Improvement

As a result of being classed as a moderately distressed municipality the Borough of Quakertown has approved the following plan for administrative improvement for the Borough's Pension Plan to be implemented as of January 1, 2011.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2011

Data for Form AG-385

In prior years, the Borough had made errors in the certification of pension plan data on Form AG-385, resulting in an underpayment of State aid.

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

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

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

Review of Actuarial Assumptions

Salary increases among the uniformed and non-uniformed employees have decreased in recent years from 6-7% per year to 2-3% per year. This will be reviewed with our actuary during the process of preparing the January 1, 2011 actuarial valuation to see if the 5.0% annual salary increase assumption is still valid going forward. The January 1, 2011 valuations retained the 5% annual salary increases.

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

Member Contributions

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

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

We plan to increase member contributions to both plans where possible, given our collective bargaining agreements.

Investment Performance

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

Other Voluntary Remedies Elected by the Borough

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

The Borough has elected to reduce its amortization payment by 25% for the current biannual reporting period (2011-2012). The Borough has elected to use an actuarial asset smoothing method that results in an actuarial value of assets of between 70% and 130% of the market value of the assets.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2011

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.

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.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2011

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.

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.

As of December 31, 2011, no officer had elected to participate in the DROP Plan.

Non-Uniformed Pension Early Retirement Options

The Borough enacted an early retirement incentive plan for non-uniformed employees. The plan provided that if an employee retires in January 2010 and is within 5 years of his normal retirement date, his monthly pension would be equal to 1.7% of average compensation for each year of service, including all service through their normal retirement date measured in years and completed months subject to a maximum of 25 years. This benefit is unreduced by the number of years that early retirement precedes normal retirement. Four employees retired under this early retirement option.

401(a) Pension Plan

All employees of the Borough hired after January 1, 2008, are ineligible for the Borough's Non-Uniformed Pension Plan. The Borough has started a new 401(a) plan known as the Borough of Quakertown 401(a) Plan. The plan provides retirement benefits for the participants. This plan is in accordance with Internal Revenue Code Section 401(a). This plan provides for employer and employee contribution at the election of the Borough. For 2011, the Borough elected to only have employer contributions and contributed \$24,800 to the plan.

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

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.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2011

Note 9 - Contingencies

Litigation

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 – Fund Balances

Detailed information about aggregated fund balances;

Assigned Fund Balances

Water Capital Fund	\$ 402,437
Capital Projects Fund	2,002,556
Equipment Replacement Fund	<u>102,477</u>
TOTAL	<u>\$ 2,507,470</u>

Restricted Fund Balances

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

State Liquid Fuels Fund	<u>\$ 1,398</u>
TOTAL	<u>\$ 1,398</u>

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2011

Note 12 – Prior Period Adjustments

The Borough of Quakertown implemented GASB-54 during the 2011 year. As a result, GASB-54 now requires that the Borough recognizes the Fire Capital Fund as part of the General Fund. In addition, the Borough has to include the Defined Compensation Plan Fund as a Trust Fund in the financial statements as of 1/1/11. The resulting changes in fund balances are as follows:

FUND	ORIGINAL FUND BALANCES JAN. 1, 2011	GASB-34 FUND BALANCE CHANGE	RESTATED FUND BALANCES JAN. 1, 2011
General	\$ 100,443	\$ 258	\$ 100,701
Fire Company Capital	258	(258)	-
Defined Compensation Plan	-	28,838	28,838
TOTALS	\$ 100,701	\$ 28,838	\$ 129,539

Note 13 – Subsequent Events

The subsequent events have been evaluated through July 20, 2012, which is the date of the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

THE BOROUGH OF QUAKERTOWN
Pension Funds
Required Supplemental Information
December 31, 2011

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
			\$	%		\$	%	
<u>NON-UNIFORMED PENSION PLAN</u>								
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%		
1/1/2011	6,078,785	7,886,686	1,807,901	77.08%	2,151,885	84.01%		
<u>POLICE PENSION FUND</u>								
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%		
1/1/2011	3,883,347	6,506,558	2,623,211	59.68%	1,473,176	178.07%		

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
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%
2010	269,428	100.00%	354,154	100.00%
2011	307,724	100.00%	347,966	100.00%

OTHER SUPPLEMENTAL INFORMATION

THE BOROUGH OF QUAKERTOWN
 Combining Balance Sheet
 All Capital Project Funds
 For the Year Ended December 31, 2011

	CAPITAL PROJECT FUNDS			TOTAL CAPITAL PROJECT FUNDS
	WATER CAPITAL FUND	CAPITAL PROJECTS FUND	EQUIPMENT REPLACEMENT FUND	
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 1,589,100	\$ 1,055,744	\$ 102,477	\$ 2,747,321
Investments	-	946,812	-	946,812
Due from Other Funds	-	-	-	-
TOTAL ASSETS	\$ 1,589,100	\$ 2,002,556	\$ 102,477	\$ 3,694,133
<u>LIABILITIES AND FUND BALANCES</u>				
<u>LIABILITIES:</u>				
Due to Other Funds	\$ 1,186,663	-	-	\$ 1,186,663
Accounts Payable	-	-	-	-
TOTAL LIABILITIES	1,186,663	-	-	1,186,663
<u>FUND BALANCES:</u>				
Restricted for Capital Projects	402,437	2,002,556	102,477	2,507,470
TOTAL FUND BALANCES	402,437	2,002,556	102,477	2,507,470
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,589,100	\$ 2,002,556	\$ 102,477	\$ 3,694,133

THE BOROUGH OF QUAKERTOWN
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
All Capital Project Funds
For the Year Ended December 31, 2011

	CAPITAL PROJECT FUNDS			TOTAL CAPITAL PROJECT FUNDS
	WATER CAPITAL FUND	CAPITAL PROJECTS FUND	EQUIPMENT REPLACEMENT FUND	
REVENUES				
Donations	\$ -	\$ 22,944	\$ -	\$ 22,944
Investment Earnings	14,022	31,821	790	46,633
TOTAL REVENUES	<u>14,022</u>	<u>54,765</u>	<u>790</u>	<u>69,577</u>
EXPENDITURES				
General Government	136,127	40,293	-	176,420
Public Safety	-	-	-	-
Public Works	-	-	34,211	34,211
Culture and Recreation	-	20,653	-	20,653
Community Development	-	33,973	-	33,973
Debt Service	237,333	-	-	237,333
TOTAL EXPENDITURES	<u>373,460</u>	<u>94,919</u>	<u>34,211</u>	<u>502,590</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(359,438)</u>	<u>(40,154)</u>	<u>(33,421)</u>	<u>(433,013)</u>
OTHER FINANCING SOURCES				
Sale of Fixed Assets	-	-	-	-
Transfers In	237,335	-	34,211	271,546
Transfers Out	-	-	-	-
TOTAL OTHER FINANCING SOURCES	<u>237,335</u>	<u>-</u>	<u>34,211</u>	<u>271,546</u>
NET CHANGE IN FUND BALANCE	<u>(122,103)</u>	<u>(40,154)</u>	<u>790</u>	<u>(161,467)</u>
FUND BALANCES - BEGINNING	<u>524,540</u>	<u>2,042,710</u>	<u>101,687</u>	<u>2,668,937</u>
FUND BALANCES - ENDING	<u>\$ 402,437</u>	<u>\$ 2,002,556</u>	<u>\$ 102,477</u>	<u>\$ 2,507,470</u>

THE BOROUGH OF QUAKERTOWN
Combining Statement of Net Assets
All Pension Trust Funds
As December 31, 2011

	POLICE PENSION TRUST FUND	NON UNIFORMED PENSION TRUST FUND	DEFERRED COMPENSATION PLAN FUND	TOTAL TRUST FUNDS
ASSETS				
Cash and Cash Equivalents	\$ 80,378	\$ 130,898	\$ 1,876	\$ 213,152
Investments	3,942,082	5,944,400	48,706	9,935,188
Accrued Investment Income	11,120	18,571	51	29,742
Accounts Receivable	-	1,004	-	1,004
TOTAL ASSETS	\$ 4,033,580	\$ 6,094,873	\$ 50,633	\$ 10,179,086
LIABILITIES				
Accounts Payable	2,000	1,000	-	3,000
Due to Police Officers	-	-	-	-
TOTAL LIABILITIES	2,000	1,000	-	3,000
NET ASSETS				
Restricted for Employee Benefits	4,031,580	6,093,873	50,633	10,176,086
TOTAL NET ASSETS	\$ 4,031,580	\$ 6,093,873	\$ 50,633	\$ 10,176,086

THE BOROUGH OF QUAKERTOWN
Combining Statement of Additions, Deductions and Changes in Net Assets
All Pension Trust Funds
For the Year Ended December 31, 2011

	POLICE PENSION TRUST FUND	NON UNIFORMED PENSION TRUST FUND	DEFERRED COMPENSATION PLAN FUND	TOTAL TRUST FUNDS
ADDITIONS:				
Contributions - Employer	\$ 140,209	\$ 66,182	\$ 24,800	\$ 231,191
Contributions - Employee	-	21,953	-	21,953
State Aid	222,962	241,542	-	464,504
Miscellaneous	1,477	4,301	-	5,778
INVESTMENT EARNINGS:				
Interest and Dividends	93,989	149,024	1,553	244,566
Change in Fair Value of Investments	(118,218)	(187,414)	(3,797)	(309,429)
TOTAL ADDITIONS	<u>340,419</u>	<u>295,588</u>	<u>22,556</u>	<u>658,563</u>
DEDUCTIONS:				
Administrative Charges	13,598	13,898	232	27,728
Investment Expenses	13,350	20,651	529	34,530
Employee Benefits	206,228	240,361	-	446,589
TOTAL DEDUCTIONS	<u>233,176</u>	<u>274,910</u>	<u>761</u>	<u>508,847</u>
CHANGE IN NET ASSETS	107,243	20,678	21,795	149,716
NET ASSETS (RESTATED) - BEGINNING OF YEAR	<u>3,924,337</u>	<u>6,073,195</u>	<u>28,838</u>	<u>10,026,370</u>
NET ASSETS - END OF YEAR	<u>\$ 4,031,580</u>	<u>\$ 6,093,873</u>	<u>\$ 50,633</u>	<u>\$ 10,176,086</u>

THE BOROUGH OF QUAKERTOWN
Combining Statement of Net Assets
All Proprietary Funds
As of December 31, 2011

	ELECTRIC FUND	MAJOR WATER FUND	SEWER FUND	NON-MAJOR POOL FUND	TOTAL
ASSETS					
CURRENT ASSETS:					
Cash and Cash Equivalents	\$ 3,339,133	\$ 204,432	\$ 2,257,410	\$ 87,943	\$ 5,888,918
Investments	-	-	-	-	-
Accounts Receivable (Net of Allowance for Doubtful Accounts)	2,090,664	341,847	213,131	-	2,645,642
Due from Other Funds	-	1,186,663	-	-	1,186,663
TOTAL CURRENT ASSETS	<u>5,429,797</u>	<u>1,732,942</u>	<u>2,470,541</u>	<u>87,943</u>	<u>9,721,223</u>
NON-CURRENT ASSETS:					
Buildings (Net of Depreciation)	6,291,108	2,416,862	5,949,231	697,190	15,354,391
Improvements other than Buildings (Net of Depreciation)	7,104	10,927	39,277	1,155,875	1,213,183
Machinery and Equipment (Net of Depreciation)	141,806	109,153	522,891	-	773,850
Sewer Lines Infrastructure (Net of Depreciation)	-	-	4,053,139	-	4,053,139
Water Lines Infrastructure (Net of Depreciation)	-	6,511,453	-	-	6,511,453
TOTAL NON-CURRENT ASSETS	<u>6,440,018</u>	<u>9,048,395</u>	<u>10,564,538</u>	<u>1,853,065</u>	<u>27,906,016</u>
TOTAL ASSETS	<u>\$ 11,869,815</u>	<u>\$ 10,781,337</u>	<u>\$ 13,035,079</u>	<u>\$ 1,941,008</u>	<u>\$ 37,627,239</u>
LIABILITIES					
CURRENT LIABILITIES:					
Sales Tax Payable	\$ 12,601	-	-	-	\$ 12,601
Accounts Payable	751,315	15,798	48,664	-	815,777
Accrued Salaries and Benefits	12,120	10,907	13,980	-	37,007
Deferred Revenues	-	-	-	19,540	19,540
Notes Payable	-	253,262	153,491	324,781	731,534
TOTAL CURRENT LIABILITIES	<u>776,036</u>	<u>279,967</u>	<u>216,135</u>	<u>344,321</u>	<u>1,616,459</u>
NON-CURRENT LIABILITIES:					
Compensated Absences	203,501	104,976	152,677	-	461,154
Notes Payable	-	4,808,381	2,914,146	331,053	8,053,580
TOTAL NON-CURRENT LIABILITIES	<u>203,501</u>	<u>4,913,357</u>	<u>3,066,823</u>	<u>331,053</u>	<u>8,514,734</u>
TOTAL LIABILITIES	<u>979,537</u>	<u>5,193,324</u>	<u>3,282,958</u>	<u>675,374</u>	<u>10,131,193</u>
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	6,440,018	3,986,752	7,496,901	1,197,231	19,120,902
Restricted	-	-	-	-	-
Unrestricted Net Assets	4,450,260	1,601,261	2,255,220	68,403	8,375,144
TOTAL NET ASSETS	<u>10,890,278</u>	<u>5,588,013</u>	<u>9,752,121</u>	<u>1,265,634</u>	<u>27,496,046</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,869,815</u>	<u>\$ 10,781,337</u>	<u>\$ 13,035,079</u>	<u>\$ 1,941,008</u>	<u>\$ 37,627,239</u>

THE BOROUGH OF QUAKERTOWN
Combining Statement of Revenues, Expenses and Changes in Net Assets
All Proprietary Funds
For the Year Ended December 31, 2011

	MAJOR		NON-MAJOR		TOTAL
	ELECTRIC FUND	WATER FUND	SEWER FUND	POOL FUND	
OPERATING REVENUES					
Charges for Services	\$ 14,056,111	\$ 1,276,395	\$ 2,360,165	\$ 208,582	\$ 17,901,253
Debt Service Fees	-	815,701	-	-	815,701
Permits and Fees	51,498	26,728	-	-	78,226
Penalties	145,724	25,005	16,823	-	187,552
Rental Income	-	39,860	-	-	39,860
Other Income	485	2,963	998	816	5,262
TOTAL OPERATING REVENUES	14,253,818	2,186,652	2,377,986	209,398	19,027,854
OPERATING EXPENSES					
Costs of Furnishing Utility	9,628,058	1,061,817	1,442,937	-	12,132,812
Costs of Pool Operations	-	-	-	206,901	206,901
Employee Benefits	172,896	153,637	205,219	8,982	540,734
Employee Pension	61,796	48,500	69,290	-	179,586
Insurance	56,787	64,091	88,536	17,513	226,927
Debt Service	-	140,077	84,894	27,911	252,882
Depreciation	174,311	224,809	342,374	91,818	833,312
TOTAL OPERATING EXPENSES	10,093,848	1,692,931	2,233,250	353,125	14,373,154
OPERATING INCOME (LOSS)	4,159,970	493,721	144,736	(143,727)	4,654,700
NON-OPERATING REVENUES (EXPENSES)					
Interest Earned	23,727	2,245	17,760	1,975	45,707
Gain (Loss) on Sale of Fixed Assets	-	-	-	-	-
State Aid - Pension	43,354	37,160	55,740	-	136,254
Transfers from Other Funds	-	-	-	350,000	350,000
Transfers to Other Funds	(3,830,000)	(435,835)	(198,500)	-	(4,464,335)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(3,762,919)	(396,430)	(125,000)	351,975	(3,932,374)
CHANGES IN NET ASSETS	397,051	97,291	19,736	208,248	722,326
NET ASSETS, JANUARY 1, 2011	10,493,227	5,490,722	9,732,385	1,057,386	26,773,720
NET ASSETS, DECEMBER 31, 2011	\$ 10,890,278	\$ 5,588,013	\$ 9,752,121	\$ 1,265,634	\$ 27,496,046

**INDIVIDUAL FUND STATEMENTS
AND SCHEDULES**

THE BOROUGH OF QUAKERTOWN
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2011

REVENUES

TAXES:

Real Estate Taxes - Current	\$ 124,616	
Real Estate Taxes - Prior	3,467	
Real Estate Transfer Tax	88,695	
Earned Income Tax	890,361	
Local Services Tax	215,379	\$ 1,322,518

FINES AND FORFEITS:

Motor Vehicle Violations	77,961	
Fines	17,216	
Parking Tickets	4,217	99,394

LICENSES AND PERMITS:

Franchise Fee Cable	151,601	
Permits/Reports	-	151,601

INTERGOVERNMENTAL:

Public Utility Realty Tax	1,711	
In Lieu of Taxes	15,000	
Beverage Licenses	1,600	
Pension State Aid	328,249	
Allotment - Fireman's Relief	107,179	
Local Government Units	2,210	
Federal Grants	514,675	
State Grants	126,557	1,097,181

CHARGES FOR SERVICES:

General Government	149,551	
Public Safety	191,713	
Parking Meters	9,615	
Sale of Trash Bags	-	
Health	1,039	
Culture and Recreation	49,108	401,026

INVESTMENT AND RENTAL EARNINGS:

Interest Income	5,499	
Rentals	6,325	11,824

MISCELLANEOUS:

Contributions and Donations	12,404	
Overtime Reimbursement	150	
Insurance Claim Refund	22,670	
Other	17,405	52,629

TOTAL REVENUES		\$ 3,136,173
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THE BOROUGH OF QUAKERTOWN
General Fund (Cont'd)
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2011

EXPENDITURES

GENERAL GOVERNMENT

LEGAL:

Solicitor	\$	49,529
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MAYOR, LEGISLATIVE, BOROUGH MANAGER:

Salary		187,976
Materials and Supplies		8,340
Contracted Services		2,195
Association Dues and Conventions		13,064
Advertising, Printing and Postage		8,324
Gasoline		1,444
Telephone		17,549
Insurance		17,685
Small Tools and Equipment		3,065

FINANCE AND ACCOUNTING:

Salary		220,158
Auditing		36,585
Office Supplies		810
Bonding		1,547
Association Dues and Conventions		3,821
Contracted Services		19,372

TAX COLLECTION:

Salary		6,000
Contracted Services		1,047

IT-NETWORKING SERVICES-DATA PROCESSING:

Computer Hardware and Software		66,473
Computer Parts and Supplies		-
Internet Service		1,595
Contracted IT Services		34,510
Web Design and Maintenance		3,162

ENGINEERING:

Engineering Fees		78,082
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BUILDINGS AND PLANT:

Building Supplies		5,222
Cleaning Supplies		11,368
Repairs and Maintenance		9,141
Contracted Services		2,661

TOTAL GENERAL GOVERNMENT	\$	810,725
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THE BOROUGH OF QUAKERTOWN
General Fund (Cont'd)
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2011

PUBLIC SAFETY

POLICE:

Salaries and Benefits	\$ 1,557,044
Office Supplies	3,671
Postage	774
Fuel and Oil	41,956
Uniforms	22,253
K9	4,011
Vice	100
Ammunition	14,424
National Night Out	1,436
Vehicle Maintenance and Repair	8,007
Small Tools and Equipment	20,622
Telephone	18,774
Towing	16,105
Advertising and Printing	2,152
Police Professional Liability Insurance	17,054
Asset Forfeiture	5,318
Association Dues and Conventions	23,041
Contracted Services	15,270
Capital Purchases	4,765

FIRE:

Contribution to Fire Co.	145,000
Fireman's Relief	107,179
Fire Marshal	52,029
Insurance	41,242
Gasoline	83,289
Fire Truck Repairs	5,037
Small Tools and Equipment	284

INSPECTIONS:

Zoning and Administration	65,981
Salary of Clerical	31,862
Office Supplies	2,311
Fuel and Oil	2,678
Uniforms	253
Vehicle Maintenance and Repair	7
Small Tools and Equipment	1,117
Advertising and Printing	7,268
Association Dues and Conventions	2,656
Contracted Services	1,749

TOTAL PUBLIC SAFETY \$ 2,326,719

THE BOROUGH OF QUAKERTOWN
General Fund (Cont'd)
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2011

PUBLIC WORKS

SOLID WASTE AND COLLECTION:	\$	12,681	
STREET MAINTENANCE AND LIGHTING:			
Salaries - Highways and Streets		627,123	
Office Supplies		1,944	
Fuel and Oil		59,717	
Uniforms		5,232	
Street and Traffic Signs		16,230	
Road Materials		35,613	
Vehicle Maintenance and Repairs		65,176	
Small Tools and Equipment		20,072	
Telephone		5,886	
Association Dues and Conventions		2,086	
CDL Drug and Alcohol Testing		468	
Equipment Rental		6,300	
Snow Removal Materials		<u>80,472</u>	
TOTAL PUBLIC WORKS			\$ 939,000

CULTURE AND RECREATION

PARKS AND POOL:			
Salary		34,817	
Supplies		11,349	
Discount Tickets		15,881	
QSAA		986	
Vehicle Maintenance and Repairs		1,854	
Small Tools and Equipment		9,064	
Summer Concert Series		3,155	
Kids Program		2,856	
Advertising and Printing		683	
Contracted Services		97,896	
Field Improvements		1,001	
Capital Maintenance		<u>53,594</u>	
TOTAL CULTURE AND RECREATION			233,136

COMMUNITY DEVELOPMENT

Quakertown Alive		20,000	
Office Supplies		86	
Small Tools and Equipment		3,933	
Contracted Services		25,994	
Triangle Park Construction		<u>531,638</u>	
TOTAL COMMUNITY DEVELOPMENT			581,651

THE BOROUGH OF QUAKERTOWN
General Fund (Cont'd)
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2011

EMPLOYER BENEFITS AND WITHHOLDING ITEMS

Police Pension	\$	348,949	
Non-Uniformed Pension		128,138	
Employee Benefits		<u>926,000</u>	

TOTAL EMPLOYER BENEFITS AND WITHHOLDING ITEMS \$ 1,403,087

INSURANCE

Insurance, Casualty, and Surety	150,520
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UNCLASSIFIED EXPENDITURES 7,978

TOTAL EXPENDITURES 6,452,816

DEFICIENCY OF REVENUES OVER EXPENDITURES (3,316,643)

OTHER FINANCING SOURCES AND OTHER FINANCING USES

Refund of Prior Year Expenditures	35,238	
Interfund Transfers In	3,877,000	
Interfund Transfers Out	<u>(34,211)</u>	<u>3,878,027</u>

NET CHANGE IN FUND BALANCES 561,384

FUND BALANCE (RESTATED) - JANUARY 1, 2011 100,701

FUND BALANCE - DECEMBER 31, 2011 \$ 662,085

THE BOROUGH OF QUAKERTOWN
Electric Fund
Statement of Revenues, Expenditures, and Changes in Net Assets
For the Year Ended December 31, 2011

	BUDGET	ACTUAL
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 14,500,000	\$ 14,056,111
Permits and Fees	101,400	51,498
Penalties	130,000	145,724
Other Income	2,000	485
TOTAL OPERATING REVENUES	14,733,400	14,253,818
<u>OPERATING EXPENSES</u>		
Costs of Furnishing Utility	10,415,050	9,628,058
Employee Benefits	198,400	172,896
Employee Pension	42,000	61,796
Insurance	68,700	56,787
Depreciation	-	174,311
Contingency	735,000	-
TOTAL OPERATING EXPENSES	11,459,150	10,093,848
OPERATING INCOME	3,274,250	4,159,970
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest Earned	20,000	23,727
Gain (Loss) on Sale of Fixed Assets	1,000	-
State Aid - Pension	-	43,354
Transfers to Other Funds	(3,830,000)	(3,830,000)
TOTAL NON-OPERATING (EXPENSES)	(3,809,000)	(3,762,919)
CHANGES IN NET ASSETS	(534,750)	397,051
NET ASSETS, JANUARY 1, 2011	534,750	10,493,227
NET ASSETS, DECEMBER 31, 2011	\$ -	\$ 10,890,278

THE BOROUGH OF QUAKERTOWN
Water Fund
Statement of Revenues, Expenditures, and Changes in Net Assets
For the Year Ended December 31, 2011

	BUDGET	ACTUAL
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 1,250,000	\$ 1,276,395
Penalties	16,000	25,005
Debt Service Fee	778,000	815,701
Other Fees	89,200	26,728
Rental Income	22,300	39,860
Other Income	2,000	2,963
TOTAL OPERATING REVENUES	2,157,500	2,186,652
 <u>OPERATING EXPENSES</u>		
Costs of Furnishing Utility	1,177,735	1,061,817
Employee Benefits	157,300	153,637
Employee Pension	34,600	48,500
Insurance	66,825	64,091
Debt Service	623,944	140,077
Depreciation	-	224,809
Contingency	107,000	-
TOTAL OPERATING EXPENSES	2,167,404	1,692,931
 OPERATING INCOME (LOSS)	 (9,904)	 493,721
 <u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest Earned	2,000	2,245
State Aid - Pension	-	37,160
Gain (Loss) on Sale of Fixed Assets	1,000	-
Transfers to Other Funds	(198,500)	(435,835)
TOTAL NON-OPERATING (EXPENSES)	(195,500)	(396,430)
 CHANGES IN NET ASSETS	 (205,404)	 97,291
 NET ASSETS, JANUARY 1, 2011	 205,404	 5,490,722
 NET ASSETS, DECEMBER 31, 2011	 \$ -	 \$ 5,588,013

THE BOROUGH OF QUAKERTOWN
Sewer Fund
Statement of Revenues, Expenditures, and Changes in Net Assets
For the Year Ended December 31, 2011

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 2,489,250	\$ 2,360,165
Penalties	10,500	16,823
Other Income	2,100	998
TOTAL OPERATING REVENUES	2,501,850	2,377,986
<u>OPERATING EXPENSES</u>		
Costs of Furnishing Utility	1,624,400	1,442,937
Employee Benefits	200,500	205,219
Employee Pension	43,000	69,290
Insurance	94,500	88,536
Debt Service	234,308	84,894
Depreciation	-	342,374
Contingency	121,000	-
TOTAL OPERATING EXPENSES	2,317,708	2,233,250
OPERATING INCOME	184,142	144,736
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest Earned	15,000	17,760
Gain (Loss) on Sale of Fixed Assets	1,000	-
State Aid - Pension	-	55,740
Sewage Facilities Grant	-	-
Transfers to Other Funds	(213,500)	(198,500)
TOTAL NON-OPERATING (EXPENSES)	(197,500)	(125,000)
CHANGES IN NET ASSETS	(13,358)	19,736
NET ASSETS, JANUARY 1, 2011	13,358	9,732,385
NET ASSETS, DECEMBER 31, 2011	\$ -	\$ 9,752,121

THE BOROUGH OF QUAKERTOWN
Pool Fund
Statement of Revenues, Expenditures, and Changes in Net Assets
For the Year Ended December 31, 2011

	BUDGET	ACTUAL
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 192,560	\$ 208,582
Other Income	200	816
TOTAL OPERATING REVENUES	192,760	209,398
	-----	-----
<u>OPERATING EXPENSES</u>		
Costs of Pool Operations	199,760	206,901
Employee Benefits	8,000	8,982
Insurance	18,250	17,513
Debt Service	340,548	27,911
Depreciation	-	91,818
Contingency	9,700	-
TOTAL OPERATING EXPENSES	576,258	353,125
OPERATING (LOSS)	(383,498)	(143,727)
<u>NON-OPERATING REVENUES</u>		
Interest Earned	1,000	1,975
Transfers from Other Funds	350,000	350,000
TOTAL NON-OPERATING REVENUES	351,000	351,975
CHANGES IN NET ASSETS	(32,498)	208,248
NET ASSETS, JANUARY 1, 2011	32,498	1,057,386
NET ASSETS, DECEMBER 31, 2011	\$ -	\$ 1,265,634

**The Borough of Quakertown
Liquid Fuels Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2011**

FUND BALANCE - JANUARY 1, 2011	\$	36,360
 <u>REVENUES AND OTHER FINANCING SOURCES</u>		
INTERGOVERNMENTAL:		
Liquid Fuels Tax	\$ 157,935	
Highway/Turnback Income	5,481	
INVESTMENT EARNINGS:		
Interest Earnings	910	
OTHER FINANCING SOURCES:		
Transfer From Other Funds	-	164,326
TOTAL FUNDS AVAILABLE		200,686
 <u>EXPENDITURES AND OTHER FINANCING USES</u>		
PUBLIC WORKS:		
Highway Construction	\$ 189,040	
Rental of Machinery	10,248	199,288
FUND BALANCE - DECEMBER 31, 2011	\$	<u>1,398</u>

**Water Capital Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2011**

FUND BALANCE - JANUARY 1, 2011	\$	524,540
 <u>REVENUES AND OTHER FINANCING SOURCES</u>		
Interest Earnings	\$ 14,022	
Transfer from Other Funds	237,335	251,357
TOTAL FUNDS AVAILABLE		775,897
 <u>EXPENDITURES AND OTHER FINANCING USES</u>		
GENERAL GOVERNMENT:		
Engineering and Design	\$ 136,127	
DEBT SERVICE:		
Debt Principal	201,835	
Debt Interest	35,498	373,460
FUND BALANCE - DECEMBER 31, 2011	\$	<u>402,437</u>

THE BOROUGH OF QUAKERTOWN
Capital Projects Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2011

FUND BALANCE - JANUARY 1, 2011	\$	2,042,710
 <u>REVENUES AND OTHER FINANCING SOURCES</u>		
Interest Earnings	\$ 31,821	
Donations	22,944	
Miscellaneous	-	54,765
TOTAL FUNDS AVAILABLE		2,097,475
 <u>EXPENDITURES AND OTHER FINANCING USES</u>		
GENERAL GOVERNMENT:		
Buildings and Plant	\$ 40,293	
CULTURE AND RECREATION		
Park Pole Building	20,653	
COMMUNITY DEVELOPMENT:		
Civic Contributions	20,000	
Senior Center Contributions	8,400	
Community Contributions	5,573	94,919
FUND BALANCE - DECEMBER 31, 2011	\$	<u>2,002,556</u>

Equipment Replacement Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2011

FUND BALANCE - JANUARY 1, 2011	\$	101,687
 <u>REVENUES AND OTHER FINANCING SOURCES</u>		
Interest Earnings	\$ 790	
Transfer From Other Funds	34,211	35,001
TOTAL FUNDS AVAILABLE		136,688
 <u>EXPENDITURES AND OTHER FINANCING USES</u>		
PUBLIC WORKS:		
Equipment		34,211
FUND BALANCE - DECEMBER 31, 2011	\$	<u>102,477</u>

THE BOROUGH OF QUAKERTOWN
Escrow Fund
Statement of Additions Received and Deductions Paid
For the Year Ended December 31, 2011

ASSETS		
Escrow Checking	\$	<u>339,560</u>
TOTAL ASSETS		\$ <u>339,560</u>
LIABILITIES		
Due to Escrow Holders	\$	<u>339,560</u>
TOTAL LIABILITIES		\$ <u>339,560</u>

Police Health Reimbursement Arrangement Fund
Statement of Additions Received and Deductions Paid
For the Year Ended December 31, 2011

ASSETS		
Cash	\$	<u>50,630</u>
TOTAL ASSETS		\$ <u>50,630</u>
LIABILITIES		
Due to Police Officers	\$	<u>50,630</u>
TOTAL LIABILITIES		\$ <u>50,630</u>

Defined Compensation Plan Fund
Statement of Additions Received and Deductions Paid
For the Year Ended December 31, 2011

NET ASSETS (RESTATED) - BEGINNING OF YEAR		\$ 28,838
ADDITIONS:		
Contributions - Employer	\$	24,800
INVESTMENT EARNINGS:		
Interest and Dividends		1,553
Change in Fair Value of Investments		<u>(3,797)</u>
TOTAL ADDITIONS		<u>22,556</u> -----
DEDUCTIONS:		
Administrative Charges		232
Investment Expenses		<u>529</u>
TOTAL DEDUCTIONS		<u>761</u>
CHANGE IN NET ASSETS		<u>21,795</u>
NET ASSETS - END OF YEAR		\$ <u>50,633</u>

THE BOROUGH OF QUAKERTOWN
Police Pension Trust Fund
Statement of Additions and Deductions
For the Year Ended December 31, 2011

NET ASSETS - BEGINNING OF YEAR		\$	3,924,337
ADDITIONS:			
Contributions - Employer	\$		140,209
State Aid			222,962
Miscellaneous			1,477
INVESTMENT EARNINGS:			
Interest and Dividends			93,989
Change in Fair Value of Investments			<u>(118,218)</u>
TOTAL ADDITIONS			<u>340,419</u>
DEDUCTIONS:			
Administrative Charges			13,598
Investment Expenses			13,350
Employee Benefits			<u>206,228</u>
TOTAL DEDUCTIONS			<u>233,176</u>
CHANGE IN NET ASSETS			<u>107,243</u>
NET ASSETS - END OF YEAR		\$	<u>4,031,580</u>

Non-Uniformed Pension Trust Fund
Statement of Additions and Deductions
For the Year Ended December 31, 2011

NET ASSETS - BEGINNING OF YEAR		\$	6,073,195
ADDITIONS:			
Contributions - Employer			66,182
Contributions - Employee			21,953
State Aid			241,542
Miscellaneous Income			4,301
INVESTMENT EARNINGS:			
Interest and Dividends			149,024
Change in Fair Value of Investments			<u>(187,414)</u>
TOTAL ADDITIONS			<u>295,588</u>
DEDUCTIONS:			
Administrative Charges			13,898
Investment Expenses			20,651
Employee Benefits			<u>240,361</u>
TOTAL DEDUCTIONS			<u>274,910</u>
CHANGE IN NET ASSETS			<u>20,678</u>
NET ASSETS - END OF YEAR		\$	<u>6,093,873</u>

S I N G L E A U D I T S E C T I O N

BOROUGH OF QUAKERTOWN
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2011

<u>Federal Grantor/Pass Through Grantor/ Program Title</u>	<u>Source Code</u>	<u>Federal CDFA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Transportation</u>				
Passed Through the Pennsylvania Department of Transportation				
Highway Planning and Construction Program	I	20.805		\$ 514,675
TOTAL - U.S. Department of Transportation				\$ 514,675

TOTAL EXPENDITURES **\$ 514,675**

SOURCE: D - DIRECT; I - INDIRECT

BOROUGH OF QUAKERTOWN
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2011

General Information:

The accompanying schedule of expenditures of federal awards presents the activities in all the federal, financial assistance programs of the Borough of Quakertown. All financial assistance received directly from federal agencies as well as financial assistance passed through other governmental agencies are included on the schedule.

Basis of Accounting:

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting. The amounts reported in this schedule as expenditures may differ from certain financial reports submitted to federal funding agencies due to those reports being submitted using a different basis of accounting.



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, 2011, which collectively comprise the Borough of Quakertown's basic financial statements and have issued our report thereon dated July 20, 2012. 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Borough of Quakertown's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Borough of Quakertown's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting listed as Finding No. 11.01. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Borough Council

Compliance and Other Matters

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

We noted certain matters that we reported to management of Borough of Quakertown in a separate letter dated July 20, 2012.

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. Gillahan^{CPA}

July 20, 2012



HUTCHINSON, GILLAHAN & FREEH, P.C.

ACCOUNTANTS, AUDITORS & CONSULTANTS

July 20, 2012

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of the Borough of Quakertown, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2011. The Borough of Quakertown's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Borough of Quakertown's management. Our responsibility is to express an opinion on the Borough of Quakertown's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Borough of Quakertown's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Borough of Quakertown's compliance with those requirements.

In our opinion, the Borough of Quakertown complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

Management of the Borough of Quakertown is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Borough of Quakertown's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Borough of Quakertown's internal control over compliance.

BOROUGH OF QUAKERTOWN

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the Borough Council, Management, and Federal and State Awarding Agencies, 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

July 20, 2012

BOROUGH OF QUAKERTOWN
Schedule of Findings and Responses
For the Year Ended December 31, 2011

Section I – Summary of Auditor Results

Financial Statements

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
▪ Material Weakness(es) Identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
▪ Significant Deficiencies(s) Identified?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> None Reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no

Federal Awards

Internal control over major programs:		
▪ Material Weakness(es) Identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
▪ Significant Deficiencies(s) Identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> None Reported
Type of auditor's report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with section 501(a) of OMB Circular A-133?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Identification of major program:		
CFDA Number(s)	Name of Federal Program or Cluster	
20.205	Highway Planning and Construction Program	
Percentage of programs tested to total awards	100%	
Dollar threshold used to distinguish between type A and type B program:	\$ 300,000	
Auditee qualified as low-risk auditee?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no

BOROUGH OF QUAKERTOWN
Schedule of Findings and Responses
For the Year Ended December 31, 2011

Section II - Findings - Financial Statement Audit

11.01 – Lack of Service Organization Report Required by Statement on Standards for Attestation Engagement (SSAE) No. 16

Criteria: An Organization that provides certain Data Processing Services is required to provide the Borough of Quakertown with a report on its controls.

Condition: A service organization that provides substantial service for the Borough's Utility Operations (Electric, Water and Sewer) to include billing, recording of receipts and posting of transactions to the General Ledger has not provided a report required by SSAE 16.

Effect: Internal control evaluation at the Borough's level is limited due to the transaction processing at the service organization.

Cause: The service organization cannot produce a report on its controls as required by SSAE 16.

Recommendation: Considering the larger volume of transaction processing by the service organization a report in accordance with SSAE 16 is required.

View of Responsible Officials: Management concurs with the findings and will contact the service organization in an attempt to resolve this finding.

Corrective Action Plan: If the service organization cannot produce a report required by SSAE 16 the Borough will consider other alternatives for its utility operation.

Section III - Findings and Questioned Costs - Major Federal Awards Program

Material Weaknesses: None
Significant Deficiencies: None
Compliance Findings: None