

THE BOROUGH OF QUAKERTOWN

Financial Statements

For the Year Ended December 31, 2012

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Financial Statements

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HUTCHINSON, GILLAHAN & FREEH, P.C.

ACCOUNTANTS, AUDITORS & CONSULTANTS

August 16, 2013

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, 2012, 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 expression of an opinion on the effectiveness of the Borough of Quakertown's internal control. Accordingly, we do not express an opinion on the effectiveness of the Borough of Quakertown's internal control.

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

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

RECOMMENDATIONS

In addition, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated August 16, 2013, on the financial statements of the Borough of Quakertown. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management are intended to improve the internal control or result in other operating efficiencies.

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

Equipment Fund Expenditures

It was discovered during the audit that the Borough is purchasing Electric, Water and Sewer Fund equipment out of the Equipment Replacement Fund. The Equipment Replacement Fund is a governmental fund and, as such, proprietary fund equipment should not be purchased from this fund. In the future, it is recommended that all proprietary fund equipment be purchased out of the appropriate proprietary fund (Electric, Water, Sewer or Pool).

Pool Membership Revenue

During the course of the audit, it was discovered that there was not sufficient documentation to support the revenue received from season passes sold throughout the year. The applications received were not kept as proof of membership. In order to establish that accurate revenue was recorded, the applications should be kept with a proof of deposit.

Although, the management letter is not a required part of the audit, it does represent a conscientious attempt on our part to help management correct or improve operating efficiency, under the limitations of staff availability within the Borough.

This communication is intended solely for the information and use of management, those charged with governance and others within the Borough, and any required government authorities. This communication is not intended to be and should not be used by anyone other than those specific parties.

Respectfully submitted,

Craig W. Gillahan^{II} CPA

August 16, 2013



HUTCHINSON, GILLAHAN & FREEH, P.C.

ACCOUNTANTS, AUDITORS & CONSULTANTS

August 16, 2013

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, 2012, and the related notes to the financial statements, which collectively comprise the Borough's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements, referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Quakertown at December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

BOROUGH OF QUAKERTOWN

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-12 be presented to supplement the basic financial statements. The Borough of Quakertown has presented the Schedule of Funding Progress for the Pension Funds and the modified approach to reporting infrastructure assets that accounting principles generally accepted in the United States of America has determined is required to be part of the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough of Quakertown's financial statements as a whole. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with the basis of accounting described in the notes to the financial statements. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards we have also issued our report on August 16, 2013, on our consideration of the Borough of Quakertown's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Borough of Quakertown's internal control over financial reporting and compliance.

Respectfully submitted,

Roy W. Gillahan II CPA

August 16, 2013

BOROUGH OF QUAKERTOWN
Quakertown, Pennsylvania

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
For the Year Ended December 31, 2012

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, 2012. 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 \$2,605,916 including special and extraordinary items. The net assets increased in the governmental activities and funds by \$246,682 and increased in the business-type activities and funds by \$2,359,234.

During the year, the Borough paid principal of \$736,146 resulting in ending outstanding debt as of December 31, 2012, of \$8,937,205.

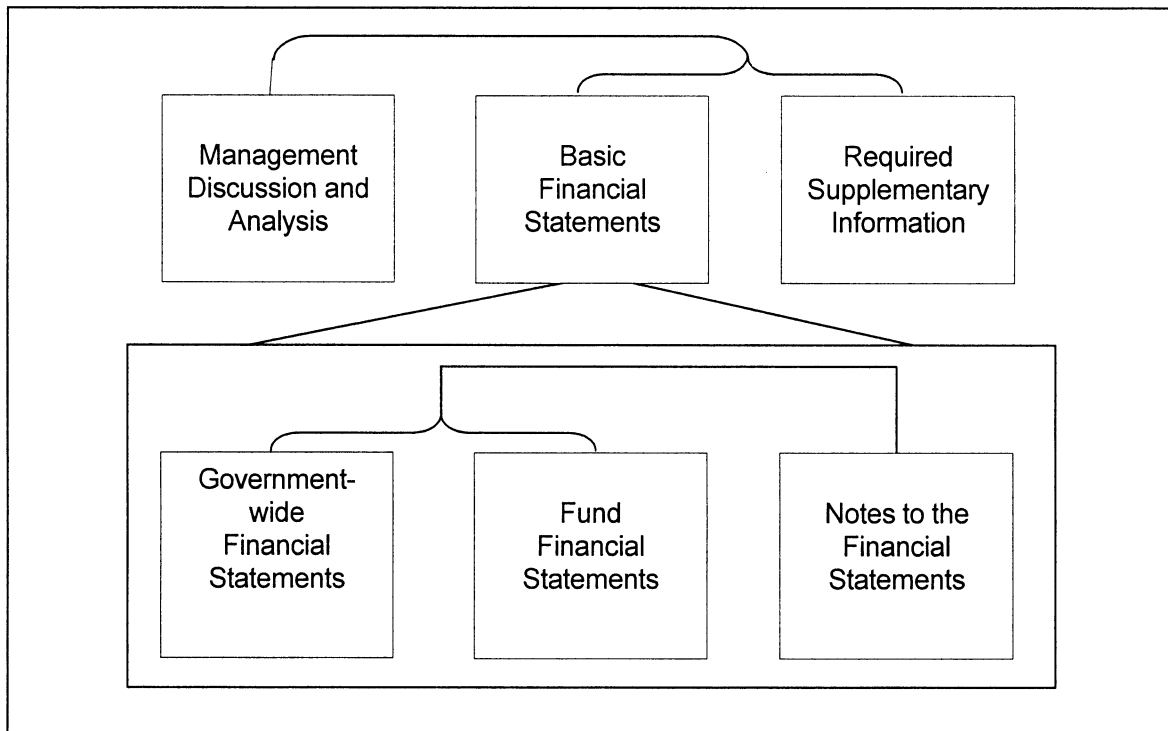
THE BOROUGH OF QUAKERTOWN
Management's Discussion and Analysis (MD&A)

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 position, Statement of activities	Balance Sheet, Statement of revenues, expenditures, and changes in fund balance	Statement of net assets, Statement of revenues, expenses and changes in net assets, Statement of cash flows	Statement of fiduciary net position, Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow-outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods and services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

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

OVERVIEW OF FINANCIAL STATEMENTS

Government-wide Statements

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

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

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

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

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

Governmental Activities

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

Business-Type Activities

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

The Borough's fund financial statements, which begin on page 15, provide detailed information about the most significant funds - not the Borough as a whole.

Fund Financial Statements includes:

Governmental Funds

Most of the Borough's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. They are reported using an accounting method called modified 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 position on page 23. These activities have been excluded from the Borough's financial statements because the Borough cannot use these assets to finance their operations.

FINANCIAL ANALYSIS OF THE BOROUGH AS A WHOLE

The Borough's total net position was \$52,632,079 at December 31, 2012.

Table A-1
Year Ended December 31, 2012 and 2011
Net Position

	2012			2011		
	Governmental Activities	Business Type Activities	Total	Governmental Activities	Business Type Activities	Total
Current and Other Assets	<u>\$ 24,991,234</u>	<u>\$ 40,029,811</u>	<u>\$ 65,021,045</u>	<u>\$ 25,938,890</u>	<u>\$ 37,627,239</u>	<u>\$ 63,566,129</u>
Current and Other Liabilities	<u>\$ 1,864,762</u>	<u>\$ 10,524,204</u>	<u>\$ 12,388,966</u>	<u>\$ 3,408,774</u>	<u>\$ 10,131,193</u>	<u>\$ 13,539,967</u>
Net Position						
Invested in Capital Assets,						
Net of Related Debt	\$ 21,689,401	\$ 19,641,176	\$ 41,330,577	\$ 20,264,533	\$ 19,120,902	\$ 39,385,435
Unrestricted	1,437,071	9,864,431	11,301,502	2,265,583	8,375,144	10,640,727
Total Net Position	<u>\$ 23,126,472</u>	<u>\$ 29,505,607</u>	<u>\$ 52,632,079</u>	<u>\$ 22,530,116</u>	<u>\$ 27,496,046</u>	<u>\$ 50,026,162</u>

The results of this year's operations as a whole are reported in the statement of activities on page 14. All expenses are reported in the first column. The two largest revenues are provided by utility services and general public taxes.

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

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

Table A-2
Year Ended December 31, 2012 and 2011
Changes in Net Position

	2012			2011		
	(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	\$ 516,129	\$ 20,473,294	\$ 20,989,423	\$ 589,664	\$ 18,982,732	\$ 19,572,396
Operating Grants and Contributions	409,448	67,389	476,837	233,736	136,254	369,990
Capital Grants and Contributions	199,656	-	199,656	678,091	-	678,091
<i>General Revenues</i>						
Property Taxes	127,989	-	127,989	128,083	-	128,083
Other Taxes	1,374,018	-	1,374,018	1,347,747	-	1,347,747
Grants, Subsidies and Contributions, unrestricted	48,661	-	48,661	392,793	-	392,793
Investment Earnings	36,816	100,519	137,335	59,367	85,567	144,934
Other Revenue	227,496	8,014	235,510	72,732	5,262	77,994
Total Revenue	2,940,213	20,649,216	23,589,429	3,502,213	19,209,815	22,712,028
Expenses						
<i>Governmental Activities</i>						
General Government	896,485	-	896,485	813,648	-	813,648
Public Safety	2,486,000	-	2,486,000	2,461,600	-	2,461,600
Public Works	996,716	-	996,716	1,136,684	-	1,136,684
Culture and Recreation	346,182	-	346,182	233,136	-	233,136
Community Development	143,084	-	143,084	83,985	-	83,985
Non-Departmental	1,697,039	-	1,697,039	1,574,409	-	1,574,409
Debt Service Payments	-	-	-	35,498	-	35,498
Depreciation	208,025	-	208,025	172,312	-	172,312
Transfers Between Activities	(4,080,000)	4,080,000	-	(4,114,335)	4,114,335	-
<i>Business-Type Activities</i>						
Electric	-	9,514,847	9,514,847	-	10,093,848	10,093,848
Water	-	2,029,356	2,029,356	-	1,692,931	1,692,931
Sewer	-	2,252,097	2,252,097	-	2,233,250	2,233,250
Pool	-	413,682	413,682	-	353,125	353,125
Total Expenses	2,693,531	18,289,982	20,983,513	2,396,937	18,487,489	20,884,426
Increase in Net Position	\$ 246,682	\$ 2,359,234	\$ 2,605,916	\$ 1,105,276	722,326	1,827,602

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

DEBT ADMINISTRATION

As of January 1, 2012 the Borough had total outstanding debt of \$9,673,351. During the year, the Borough paid principal of \$736,146 resulting in ending outstanding debt as of December 31, 2012, of \$8,937,205. During the current year, the Borough refunded the 2004 Guaranteed Revenue Notes into the 2012 General Obligation Bonds.

Table A-3
Outstanding Debt

	2012	2011
2003 General Obligation Note – Pool Fund	\$ 332,807	\$ 655,833
2004 Guaranteed Revenue Note – Water Fund	-	5,061,643
2004 Guaranteed Revenue Note – Sewer Fund	-	3,067,637
2005 General Obligation Note – Water Fund	679,398	888,238
2012 General Obligation Bonds	7,925,000	-

General Fund Budget

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

Table A-4
Budgetary Comparison

	2012			
	Budgeted Original	Budget Amounts Final	Actual (Budgetary Basis)	Variances with Final Budget Positive (Negative)
Revenues	\$ 2,290,387	\$ 2,290,387	\$ 2,540,089	\$ 249,702
Expenditures	6,701,290	6,701,290	6,603,720	97,570
Excess (Deficiency) of Revenues over Expenditures	(4,410,903)	(4,410,903)	(4,063,631)	347,272
Other Financing Sources	3,965,000	3,965,000	4,154,168	189,168
Net Change in Fund Balance	(445,903)	(445,903)	90,537	536,440
Fund Balance – January 1, 2012	445,903	445,903	662,085	216,182
Fund Balance – December 31, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 752,622</u>	<u>\$ 752,622</u>

	2011			
	Budgeted Original	Budget Amounts Final	Actual (Budgetary Basis)	Variances with Final Budget Positive (Negative)
Revenues	\$ 2,224,209	\$ 2,224,209	\$ 3,171,411	\$ 947,202
Expenditures	6,213,440	6,213,440	6,487,027	(273,587)
Excess (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 – January 1, 2012	192,231	192,231	100,701	(91,530)
Fund Balance – December 31, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>662,085</u>	<u>\$ 662,085</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 2013 Budget reflects cautious optimism about the local economy. The 2013 Budget is reflective of the economic situation faced by everyone. This has yet again forced us to postpone several infrastructure projects to 2014. 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 2013 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 2013 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.

THE BOROUGH OF QUAKERTOWN
Statement of Net Position
As of December 31, 2012

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
CURRENT ASSETS:			
Cash and Cash Equivalents	\$ 1,982,207	\$ 8,583,106	\$ 10,565,313
Investments	1,210,515	-	1,210,515
Taxes Receivable	13,997	-	13,997
Accounts Receivable (Net of Allowance for Doubtful Accounts)	93,416	2,868,324	2,961,740
Intergovernmental Receivable	-	-	-
Internal Balances	-	-	-
Other Receivables	1,698	-	1,698
TOTAL CURRENT ASSETS	3,301,833	11,451,430	14,753,263
NON-CURRENT ASSETS:			
Land	1,851,952	-	1,851,952
Buildings (Net of Depreciation)	1,581,894	14,895,307	16,477,201
Improvements other than Buildings (Net of Depreciation)	837,310	1,132,604	1,969,914
Machinery and Equipment (Net of Depreciation)	1,267,176	1,017,773	2,284,949
Sewer Lines Infrastructure (Net of Depreciation)	-	3,967,273	3,967,273
Water Lines Infrastructure (Net of Depreciation)	-	6,370,439	6,370,439
Infrastructure	16,045,900	-	16,045,900
Construction in Progress	105,169	1,194,985	1,300,154
TOTAL NON-CURRENT ASSETS	21,689,401	28,578,381	50,267,782
TOTAL ASSETS	\$ 24,991,234	\$ 40,029,811	\$ 65,021,045
DEFERRED OUTFLOWS OF RESOURCES	\$ -	\$ -	\$ -
LIABILITIES			
CURRENT LIABILITIES:			
Internal Balances	\$ -	\$ -	\$ -
Sales Tax Payable	-	13,272	13,272
Accounts Payable	116,250	1,017,994	1,134,244
Accrued Salaries and Benefits	83,010	42,054	125,064
Notes Payable	-	812,466	812,466
Accrued Compensated Absences	235,839	-	235,839
Other Payables	973	-	973
TOTAL CURRENT LIABILITIES	436,072	1,885,786	2,321,858
NON-CURRENT LIABILITIES:			
Accrued Compensated Absences	1,179,195	513,679	1,692,874
Notes Payable	-	8,124,739	8,124,739
TOTAL NON-CURRENT LIABILITIES	1,179,195	8,638,418	9,817,613
TOTAL LIABILITIES	\$ 1,615,267	\$ 10,524,204	\$ 12,139,471
DEFERRED INFLOWS OF RESOURCES	\$ 249,495	\$ -	\$ 249,495
NET POSITION			
Restricted for Capital Projects	21,689,401	19,641,176	41,330,577
Unrestricted	1,437,071	9,864,431	11,301,502
TOTAL NET POSITION	\$ 23,126,472	\$ 29,505,607	\$ 52,632,079

(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, 2012

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	\$ 896,485	\$ 294,593	\$ -	\$ -	\$(601,892)	\$ -	\$(601,892)
Public Safety	2,486,000	188,944	173,404	-	(2,123,652)	-	(2,123,652)
Public Works	996,716	-	10,192	189,181	(797,343)	-	(797,343)
Culture and Recreation	346,182	32,592	-	10,475	(303,115)	-	(303,115)
Community Development	143,084	-	-	-	(143,084)	-	(143,084)
Non-Departmental	1,697,039	-	225,852	-	(1,471,187)	-	(1,471,187)
Debt Service Payments	-	-	-	-	-	-	-
Depreciation	208,025	-	-	-	(208,025)	-	(208,025)
TOTAL GOVERNMENTAL ACTIVITIES	6,773,531	516,129	409,448	199,656	(5,648,298)	-	(5,648,298)
BUSINESS-TYPE ACTIVITIES:							
Electric	9,514,847	15,150,864	24,684	-	-	5,660,701	5,660,701
Water	2,029,356	2,457,919	17,824	-	-	446,387	446,387
Sewer	2,252,097	2,628,957	24,881	-	-	401,741	401,741
Pool	413,682	235,554	-	-	-	(178,128)	(178,128)
TOTAL PRIMARY GOVERNMENT	\$ 20,983,513	\$ 20,989,423	\$ 476,837	\$ 199,656	\$ (5,648,298)	\$ 6,330,701	\$ 682,403
GENERAL REVENUES:							
Property Taxes Levied for General Purposes					\$ 127,989	\$ -	\$ 127,989
Other Taxes Levied for General Purposes					1,374,018	-	1,374,018
Grants, Subsidies, & Contributions Not Restricted					48,661	-	48,661
Investment and Rental Earnings					36,816	100,519	137,335
Miscellaneous Income					27,195	8,014	35,209
Insurance Refunds					200,301	-	200,301
Transfers					4,080,000	(4,080,000)	-
TOTAL GENERAL REVENUES, SPECIAL ITEMS, EXTRAORDINARY ITEMS, AND TRANSFERS					5,894,980	(3,971,467)	1,923,513
CHANGE IN NET POSITION					246,682	2,359,234	2,605,916
PRIOR PERIOD ADJUSTMENT					349,674	(349,674)	-
NET POSITION - BEGINNING					22,530,116	27,496,047	50,026,163
NET POSITION - ENDING					\$ 23,126,472	\$ 29,505,607	\$ 52,632,079

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

THE BOROUGH OF QUAKERTOWN
Balance Sheet
All Governmental Funds
As of December 31, 2012

	<u>GENERAL</u>	<u>CAPITAL PROJECTS</u>	<u>NON-MAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 1,073,944	\$ 817,468	\$ 90,795	\$ 1,982,207
Investments	-	1,210,515	-	1,210,515
Taxes Receivable	13,997	-	-	13,997
Accounts Receivable	65,546	-	-	65,546
Intergovernmental Receivable	-	-	-	-
Due from Other Funds	-	-	39,498	39,498
Other Receivables	1,698	-	-	1,698
TOTAL ASSETS	\$ 1,155,185	\$ 2,027,983	\$ 130,293	\$ 3,313,461
<u>LIABILITIES AND FUND BALANCES</u>				
<u>LIABILITIES:</u>				
Due to Other Funds	\$ 39,498	-	-	\$ 39,498
Accounts Payable	43,243	2,123	-	45,366
Accrued Salaries and Benefits	83,010	-	-	83,010
Accrued Compensated Absences	235,839	-	-	235,839
Deferred Revenue	-	249,495	-	249,495
Other Payables	973	-	-	973
TOTAL LIABILITIES	\$ 402,563	\$ 251,618	\$ -	\$ 654,181
<u>FUND BALANCES:</u>				
- Nonspendable	-	-	-	-
- Restricted	-	-	130,293	130,293
- Committed	-	-	-	-
- Assigned	-	1,776,365	-	1,776,365
- Unassigned	752,622	-	-	752,622
TOTAL FUND BALANCES	\$ 752,622	\$ 1,776,365	\$ 130,293	\$ 2,659,280
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,155,185	\$ 2,027,983	\$ 130,293	\$ 3,313,461

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

THE BOROUGH OF QUAKERTOWN
Reconciliation of the Governmental Funds Balance Sheet
To the Statement of Net Position
As of December 31, 2012

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS **\$ 2,659,280**

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 \$24,427,670 and the accumulated depreciation is \$2,738,269. 21,689,401

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. 27,870

In the statement of activities, certain operating expenses are recognized when incurred versus the expenditures using the modified accrual basis of accounting in the fund statements. As such, accounts payable increased by this amount this year. (70,884)

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

Notes Payable	\$	-	
Accrued Interest on the Bonds		-	
Compensated Absences		(1,179,195)	
Other Retirement Benefits		-	<u>(1,179,195)</u>

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES **\$ 23,126,472**

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, 2012

	GENERAL	CAPITAL PROJECTS	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Taxes	\$ 1,342,496	-	-	\$ 1,342,496
Licenses and Permits	157,706	-	-	157,706
Fines and Forfeits	85,618	-	-	85,618
Intergovernmental	456,846	-	165,685	622,531
Charges for Services	447,041	-	-	447,041
Investment and Rental Earnings	13,867	22,473	476	36,816
Miscellaneous	36,515	15,174	-	51,689
TOTAL REVENUES	2,540,089	37,647	166,161	2,743,897
EXPENDITURES				
CURRENT:				
General Government	920,404	71,555	-	991,959
Public Safety	2,546,616	76,634	-	2,623,250
Public Works	995,652	34,030	37,266	1,066,948
Culture and Recreation	307,375	-	-	307,375
Community Development	149,207	310,244	-	459,451
Non-Departmental	1,684,466	-	-	1,684,466
DEBT SERVICE:				
Principal	-	-	-	-
Interest	-	-	-	-
TOTAL EXPENDITURES	6,603,720	492,463	37,266	7,133,449
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(4,063,631)	(454,816)	128,895	(4,389,552)
OTHER FINANCING SOURCES (USES)				
Refund of Prior Year Expenditures	108,198	82,172	-	190,370
Sale of Fixed Assets	-	9,946	-	9,946
Interfund Transfers In	4,080,000	34,030	-	4,114,030
Interfund Transfers Out	(34,030)	-	-	(34,030)
TOTAL OTHER FINANCING SOURCES	4,154,168	126,148	-	4,280,316
NET CHANGE IN FUND BALANCES	90,537	(328,668)	128,895	(109,236)
PRIOR PERIOD ADJUSTMENT	-	(402,437)	-	(402,437)
FUND BALANCES - BEGINNING	662,085	2,507,470	1,398	3,170,953
FUND BALANCES - ENDING	\$ 752,622	\$ 1,776,365	\$ 130,293	\$ 2,659,280

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, 2012

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS **\$ (109,236)**

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	\$ 208,025		
	Plus - Asset Deletions	4,000		
	Less - Capital Outlays	<u>884,783</u>		672,758

In the statement of activities, certain operating expenses are recognized when incurred versus the expenditures using the modified accrual basis of accounting in the fund statements. As such, accounts payable increased by this amount this year. (70,883)

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. (176,926)

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. (69,031)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 246,682**

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

THE BOROUGH OF QUAKERTOWN
Statement of Net Position
All Proprietary Funds
As of December 31, 2012

	ELECTRIC FUND	MAJOR WATER FUND	SEWER FUND	NON-MAJOR POOL FUND	TOTAL
ASSETS					
CURRENT ASSETS:					
Cash and Cash Equivalents	\$ 4,942,604	\$ 1,013,462	\$ 2,615,568	\$ 11,472	\$ 8,583,106
Investments	-	-	-	-	-
Accounts Receivable (Net of Allowance for Doubtful Accounts) Due from Other Funds	2,239,921	392,751	235,652	-	2,868,324
TOTAL CURRENT ASSETS	7,182,525	1,406,213	2,851,220	11,472	11,451,430
NON-CURRENT ASSETS:					
Buildings (Net of Depreciation)	6,132,406	2,344,919	5,735,300	682,682	14,895,307
Improvements other than Buildings (Net of Depreciation)	6,290	9,611	38,138	1,078,565	1,132,604
Machinery and Equipment (Net of Depreciation)	310,223	128,524	579,026	-	1,017,773
Construction in Progress	-	1,194,985	-	-	1,194,985
Sewer Lines Infrastructure (Net of Depreciation)	-	-	3,967,273	-	3,967,273
Water Lines Infrastructure (Net of Depreciation)	-	6,370,439	-	-	6,370,439
TOTAL NON-CURRENT ASSETS	6,448,919	10,048,478	10,319,737	1,761,247	28,578,381
TOTAL ASSETS	\$ 13,631,444	\$ 11,454,691	\$ 13,170,957	\$ 1,772,719	\$ 40,029,811
DEFERRED OUTFLOWS OF RESOURCES	\$ -	\$ -	\$ -	\$ -	\$ -
LIABILITIES					
CURRENT LIABILITIES:					
Sales Tax Payable	\$ 13,272	-	-	-	\$ 13,272
Accounts Payable	755,873	211,061	50,676	384	1,017,994
Accrued Salaries and Benefits	13,647	10,961	17,446	-	42,054
Deferred Revenues	-	-	-	-	-
Notes Payable	-	384,659	95,000	332,807	812,466
TOTAL CURRENT LIABILITIES	782,792	606,681	163,122	333,191	1,885,786
NON-CURRENT LIABILITIES:					
Compensated Absences	203,594	123,158	186,927	-	513,679
Notes Payable	-	5,229,739	2,895,000	-	8,124,739
TOTAL NON-CURRENT LIABILITIES	203,594	5,352,897	3,081,927	-	8,638,418
TOTAL LIABILITIES	986,386	5,959,578	3,245,049	333,191	10,524,204
DEFERRED INFLOWS OF RESOURCES	\$ -	\$ -	\$ -	\$ -	\$ -
NET POSITION					
Invested in Capital Assets, Net of Related Debt	6,448,919	4,434,080	7,329,737	1,428,440	19,641,176
Restricted	-	-	-	-	-
Unrestricted Net Position	6,196,139	1,061,033	2,596,171	11,088	9,864,431
TOTAL NET POSITION	\$ 12,645,058	\$ 5,495,113	\$ 9,925,908	\$ 1,439,528	\$ 29,505,607

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

THE BOROUGH OF QUAKERTOWN
Statement of Revenues, Expenses and Changes in Net Position –
All Proprietary Funds
For the Year Ended December 31, 2012

	ELECTRIC FUND	MAJOR WATER FUND	SEWER FUND	NON-MAJOR POOL FUND	TOTAL
OPERATING REVENUES					
Charges for Services	\$ 14,864,555	\$ 1,557,739	\$ 2,605,308	\$ 235,554	\$ 19,263,156
Debt Service Fees	-	812,537	-	-	812,537
Permits and Fees	124,740	55,482	-	-	180,222
Penalties	161,569	32,161	23,649	-	217,379
Rental Income	-	40,579	-	-	40,579
Other Income	2,217	7,276	4,820	797	15,110
TOTAL OPERATING REVENUES	15,153,081	2,505,774	2,633,777	236,351	20,528,983
OPERATING EXPENSES					
Costs of Furnishing Utility	9,046,042	1,412,222	1,500,033	-	11,958,297
Costs of Pool Operations	-	-	-	275,848	275,848
Employee Benefits	178,608	142,106	189,155	10,455	520,324
Employee Pension	58,071	41,931	58,534	-	158,536
Insurance	59,555	68,581	92,342	18,040	238,518
Debt Service	-	139,043	67,000	17,521	223,564
Depreciation	172,571	225,473	345,033	91,818	834,895
TOTAL OPERATING EXPENSES	9,514,847	2,029,356	2,252,097	413,682	14,209,982
OPERATING INCOME (LOSS)	5,638,234	476,418	381,680	(177,331)	6,319,001
NON-OPERATING REVENUES (EXPENSES)					
Interest Earned	28,958	12,531	17,226	1,225	59,940
Gain (Loss) on Sale of Fixed Assets	(7,096)	-	-	-	(7,096)
State Aid - Pension	24,684	17,824	24,881	-	67,389
Transfers from Other Funds	-	-	-	350,000	350,000
Transfers to Other Funds	(3,930,000)	(250,000)	(250,000)	-	(4,430,000)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(3,883,454)	(219,645)	(207,893)	351,225	(3,959,767)
CHANGES IN NET POSITION	1,754,780	256,773	173,787	173,894	2,359,234
PRIOR PERIOD ADJUSTMENT	-	(349,674)	-	-	(349,674)
NET POSITION, JANUARY 1, 2012	10,890,278	5,588,014	9,752,121	1,265,634	27,496,047
NET POSITION, DECEMBER 31, 2012	\$ 12,645,058	\$ 5,495,113	\$ 9,925,908	\$ 1,439,528	\$ 29,505,607

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, 2012

	ELECTRIC FUND	MAJOR WATER FUND	SEWER FUND	NON-MAJOR POOL FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash Received from Users	\$ 15,001,607	\$ 2,447,594	\$ 2,606,436	\$ 216,014	\$ 20,271,651
Cash Received from Other Operating Revenue	2,217	7,276	4,820	797	15,110
Cash Payments to Employees for Services	(789,920)	(598,880)	(810,392)	(152,458)	(2,351,650)
Cash Payments to Suppliers for Goods and Services	(8,545,507)	(991,344)	(1,056,944)	(167,702)	(10,761,497)
Cash Payments to Other Operating Expenses	-	(160)	-	(1,320)	(1,480)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	5,668,397	864,486	743,920	(104,669)	7,172,134
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
State Sources	24,684	17,824	24,881	-	67,389
Operating Transfers In	-	-	-	350,000	350,000
Operating Transfers Out	(3,930,000)	(250,000)	(250,000)	-	(4,430,000)
NET CASH PROVIDED BY (USED) FOR NON-CAPITAL FINANCING ACTIVITIES	(3,905,316)	(232,176)	(225,119)	350,000	(4,012,611)
CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES					
Loan Principal Payments/Proceeds	-	203,082	(77,636)	(323,027)	(197,581)
Purchase of Fixed Assets	(198,000)	(1,225,556)	(100,233)	-	(1,523,789)
Sale of Fixed Assets	9,432	-	-	-	9,432
Interfund Loan Payments	-	1,186,663	-	-	1,186,663
NET CASH PROVIDED (USED) FOR CAPITAL FINANCING ACTIVITIES	(188,568)	164,189	(177,869)	(323,027)	(525,275)
CASH FLOWS FROM INVESTING ACTIVITIES					
Sale of Investments	-	-	-	-	-
Purchase of Investments	-	-	-	-	-
Earnings on Investments	28,958	12,531	17,226	1,225	59,940
NET CASH PROVIDED BY INVESTING ACTIVITIES	28,958	12,531	17,226	1,225	59,940
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,603,471	809,030	358,158	(76,471)	2,694,188
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	3,339,133	204,432	2,257,410	87,943	5,888,918
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 4,942,604	\$ 1,013,462	\$ 2,615,568	\$ 11,472	\$ 8,583,106

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, 2012

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)	\$ 5,638,234	\$ 476,418	\$ 381,680	\$ (177,331)	\$ 6,319,001
<hr/>					
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES					
Depreciation	172,571	225,473	345,033	91,818	834,895
<hr/>					
CHANGE IN ASSETS AND LIABILITIES:					
(Increase) Decrease in Accounts Receivable	(149,257)	(50,904)	(22,521)	-	(222,682)
(Increase) Decrease in Advances from Other Funds	-	-	-	-	-
Increase (Decrease) in Accounts Payable	4,558	195,263	2,012	384	202,217
Increase (Decrease) in Accrued Salaries and Benefits	1,527	54	3,466	-	5,047
Increase (Decrease) in Sales Tax Payable	671	-	-	-	671
Increase (Decrease) in Deferred Revenue	-	-	-	(19,540)	(19,540)
Increase (Decrease) in Compensated Absences	93	18,182	34,250	-	52,525
TOTAL ADJUSTMENTS	<u>30,163</u>	<u>388,068</u>	<u>362,240</u>	<u>72,662</u>	<u>853,133</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 5,668,397	\$ 864,486	\$ 743,920	\$ (104,669)	\$ 7,172,134

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

THE BOROUGH OF QUAKERTOWN
Statement of Net Position
Fiduciary Funds
As of December 31, 2012

	PENSION BENEFIT TRUST FUNDS	AGENCY FUNDS	
		ESCROW FUND	POLICE HEALTH REIMBURSEMENT ARRANGEMENT FUND
ASSETS			
Cash and Cash Equivalents	\$ 351,174	\$ 270,416	\$ 71,556
Investments	11,181,150	-	-
Accrued Investment Income	31,236	-	-
Accounts Receivable	1,800	-	-
TOTAL ASSETS	\$ 11,565,360	\$ 270,416	\$ 71,556
DEFERRED OUTFLOWS OF RESOURCES	\$ -	\$ -	\$ -
LIABILITIES			
Accounts Payable	\$ -	\$ -	\$ -
Due to Escrow Holders	-	270,416	-
Due to Police Officers	-	-	71,556
TOTAL LIABILITIES	-	270,416	71,556
DEFERRED INFLOWS OF RESOURCES	\$ -	\$ -	\$ -
NET POSITION			
Restricted for Employee Benefits	11,565,360	-	-
TOTAL NET POSITION	\$ 11,565,360	\$ -	\$ -

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, 2012

	BUDGETED AMOUNTS		ACTUAL (BUDGETARY BASIS)	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)	BUDGET TO GAAP DIFFERENCE	ACTUAL AMOUNTS GAAP BASIS
	ORIGINAL	FINAL				
RESOURCES (INFLOW):						
Taxes	\$ 1,230,000	\$ 1,230,000	\$ 1,342,496	\$ 112,496	\$ -	\$ 1,342,496
Licenses and Permits	151,000	151,000	157,706	6,706	-	157,706
Fines and Forfeits	122,400	122,400	85,618	(36,782)	-	85,618
Intergovernmental	275,037	275,037	456,846	181,809	-	456,846
Charges for Services	473,450	473,450	447,041	(26,409)	-	447,041
Miscellaneous	29,000	29,000	26,583	(2,417)	-	26,583
Insurance Claim Refund	1,000	1,000	9,932	8,932	-	9,932
Investment and Rental Earnings	8,500	8,500	13,867	5,367	-	13,867
Refund of Prior Year Expenditures	-	-	108,198	108,198	-	108,198
Transfers from Other Funds	4,000,000	4,000,000	4,080,000	80,000	-	4,080,000
TOTAL RESOURCES	6,290,387	6,290,387	6,728,287	437,900	-	6,728,287
CHARGES TO APPROPRIATIONS (OUTFLOWS):						
General Government						
Legal	36,000	36,000	15,287	20,713	-	15,287
Mayor, Legislative, Borough Manager	274,420	274,420	264,997	9,423	-	264,997
Finance and Accounting	277,930	277,930	260,520	17,410	-	260,520
Tax Collection	8,000	8,000	7,089	911	-	7,089
IT-Networking Services-Data Processing	115,900	115,900	82,678	33,222	-	82,678
Engineering	110,000	110,000	155,891	(45,891)	-	155,891
Buildings and Plant	39,500	39,500	133,942	(94,442)	-	133,942
Public Safety						
Police	1,997,685	1,997,685	2,027,559	(29,874)	-	2,027,559
Fire Department	351,930	351,930	402,761	(50,831)	-	402,761
Inspections	122,730	122,730	116,296	6,434	-	116,296
Public Works						
Solid Waste and Collection	6,000	6,000	-	6,000	-	-
Street Maintenance and Lighting	1,150,400	1,150,400	995,652	154,748	-	995,652
Culture and Recreation						
Parks	274,100	274,100	307,375	(33,275)	-	307,375
Community Development	105,400	105,400	149,207	(43,807)	-	149,207
Non-Departmental						
Employer Paid Benefits and Withholding Items	1,567,895	1,567,895	1,517,268	50,627	-	1,517,268
Insurance	143,600	143,600	147,765	(4,165)	-	147,765
Miscellaneous	7,800	7,800	19,433	(11,633)	-	19,433
Budgetary Reserve	112,000	112,000	-	112,000	-	-
Transfer to Other Funds	35,000	35,000	34,030	970	-	34,030
TOTAL CHARGES TO APPROPRIATIONS	6,736,290	6,736,290	6,637,750	98,540	-	6,637,750
Excess (Deficiency) of Inflows Over Outflows	(445,903)	(445,903)	90,537	536,440	-	90,537
FUND BALANCE - JANUARY 1, 2012	445,903	445,903	662,085	216,182	-	662,085
FUND BALANCE - DECEMBER 31, 2012	-	-	\$ 752,622	\$ 752,622	\$ -	\$ 752,622

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

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2012

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 position presents the financial condition of the governmental and business-type activities of the Borough at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Borough's governmental activities and for four business-type activities of the Borough. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2012

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

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

B. Basis of Accounting

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

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

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

C. Fund Accounting

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

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

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2012

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

General Fund

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

Capital Projects Fund

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

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

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

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

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

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

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

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

D. Measurement Focus

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

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2012

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, 2012

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 2012 is \$79,361,270 at a rate of 1.625 mills. Real estate taxes are levied on March 1 and are payable by June 30.

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

Fund Balance Classifications

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

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

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2012

- **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, 2012

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, 2012, 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 \$21,689,401. Another element of the reconciliation explains that

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2012

"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 \$1,179,195 difference are:

Compensated Absences	<u>\$ 1,179,195</u>
Net adjustment to reduce "fund balance – total governmental funds" to arrive at "net assets – governmental activities"	<u>\$ 1,179,195</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, 2012

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

	Total Govern- mental Funds	Long-Term Revenues/ Expenses	Capital Related Items	Long-Term Debt Trans- actions	Total for Statement of Activities
REVENUES AND OTHER SOURCES					
LOCAL SOURCES:					
Property Taxes	\$ 127,989	\$ -	\$ -	\$ -	\$ 127,989
Other Taxes Levied for General Purposes	988,351	-	-	-	988,351
Franchise Taxes	157,706	-	-	-	157,706
Local Service Taxes	227,961	-	-	-	227,961
Grants, Subsidies & Contributions Not Restricted	48,661	-	-	-	48,661
Investment and Rental Earnings	36,816	-	-	-	36,816
Miscellaneous	21,249	(4,000)	9,946	-	27,195
Charges for Services	516,129	-	-	-	516,129
Insurance Refunds	200,301	-	-	-	200,301
Transfers In	4,114,030	(34,030)	-	-	4,080,000
STATE SOURCES:					
Operating and Capital Grants & Contributions	515,860	-	-	-	515,860
FEDERAL SOURCES:					
Operating and Capital Grants & Contributions	93,244	-	-	-	93,244
SPECIAL AND EXTRAORDINARY ITEMS					
Gain or (Loss) on Disposal of Assets	9,946	-	(9,946)	-	-
TOTAL REVENUES	7,058,243	(38,030)	-	-	7,020,213
EXPENDITURES/EXPENSES AND OTHER USES					
General Government	991,959	15,908	(111,382)	-	896,485
Public Safety	2,623,250	113,765	(251,015)	-	2,486,000
Public Works	1,066,948	34,690	(104,912)	-	996,716
Culture and Recreation	307,375	69,029	(30,222)	-	346,182
Community Development	459,451	-	(316,367)	-	143,084
Non-Departmental	1,684,466	12,573	-	-	1,697,039
Debt Service Payments	-	-	-	-	-
Depreciation	-	-	208,025	-	208,025
Transfers Out	34,030	(34,030)	-	-	-
TOTAL EXPENDITURES/EXPENSES	7,167,479	211,925	(605,873)	-	6,773,531
NET CHANGE FOR THE YEAR	\$ (109,236)	\$ (249,955)	\$ 605,873	\$ -	\$ 246,682

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, 2012, \$11,980,761 of the Borough's bank balance of \$13,179,059 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ -
Collateralized with securities held by the pledging financial institution	-
Uninsured and collateral held by the pledging bank's trust department not in the Borough's name	11,980,761
TOTAL	\$ 11,980,761

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2012

Reconciliation to Financial Statements

Uncollateralized Amount Above	\$ 11,980,761
Plus: Insured Amount	1,198,298
Deposits in Transit	132,991
Less: Outstanding Checks	(262,887)
Carrying Amount – Bank Balances	13,049,163
Plus: Petty Cash	550
Deposits in Investment Pools Considered Cash Equivalents	23,697
Deposits in Money Market Mutual Funds Considered Cash Equivalents	287,564
Less: Certificates of Deposit Considered Investments	(2,102,515)
Total Cash per Financial Statements	\$ 11,258,459

Restricted Cash

The cash balance includes \$245,161 held as utility escrow funds and \$25,255 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, 2012, the Borough had the following investments:

Investments	Maturities	Fair Value
PA Local Government Investment Trust		\$ 23,697
Federated Institutional Government Obligation Fund		287,565
Common Stocks		4,807,784
Corporate Bonds	2 mos – 9 yrs 7.5 mos	1,290,784
U.S. Government Agency Bonds	6 mos – 9 yrs 11 mos	1,036,086
Certificates of Deposit	11 mos - 6 yrs 10 mos	2,102,515
Mutual Funds		3,154,495
TOTAL		\$ 12,702,926

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2012

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, 2012, the Borough's investments were rated as:

<i>Investments</i>	<i>Standard & Poor's</i>
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 Jenison Mid. Cap Growth Fund	Not Available
Vanguard Explorer Fund	Not Available
Vanguard Total International 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 certificates of deposit at the QNB Bank, the American Funds Europacific Growth Fund and the Vanguard Total International ETF. These investments are 9.53%, 5.92% and 5.83%, respectively, of the Borough's investments. More than 5% of the Trust and Agency Funds' investments are in the American Funds Europacific Growth Fund and the Vanguard Total International ETF. These investments are 6.56% and 6.46%, respectively of the Trust and Agency Funds investments. Of the Governmental Funds' investments, 98.08% is in certificates 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, 2012

Foreign Currency Risk

As of December 31, 2012, the Borough had the following investments that were subject to foreign currency risk:

Name	Amount
Common Stocks:	
Freeport-McMoran Copper and Gold	\$ 53,933
Teva Pharmaceutical Industries ADR	64,561
Potash Corporation Saskatchewan	56,843
Corporate Bonds:	
Barklays Bank PCL 4.00% due 4/28/17	53,443
Barklays Bank PCL 2.35% due 10/18/21	49,670
AstraZeneca PLC 5.90% due 9/15/17	60,751
Mutual Funds:	
American Funds Europacific Growth Fund	752,455
Vanguard Total International ETF	741,070

Reconciliation to Financial Statements

Total Investments Above	\$ 12,702,926
Less: Deposits in Investment Pool Considered Cash Equivalents	(23,697)
Deposits in Money Market Mutual Funds Considered Cash Equivalents	(287,564)
Total Investments per Financial Statements	\$ 12,391,665

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	\$ 13,997	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,997
Accounts	65,546	-	-	2,357,175	413,195	245,777	-	1,800	3,083,493
Intergovernmental	-	-	-	-	-	-	-	-	-
Other	1,698	-	-	-	-	-	-	-	1,698
Gross Receivables	81,241	-	-	2,357,175	413,195	245,777	-	1,800	3,099,188
Less: Allowance for Uncollectibles	-	-	-	117,254	20,444	10,125	-	-	147,823
Net Receivables	\$ 81,241	\$ -	\$ -	\$ 2,239,921	\$392,751	235,652	-	1,800	\$ 2,951,365

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2012

Note 7 – Capital Assets

Capital asset balances and activity for the year ending December 31, 2012, were:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets not being depreciated:				
Land	\$ 1,851,952	\$ -	\$ -	\$ 1,851,952
Moose Building	-	298,957	-	298,957
Construction in Progress	136,128	105,169	(136,128)	105,169
Infrastructure	16,045,900	-	-	16,045,900
Total Capital Assets not being depreciated	18,033,980	404,126	(136,128)	18,301,978
Capital Assets being depreciated:				
Buildings	2,279,938	-	-	2,279,938
Improvements Other than Buildings	1,375,398	17,410	-	1,392,808
Machinery and Equipment	2,029,699	463,247	(40,000)	2,452,946
Total Capital Assets Being Depreciated	5,685,035	480,657	(40,000)	6,125,692
Less: Accumulated Depreciation for:				
Buildings	(959,245)	(37,756)	-	(997,001)
Improvements Other than Buildings	(501,932)	(53,566)	-	(555,498)
Machinery and Equipment	(1,105,067)	(116,703)	36,000	(1,185,770)
Total Accumulated Depreciation	(2,566,244)	(208,025)	36,000	(2,738,269)
Total Capital Assets Being Depreciated Net of Accumulated Depreciation	3,118,791	272,632	(4,000)	3,387,423
Governmental Activities Capital Assets, Net of Accumulated Depreciation	\$ 21,152,771	\$ 676,758	\$ (140,128)	21,689,401
Business-Type Activities:				
Capital Assets not being depreciated:				
Construction-In-Progress	-	1,194,985	-	1,194,985
Capital Assets being depreciated:				
Buildings	25,527,409	-	-	25,527,409
Improvements Other than Buildings	2,301,000	-	-	2,301,000
Machinery and Equipment	1,782,937	320,297	(165,283)	1,937,951
Sewer Lines Infrastructure	6,247,708	8,507	-	6,256,215
Water Lines Infrastructure	8,744,099	-	-	8,744,099
Less: Accumulated Depreciation	(16,697,137)	(834,895)	148,754	(17,383,278)
Business-Type Activities Capital Assets, Net of Accumulated Depreciation	\$ 27,906,016	\$ 688,894	\$ (16,529)	\$ 28,578,381

The Borough disposed of capital assets in the Governmental Activities Funds and the Business-Type Activities Funds. The loss on disposal of fixed assets in the Governmental Activities Funds was \$4,000. The loss on disposal of fixed asset in the Business-Type Activities Funds was \$16,529.

The depreciation was charged to the governmental activities as follows:

Depreciation – Unallocated **\$ 208,025**

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

Depreciation – Unallocated **\$ 834,895**

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2012

Long-Term Obligations

The Borough has the following construction commitment:

	Contract Amount	Expended to 12/31/12	Outstanding Commitment
TRIANGLE PARK			
S&H Landscaping Contractor	\$ 494,809	\$ 494,809	\$ -
WATER TREATMENT PLAN FOR WELLS NO. 7, 8 & 9			
Mercuri and Associates, Inc.	2,069,690	1,046,355	1,023,335
TOTAL	\$ 2,564,499	\$ 1,541,164	\$ 1,023,335

Note 8 – Short-Term Debt

Interfund Receivables and Payables

The following Interfund receivable and payables were in existence as of December 31, 2012.

	Interfund Receivables	Interfund Payables
General Fund	\$ -	\$ 39,498
Special Revenue (Liquid Fuels) Fund	39,498	-
TOTAL	\$ 39,498	\$ 39,498

Interfund Transfers

The Borough also made the following interfund transfers during the year ended December 31, 2012.

	Transfer In	Transfer Out
General Fund	\$ 4,080,000	\$ 34,030
Enterprise (Electric) Fund	-	3,930,000
Enterprise (Water) Fund	-	250,000
Enterprise (Sewer) Fund	-	250,000
Enterprise (Pool) Fund	350,000	-
Capital Projects (Equipment Replacement) Fund	34,030	-
TOTAL	\$ 4,464,030	\$ 4,464,030

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2012

Note 9 – Long-Term Debt Commitment

Long-Term Liability balances and activity for the year ended December 31, 2012, were:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Compensated Absences	\$ 1,202,724	\$ 212,310	\$ -	\$ 1,415,034	\$ 235,839
Total Governmental Activities Long-Term Liabilities	\$ 1,202,724	\$ 212,310	\$ -	\$ 1,415,034	235,839
Business-Type Activities:					
Guaranteed Revenue Notes and Bonds Payable					
Capital Projects	\$ 9,673,351	\$ 7,925,000	\$ 8,661,146	\$ 8,937,205	\$ 812,466
Compensated Absences	461,154	52,525	-	513,679	-
Total Business-Type Activities Long-Term Liabilities	\$ 10,134,505	\$ 7,977,525	\$ 8,661,146	\$ 9,450,884	\$ 812,466

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

Total interest paid during the year:

Business-Type Activities	Paid
Guaranteed Revenue Notes and Bonds	\$ 177,551
General Obligation Notes	46,013
Total Interest Paid By Business-Type Activities	\$ 223,564

The total interest cost incurred and charged to expense in 2012 was \$223,564.

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%.

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

Fiscal Year	Principal	Interest
2013	\$ 332,807	\$ 5,923
Total Outstanding	\$ 332,807	\$ 5,923

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. On August 27, 2012, the Borough refinanced this Note into the General Obligation Bonds – Series of 2012.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2012

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. On August 27, 2012, the Borough refinanced this Note into the General Obligation Bonds – Series of 2012.

General Obligation Note – Series of 2005 – Water Fund

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
2013	\$ 219,659	\$ 17,675
2014	224,353	12,979
2015	235,386	5,138
Total Outstanding	\$ 679,398	\$ 35,792

General Obligation Bonds – Series of 2012 – Water Fund

On August 27, 2012, the Borough issued General Obligation Bonds – Series of 2012 in the amount of \$7,925,000. The portion of the bond issue pertaining to the Water Fund totaled \$4,935,000. The purpose of this issue is to provide funds to: (1) currently refund the Borough's Guaranteed Revenue Note to be outstanding as of the expected issuance date of the Bonds in the principal amount of \$4,872,385, issued to Pennvest, and (2) pay the cost of issuing the bonds. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from February 1, 2013 to February 1, 2028. Interest rates range from 0.40% to 2.70%. The outstanding debt service requirements at December 31, 2012, are:

Fiscal Year	Principal	Interest
2013	\$ 165,000	\$ 87,522
2014	150,000	101,875
2015	310,000	97,275
2016	315,000	91,025
2017	320,000	84,675
2018-2022	1,710,000	323,175
2023-2027	1,900,000	129,135
2028	65,000	877
Total Outstanding	\$ 4,935,000	\$ 915,559

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2012

General Obligation Bonds – Series of 2012 – Sewer Fund

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

Fiscal Year	Principal	Interest
2013	\$ 95,000	\$ 53,094
2014	95,000	61,770
2015	190,000	58,920
2016	190,000	55,120
2017	195,000	51,270
2018-2022	1,035,000	195,550
2023-2027	1,150,000	77,970
2028	40,000	540
Total Outstanding	\$ 2,990,000	\$ 554,234

Compensated Absences

Vacation, Sick and Personal Days

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

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2012

Combined Long-Term Debt

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

<u>FISCAL YEAR</u>	<u>G.O.N.</u>		<u>G.O.B.</u>		<u>TOTAL</u>
	<u>SERIES 2003</u>	<u>SERIES 2012 WATER FUND</u>	<u>SERIES 2012 SEWER FUND</u>	<u>SERIES 2005</u>	
2013	332,807	165,000	95,000	219,659	812,466
2014	-	150,000	95,000	224,353	469,353
2015	-	310,000	190,000	235,386	735,386
2016	-	315,000	190,000	-	505,000
2017	-	320,000	195,000	-	515,000
2018-2022	-	1,710,000	1,035,000	-	2,745,000
2023-2027	-	1,900,000	1,150,000	-	3,050,000
2028	-	65,000	40,000	-	105,000
TOTAL	332,807	4,935,000	2,990,000	679,398	8,937,205
LESS PAYABLE WITHIN ONE YEAR	332,807	165,000	95,000	219,659	812,466
LONG-TERM PRINCIPAL DUE AFTER ONE YEAR	\$ -	\$ 4,770,000	\$ 2,895,000	\$ 459,739	\$ 8,124,739

<u>FISCAL YEAR</u>	<u>G.O.N.</u>		<u>G.O.B.</u>		<u>TOTAL</u>
	<u>SERIES 2003</u>	<u>SERIES 2012 WATER FUND</u>	<u>SERIES 2012 SEWER FUND</u>	<u>SERIES 2005</u>	
2013	338,730	252,522	148,094	237,333	976,679
2014	-	251,875	156,770	237,333	645,978
2015	-	407,275	248,920	240,524	896,719
2016	-	406,025	245,120	-	651,145
2017	-	404,675	246,270	-	650,945
2018-2022	-	2,033,175	1,230,550	-	3,263,725
2023-2027	-	2,029,135	1,227,970	-	3,257,105
2028	-	65,877	40,540	-	106,417
TOTAL	\$ 338,730	\$ 5,850,559	\$ 3,544,234	\$ 715,190	\$ 10,448,713

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2012

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, 2011. 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, 2012

Plan Membership

Plan membership of the plan consisted of the following at December 31, 2012:

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	\$ 294,984
Contributions Made	294,984

Three-Year Trend Information

THREE YEAR TREND INFORMATION			
Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension
12/31/2010	\$ 269,428	100.00%	\$ -
12/31/2011	307,724	100.00%	-
12/31/2012	294,984	100.00%	-

The annual contribution for the current year was determined as part of the January 1, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at January 1, 2011 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, 2012, were 1-20 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 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.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2012

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, 2011. 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, 2012:

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, 2012

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	\$ 406,593
Contributions Made	406,593

Three-Year Trend Information

THREE YEAR TREND INFORMATION			
Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension
12/31/2010	\$ 354,154	100.00%	\$ -
12/31/2011	347,966	100.00%	-
12/31/2012	406,593	100.00%	-

The annual contribution for the current year was determined as part of the January 1, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at January 1, 2011 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, 2012, were 2-20 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.

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 OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2012

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. Since 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.

Deferred Retirement Option Plan

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

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2012

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

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

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

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

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

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

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

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2012

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, 2012, no officer had elected to participate in the DROP Plan.

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 2012, the Borough elected to only have employer contributions and contributed \$33,050 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.

Note 9 – Deferred Inflows of Resources

The Borough received a Municipal Open Space Program Grant during the 2012 year for outdoor recreational improvements to Krupp Park in the amount of \$249,495. This grant is an expenditure driven grant and construction on Krupp Park will begin in 2013. As a result, the entire grant amount totaling \$249,495 will be recognized as revenue in 2013.

Note 10 - 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.

THE BOROUGH OF QUAKERTOWN
Notes To Financial Statements
Year Ended December 31, 2012

Note 11 – 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 12 – Fund Balances

Detailed information about aggregated fund balances;

Assigned Fund Balances

Capital Projects Fund	\$ 1,676,077
Equipment Replacement Fund	100,288
TOTAL	<u>\$ 1,776,365</u>

Restricted Fund Balances

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

State Liquid Fuels Fund	\$ 130,293
TOTAL	<u>\$ 130,293</u>

Note 13 – Prior Period Adjustments

The Borough of Quakertown closed the Water Capital Fund into the Water Fund. The difference between the amounts is caused by two different methods of accounting. The Water Fund is reported on the accrual basis while the Water Capital Fund is reported on the modified accrual basis.

Fund	Original Fund Balances/ Net Position Jan. 1, 2012	Fund Balance/ Net Position Change	Restated Fund Balance/ Net Position Jan. 1, 2012
Water Capital (Capital Project) Fund	\$ 402,437	\$ (402,437)	\$ -
Water (Proprietary) Fund	5,588,014	(349,674)	5,238,340
TOTAL	<u>\$ 5,990,451</u>	<u>\$ (752,111)</u>	<u>\$ 5,238,340</u>

Note 14 – Subsequent Events

The subsequent events have been evaluated through August 16, 2013, which is the date of the financial statements were available to be issued.



HUTCHINSON, GILLAHAN & FREEH, P.C.

ACCOUNTANTS, AUDITORS & CONSULTANTS

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Quakertown, Bucks County, PA, as of and for the year ended December 31, 2012, which collectively comprise the Borough of Quakertown's basic financial statements, and have issued our report thereon dated August 16, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

BOROUGH COUNCIL

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Borough of Quakertown in a separate letter dated August 16, 2013.

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

August 16, 2013

THE BOROUGH OF QUAKERTOWN
Pension Funds
Required Supplemental Information
December 31, 2012

SCHEDULE OF FUNDING PROGRESS

ACTUARIAL VALUATION DATE	ACTUARIAL VALUATION OF ASSETS	ACTUARIAL ACCRUED LIABILITY ENTRY AGE PENSION	UNFUNDED AAL			FUNDED RATIO			COVERED PAYROLL			UAAL AS A % OF COVERED PAYROLL
			UNFUNDED AAL	FUNDED RATIO	COVERED PAYROLL	UNFUNDED AAL	FUNDED RATIO	COVERED PAYROLL	UNFUNDED AAL	FUNDED RATIO	COVERED PAYROLL	
NON-UNIFORMED PENSION PLAN												
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%
POLICE PENSION FUND												
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	CONTRIBUTIONS FROM EMPLOYER	PERCENTAGE CONTRIBUTED	ANNUAL REQUIRED CONTRIBUTION	CONTRIBUTIONS FROM EMPLOYER	PERCENTAGE CONTRIBUTED
2007	370,635	370,635	100.00%	246,697	246,697	100.00%
2008	274,564	274,564	100.00%	320,583	320,583	100.00%
2009	274,607	274,607	100.00%	349,600	349,600	100.00%
2010	269,428	269,428	100.00%	354,154	354,154	100.00%
2011	307,724	307,724	100.00%	347,966	347,966	100.00%
2012	294,984	294,984	100.00%	406,593	406,593	100.00%

THE BOROUGH OF QUAKERTOWN
Modified Approach to Reporting Infrastructure Assets
Required Supplemental Information
December 31, 2012

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

The modified approach requires that the Borough:

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

Condition Assessments

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

Assessed Conditions

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

Fiscal Year	Condition Assessment (Minimum 80%)
2012	74%
2011	74%
2010	70%

Estimated and Actual Costs for Maintenance

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

	Fiscal Year 2012	Fiscal Year 2011	Fiscal Year 2010
Estimate	\$ 744,528	\$ 913,674	\$ 1,064,558
Actual	53,214	211,433	300,359

THE BOROUGH OF QUAKERTOWN
 Combining Balance Sheet
 All Capital Project Funds
 For the Year Ended December 31, 2012

	CAPITAL PROJECTS FUND	EQUIPMENT REPLACEMENT FUND	TOTAL CAPITAL PROJECT FUNDS
ASSETS			
Cash and Cash Equivalents	715,565	101,903	817,468
Investments	1,210,515	-	1,210,515
Due from Other Funds	-	-	-
TOTAL ASSETS	1,926,080	101,903	2,027,983

LIABILITIES AND FUND BALANCES

LIABILITIES:			
Due to Other Funds	-	-	-
Deferred Revenue	249,495	-	249,495
Accounts Payable	508	1,615	2,123
TOTAL LIABILITIES	250,003	1,615	251,618

FUND BALANCES:

Restricted for Capital Projects	1,676,077	100,288	1,776,365
TOTAL FUND BALANCES	1,676,077	100,288	1,776,365
TOTAL LIABILITIES AND FUND BALANCES	1,926,080	101,903	2,027,983

THE BOROUGH OF QUAKERTOWN
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
All Capital Project Funds
For the Year Ended December 31, 2012

	CAPITAL PROJECTS FUND	EQUIPMENT REPLACEMENT FUND	TOTAL CAPITAL PROJECT FUNDS
REVENUES			
Donations	6,524	-	6,524
Miscellaneous	-	8,650	8,650
Investment Earnings	21,924	549	22,473
TOTAL REVENUES	<u>28,448</u>	<u>9,199</u>	<u>37,647</u>
EXPENDITURES			
General Government	44,683	26,872	71,555
Public Safety	-	76,634	76,634
Public Works	-	34,030	34,030
Culture and Recreation	-	-	-
Community Development	310,244	-	310,244
Debt Service	-	-	-
TOTAL EXPENDITURES	<u>354,927</u>	<u>137,536</u>	<u>492,463</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(326,479)</u>	<u>(128,337)</u>	<u>(454,816)</u>
OTHER FINANCING SOURCES			
Sale of Fixed Assets	-	9,946	9,946
Refund of Prior Year Expenditures	-	82,172	82,172
Transfers In	-	34,030	34,030
Transfers Out	-	-	-
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>126,148</u>	<u>126,148</u>
NET CHANGES IN FUND BALANCE	<u>(326,479)</u>	<u>(2,189)</u>	<u>(328,668)</u>
FUND BALANCES - BEGINNING	<u>2,002,556</u>	<u>102,477</u>	<u>2,105,033</u>
FUND BALANCES - ENDING	<u>\$ 1,676,077</u>	<u>\$ 100,288</u>	<u>\$ 1,776,365</u>

THE BOROUGH OF QUAKERTOWN
Combining Statement of Net Assets
All Pension Trust Funds
As December 31, 2012

	POLICE PENSION TRUST FUND	NON- UNIFORMED PENSION TRUST FUND	DEFERRED COMPENSATION PLAN FUND	TOTAL TRUST FUNDS
ASSETS				
Cash and Cash Equivalents	\$ 88,624	\$ 259,219	\$ 3,331	\$ 351,174
Investments	4,582,020	6,513,895	85,235	11,181,150
Accrued Investment Income	11,387	19,849	-	31,236
Due from Other Funds	3,425	-	-	3,425
Accounts Receivable	-	-	1,800	1,800
TOTAL ASSETS	\$ 4,685,456	\$ 6,792,963	\$ 90,366	\$ 11,568,785
DEFERRED OUTFLOWS OF RESOURCES	\$ -	\$ -	\$ -	\$ -
LIABILITIES				
Accounts Payable	-	-	-	-
Due to Other Funds	-	3,425	-	3,425
Due to Police Officers	-	-	-	-
TOTAL LIABILITIES	-	3,425	-	3,425
DEFERRED INFLOWS OF RESOURCES	\$ -	\$ -	\$ -	\$ -
NET POSITION				
Restricted for Employee Benefits	4,685,456	6,789,538	90,366	11,565,360
TOTAL NET POSITION	\$ 4,685,456	\$ 6,792,963	\$ 90,366	\$ 11,568,785

THE BOROUGH OF QUAKERTOWN
Combining Statement of Additions, Deductions and Changes in Net Position
All Pension Trust Funds
For the Year Ended December 31, 2012

	POLICE PENSION TRUST FUND	NON- UNIFORMED PENSION TRUST FUND	DEFERRED COMPENSATION PLAN FUND	TOTAL TRUST FUNDS
ADDITIONS:				
Contributions - Employer	\$ 238,753	\$ 169,594	\$ 33,050	\$ 441,397
Contributions - Employee	15,430	20,251	-	35,681
State Aid	167,851	125,390	-	293,241
Miscellaneous	-	-	-	-
INVESTMENT EARNINGS:				
Interest and Dividends	116,527	177,327	2,835	296,689
Change in Fair Value of Investments	343,903	518,283	4,940	867,126
TOTAL ADDITIONS	<u>882,464</u>	<u>1,010,845</u>	<u>40,825</u>	<u>1,934,134</u>
DEDUCTIONS:				
Administrative Charges	4,135	12,481	144	16,760
Investment Expenses	14,186	21,313	948	36,447
Employee Benefits	210,267	281,386	-	491,653
TOTAL DEDUCTIONS	<u>228,588</u>	<u>315,180</u>	<u>1,092</u>	<u>544,860</u>
CHANGES IN NET POSITION	653,876	695,665	39,733	1,389,274
NET POSITION - BEGINNING OF YEAR	<u>4,031,580</u>	<u>6,093,873</u>	<u>50,633</u>	<u>10,176,086</u>
NET POSITION - END OF YEAR	<u>\$ 4,685,456</u>	<u>\$ 6,789,538</u>	<u>\$ 90,366</u>	<u>\$ 11,565,360</u>

THE BOROUGH OF QUAKERTOWN
Combining Statement of Net Position
All Proprietary Funds
As of December 31, 2012

	ELECTRIC FUND	MAJOR WATER FUND	SEWER FUND	NON-MAJOR POOL FUND	TOTAL
ASSETS					
CURRENT ASSETS:					
Cash and Cash Equivalents	\$ 4,942,604	\$ 1,013,462	\$ 2,615,568	\$ 11,472	\$ 8,583,106
Investments	-	-	-	-	-
Accounts Receivable (Net of Allowance for Doubtful Accounts)	2,239,921	392,751	235,652	-	2,868,324
Due from Other Funds	-	-	-	-	-
TOTAL CURRENT ASSETS	<u>7,182,525</u>	<u>1,406,213</u>	<u>2,851,220</u>	<u>11,472</u>	<u>11,451,430</u>
NON-CURRENT ASSETS:					
Buildings (Net of Depreciation)	6,132,406	2,344,919	5,735,300	682,682	14,895,307
Improvements other than Buildings (Net of Depreciation)	6,290	9,611	38,138	1,078,565	1,132,604
Machinery and Equipment (Net of Depreciation)	310,223	128,524	579,026	-	1,017,773
Construction in Progress	-	1,194,985	-	-	1,194,985
Sewer Lines Infrastructure (Net of Depreciation)	-	-	3,967,273	-	3,967,273
Water Lines Infrastructure (Net of Depreciation)	-	6,370,439	-	-	6,370,439
TOTAL NON-CURRENT ASSETS	<u>6,448,919</u>	<u>10,048,478</u>	<u>10,319,737</u>	<u>1,761,247</u>	<u>28,578,381</u>
TOTAL ASSETS	<u>\$ 13,631,444</u>	<u>\$ 11,454,691</u>	<u>\$ 13,170,957</u>	<u>\$ 1,772,719</u>	<u>\$ 40,029,811</u>
DEFERRED OUTFLOWS OF RESOURCES	-	-	-	-	-
LIABILITIES					
CURRENT LIABILITIES:					
Sales Tax Payable	13,272	-	-	-	13,272
Accounts Payable	755,873	211,061	50,676	384	1,017,994
Accrued Salaries and Benefits	13,647	10,961	17,446	-	42,054
Deferred Revenues	-	-	-	-	-
Notes Payable	-	384,659	95,000	332,807	812,466
TOTAL CURRENT LIABILITIES	<u>782,792</u>	<u>606,681</u>	<u>163,122</u>	<u>333,191</u>	<u>1,885,786</u>
NON-CURRENT LIABILITIES:					
Compensated Absences	203,594	123,158	186,927	-	513,679
Notes Payable	-	5,229,739	2,895,000	-	8,124,739
TOTAL NON-CURRENT LIABILITIES	<u>203,594</u>	<u>5,352,897</u>	<u>3,081,927</u>	<u>-</u>	<u>8,638,418</u>
TOTAL LIABILITIES	<u>986,386</u>	<u>5,959,578</u>	<u>3,245,049</u>	<u>333,191</u>	<u>10,524,204</u>
DEFERRED INFLOWS OF RESOURCES	-	-	-	-	-
NET POSITION					
Invested in Capital Assets, Net of Related Debt	6,448,919	4,434,080	7,329,737	1,428,440	19,641,176
Restricted	-	-	-	-	-
Unrestricted Net Position	6,196,139	1,061,033	2,596,171	11,088	9,864,431
TOTAL NET POSITION	<u>\$ 12,645,058</u>	<u>\$ 5,495,113</u>	<u>\$ 9,925,908</u>	<u>\$ 1,439,528</u>	<u>\$ 29,505,607</u>

THE BOROUGH OF QUAKERTOWN
Combining Statement of Revenues, Expenses and Changes in Net Position
All Proprietary Funds
For the Year Ended December 31, 2012

	ELECTRIC FUND	MAJOR WATER FUND	SEWER FUND	NON-MAJOR POOL FUND	TOTAL
OPERATING REVENUES					
Charges for Services	\$ 14,864,555	\$ 1,557,739	\$ 2,605,308	\$ 235,554	\$ 19,263,156
Debt Service Fees	-	812,537	-	-	812,537
Permits and Fees	124,740	55,482	-	-	180,222
Penalties	161,569	32,161	23,649	-	217,379
Rental Income	-	40,579	-	-	40,579
Other Income	2,217	7,276	4,820	797	15,110
TOTAL OPERATING REVENUES	15,153,081	2,505,774	2,633,777	236,351	20,528,983
OPERATING EXPENSES					
Costs of Furnishing Utility	9,046,042	1,412,222	1,500,033	-	11,958,297
Costs of Pool Operations	-	142,106	-	275,848	275,848
Employee Benefits	178,608	41,931	189,155	10,455	520,324
Employee Pension	58,071	68,581	58,534	-	158,536
Insurance	59,555	139,043	92,342	18,040	238,518
Debt Service	-	225,473	67,000	17,521	223,564
Depreciation	172,571	2,029,356	345,033	91,818	834,895
TOTAL OPERATING EXPENSES	9,514,847	2,029,356	2,252,097	413,682	14,209,982
OPERATING INCOME (LOSS)	5,638,234	476,418	381,680	(177,331)	6,319,001
NON-OPERATING REVENUES (EXPENSES)					
Interest Earned	28,958	12,531	17,226	1,225	59,940
Gain (Loss) on Sale of Fixed Assets	(7,096)	-	-	-	(7,096)
State Aid - Pension	24,684	17,824	24,881	-	67,389
Transfers from Other Funds	-	-	-	350,000	350,000
Transfers to Other Funds	(3,930,000)	(250,000)	(250,000)	-	(4,430,000)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(3,883,454)	(219,645)	(207,893)	351,225	(3,959,767)
CHANGES IN NET POSITION	1,754,780	256,773	173,787	173,894	2,359,234
PRIOR PERIOD ADJUSTMENT	-	(349,674)	-	-	(349,674)
NET POSITION, JANUARY 1, 2012	10,890,278	5,588,014	9,752,121	1,265,634	27,496,047
NET POSITION, DECEMBER 31, 2012	\$ 12,645,058	\$ 5,495,113	\$ 9,925,908	\$ 1,439,528	\$ 29,505,607

THE BOROUGH OF QUAKERTOWN
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2012

REVENUES

TAXES:

Real Estate Taxes - Current	\$ 124,042	
Real Estate Taxes - Prior	3,947	
Real Estate Transfer Tax	89,896	
Earned Income Tax	896,650	
Local Services Tax	227,961	\$ 1,342,496

FINES AND FORFEITS:

Motor Vehicle Violations	69,816	
Fines	13,122	
Parking Tickets	2,680	85,618

LICENSES AND PERMITS:

Franchise Fee Cable	157,706	
Permits/Reports	-	157,706

INTERGOVERNMENTAL:

Public Utility Realty Tax	1,805	
In Lieu of Taxes	7,500	
Beverage Licenses	1,600	
Pension State Aid	225,852	
Allotment - Fireman's Relief	60,612	
Local Government Units	26,018	
Federal Grants	93,244	
State Grants	40,215	456,846

CHARGES FOR SERVICES:

General Government	187,145	
Public Safety	190,687	
Parking Meters	10,964	
Sale of Trash Bags	-	
Health	35	
Culture and Recreation	58,210	447,041

INVESTMENT AND RENTAL EARNINGS:

Interest Income	9,642	
Rentals	4,225	13,867

MISCELLANEOUS:

Contributions and Donations	9,018	
Reimbursements	5,499	
Insurance Claim Refund	9,932	
Other	12,066	36,515

TOTAL REVENUES		\$ 2,540,089
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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, 2012

EXPENDITURES

GENERAL GOVERNMENT

LEGAL:

Solicitor \$ 15,287

MAYOR, LEGISLATIVE, BOROUGH MANAGER:

Salary 196,875
 Materials and Supplies 5,894
 Contracted Services 7,213
 Association Dues and Conventions 16,125
 Advertising, Printing and Postage 10,330
 Gasoline 2,020
 Telephone 15,424
 Insurance 5,405
 Small Tools and Equipment 5,711

FINANCE AND ACCOUNTING:

Salary 209,776
 Auditing 27,845
 Office Supplies 66
 Bonding 1,547
 Association Dues and Conventions 3,736
 Contracted Services 17,550

TAX COLLECTION:

Salary 6,000
 Contracted Services 1,089

IT-NETWORKING SERVICES-DATA PROCESSING:

Computer Hardware and Software 40,338
 Computer Parts and Supplies -
 Internet Service 1,541
 Contracted IT Services 40,567
 Web Design and Maintenance 232

ENGINEERING:

Engineering Fees 155,891

BUILDINGS AND PLANT:

Building Supplies 5,847
 Cleaning Supplies 12,793
 Repairs and Maintenance 114,200
 Contracted Services 1,102

TOTAL GENERAL GOVERNMENT \$ 920,404

THE BOROUGH OF QUAKERTOWN
General Fund (Cont'd)
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2012

PUBLIC SAFETY

POLICE:

Salaries and Benefits	\$ 1,606,457
Office Supplies	5,050
Postage	479
Fuel and Oil	45,506
Uniforms	24,584
K9	6,079
Vice	488
Ammunition	12,507
National Night Out	2,180
Vehicle Maintenance and Repair	17,681
Small Tools and Equipment	10,902
Telephone	16,862
Towing	18,695
Advertising and Printing	3,812
Police Professional Liability Insurance	9,623
Asset Forfeiture	2,693
Association Dues and Conventions	27,785
Contracted Services	17,201
Capital Purchases	198,975

FIRE:

Contribution to Fire Co.	145,000
Fireman's Relief	60,612
Fire Marshal	51,834
Insurance	45,241
Telephone	5,219
Gasoline	93,116
Fire Truck Repairs	1,614
Small Tools and Equipment	125

INSPECTIONS:

Zoning and Administration	64,508
Salary of Clerical	30,942
Office Supplies	1,527
Fuel and Oil	2,140
Uniforms	722
Small Tools and Equipment	1,604
Advertising and Printing	3,059
Association Dues and Conventions	5,114
Contracted Services	6,680

TOTAL PUBLIC SAFETY \$ 2,546,616

THE BOROUGH OF QUAKERTOWN
General Fund (Cont'd)
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2012

PUBLIC WORKS

STREET MAINTENANCE AND LIGHTING:

Salaries - Highways and Streets	\$ 644,653
Office Supplies	1,096
Fuel and Oil	64,207
Uniforms	4,868
Street and Traffic Signs	33,693
Road Materials	50,482
Vehicle Maintenance and Repairs	62,005
Small Tools and Equipment	21,352
Telephone	7,437
Association Dues and Conventions	5,913
CDL Drug and Alcohol Testing	1,078
Equipment	56,078
Equipment Rental	7,500
Snow Removal Materials	<u>35,290</u>

TOTAL PUBLIC WORKS \$ 995,652

CULTURE AND RECREATION

PARKS AND POOL:

Salary	33,177
Supplies	21,996
Discount Tickets	13,544
QSAA	18,831
Vehicle Maintenance and Repairs	1,456
Small Tools and Equipment	22,035
Summer Concert Series	6,190
Kids Program	6,226
Events	10,013
Contracted Services	121,626
Field Improvements	2,532
Krupps Park	21,348
Capital Maintenance	<u>28,401</u>

TOTAL CULTURE AND RECREATION 307,375

COMMUNITY DEVELOPMENT

Quakertown Alive	60,000
Senior Center	8,400
Historical Society Barn	15,967
Equipment	15,535
Small Tools and Equipment	1,895
Contracted Services	30,000
Triangle Park Construction	<u>17,410</u>

TOTAL COMMUNITY DEVELOPMENT 149,207

THE BOROUGH OF QUAKERTOWN
General Fund (Cont'd)
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2012

EMPLOYER BENEFITS AND WITHHOLDING ITEMS

Police Pension	\$	406,593	
Non-Uniformed Pension		136,448	
Employee Benefits		<u>974,227</u>	

TOTAL EMPLOYER BENEFITS AND WITHHOLDING ITEMS \$ 1,517,268

INSURANCE

Insurance, Casualty, and Surety	147,765
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UNCLASSIFIED EXPENDITURES 19,433

TOTAL EXPENDITURES 6,603,720

DEFICIENCY OF REVENUES OVER EXPENDITURES (4,063,631)

OTHER FINANCING SOURCES AND OTHER FINANCING USES

Refund of Prior Year Expenditures	108,198	
Interfund Transfers In	4,080,000	
Interfund Transfers Out	<u>(34,030)</u>	<u>4,154,168</u>

NET CHANGE IN FUND BALANCES 90,537

FUND BALANCE - JANUARY 1, 2012 662,085

FUND BALANCE - DECEMBER 31, 2012 \$ 752,622

THE BOROUGH OF QUAKERTOWN
Electric Fund
Statement of Revenues, Expenditures, and Changes in Net Position
For the Year Ended December 31, 2012

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 14,586,000	\$ 14,864,555
Permits and Fees	265,735	124,740
Penalties	140,000	161,569
Other Income	2,200	2,217
TOTAL OPERATING REVENUES	<u>14,993,935</u>	<u>15,153,081</u>
<u>OPERATING EXPENSES</u>		
Costs of Furnishing Utility	10,380,460	9,046,042
Employee Benefits	193,740	178,608
Employee Pension	62,600	58,071
Insurance	60,800	59,555
Depreciation	-	172,571
Contingency	752,000	-
TOTAL OPERATING EXPENSES	<u>11,449,600</u>	<u>9,514,847</u>
OPERATING INCOME	<u>3,544,335</u>	<u>5,638,234</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest Earned	21,000	28,958
Gain (Loss) on Sale of Fixed Assets	1,000	(7,096)
State Aid - Pension	-	24,684
Transfers to Other Funds	(4,130,000)	(3,930,000)
TOTAL NON-OPERATING (EXPENSES)	<u>(4,108,000)</u>	<u>(3,883,454)</u>
CHANGES IN NET POSITION	(563,665)	1,754,780
NET POSITION, JANUARY 1, 2012	<u>563,665</u>	<u>10,890,278</u>
NET POSITION, DECEMBER 31, 2012	<u>\$ -</u>	<u>\$ 12,645,058</u>

THE BOROUGH OF QUAKERTOWN
Water Fund
Statement of Revenues, Expenditures, and Changes in Net Position
For the Year Ended December 31, 2012

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 1,674,000	\$ 1,557,739
Penalties	20,000	32,161
Debt Service Fee	792,400	812,537
Other Fees	86,850	55,482
Rental Income	37,900	40,579
Other Income	<u>2,000</u>	<u>7,276</u>
TOTAL OPERATING REVENUES	2,613,150	2,505,774
<u>OPERATING EXPENSES</u>		
Costs of Furnishing Utility	1,136,275	1,412,222
Employee Benefits	168,260	142,106
Employee Pension	39,500	41,931
Insurance	67,100	68,581
Debt Service	386,779	139,043
Depreciation	-	225,473
Contingency	<u>130,000</u>	<u>-</u>
TOTAL OPERATING EXPENSES	1,927,914	2,029,356
OPERATING INCOME (LOSS)	685,236	476,418
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest Earned	2,100	12,531
State Aid - Pension	-	17,824
Gain (Loss) on Sale of Fixed Assets	1,000	-
Transfers to Other Funds	<u>(518,335)</u>	<u>(250,000)</u>
TOTAL NON-OPERATING (EXPENSES)	(515,235)	(219,645)
CHANGES IN NET POSITION	170,001	256,773
PRIOR PERIOD ADJUSTMENT	-	(349,674)
NET POSITION, JANUARY 1, 2012	(170,001)	5,588,014
NET POSITION, DECEMBER 31, 2012	\$ -	\$ 5,495,113

THE BOROUGH OF QUAKERTOWN
Sewer Fund
Statement of Revenues, Expenditures, and Changes in Net Position
For the Year Ended December 31, 2012

	BUDGET	ACTUAL
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 2,903,200	\$ 2,605,308
Penalties	16,000	23,649
Other Income	2,100	4,820
TOTAL OPERATING REVENUES	2,921,300	2,633,777
<u>OPERATING EXPENSES</u>		
Costs of Furnishing Utility	1,808,490	1,500,033
Employee Benefits	196,040	189,155
Employee Pension	68,600	58,534
Insurance	95,300	92,342
Debt Service	240,357	67,000
Depreciation	-	345,033
Contingency	125,000	-
TOTAL OPERATING EXPENSES	2,533,787	2,252,097
OPERATING INCOME	387,513	381,680
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest Earned	17,000	17,226
Gain (Loss) on Sale of Fixed Assets	1,000	-
State Aid - Pension	-	24,881
Sewage Facilities Grant	-	-
Transfers to Other Funds	(340,000)	(250,000)
TOTAL NON-OPERATING (EXPENSES)	(322,000)	(207,893)
CHANGES IN NET POSITION	65,513	173,787
NET POSITION, JANUARY 1, 2012	(65,513)	9,752,121
NET POSITION, DECEMBER 31, 2012	\$ -	\$ 9,925,908

THE BOROUGH OF QUAKERTOWN
Pool Fund
Statement of Revenues, Expenditures, and Changes in Net Position
For the Year Ended December 31, 2012

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 219,500	\$ 235,554
Other Income	<u>2,000</u>	<u>797</u>
TOTAL OPERATING REVENUES	<u>221,500</u>	<u>236,351</u>
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<u>OPERATING EXPENSES</u>		
Costs of Pool Operations	253,500	275,848
Employee Benefits	9,900	10,455
Insurance	16,600	18,040
Debt Service	340,549	17,521
Depreciation	-	91,818
Contingency	<u>11,000</u>	<u>-</u>
TOTAL OPERATING EXPENSES	<u>631,549</u>	<u>413,682</u>
OPERATING (LOSS)	<u>(410,049)</u>	<u>(177,331)</u>
<u>NON-OPERATING REVENUES</u>		
Interest Earned	2,000	1,225
Transfers from Other Funds	<u>350,000</u>	<u>350,000</u>
TOTAL NON-OPERATING REVENUES	<u>352,000</u>	<u>351,225</u>
CHANGES IN NET POSITION	(58,049)	173,894
NET POSITION, JANUARY 1, 2012	<u>58,049</u>	<u>1,265,634</u>
NET POSITION, DECEMBER 31, 2012	<u>\$ -</u>	<u>\$ 1,439,528</u>

**The Borough of Quakertown
Liquid Fuels Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2012**

FUND BALANCE - JANUARY 1, 2012	\$	1,398
 <u>REVENUES AND OTHER FINANCING SOURCES</u>		
INTERGOVERNMENTAL:		
Liquid Fuels Tax	\$	160,205
Highway/Turnback Income		5,480
INVESTMENT EARNINGS:		
Interest Earnings		476
OTHER FINANCING SOURCES:		
Transfer From Other Funds	-	166,161
 TOTAL FUNDS AVAILABLE		 167,559
 <u>EXPENDITURES AND OTHER FINANCING USES</u>		
PUBLIC WORKS:		
Highway Construction	\$	2,732
Equipment Purchase		34,534
		37,266
 FUND BALANCE - DECEMBER 31, 2012	 \$	 130,293

**Capital Projects Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2012**

FUND BALANCE - JANUARY 1, 2012	\$	2,002,556
 <u>REVENUES AND OTHER FINANCING SOURCES</u>		
Interest Earnings	\$	21,924
Donations		6,524
Miscellaneous		-
		28,448
TOTAL FUNDS AVAILABLE		2,031,004
 <u>EXPENDITURES AND OTHER FINANCING USES</u>		
GENERAL GOVERNMENT:		
Buildings and Plant	\$	44,683
COMMUNITY DEVELOPMENT:		
Moose Building		298,957
Moose Building Utilities		11,287
Community Contributions		-
		354,927
 FUND BALANCE - DECEMBER 31, 2012	 \$	 1,676,077

THE BOROUGH OF QUAKERTOWN
Equipment Replacement Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2012

FUND BALANCE - JANUARY 1, 2012	\$	102,477
 <u>REVENUES AND OTHER FINANCING SOURCES</u>		
Interest Earnings	\$	549
Miscellaneous		8,650
Sale of Fixed Assets		9,946
Refund of Prior Year Expenditures		82,172
Transfer From Other Funds		34,030
		<u>135,347</u>
 TOTAL FUNDS AVAILABLE		 237,824
 <u>EXPENDITURES AND OTHER FINANCING USES</u>		
GENERAL GOVERNMENT:		
Equipment	\$	26,872
PUBLIC SAFETY:		
Equipment		76,634
PUBLIC WORKS:		
Equipment		34,030
		<u>137,536</u>
 FUND BALANCE - DECEMBER 31, 2012	 \$	 <u>100,288</u>

Escrow Fund
Statement of Additions Received and Deductions Paid
For the Year Ended December 31, 2012

For the Year Ended December 31, 2012

ASSETS		
Escrow Checking	\$	<u>270,416</u>
 TOTAL ASSETS		 \$ <u>270,416</u>
 LIABILITIES		
Due to Escrow Holders	\$	<u>270,416</u>
 TOTAL LIABILITIES		 \$ <u>270,416</u>

BOROUGH OF QUAKERTOWN
Police Pension Trust Fund
Statement of Additions and Deductions
For the Year Ended December 31, 2012

NET POSITION - BEGINNING OF YEAR		\$ 4,031,580
ADDITIONS:		
Contributions - Employer	\$ 238,753	
Contributions - Employee	15,430	
State Aid	167,851	
INVESTMENT EARNINGS:		
Interest and Dividends	116,527	
Change in Fair Value of Investments	343,903	
TOTAL ADDITIONS	882,464	
DEDUCTIONS:		
Administrative Charges	4,135	
Investment Expenses	14,186	
Employee Benefits	210,267	
TOTAL DEDUCTIONS	228,588	
CHANGE IN NET POSITION		653,876
NET POSITION - END OF YEAR		\$ 4,685,456

Non-Uniformed Pension Trust Fund
Statement of Additions and Deductions
For the Year Ended December 31, 2012

NET POSITION - BEGINNING OF YEAR		\$ 6,093,873
ADDITIONS:		
Contributions - Employer	169,594	
Contributions - Employee	20,251	
State Aid	125,390	
INVESTMENT EARNINGS:		
Interest and Dividends	177,327	
Change in Fair Value of Investments	518,283	
TOTAL ADDITIONS	1,010,845	
DEDUCTIONS:		
Administrative Charges	12,481	
Investment Expenses	21,313	
Employee Benefits	281,386	
TOTAL DEDUCTIONS	315,180	
CHANGE IN NET POSITION		695,665
NET POSITION - END OF YEAR		\$ 6,789,538