

BOROUGH OF HELLERTOWN

**Financial Statements,
Independent Auditor's Report
and Supplementary Information**

December 31, 2016

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INDEPENDENT AUDITOR'S REPORT

Borough Council
Borough of Hellertown
Hellertown, Pennsylvania

Report on the Financial Statements

We have audited the accompanying modified-cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Hellertown, as of and for the year ended December 31, 2016, 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 the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 an opinion 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Hellertown as of December 31, 2016, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

As discussed in Note 1, these financial statements were prepared on the modified-cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Borough of Hellertown's basic financial statements. The Management's Discussion and Analysis on pages 3-8, budgetary comparison, pension and OPEB information on pages 41-48 and combining statements on pages 49-52 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole, on the basis of accounting described in Note 1.

Management's Discussion and Analysis, budgetary comparison, pension and OPEB information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on such information.

Craig Bell, Rappold & Yucasita LLP

September 28, 2017

**BOROUGH OF HELLERTOWN
2016 FINANCIAL STATEMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Borough of Hellertown's discussion and analysis provides an overview of the Borough's financial activities for the fiscal year ended December 31, 2016. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the Borough's financial statements beginning on page 9.

FINANCIAL HIGHLIGHTS

- The net position all government funds (excluding pensions and agency funds) increased by \$1,020,391 during 2016. This is primarily due to reimbursable grant receipts associated with the Water Street Park improvements. The Borough of Hellertown's financial statements are prepared on modified cash basis of accounting, therefore funds were expended in 2015 and grant receipts are shown in the 2016 financial statements.
- Parks and Recreation expenditures decreased by \$897,781 primarily due to costs associated with the Water Street Park improvements paid in 2015 and reimbursed through grants in 2016.
- The net position of the Sanitation fund increased by \$75,534 during 2016 with total current and non current liabilities of \$110,445.
- The Borough reduced its debt on the GON, GON II and GON III by \$137,311. There was no new debt in 2016. Overall the Borough of Hellertown had a total of outstanding debt of \$1,783,919 as of December 31, 2016.

USING THIS ANNUAL REPORT

This annual report consists of two parts: management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include a series of financial statements. The Statement of Net Position and the Statement of Activities on pages 9 and 10 provide information about the activities of the Borough as a whole and present a longer-term view of the Borough's finances. Fund financial statements start on page 11. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Borough's operations in more detail than the government-wide statements by providing information about the Borough's most significant funds. Since Hellertown Borough is a general purpose government we have elected to combine fund financial statements into government-wide financial statements for single presentation. The remaining statements provide financial information about activities for which the Borough acts solely as a trustee or agent for the benefit of those outside the government.

REPORTING ON THE BOROUGH AS A WHOLE

The analysis of the Borough as a whole begins on page 9. One of the most important questions asked about the Borough's finances is "is the Borough as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Borough as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the modified cash basis of accounting, which recognizes revenue when received and expenses when paid.

**BOROUGH OF HELLERTOWN
2016 FINANCIAL STATEMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

These two statements report the Borough's net position and changes in them. You can think of the Borough's net position – the difference between assets and liabilities – as one way to measure the Borough's financial health, or financial position. Over time, increases or decreases in the Borough's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Borough's property tax base and the condition of the Borough's roads, to assess the overall health of the Borough.

In the Statement of Net Position and the Statement of Activities, the Borough presents Governmental and Business Type Activities. All of the Borough's basic services are reported here. The Borough's Governmental Activities include the General Fund, Special Revenue Fund (includes Liquid Fuels Fund and Fire Protection Fund) Debt Service Fund and Capital Projects Fund (includes Fire Capital Fund). These fund types are explained in more detail on page 20. The Borough has one Business Type Activity which is its Sanitation Fund.

REPORTING THE BOROUGH'S MOST SIGNIFICANT FUNDS

Our analysis of the Borough's governmental funds begin on page 11 and provides detailed information about the most significant funds – General Fund, Capital Projects Funds and Special Revenue Funds - not the Borough as a whole. All of the Borough's basic services are reported in the general fund, which focuses on how money flows into and out of those funds and the balances left at year-end that are available for spending. The fund is reported using an accounting method called modified cash basis of accounting. The general fund statements provide a detailed short term view of the Borough's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Borough's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and governmental *funds* in a reconciliation at the bottom of the fund financial statements.

THE BOROUGH AS TRUSTEE

The Borough is the trustee, or fiduciary, over its employees' pension trust funds. It's also responsible for other assets which can only be used for the depositors based on the trust agreement with those depositors. All of the Borough's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and Changes in Fiduciary Net Position on pages 14 - 16. We exclude these activities from the Borough's other financial statements because the Borough cannot use these assets to finance its operations. The Borough is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE BOROUGH OF HELLERTOWN AS A WHOLE

The Borough of Hellertown's combined net position increased from \$2,844,906 in 2015 to \$3,865,297 in 2016, or a net increase of \$1,020,391. In contrast, 2015 net position decreased by \$640,476.

**BOROUGH OF HELLERTOWN
2016 FINANCIAL STATEMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our analysis below focuses on the net position and changes in net position of the Borough's governmental and business type activities.

	<u>Governmental Funds</u>		<u>Business Type Activities</u>		<u>Government Wide</u>	
	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>
Cash & Cash Equivalent	\$ 4,505,023	\$ 5,368,931	\$ 260,918	\$ 281,841	\$ 4,765,941	\$ 5,650,772
Total Assets	<u>\$ 4,505,023</u>	<u>\$ 5,368,931</u>	<u>\$ 260,918</u>	<u>\$ 281,841</u>	<u>\$ 4,765,941</u>	<u>\$ 5,650,772</u>
Current Liabilities	\$ 82,440	\$ 86,633	\$ 54,710	\$ 56,149	\$ 137,150	\$ 142,782
Non Current Liabilities - Notes Payable	1,673,539	1,588,397	110,346	54,296	1,783,885	1,642,693
Total Liabilities	<u>\$ 1,755,979</u>	<u>\$ 1,675,030</u>	<u>\$ 165,056</u>	<u>\$ 110,445</u>	<u>\$ 1,921,035</u>	<u>\$ 1,785,475</u>
Restricted for Special Purpose	\$ 1,902,051	\$ 2,107,515	\$ -	\$ -	\$ 1,902,051	\$ 2,107,515
Unreserved - Undesignated	846,993	1,586,386	95,862	171,396	942,855	1,757,782
Total Net Position	<u>\$ 2,749,044</u>	<u>\$ 3,693,901</u>	<u>\$ 95,862</u>	<u>\$ 171,396</u>	<u>\$ 2,844,906</u>	<u>\$ 3,865,297</u>

Net position of the Borough's governmental wide activities increased by 35.87% in 2016. Therefore, the Borough increased its net position for governmental activities by \$1,020,391 in 2016. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements changed from \$942,855 at the end of 2015 to \$1,757,782 at the end of 2016.

The net position of the Borough's Business Type Activities increased by 78.80%. Accordingly, the Borough increased its net position for Business Type Activities by \$75,534. The unrestricted net position – that part of net position that can be used to finance daily business type activities changed from \$95,862 in 2015 to \$171,396 in 2016.

	<u>Governmental Funds</u>		<u>Business Type Activities</u>		<u>Government Wide</u>	
	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>
Revenue						
Taxes	\$ 3,398,866	\$ 3,464,540	\$ -	\$ -	\$ 3,398,866	\$ 3,464,540
Intergovernmental Revenue	605,275	1,119,534	23,611	15,000	628,886.00	1,134,534.00
Refuse Collections	-	-	536,875	533,665	536,875.00	533,665.00
Recycling	-	-	139,973	178,772	139,973.00	178,772.00
Charges for Service	170,046	207,940	-	-	170,046.00	207,940.00
Licenses & Permits	225,399	234,340	2,230	2,309	227,629.00	236,649.00
All Other	262,906	388,234	11,520	290	274,426.00	388,524.00
Total Revenue	<u>\$ 4,662,492</u>	<u>\$ 5,414,588</u>	<u>\$ 714,209</u>	<u>\$ 730,036</u>	<u>\$ 5,376,701</u>	<u>\$ 6,144,624</u>
Expenses						
General Government	\$ 543,762	\$ 712,945	\$ 42,720	\$ 26,535	\$ 586,482	\$ 739,480
Public Safety	1,547,225	1,628,210	-	-	1,547,225.00	1,628,210.00
Public Works	852,164	744,225	-	-	852,164.00	744,225.00
Personnel	-	-	305,487	314,047	305,487.00	314,047.00
Contracted Services	-	-	229,977	269,838	229,977.00	269,838.00
Culture & Recreation	1,302,573	400,620	-	-	1,302,573.00	400,620.00
Repairs /Maintenance & Supplies	-	-	175,645	33,576	175,645.00	33,576.00
Employee Benefits/Taxes	964,643	933,214	-	-	964,643.00	933,214.00
All Other	49,641	50,767	3,340	10,256	52,981.00	61,023.00
Total Expenses	<u>\$ 5,260,008</u>	<u>\$ 4,469,981</u>	<u>\$ 757,169</u>	<u>\$ 654,252</u>	<u>\$ 6,017,177</u>	<u>\$ 5,124,233</u>
Transfers	791	250	(791)	(250)	-	-
Change in Net Position	<u>\$ (596,725)</u>	<u>\$ 944,857</u>	<u>\$ (43,751)</u>	<u>\$ 75,534</u>	<u>\$ (640,476)</u>	<u>\$ 1,020,391</u>

Overall, the Borough's governmental program revenues, including intergovernmental aid increased from \$4,662,492 in 2015 to \$5,414,588 in 2016 primarily based on increases from taxes received, operating grants (intergovernmental revenue), and charges for services.

**BOROUGH OF HELLERTOWN
2016 FINANCIAL STATEMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Business Type revenue increased by \$15,827 primarily due to an increase in the fees collected for recycling.

Governmental Activities

The cost of all governmental activities (government-wide activities) in 2016 was \$5,124,233 compared to \$ 6,017,177 in 2015. The decrease in cost is mainly due costs associated with the Water Street Park improvements expended in 2015 and the purchase of a street sweeper in 2015. As shown in the Statement of Activities on page 10, the amount our taxpayers ultimately financed for these activities through Borough taxes, fines, licenses, and other revenue was \$3,069,322. Some of the cost was paid by those who directly benefitted from the program which amounted to \$920,377. Other governments and organizations that subsidized certain programs with grants and contributions amounted to \$1,134,534.

Business Type Activities

Overall the Sanitation Fund (business type activities) net position increased from \$95,862 in 2015 to \$171,396 in 2016. This increase is attributed to a large number of sanitation and recycling liens paid.

The cost to provide these services decreased by \$102,917 primarily due to lower cost associated with the repair and maintenance of equipment, which included the purchase of a street sweeper.

Table 3 presents the cost of each of the Borough's five largest programs, (General Government, Public Safety, Public Works, Culture & Recreation, Employee Benefits) and business type activities, as well as their respective net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the Borough's taxpayers by each of these functions. The last column represents the net comparison to 2015.

	<u>Expenses</u>	<u>Charges For Service</u>	<u>Operating Grants</u>	<u>2016 Net Expense</u>	<u>2015</u>
General Government	712,945	-	-	712,945	572,365
Public Safety	1,628,210	13,260	451,910	1,163,040	1,157,759
Public Works	744,225	48,248	561,677	134,300	365,543
Culture & Recreation	400,620	146,432	6,500	247,688	400,466
Employee Benefits/taxes	933,214	-	99,447	833,767	776,898
Sanitation	654,252	712,437	15,000	(73,185)	56,710

THE BOROUGH OF HELLERTOWN FUNDS

As the Borough completed the year, its governmental funds (as presented in the balance sheet on page 11) reported a fund balance of \$5,367,375 which is above last year's total of \$4,505,218. A significant contributor to the increase in fund balance is the operating grants and contributions expended in 2015 but reimbursed in 2016. The year end fund balance consists of \$3,259,860 in unassigned funds, \$20,496 in restricted funds, \$782,517 in committed funds and \$1,304,502 in assigned funds.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual revenue of the general fund (the main operating fund of the Borough) were \$680,700 above budget projections, with the largest escalation seen in intergovernmental revenue consisting of grant reimbursements and slight increases in all other revenue sources.

**BOROUGH OF HELLERTOWN
2016 FINANCIAL STATEMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The actual expenditures of the general fund were \$315,249 below budget amounts. The most significant over budget variances of \$114,740 in general government and public safety are attributed to not budgeted contract for cable franchise negotiations (taken from fund balance, third party construction review costs, increased managed IT service costs and auditor fees. In public safety those over budget variances may be attributed to overtime/holidays, uniforms, part time officers and legal fees. Favorable variances in employee benefits are attributed to the reimbursement from the Hellertown Authority for cost associated with their employee health care benefits. Favorable variances in public works are lower personnel, benefits and street maintenance costs.

CAPITAL PROJECTS AND DEBT ADMINISTRATION

Capital Projects

2016 Capital improvements:

- \$ 5,841 Buildings for security system upgrades
- \$85,934 Police for vehicle, scales, rifles, tasers
- \$67,913 Public Works for a dump truck, pick-up truck and radios
- \$ 7,810 Parks & Pool for tree removal and pumps/motors

The Borough's fiscal year 2017 capital budget calls for it to spend \$201,100 in capital improvements or equipment.

Remaining 2012 General Obligation Note proceeds in the amount of \$436,579 will be discussed during 2018 budget proceedings.

Debt

Notes Payable include the 2012 General Obligation Note I with an outstanding balance of \$1,673,474 (reduced \$82,700 in 2016) that was used for long term capital improvements. The 2012 General Obligation Note II with an outstanding balance of \$21,164 (reduced \$20,585 in 2015) remaining to pay off a Sanitation Truck and 2015 General Obligation Note III with an outstanding balance of \$89,281 (reduced by \$34,026 in 2016) was used for the purchase of a street sweeper.

HELLERTOWN BOROUGH DEMOGRAPHICS & ECONOMIC OUTLOOK

July 2016 US Census data estimate the population of Hellertown Borough is 5,830 with 2,774 housing units and 291 businesses.

The median age of a Hellertown resident is 43. The largest population group at 23.75% is over 65. The next largest population group at 13% is 50-59.

There are approximately 3,287 residents in the labor force. The median earnings of a Hellertown resident is \$42,784. The median household income is \$60,981. 19.1% of the households had retirement income over the past 12 months.

The median home value is \$178,300. 67.93% is owner occupied with 32% rental units.

**BOROUGH OF HELLERTOWN
2016 FINANCIAL STATEMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Hellertown has a total of 291 businesses. In 2016, the leading industries were Health Care, Social Services, Retail and Food Services.

As of February 2017, the assessed value of all property in the Borough of Hellertown is \$130,990,700. An assessed value is the dollar value assigned to a property to measure applicable taxes. Assessed valuation determines the value of a residence for tax purposes and takes comparable home sales and inspections into consideration. It is the price placed on a home by the corresponding government municipality to calculate property taxes.

The U.S. economic outlook is healthy according to the key economic indicators. The gross domestic product, which measures the nation's production output, is expected to remain between 2 and 3 percent. The most recent forecast released by the Federal Open Market Committee meeting in June 2017 rose to 2.69 percent, slightly better than the 2.1 percent growth in 2016.

As of July 2017, the unemployment rate has dropped to 4.3 percent compared to 4.7 percent rate in 2016. But Federal Reserve Chair Janet Yellen admits a lot of workers are part time. Also, most job growth is in low paying retail and food service. That means structural unemployment has increased – they also make the unemployment rate seem low. Yellen considers the real unemployment rate more accurate. That rate is usually double the widely reported data.

Closer to home, the Borough of Hellertown continues on its path to provide a healthy and economically stable environment for its residents and visitors. Recent investments and added events to our parks and Saucon Rail Trail will continue to bring economic benefit to the community.

According to American Trails Walkable neighborhoods, parks and open spaces are believed to generate economic benefits to local governments, home owners and businesses through higher property values and correspondingly higher tax assessments. The economic benefits of open, walkable spaces can play an important role in policy-makers' decisions about zoning, restrictions on land-uses, government purchase of lands for parks and similar initiatives.

As with most small communities, the borough's challenge will continue to be to provide necessary essential services with a sensible approach to taxing our property owners and generating revenue to sustain government services.

Borough Council and staff have attempted to anticipate the impact of the economy and cost of services on municipal revenues and expenditures. As we move through the year, we will monitor performance and make adjustments in spending that are appropriate, use capital funds efficiently and effectively and maintain necessary municipal services to the community.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Borough's finances. Questions concerning any of the information provided in this report or requests for additional financial information may be addressed in writing to the Borough Manager, 685 Main Street, Hellertown, PA 18055.

BOROUGH OF HELLERTOWN
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2016

ASSETS	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	Total
Cash and Cash Equivalents	\$ 5,368,931	\$ 281,841	\$ 5,650,772
Total Assets	\$ 5,368,931	\$ 281,841	\$ 5,650,772
LIABILITIES AND NET POSITION			
Current Liabilities			
Other Withholdings	\$ 1,556	\$ -	\$ 1,556
Current Portion of Notes Payable	85,077	56,149	141,226
Total Current Liabilities	86,633	56,149	142,782
Noncurrent Liabilities			
Notes Payable, Net of Current Portion	1,588,397	54,296	1,642,693
Total Liabilities	1,675,030	110,445	1,785,475
NET POSITION			
Restricted	2,107,515	-	2,107,515
Unrestricted	1,586,386	171,396	1,757,782
Total Net Position	3,693,901	171,396	3,865,297
Total Liabilities and Net Position	\$ 5,368,931	\$ 281,841	\$ 5,650,772

The notes to the financial statements are an integral part of these financial statements.

**BOROUGH OF HELLERTOWN
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Functions/Programs	Expenses	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	PRIMARY GOVERNMENT		Total	
					Governmental Activities	Business-Type Activities		
Primary Government:								
Government activities:								
General Government	\$ 712,945	\$ -	\$ -	\$ -	\$ (712,945)	\$ -	\$ (712,945)	
Public Safety	1,628,210	13,260	451,910	-	(1,163,040)	-	(1,163,040)	
Public Works - Highway/Streets	744,225	48,248	561,677	-	(134,300)	-	(134,300)	
Culture and Recreation	400,620	146,432	6,500	-	(247,688)	-	(247,688)	
Employee Benefits/Taxes	933,214	-	99,447	-	(833,767)	-	(833,767)	
Contingencies	3,243	-	-	-	(3,243)	-	(3,243)	
Interest	47,524	-	-	-	(47,524)	-	(47,524)	
Total Governmental Activities	\$ 4,469,981	\$ 207,940	\$ 1,119,534	\$ -	\$ (3,142,507)	\$ -	\$ (3,142,507)	
Business Type Activities:								
Sanitation	\$ 654,252	\$ 712,437	\$ 15,000	\$ -	\$ -	\$ 73,185	\$ 73,185	
Total Business-Type Activities	654,252	712,437	15,000	-	-	73,185	73,185	
Total Primary Government	\$ 5,124,233	\$ 920,377	\$ 1,134,534	\$ -	\$ (3,142,507)	\$ 73,185	\$ (3,069,322)	
General Revenues and Transfers:								
Taxes					\$ 3,464,540	\$ -	\$ 3,464,540	
Licenses and Permits					234,340	2,309	236,649	
Fines and Forfeitures					85,314	-	85,314	
Interest and Rents					16,371	290	16,661	
Miscellaneous					274,097	-	274,097	
Gain on Sale of Equipment					12,452	-	12,452	
Transfers					250	(250)	-	
Total General Revenues and Transfers					4,087,364	2,349	4,089,713	
					Change in Net Position	944,857	75,534	1,020,391
					Net Position - January 1, 2016	2,749,044	95,862	2,844,906
					Net Position - December 31, 2016	\$ 3,693,901	\$ 171,396	\$ 3,865,297

The notes to the financial statements are an integral part of these financial statements.

**BOROUGH OF HELLERTOWN
BALANCE SHEET - MODIFIED CASH BASIS -
GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	General	Capital Projects Funds	Special Revenue Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 3,261,416	\$ 2,034,557	\$ 72,958	\$ 5,368,931
TOTAL ASSETS	\$ 3,261,416	\$ 2,034,557	\$ 72,958	\$ 5,368,931
LIABILITIES AND FUND BALANCES				
Other Withholdings	\$ 1,556	\$ -	\$ -	\$ 1,556
TOTAL LIABILITIES	1,556	-	-	1,556
FUND BALANCES				
Restricted	-	-	20,496	20,496
Committed	-	730,055	52,462	782,517
Assigned	-	1,304,502	-	1,304,502
Unassigned	3,259,860	-	-	3,259,860
TOTAL FUND BALANCE	3,259,860	2,034,557	72,958	5,367,375
TOTAL LIABILITIES AND FUND BALANCE	\$ 3,261,416	\$ 2,034,557	\$ 72,958	

Reconciliation to Statement of Net Position - Modified Cash Basis:

Amounts reported for governmental activities in the Statement of Net Position - Modified Cash Basis are different because:

Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds

(1,673,474)

Net position of governmental activities

\$ 3,693,901

The notes to the financial statements are an integral part of these financial statements.

BOROUGH OF HELLERTOWN
STATEMENT OF REVENUES RECEIVED, EXPENDITURES PAID
AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	General Fund	Capital Projects Funds	Special Revenue Funds	Total Governmental Funds
REVENUES RECEIVED				
Taxes	\$ 3,269,702	\$ -	\$ 194,838	\$ 3,464,540
Intergovernmental Revenues	952,874	-	166,660	1,119,534
Charges for Service	190,940	17,000	-	207,940
Fines and Forfeitures	85,314	-	-	85,314
Licenses and Permits	234,340	-	-	234,340
Interest and Rent	14,360	1,815	196	16,371
Miscellaneous Revenue	272,307	-	1,790	274,097
Gain on Sale of Equipment	-	12,452	-	12,452
	<u>5,019,837</u>	<u>31,267</u>	<u>363,484</u>	<u>5,414,588</u>
Total Revenues Received				
EXPENDITURES PAID				
General Government				
Mayor and Council	16,497	-	-	16,497
Managerial	101,995	-	-	101,995
Clerical	137,921	-	-	137,921
Solicitor	24,549	-	-	24,549
General government	426,142	5,841	-	431,983
Public Safety				
Police	1,293,868	86,057	-	1,379,925
Fire	164,777	-	83,508	248,285
Public Works				
Highways and Streets	523,154	63,663	157,408	744,225
Culture and Recreation				
Library	51,814	-	-	51,814
Park and Pool	340,996	7,810	-	348,806
Interest	47,524	-	-	47,524
Contingencies	3,243	-	-	3,243
Employee Benefits/Taxes	933,214	-	-	933,214
	<u>4,065,694</u>	<u>163,371</u>	<u>240,916</u>	<u>4,469,981</u>
Total Expenditures Paid				
EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID				
	954,143	(132,104)	122,568	944,607
OTHER FINANCING SOURCES (USES)				
Transfers In	408,396	315,000	-	723,396
Transfers Out	(623,146)	-	(100,000)	(723,146)
	<u>(214,750)</u>	<u>315,000</u>	<u>(100,000)</u>	<u>250</u>
Total Other Financing Sources (Uses), Net				
EXCESS OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER EXPENDITURES PAID AND OTHER FINANCING USES				
	739,393	182,896	22,568	944,857
Fund Balance - January 1, 2016	<u>846,993</u>	<u>1,851,661</u>	<u>50,390</u>	<u>2,749,044</u>
Fund Balance - December 31, 2016	<u>\$ 1,586,386</u>	<u>\$ 2,034,557</u>	<u>\$ 72,958</u>	<u>\$ 3,693,901</u>

The notes to the financial statements are an integral part of these financial statements.

BOROUGH OF HELLERTOWN
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
ALL FIDUCIARY FUNDS
DECEMBER 31, 2016

	<u>Pension Trust Funds</u>	<u>Agency Funds</u>	<u>Total Fiduciary Funds</u>
ASSETS			
Cash and Cash Equivalents	\$ 115,496	\$ 85,066	\$ 200,562
Investments at Fair Value			
Guaranteed Investment Contracts	386,640	-	386,640
U.S. Government Obligations	670,998	-	670,998
Balanced Funds/Fixed Income	1,011,676	-	1,011,676
International Bonds	130,781	-	130,781
Corporate Bonds	667,695	-	667,695
Mutual Funds	1,780,881	-	1,780,881
Domestic Stocks	1,283,680	-	1,283,680
International Stocks	5,653	-	5,653
Total Investments, at Fair Value	<u>5,938,004</u>	<u>-</u>	<u>5,938,004</u>
Total Assets	<u>\$ 6,053,500</u>	<u>\$ 85,066</u>	<u>\$ 6,138,566</u>
LIABILITIES AND NET POSITION			
Liabilities			
Due to Depositors	<u>\$ -</u>	<u>\$ 84,816</u>	<u>\$ 84,816</u>
Total Liabilities	<u>-</u>	<u>84,816</u>	<u>84,816</u>
Net Position			
Unrestricted	-	250	250
Restricted	<u>6,053,500</u>	<u>-</u>	<u>6,053,500</u>
Total Net Position	<u>6,053,500</u>	<u>250</u>	<u>6,053,750</u>
Total Liabilities and Net Position	<u>\$ 6,053,500</u>	<u>\$ 85,066</u>	<u>\$ 6,138,566</u>

The notes to the financial statements are an integral part of these financial statements.

**BOROUGH OF HELLERTOWN
 COMBINED STATEMENT OF CHANGES IN NET POSITION -
 MODIFIED CASH BASIS - ALL FIDUCIARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Pension Trust Funds</u>	<u>Agency Funds</u>	<u>Total Fiduciary Funds</u>
ADDITIONS			
Contributions			
Employer	\$ 6,497	\$ -	\$ 6,497
Employee	46,334	-	46,334
State Aid	<u>62,045</u>	<u>-</u>	<u>62,045</u>
Total Contributions	114,876	-	114,876
Investment Income			
Interest	26,029	52	26,081
Dividends	107,245	-	107,245
Realized Capital Gains	123,322	-	123,322
Net Appreciation in Fair Market of Investments	<u>92,255</u>	<u>-</u>	<u>92,255</u>
Total Investment Income	348,851	52	348,903
Less: Investment Expenses	<u>(41,497)</u>	<u>-</u>	<u>(41,497)</u>
Net Investment Income	<u>307,354</u>	<u>52</u>	<u>307,406</u>
Total Additions, Net	422,230	52	422,282
DEDUCTIONS			
Benefits	465,317	-	465,317
Administrative Expenses	<u>4,027</u>	<u>-</u>	<u>4,027</u>
Total Deductions	<u>469,344</u>	<u>-</u>	<u>469,344</u>
NET INCREASE (DECREASE) IN NET POSITION	(47,114)	52	(47,062)
NET POSITION JANUARY 1, 2016	<u>6,100,614</u>	<u>198</u>	<u>6,100,812</u>
NET POSITION DECEMBER 31, 2016	<u>\$ 6,053,500</u>	<u>\$ 250</u>	<u>\$ 6,053,750</u>

The notes to the financial statements are an integral part of these financial statements.

**BOROUGH OF HELLERTOWN
STATEMENT OF CASH FLOWS -
MODIFIED CASH BASIS - ALL FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

CASH FLOWS FROM OPERATING ACTIVITIES

Net Decrease in Net Position - Fiduciary Funds	\$ (47,062)
Adjustments to Reconcile Net Decrease in Net Position	
To Net Cash Provided by Operating Activities:	
Realized Gains on Investments	123,322
Unrealized Gains on Investments	92,255
Decrease Due to Depositors	<u>(1,151)</u>
Cash Provided by Operating Activities	167,364

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sale of Investments	6,799,271
Purchase of Investments	<u>(7,032,791)</u>
Cash Used by Investing Activities	<u>(233,520)</u>

Decrease in Cash and Cash Equivalents (66,156)

Cash and Cash Equivalents, January 1, 2016 266,718

Cash and Cash Equivalents, December 31, 2016 \$ 200,562

The notes to the financial statements are an integral part of these financial statements.

**BOROUGH OF HELLERTOWN
STATEMENT OF NET POSITION - MODIFIED CASH BASIS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>PROPRIETARY FUND</u> Enterprise Fund
ASSETS	
Cash and Cash Equivalents	<u>\$ 281,841</u>
Total Assets	<u><u>\$ 281,841</u></u>
 LIABILITIES AND NET POSITION	
Current Liabilities	
Current Portion of Notes Payable	\$ 56,149
Noncurrent Liabilities	
Notes Payable, Net of Current Portion	<u>54,296</u>
Total Liabilities	<u>110,445</u>
 NET POSITION	
Unrestricted	<u>171,396</u>
Total Net Position	<u>171,396</u>
Total Liabilities and Net Position	<u><u>\$ 281,841</u></u>

The notes to the financial statements are an integral part of these financial statements.

**BOROUGH OF HELLERTOWN
STATEMENT OF REVENUES RECEIVED, EXPENDITURES PAID
AND CHANGES IN NET POSITION - MODIFIED CASH BASIS -
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>PROPRIETARY FUND</u> Enterprise Fund
REVENUES RECEIVED	
Refuse Collections	\$ 533,665
Recycling	178,772
Intergovernmental Revenues	15,000
Licenses and Permits	2,309
Interest	290
Total Revenues Received	<u>730,036</u>
EXPENDITURES PAID	
Personnel	314,047
Contracted Services	269,838
Repairs, Maintenance, and Supplies	33,576
General Government	26,535
Miscellaneous	6,391
Interest	3,865
Total Expenditures Paid	<u>654,252</u>
EXCESS OF REVENUES RECEIVED OVER EXPENDITURES PAID	75,784
Other Financing Uses	
Operating Transfers - Net	<u>(250)</u>
EXCESS OF REVENUES RECEIVED OVER EXPENDITURES PAID AND OTHER FINANCING USES	75,534
NET POSITION - JANUARY 1, 2016	<u>95,862</u>
NET POSITION - DECEMBER 31, 2016	<u><u>\$ 171,396</u></u>

The notes to the financial statements are an integral part of these financial statements.

**BOROUGH OF HELLERTOWN
STATEMENT OF CASH FLOWS -
MODIFIED CASH BASIS - PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received from Customers	\$ 712,437
Cash Payment to Suppliers for Goods and Services	(336,340)
Cash Payments to Employees for Services	(314,047)
Other Operating Receipts	<u>17,309</u>
Net Cash Provided by Operating Activities	<u>79,359</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Operating Transfers Out	<u>(250)</u>
Net Cash Used by Non-Capital Financing Activities	<u>(250)</u>
CASH FLOWS FROM CAPITAL ACTIVITIES	
Proceeds from Note Payable	-
Principal Paid on Long-Term Debt	(54,611)
Interest Paid on Long-Term Debt	<u>(3,865)</u>
Net Cash Used by Capital Activities	<u>(58,476)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Received	<u>290</u>
Net Cash Provided by Investing Activities	<u>290</u>
Net Increase in Cash and Cash Equivalents	20,923
Cash and Cash Equivalents, January 1	<u>260,918</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 281,841</u>
Reconciliation of Operating Income to Net Cash Provided for Operating Activities	
Operating Income	\$ 79,359
Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Changes in Assets and Liabilities	<u>-</u>
Total Adjustments	<u>-</u>
Net Cash Provided by Operating Activities	<u>\$ 79,359</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION	
Cash Paid For:	
Interest	\$ 3,865

The notes to the financial statements are an integral part of these financial statements.

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

1. Summary of Significant Accounting Policies

The financial statements of the Borough of Hellertown (the “Borough”) have been prepared in accordance with the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) and is described more fully under Basis of Accounting and Measurement Focus. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting policies are described below to enhance the usefulness of the financial statements to the reader.

The Financial Reporting Entity

The Borough of Hellertown was incorporated in 1872 under the provisions of the constitution and general statutes of the Commonwealth of Pennsylvania (“Commonwealth”). The Borough operates as a council-manager form of government, is located in Northampton County and provides a full range of services, including public safety, roads, sanitation, recreation and general government services, to its approximately 6,000 residents.

Factors considered in determining whether a governmental unit should be included in the Borough’s financial statements include financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

The financial statements of the Borough of Hellertown do not include the financial activities of the Hellertown Borough Authority (the “Authority”), which provides water and sewer services to the residents of Hellertown. The Borough’s financial statements do not include the Authority as a component unit for the following reasons:

- The Hellertown Borough Authority is a separate political entity established under the laws of the Commonwealth of Pennsylvania.
- Although the Borough Council appoints the Hellertown Borough Authority’s Board, it operates autonomously from the Borough government.
- The Borough has no legal or moral responsibility for the debt of the Authority.

Basis of Presentation - Fund Accounting

The accounts of the Borough are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, expenditures and other financing sources and uses. The various funds are summarized by type in the financial statements. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

1. Summary of Significant Accounting Policies (Continued)

Basis of Presentation - Fund Accounting (Continued)

For financial reporting purposes, the Borough's funds have been grouped by fund type and are presented in this report in the following manner:

Governmental Fund Types

Governmental funds are those through which most governmental functions of the Borough are financed. The acquisition, use and balances of the Borough's expendable financial resources and the related liabilities are accounted for through the following governmental funds:

- ***General Fund*** - is used to account for all financial transactions applicable to the general operations of the Borough except for those required to be accounted for in another fund.
- ***Special Revenue Funds*** - are used to account for proceeds of specific revenue sources (other than special assessments, expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The following are special revenue fund types:

Liquid Fuels Tax Fund - is utilized to account for the financial activity of the Borough's motor vehicle fuel tax allocation from the Commonwealth of Pennsylvania.

Fire Protection Fund - is utilized to account for the financial activity of the Borough's fire tax revenue and its related expenditures.

- ***Capital Projects Funds*** - are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The Regular and Special Capital Projects Funds are included in the accompanying financial statements as Capital Projects Funds.
- ***Debt Service Fund*** - is used to account for the accumulation of resources for, and the payment of, principal and interest on general obligation debt supported by the full faith and credit of the Borough. The fund balance contains a deficit, which will decrease as the loan payments are made.

Proprietary Fund Types

Proprietary funds are used to account for the Borough's ongoing activities that are similar to those often found in the private sector. The measurement focus is based upon the determination of net income. The Borough has one type of proprietary fund - the Enterprise Fund - described below.

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

1. Summary of Significant Accounting Policies (Continued)

Basis of Presentation - Fund Accounting (Continued)

Proprietary Fund Types

- ***Enterprise Fund*** - is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income are appropriate for capital maintenance, public policy, management control, accountability or other purposes. The Borough has one Enterprise Fund described below.

Garbage Fund - is used to account for the administration of the collection and disposal of municipal waste and recyclable materials in the Borough and is operated in a manner similar to a private business enterprise and is intended to be self-supporting.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the Borough in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The following are the Borough's fiduciary fund types:

- ***Agency Funds*** - are used to account for funds held in escrow for other parties. The Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operation.

Escrow Funds - are used to account for monies paid by developers and/or land owners which are held in escrow for the purpose of reimbursing the Borough for any and all expenses, fees and charges incurred by the Borough in connection with land development, subdivision and property improvements located in the Borough of Hellertown.

- ***Pension Trust Funds*** - are used to account for pension benefits for employees. The principal revenue sources for these funds are state aid, employer and employee contributions, and investment earnings. The Borough of Hellertown has the following pension trust funds:

Police Pension Fund - is used to account for pension benefits for police officers.

Non-Uniformed Pension Fund - is used to account for pension benefits for non-uniformed employees.

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

1. Summary of Significant Accounting Policies (Continued)

Basis of Accounting and Management Focus

Basis of Accounting

Basis of accounting refers to the timing of recognition of revenues and expenditures or expenses in the financial statements regardless of the measurement focus. The modified cash basis of accounting is followed for all governmental, proprietary and fiduciary funds of the Borough. The modified cash basis differs from GAAP in that certain revenues and the related assets are recognized when received rather than when earned and certain expenditures or expenses are recognized when paid rather than when a liability is incurred. Modifications to the cash basis of accounting include the recording of payroll withholdings when withheld from employees' pay and the recording of investments held (in the Pension Trust Funds) as assets. In addition, net unrealized gains and losses on investments are recorded as a result of changes in the fair value of investments, not when the investments are sold. The Statement of Revenues Received, Expenditures Paid and Changes in Fund Balance - Modified Cash Basis - Governmental Funds presents the results of the Borough's activities; it does not purport to present the net income or loss for the period.

Measurement Focus

The accounting and reporting treatment applied to a fund is determined by its measurement focus. Governmental fund types are accounted for on a spending or "financial flow" measurement focus. This means the Borough has elected to report on a modified cash basis while reporting long-term indebtedness in the Debt Service Fund. Governmental fund-type operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Proprietary funds and similar discretely presented component units are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with this activity are included on their statements of assets, liabilities, and net position. The reported fund equity is segregated into contributed capital and net position. Proprietary fund-type operating statements present increases (revenues) and decreases (expenses) in equity.

The Pension Trust Fund uses "income determination" as its measurement focus. Plan member contributions and employer contributions (including the portion, if any, funded by State Aid) are recognized in the period in which contributions are paid. Benefits and refunds are recognized when paid in accordance with the terms of each plan.

Budgetary Process

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

- Prior to October 1, 2015, the Borough Manager meets with all Department Heads.
- Department Heads submit a proposed operating budget for the fiscal year commencing the following January 1, 2016.
- The Operating budget includes the proposed expenditures

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

1. Summary of Significant Accounting Policies (Continued)

Budgetary Process (Continued)

- The Borough Manager and Finance Manager meet to determine proposed revenue for the fiscal year commencing January 1, 2016.
- Capital budgets are updated at this time.
- The proposed budget is compiled and submitted to Borough Council for review and discussion. A number of public meetings are scheduled to obtain taxpayer comment.
- Prior to December 31, 2015 the 2016 budget is legally enacted through a majority vote of Borough Council. An ordinance establishing the tax rate for the year is simultaneously voted on.

Cash and Cash Equivalents

The Borough's cash and cash equivalents are comprised of cash on hand, demand deposits with financial institutions, and short-term investments with original maturities of three months or less as of the date of acquisition. See Note 3 for additional disclosures.

Restricted Assets

Restricted assets are comprised of cash held in escrow for property improvements, subdivision and land development.

Encumbrances

Net position of the Governmental Fund Types may be reserved for encumbrances. Encumbrances, which represent commitments for goods and services not yet received, are reported as a reservation of net position and are not otherwise available for appropriation. All encumbrances lapsed at the end of the year. Accordingly, there was no net position reserved for encumbrances as of December 31, 2016.

Government – Wide Fiduciary and Proprietary Fund Net Position

Net Position is divided into two components:

1. Restricted – consist of assets that are restricted by the Borough's creditors (for example, through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.
2. Unrestricted – all other net position is reported in this category.

Governmental Fund Balances

In the Governmental Fund financial statements, fund balances are classified as follows:

1. Restricted – amounts that can only be spent for specific purposes because of constitutional provisions, legislation, or constraints that are externally imposed.

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

1. Summary of Significant Accounting Policies (Continued)

Governmental Fund Balances (Continued)

2. Committed - amounts that can only be used for specific purposes determined by formal action of the Council.
3. Assigned – amounts that are designated for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval by Borough Council.
4. Unassigned - all amounts not included in other spendable classifications

As of the date of these financial statements, the Borough had restricted, committed, and assigned fund balances. The restricted fund balances consisted of the Pension Trust Funds for \$6,053,500 (Police and Non-uniformed), which was comprised of amounts reserved for the payment of employee pension benefits and the Liquid Fuels Special Revenue Fund for \$20,496. The committed fund balances consisted of Fire Protection Special Revenue Fund for \$52,462 and Fire Capital Projects Fund for \$730,055, which are reserved for fire protection. The assigned fund balances consists of General Capital Projects Fund for \$1,304,502, which is reserved for future capital expenditures.

Inter-fund Transactions

Certain inter-fund transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures or expenses initially made from it that are properly applicable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of expenditures or expenses in the fund that is reimbursed.

Other inter-fund transactions are reported as transfers. Non-recurring or non-routine permanent transfers of net position are reported as residual transfers of net position. All other inter-fund transfers are reported as operating transfers

Management Estimates

The preparation of financial statements prepared with the modified cash basis of accounting required management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.

2. Non-GAAP Budgetary Basis of Accounting

The Borough's budget is prepared on the modified cash basis of accounting and includes appropriations to cover anticipated current encumbrances. The Borough Council approves budgets, which contain estimated revenues adequate to fully fund appropriations. Appropriations not reserved for encumbrances lapse at year end. Formal budgetary integration is employed as a management control device during the year for the General Fund, all Special Revenue Funds, the Debt Service Fund and for all Capital Projects Funds.

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

2. Non-GAAP Budgetary Basis of Accounting (Continued)

The Statements of Revenues Received, Expenditures Paid and Changes in Fund Balance - Modified Cash Basis - Budget and Actual present comparisons of legally adopted budgets with actual data. The budget has been prepared on the modified cash basis, which is the same basis of accounting used to prepare the financial statements as described more fully in Note 1. The Borough Council approves by a motion the total appropriations in the budget. Fund Balance and any revisions to the budget also require approval by Borough Council. There were no amendments to the budget as presented in the current year.

3. Cash and Cash Equivalents

General

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U.S. Treasury bills, other short-term U.S. and Commonwealth of Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of governmental funds for investment purposes.

The deposit and investment policy of the Borough adheres to the statutes of the Commonwealth. Deposits of the Borough, except for Pension Trust Fund deposits which are administered by trustees, are either maintained in demand deposits or are held in bank money market accounts. There were no deposit or investment transactions during the year that were in violation of either the Commonwealth's statutes or the policy of the Borough.

Cash (Cash on Hand and Bank Balances)

At December 31, 2016, the carrying amount of the borough's bank deposits (excluding those held in the Pension Trust Funds, but including Agency Funds) totaled \$5,736,085 and the corresponding bank balances were \$6,162,986, of which \$250,000 was insured by the Federal Deposit Insurance Corporation ("FDIC"); the uninsured bank balance of \$5,912,986 were collateralized, as described below.

Under Act No. 72 of the 1972 Session of the Pennsylvania General Assembly (the "Act of 72"), financial institutions were granted the authority to secure the deposits of the public bodies by pledging a pool of assets, as defined in the Act of 72, to cover all public funds deposited in excess of the FDIC limits. The uninsured bank balances (as defined by Statement No. 3 of the GASB) of the Borough in the amount of \$5,912,986, were collateralized by this pool of assets maintained by the Borough's depository institutions.

In addition, the Borough included in cash, amounts held on hand in petty cash. At December 31, 2016, the petty cash balance was \$1,084.

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

4. Investments

Under Section 1316 of the Pennsylvania Borough Code, the Borough is authorized to invest in United States Treasury Bills, short-term obligations of the U.S. Government or its agencies or instrumentalities, obligations of the U.S. Government or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth of Pennsylvania or of any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision, shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, provided that the only investments of that company are in the authorized investments for Borough funds listed above and certificates of deposit purchased from institutions insured by the Federal Deposit Insurance Corporation or similar agencies to the extent that such accounts are so insured. Investments of pension trust funds are placed pursuant to guidelines established by the respective pension boards.

As of December 31, 2016, the Borough had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
<u>Pension Trust Funds</u>		
Guaranteed Investment Contracts		\$ 386,640
U.S. Government Obligations	2017 - 2021	670,998
Balanced Funds/Fixed Income		1,011,676
International Bonds	2019 - 2021	130,781
Corporate Bonds	2018 - 2026	667,695
Mutual Funds		1,780,881
Domestic Stocks		1,283,680
International Stocks		<u>5,653</u>
Total Pension Trust Funds		<u>\$ 5,938,004</u>

Fair Value Measurement

The Borough reports all investments at fair value. Fair value is the closing price reported on the active market in which the individual securities are traded.

Interest Rate Risk

The Borough has no 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.

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

4. Investments (Continued)

Concentration of Credit Risk

The Borough places limits on the amount the Borough may invest in any one issuer. Currently the Borough does not have any investments not included in the Pension Trust Funds.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in 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 any outside party. The Borough has no investments subject to custodial credit risk.

5. Notes Payable

The Borough of Hellertown issues notes payable to finance various capital improvements throughout the Borough, which are reported in the Debt Service Fund. The Borough refinanced its General Obligation Notes Series I, 2003, and borrowed an additional \$1,515,243 (drawn down on November 16, 2012), bringing the total outstanding balance on the new note (General Obligation Note Series I, 2012) to \$2,000,000 as of November 1, 2012.

The \$100,000 proceeds from the General Obligation Note II were invested in the purchase of equipment, the expenditure of which was reported on the statement of Revenues Received, Expenditures Paid and Changes in Net Position – Modified Cash Basis – Proprietary Fund under the “Repairs, Maintenance, and Supplies” category of Expenditures Paid.

The \$140,000 proceeds from the General Obligation Note III were invested in the purchase of equipment, the expenditure of which was reported on the statement of Revenues Received, Expenditures Paid and Changes in Net Position – Modified Cash Basis – Proprietary Fund under the “Repairs, Maintenance, and Supplies” category of Expenditures Paid.

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

5. Notes Payable (Continued)

A description of the terms of each of the Borough's long-term debt obligations ("Notes") and the balance of each outstanding at December 31, 2016 is presented below.

Notes Payable: <u>General Obligation Notes</u>	Balance Outstanding January 1, 2016	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding December 31, 2016
General Obligation Note I 2012, fixed annual interest rate of 2.72% for 10 years, thereafter a floating rate of 65% of Prime Rate, due November 1, 2032 with monthly principal and interest installments of \$10,853.	1,756,174	-	82,700	1,673,474
General Obligation Note II 2012, fixed annual interest rate of 2.95%, due November 28, 2017 with monthly principal and interest installments of \$1,796	41,749	-	20,585	21,164
General Obligation Note III 2015, fixed annual interest rate of 2.64%, due June 1, 2019 with monthly principal and interest installments of \$3,077	<u>123,307</u>	<u>-</u>	<u>34,026</u>	<u>89,281</u>
Total Notes Payable	<u>\$ 1,921,230</u>	<u>\$ -</u>	<u>\$ 137,311</u>	<u>\$ 1,783,919</u>

The annual debt service requirements to maturity for notes payable as of December 31, 2016 are as follows:

During the year(s) ended December 31:	<u>Principal</u>	<u>Interest</u>
2017	141,226	47,374
2018	123,373	43,771
2019	108,273	40,471
2020	92,299	37,927
2021	94,984	35,241
2022 - 2026	516,145	134,981
2027 - 2031	592,396	58,730
2032	<u>115,223</u>	<u>1,635</u>
Totals	<u>\$ 1,783,919</u>	<u>\$ 400,130</u>

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

6. Real Estate Taxes

Based upon assessed valuations provided by Northampton County approximating \$130,201,700 in 2016, the Borough bills and collects its own real estate taxes. The schedule for real estate taxes levied for 2016 is as follows:

February 1, 2016	- levy date
February 1, 2016 - April 4, 2016	- 2% discount period
April 5, 2016 - June 5, 2016	- face payment period
June 6, 2016 – March 3, 2017	- 10% penalty period
March 6, 2017	- lien date

The Borough continues to collect delinquent real estate taxes up to the first Monday in March of the following year. At that time, all unpaid real estate taxes are turned over to the County of Northampton Tax Claim Bureau for further collection. The 2016 municipal tax rate for all purposes was 20.25 mils (\$20.25 per \$1,000 of assessed valuation) of which 1.5 mils is allocated for fire protection and the remaining 18.75 mils is allocated for general purposes. The 2017 municipal tax rate is 20.25 mils of which 1.5 mils is allocated for fire protection and the remaining 18.75 mils is allocated for general purposes.

7. Commitments and Contingencies

Compensated Absences

The Borough of Hellertown has not accrued compensated absences because the Borough has elected to report its financial activities on the modified cash basis of accounting. However, all full-time employees of the Borough are entitled to paid vacation and sick days, depending on their length of service and whether the employee is a uniformed or non-uniformed employee.

Vacation days for all employees begin to accrue one year after the initial date of hire and may not be carried from year to year. Vacation allowances accrue as follows:

<u>Length of Service</u>	<u>Vacation Allowance</u>	
	<u>Uniformed</u>	<u>Non-uniformed</u>
0 days - but less than 1 year	0 days	0 days
1 year - but less than 5 years	8 days	10 days
5 years - but less than 15 years	12 days	15 days
15 years - but less than 20 years	16 days	20 days
20 years and over	20 days	25 days

Sick leave is calculated separately for uniformed and non-uniformed employees. Each uniformed employee is entitled to seven sick days per year. Sick leave “catastrophic days” can be saved from one year to the next, to a maximum of 124 days. Any sick days accumulated in excess of 124 days are lost. Uniformed employees are also entitled to 7 non-accruable “sniffle” days per year, a maximum of six unused at year end are compensated for at the then-current base pay rate.

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

7. Commitments and Contingencies (Continued)

Compensated Absences (Continued)

Non-uniformed employees are entitled to twelve non-accruable “sniffle” days per year. Any of these days that are remaining at the beginning of the subsequent year are compensated for at the rate of 50% of the then-current base pay. In addition, each non-uniformed employee is entitled to receive ten catastrophic sick days, accruable to 120 days. Any catastrophic sick days accumulated in excess of 120 days are lost.

Insurance

The Borough is exposed to various risks of loss, including workers’ compensation; property, casualty and public official liability; employee benefit administration; employment practice liability; and general liability claims. During the past four calendar years, there have not been any settlements that exceeded insurance coverage. The Borough is contingently liable to the extent any potential future judgment exceeds available insurance coverage. Approximate coverage amounts for significant risk categories are set forth below.

	2016
Building and Contents	\$ 12,587,221
Boiler and Equipment	\$ 616,867
Crime and Dishonesty (Per Employee)	\$ 100,000
Comprehensive General Liability	
- Each Occurrence	\$ 1,000,000
- Aggregate Limit	\$ 2,000,000
Employee Benefits Liability	
- Each Claim	\$ 1,000,000
- Aggregated Limit	\$ 2,000,000
Commercial Auto	\$ 1,000,000
Workers' Compensation	
- Per Accident	\$ 1,000,000
- Per Disease	\$ 1,000,000
- Disease Aggregate	\$ 1,000,000
Excess Liability (Umbrella) Each Occurrence	\$ 7,000,000
Excess Liability (Umbrella) Aggregate Limit	\$ 7,000,000
Cyber Liability	
- Each Occurrence	\$ 1,000,000
- Aggregate Limit	\$ 1,000,000

Federal and State Grants

The Borough receives Federal and State Grants for specific purposes that are subject to review and audit by Federal and State agencies. Such audits could result in a request for reimbursement by the Federal and State agencies for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of the Borough’s management, such disallowances, if any, will not be significant to the Borough’s basic purpose financial statements.

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

8. Pension Plans

The Borough of Hellertown administers two pension plans - the Hellertown Borough Police Pension Plan, a defined benefit plan, and the Hellertown Borough Non-Uniformed Employees' Pension Plan, a defined contribution plan. Separate trustees and investment accounts have been established for each plan. Each plan's assets may be used only for the payment of benefits to the members of that plan, in accordance with the terms of each plan. Additional administrative costs are funded from investment earnings.

Police Pension Plan

Plan Description

The Borough of Hellertown Police Pension Plan is a single-employer defined benefit pension plan controlled by the provisions of Ordinance 784 adopted pursuant to Act 600. The plan is governed by the Borough of Hellertown which may amend plan provisions, and which is responsible for the management of plan assets. The Borough of Hellertown has delegated the authority to manage certain plan assets to Fulton Financial Advisors.

The Borough of Hellertown filed actuarial valuation report Form 201C with the Public Employee Retirement Commission. The report dated January 1, 2015, was the most recently certified by the municipality's chief administrative officer. This report indicated the municipality maintains a pension plan to provide pension or retirement benefits for Uniform employees. The Borough's uniformed pension plan covers all existing and future full-time or regular members of the police force of the Borough who work for a stated salary or compensation. The committee consists of: (1) the Vice-president of Council; (2) one active policeman; (3) one retired policeman receiving pension benefits; and (4) two electors of the Borough (neither members of the police force nor individuals receiving pension benefits).

Benefits Provided

Borough of Hellertown provides normal retirement, early retirement, and disability benefits to plan members and their beneficiaries. Normal retirement benefits are calculated on 50% of members average monthly compensation during the last 36 months of employment with the Borough when the member obtains the age of 50 and completes 25 years of credited service. In addition, a member shall receive a service increment of \$100 per month for each full year of service in excess of 25 years. The maximum monthly benefit for a service increment shall be \$500 per month. Early retirement benefits are determined based on an actuarial equivalent of the accrued retirement benefit, the member must have completed 20 years of service. Disability retirement benefits are equal to 75% of the salary of the member.

At January 1, 2016, the following employees were covered by the benefit terms:

Participants:	
Retirees and Beneficiaries	11
Active Employees	10
Terminated Employees	0

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

8. Pension Plans (Continued)

Police Pension Plan (Continued)

Contributions

Act 205 requires that annual contributions to the plan be based upon the plan's Minimum Municipal Obligation (MMO), which is based on the plan's biennial actuarial valuation. In accordance with the plan's governing document, employees are required to contribute 2% of compensation to the plan. The plan may also be eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program which must be used for pension funding. Any funding requirements established by the MMO in excess of employee contributions and state aid must be paid by the municipality in accordance with Act 205.

Investment expenses, including investment manager and custodial services, are funded through investment earnings. Administrative expenses, including actuarial and consultant services, are funded through investment earnings and/or contributions.

Per the January 1, 2014 Agreement each officer shall contribute the following percent of their salary: 1% for the 2014 Plan year, 1.5% for the 2015 Plan year, and 2% for the 2016 Plan year.

Net Pension Asset

The Borough's net pension asset was measured as of December 31, 2016, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of the date. The total pension asset in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Salary Increases - 5% Compounded annually
Investment Return - 7% per annum, net of investment expenses

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2016 to December 31, 2016. In addition mortality rates were based on the Blue Collar RP-2000 Mortality Table Projected to 2015 using Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation of 2.25%) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target allocation percentage any by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2016 are summarized in the following table:

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

8. Pension Plans (Continued)

Police Pension Plan (Continued)

Net Pension Asset (Continued)

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity		International Equity	7.34%
Large Cap	6.58%	Fixed Income	3.09%
Mid Cap	7.39%	Emerging Markets	10.93%
Small Cap	7.39%	Cash	0.75%

Discount Rate

The discount rate used to measure the total pension asset was 7%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that municipal contributions will be at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Fund's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

Changes in Net Position Asset

The following table shows the changes in net pension asset recognized over the measurement period:

	Increase/(Decrease)		
	Total Pension Asset (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a)-(b)
Balance at December 31, 2015	\$ 4,774,218	\$ 5,333,427	\$ (559,209)
Changes for the year:			
Service Cost	181,536	-	181,536
Interest	335,925	-	335,925
Changes in Benefit Terms	-	-	-
Differences Between Expected and Actual Experience	-	-	-
Changes in Assumptions	-	-	-
Contributions - Employer	-	-	-
Contributions - State Aid	-	46,457	(46,457)
Contributions - Member	-	18,118	(18,118)
Net Investment Income	-	274,803	(274,803)
Benefit Payments	(313,642)	(313,642)	-
Administrative Expense	-	(7,854)	7,854
Other Changes	-	-	-
Balance at December 31, 2016	\$ 4,978,037	\$ 5,351,309	\$ (373,272)

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

8. Pension Plans (Continued)

Police Pension Plan (Continued)

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

The following is a sensitivity analysis of the net pension asset to changes in the discount rate. The table below presents the net pension asset calculated using the discount rate of 7% as well as what the net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower (6%) or 1 percentage point higher (8%) than the current rate:

	<u>1% Decrease</u> 6.00%	<u>Current</u> Discount Rate 7.00%	<u>1% Increase</u> 8.00%
Net Pension (Asset) Liability	\$ 276,245	\$ (373,272)	\$ (915,683)

Plan Fiduciary Net Position

Detailed information about the Plan's fiduciary net position is available in the separately issued Borough of Hellertown's Retirement Plan financial report.

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

For the year ended December 31, 2016, the Borough recognized pension expense of \$242,311. At December 31, 2016, the Borough reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred</u> <u>Outflows of</u> <u>Resources</u>	<u>Deferred</u> <u>Inflows of</u> <u>Resources</u>
Differences Between Expected and Actual Experience	\$ -	\$ -
Changes in Assumptions	-	-
Net Difference Between Projected and Actual Earnings on Pension plan Investments	<u>313,695</u>	<u>-</u>
Total	<u>\$ 313,695</u>	<u>\$ -</u>

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

8. Pension Plans (Continued)

Police Pension Plan (Continued)

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended December 31,		
2017	\$	98,649
2018		98,649
2019		98,649
2020		17,748

Financial information of the Police Pension Plan is presented on the modified cash basis of accounting. Plan member contributions are employer contributions (including the portion, if any, funded by State Aid) are recognized in the period in which the contributions are received rather than when they are due. Benefits and refunds are recognized when paid rather than when the liability is incurred.

Non-Uniformed Employees' Pension Plan

The Borough of Hellertown established a pension plan effective January 1, 1992, entitled Hellertown Borough Non-Uniformed Employees' Pension Plan (the "NUEPP"). The NUEPP covers all existing and future full-time non-uniformed salaried and management employees of the Borough. This single-employer defined contribution plan is administered by the International City Management Association Retirement Corporation in the form of a Money Purchase Plan and Trust. The NUEPP provides for normal retirement benefits at age 65 under authority of Act 205.

The contribution requirements established by the Money Purchase Plan and Trust Agreement adopted by the Borough are as follows:

- The Borough shall contribute \$1,400 on behalf of each participant for each plan year.
- Each participant is required to contribute to the NUEPP as a condition of participation; however, the Borough has elected to "pick up" the mandatory participant contributions in accordance with Internal Revenue Service Code Section 414(h)(2).
- Each participant may make voluntary, after-tax contributions.

The NUEPP is eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program, which must be used for pension funding. The Borough, in accordance with Act 205, must contribute any funding requirements that exceed state aid. During the year ended December 31, 2016, employee contributions amounted to \$28,951 and employer funding requirements for 2016, amounted to \$21,350, of which \$21,350 was funded from State Aid.

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

8. Pension Plans (Continued)

Non-Uniformed Employees' Pension Plan (Continued)

Employee contributions vest immediately. Employer contributions vest in accordance with the following schedule:

Years of Service	Percent Vested
1	0%
2	0%
3	20%
4	40%
5	60%
6	80%
7	100%

9. Postemployment Benefits Other Than Pensions

Plan Description: The Borough of Hellertown administers a single-employer defined benefit healthcare plan. All full-time uniformed and non-uniformed employees, employees who retire from the Borough are eligible to receive these benefits. The benefit provisions and obligations to contribute are established in accordance with separate employee contracts. In accordance with the employee contracts, the Borough's obligation for payment of health insurance coverage premiums is limited to \$200 per month for non-uniformed employees before January 1, 2001, \$250 per month for non-uniformed employees retiring between January 1, 2001 and December 31, 2010, and \$350 per month for non-uniformed employees retiring after January 1, 2011. All non-uniformed benefit payments will cease being offered to retirees, with the exception of the At Will employees, after December 31, 2022. \$250 per month for uniformed employees retiring between January 1, 2002 and December 31, 2004, \$350 per month for uniformed employees retiring in 2005, \$450 per month for uniformed employees retiring in 2006, \$550 per month for uniformed employees retiring in 2007, \$660 per month for uniformed employees retiring in 2010 and the contract is silent for employees retiring since 2010. The above uniformed retiree payments shall cease upon the retiree reaching eligible Medicare age. The retirees are obligated to absorb any and all monthly premium costs in excess of Borough contributions. Currently, the Borough pays the monthly health insurance premiums for each participant and is reimbursed by each retiree for an amount whereby the Borough's contribution does not exceed those listed above. As of December 31, 2016, sixteen retirees are eligible and receiving these benefits. The health care benefits cover retired employees only; however, the retirees have the option to continue coverage for their spouses at their own expense. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy: The Borough contributes to the cost of current-year premiums for eligible retired plan members as described above. For the year ended December 31, 2016, the Borough paid \$60,690 toward retiree health care premiums. Plan members receiving benefits contribute the remaining amount of their premium costs above the amount paid by the Borough as described above. In the year ended December 31, 2016, total member contributions were \$37,111.

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

9. Postemployment Benefits Other Than Pensions (Continued)

Annual OPEB Cost and Net OPEB Obligation: The Borough's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The borough has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the town's net OPEB obligation to the Retiree Health Plan:

Annual required contribution	\$ 62,339
Interest on net OPEB obligation	3,005
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	65,349
Contributions made	<u>(60,690)</u>
Increase in net OPEB obligation	4,659
Net OPEB obligation—beginning of year	<u>175,820</u>
 Net OPEB obligation—end of year	 <u>\$ 180,479</u>

The Borough's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014, 2015 and 2016 are as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/14	\$ 73,167	62.54%	\$ 158,024
12/31/15	\$ 65,896	72.99%	\$ 175,820
12/31/16	\$ 65,349	92.87%	\$ 180,479

Funded Status and Funding Progress: As of December 31, 2016, the actuarial accrued liability for benefits was \$839,140, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,420,109, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 59.09% percent.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

9. Postemployment Benefits Other Than Pensions (Continued)

Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Retirement age for active employees—Active plan members were assumed to retire at their full normal retirement age according to Social Security Administration.

Mortality—Life expectancies were based on mortality tables from the National Center for Health Statistics. The 2015 United States Life Tables for Males and for Females were used.

Turnover—Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Health insurance premiums—the monthly benefit as described above was used as the basis for calculation of the present value of total benefits to be paid.

Based on the historical and expected returns of the Borough's short-term investment portfolio, a discount rate of 5.5 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2016, was forty-eight years.

10. Operating Lease

The Borough leases certain equipment under a long-term lease agreement, expiring December 2020. Rent expense under the leases was \$4,154 in 2016. Future minimum lease payments are as follows:

Year ending December 31,			
	2017	\$	4,659
	2018		4,131
	2019		4,131
	2020		<u>3,442</u>
Total Minimum Lease Payments		<u>\$</u>	<u>16,363</u>

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

11. Subsequent Events

In preparing these financial statements, the Borough has evaluated events and transactions for potential recognition or disclosure through September 28, 2017, the date the financial statements were available to be issued, and has determined that no material subsequent events exist that require disclosure.

SUPPLEMENTARY INFORMATION

BOROUGH OF HELLERTOWN
STATEMENT OF REVENUES RECEIVED, EXPENDITURES PAID
AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Actual	Budget	Variance Favorable (Unfavorable)
REVENUES RECEIVED			
Taxes	\$ 3,269,702	\$ 3,218,291	\$ 51,411
Licenses and Permits	234,340	209,418	24,922
Fines and Forfeitures	85,314	52,500	32,814
Interest and Rent	12,842	1,500	11,342
Intergovernmental Revenue	667,624	94,315	573,309
Charges for Services	190,940	154,946	35,994
Miscellaneous Revenue	237,122	286,214	(49,092)
Total Revenues Received	4,697,884	4,017,184	680,700
EXPENDITURES PAID			
General Government	689,818	575,078	(114,740)
Public Safety	1,293,868	1,251,721	(42,147)
Public Works - Highways and Streets	517,620	707,081	189,461
Culture and Recreation	388,129	400,610	12,481
Employee Benefits/Taxes	933,214	1,191,651	258,437
Interest	-	-	-
Contingencies	3,243	15,000	11,757
Total Expenditures Paid	3,825,892	4,141,141	315,249
EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID	871,992	(123,957)	995,949
Other Financing Uses			
Operating Transfers - Net	(164,037)	(130,225)	(33,812)
EXCESS (DEFICIT) OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES	707,955	(254,182)	962,137
FUND BALANCE - JANUARY 1, 2016	1,022,163	1,022,163	-
FUND BALANCE - DECEMBER 31, 2016	\$ 1,730,118	(1) \$ 767,981	\$ 962,137

(1) Schedule includes General Fund activity only, all other general operation funds are excluded.

See independent auditor's report on supplementary information.

**BOROUGH OF HELLERTOWN
STATEMENT OF REVENUES RECEIVED, EXPENDITURES PAID
AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
BUDGET AND ACTUAL - ALL CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Actual	Budget	Variance Favorable (Unfavorable)
REVENUES RECEIVED			
Interest	\$ 1,815	\$ -	\$ 1,815
Charges for Service	17,000	-	17,000
Gain on Sale of Equipment	12,452	-	12,452
Total Revenues Received	<u>31,267</u>	<u>-</u>	<u>31,267</u>
EXPENDITURES PAID			
General Government	5,841	-	(5,841)
Public Safety	86,057	-	(86,057)
Public Works	63,663	-	(63,663)
Culture and Recreation	7,810	-	(7,810)
Total Expenditures Paid	<u>163,371</u>	<u>-</u>	<u>(163,371)</u>
DEFICIT OF REVENUES RECEIVED UNDER EXPENDITURES PAID	(132,104)	-	(132,104)
Other Financing Uses Operating Transfers - Net	<u>315,000</u>	<u>-</u>	<u>315,000</u>
EXCESS OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER EXPENDITURES PAID AND OTHER FINANCING USES	182,896	-	182,896
FUND BALANCE - JANUARY 1, 2016	<u>1,851,661</u>	<u>1,851,661</u>	<u>-</u>
FUND BALANCE - DECEMBER 31, 2016	<u>\$ 2,034,557</u>	<u>\$ 1,851,661</u>	<u>\$ 182,896</u>

See independent auditor's report on supplementary information.

**BOROUGH OF HELLERTOWN
STATEMENT OF REVENUES RECEIVED, EXPENDITURES PAID
AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
BUDGET AND ACTUAL - ALL SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Actual	Budget	Variance Favorable (Unfavorable)
REVENUES RECEIVED			
Taxes	\$ 194,838	\$ 199,600	\$ (4,762)
Interest	196	300	(104)
Intergovernmental Revenue	166,660	162,362	4,298
Miscellaneous Revenues	1,790	-	1,790
Total Revenues Received	<u>363,484</u>	<u>362,262</u>	<u>1,222</u>
EXPENDITURES PAID			
Public Works - Highways and Streets	157,408	162,000	4,592
Public Safety - Fire	83,508	101,554	18,046
Total Expenditures Paid	<u>240,916</u>	<u>263,554</u>	<u>22,638</u>
EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID			
	122,568	98,708	23,860
Other Financing (Uses)			
Operating Transfers - Net	<u>(100,000)</u>	<u>(100,000)</u>	<u>-</u>
EXCESS OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES			
	22,568	(1,292)	23,860
FUND BALANCE - JANUARY 1, 2016			
	<u>50,390</u>	<u>50,390</u>	<u>-</u>
FUND BALANCE - DECEMBER 31, 2016			
	<u>\$ 72,958</u>	<u>\$ 49,098</u>	<u>\$ 23,860</u>

See independent auditor's report on supplementary information.

**BOROUGH OF HELLERTOWN
STATEMENT OF REVENUES RECEIVED, EXPENDITURES PAID
AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
BUDGET AND ACTUAL - DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Actual	Budget	Variance Favorable (Unfavorable)
REVENUES RECEIVED			
Interest	\$ 421	\$ -	\$ 421
Total Revenues Received	<u>421</u>	<u>-</u>	<u>421</u>
EXPENDITURES PAID			
Highways and Streets	5,534	-	(5,534)
Park and Pool	2,906	-	(2,906)
Interest	47,524	-	(47,524)
Total Expenditures Paid	<u>55,964</u>	<u>-</u>	<u>(55,964)</u>
EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID	(55,543)	-	(55,543)
Other Financing Sources (Uses)			
Operating Transfers - Net	<u>130,224</u>	<u>-</u>	<u>130,224</u>
EXCESS (DEFICIT) OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES	74,681	-	74,681
FUND BALANCE - JANUARY 1, 2016	<u>(1,311,771)</u>	<u>(1,311,771)</u>	<u>-</u>
FUND BALANCE - DECEMBER 31, 2016	<u><u>\$ (1,237,090)</u></u>	<u><u>\$ (1,311,771)</u></u>	<u><u>\$ 74,681</u></u>

See independent auditor's report on supplementary information.

**BOROUGH OF HELLERTOWN
SCHEDULE OF BOROUGH CONTRIBUTIONS -
POLICE PENSION PLAN
FOR THE LAST TEN YEARS ENDED**

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Actuarially Determined Contribution	\$ 50,846	\$ 48,460	\$ 46,457
Contributions in Relation to the Actuarially Determined Contribution	<u>50,846</u>	<u>48,460</u>	<u>46,457</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Employee Payroll	\$ 910,959	\$ 951,342	\$ 892,383
Contributions as a Percentage of Covered Employee Payroll	5.6%	5.1%	5.2%

Ultimately, this schedule should present information for the last ten years. However, until the years of information can be compiled, information is presented for as many years as is available.

See independent auditor's report on supplementary information.

The accompanying notes to supplementary schedules are an integral part of these schedules.

**BOROUGH OF HELLERTOWN
SCHEDULE OF CHANGES IN NET PENSION
ASSET AND RELATED RATIOS -
POLICE PENSION PLAN
FOR THE LAST TEN YEARS ENDED**

	<u>2015</u>	<u>2016</u>
Total Pension Asset		
Service Cost	\$ 172,891	\$ 181,536
Interest	321,886	335,925
Changes of Benefit Terms	-	-
Differences Between Expected and Actual Experience	-	-
Changes of Assumptions	-	-
Benefit Payments, Including Refunds of Member Contributions	<u>(292,085)</u>	<u>(313,642)</u>
Net Change in Total Pension Asset	202,692	203,819
Total Pension Asset - Beginning	<u>4,571,526</u>	<u>4,774,218</u>
Total Pension Asset - Ending	<u><u>\$ 4,774,218</u></u>	<u><u>\$ 4,978,037</u></u>
Plan Fiduciary Net Pension		
Contributions - Employer	\$ -	\$ -
Contributions - State Aid	48,460	46,457
Contributions - Member	12,642	18,118
Net Investment Income	(22,095)	274,803
Benefit Payments, Including Refunds of Member Contributions	(292,085)	(313,642)
Administrative Expense	<u>(8,476)</u>	<u>(7,854)</u>
Net Change in Plan Fiduciary Net Position	(261,554)	17,882
Plan Net Position - Beginning	<u>5,594,981</u>	<u>5,333,427</u>
Plan Net Position - Ending	<u><u>\$ 5,333,427</u></u>	<u><u>\$ 5,351,309</u></u>
Municipality's Net Pension Asset	(559,209)	(373,272)
Plan Fiduciary Net Position as a Percentage of the Total Pension Asset	111.7%	107.5%
Covered Employee Payroll	\$ 951,342	\$ 892,383
Municipality's Net Pension Asset as a Percentage	(58.8%)	(41.8%)

Ultimately, this schedule should present information for the last ten years. However, until the years of information can be compiled, information is presented for as many years as is available.

See independent auditor's report on supplementary information.

The accompanying notes to supplementary schedules are an integral part of these schedules.

**BOROUGH OF HELLERTOWN
NOTES TO SUPPLEMENTARY SCHEDULES-
POLICE PENSION PLAN
DECEMBER 31, 2016**

Actuarial Methods

1. Liabilities - All plan benefits are valued using the entry age normal cost valuation method.

Actuarial Assumptions

1. Economic Assumptions

- a) Investment Return - 7% per annum, net investment expenses
- b) Salary Increases - 5% compounded annually

2. Economic Assumptions

- a) Mortality
Pre-Retirement - None
Post-Retirement - The Blue Collar RP-2000 Mortality Table Projected to 2015 using Scale AA
- b) Termination - None assumed
- c) Disability - None assumed
- d) Retirement Age - normal retirement age, or age on valuation date if greater
- e) Marital Status - 80% of active members are assumed to be married. Female spouse is assumed to be 3 years younger than male spouse
- f) Form of Annuity - 50% Joint and Survivor

See independent auditor's report on supplementary information.

**BOROUGH OF HELLERTOWN
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
FOR THE YEAR ENDED DECEMBER 31, 2016**

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL- (UAAL)	(4) Funded Ratio	(5) Covered Payroll	(6) Excess as a % of Covered Payroll
	(a)	(b)	(b-a)	(a)/(b)	(c)	[(b-a)/(c)]
12/31/2014	\$ -	\$ 850,885	\$ 850,885	0.00%	\$ 1,832,899	46.42%
12/31/2015	\$ -	\$ 837,812	\$ 837,812	0.00%	\$ 1,702,803	49.20%
12/31/2016	\$ -	\$ 839,140	\$ 839,140	0.00%	\$ 1,420,109	59.09%

See independent auditor's report on supplementary information.

BOROUGH OF HELLERTOWN
COMBINING BALANCE SHEET - MODIFIED CASH BASIS - SPECIAL REVENUE FUNDS
DECEMBER 31, 2016

	<u>Fire Protection</u>	<u>State Liquid Fuels</u>	<u>Total</u>
ASSETS			
Cash and Cash Equivalents	\$ 52,462	\$ 20,496	\$ 72,958
Total Assets	<u>\$ 52,462</u>	<u>\$ 20,496</u>	<u>72,958</u>
LIABILITIES AND FUND BALANCES			
Fund Balance			
Restricted	\$ -	\$ 20,496	\$ 20,496
Committed	<u>52,462</u>	<u>-</u>	<u>52,462</u>
Total Liabilities and Fund Balances	<u>\$ 52,462</u>	<u>\$ 20,496</u>	<u>\$ 72,958</u>

See independent auditor's report on supplementary information.

**BOROUGH OF HELLERTOWN
COMBINING STATEMENT OF REVENUES RECEIVED, EXPENDITURES PAID
AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
SPECIAL REVENUE FUNDS
DECEMBER 31, 2016**

	Fire Protection	State Liquid Fuels	Total
REVENUES RECEIVED			
Taxes	\$ 194,838	\$ -	\$ 194,838
Intergovernmental Revenues	-	166,660	166,660
Interest	59	137	196
Miscellaneous Revenues	343	1,447	1,790
Total Revenue Received	195,240	168,244	363,484
EXPENDITURES PAID			
Public Works - Highways and Streets	-	157,408	157,408
Public Safety - Fire	83,508	-	83,508
Total Expenditures Paid	83,508	157,408	240,916
EXCESS OF REVENUES RECEIVED OVER EXPENDITURES PAID	111,732	10,836	122,568
OTHER FINANCING USES			
Transfers In	-	-	-
Transfers Out	(100,000)	-	(100,000)
Total Other Financing Uses, Net	\$ (100,000)	\$ -	\$ (100,000)
EXCESS OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER EXPENDITURES PAID AND OTHER FINANCING USES	11,732	10,836	22,568
Fund Balances - January 1, 2016	40,730	9,660	50,390
Fund Balances - December 31, 2016	\$ 52,462	\$ 20,496	\$ 72,958

See independent auditor's report on supplementary information.

**BOROUGH OF HELLERTOWN
 COMBINING STATEMENT OF PLAN NET POSITION - MODIFIED CASH BASIS
 ALL PENSION TRUST FUNDS
 DECEMBER 31, 2016**

	<u>Police Pension Plan</u>	<u>Non-Uniformed Pension Plan</u>	<u>Total</u>
ASSETS			
Cash and Cash Equivalents	\$ 115,496	\$ -	\$ 115,496
Investments, at Fair Value			
Guaranteed Investment Contracts	-	386,640	386,640
U.S. Government Obligations	670,998	-	670,998
Balanced Funds/Fixed Income	842,483	169,193	1,011,676
International Bonds	130,781	-	130,781
Corporate Bonds	651,588	16,107	667,695
Mutual Funds	1,780,881	-	1,780,881
Domestic Stocks	1,147,072	136,608	1,283,680
International Stocks	-	5,653	5,653
	<u>5,223,803</u>	<u>714,201</u>	<u>5,938,004</u>
Total Investments, at Fair Value			
	<u>\$ 5,339,299</u>	<u>\$ 714,201</u>	<u>\$ 6,053,500</u>
Total Assets			
	<u>\$ 5,339,299</u>	<u>\$ 714,201</u>	<u>\$ 6,053,500</u>
LIABILITIES AND NET POSITION			
Net Position			
Restricted	<u>\$ 5,339,299</u>	<u>\$ 714,201</u>	<u>\$ 6,053,500</u>
Total Liabilities and Net Position	<u>\$ 5,339,299</u>	<u>\$ 714,201</u>	<u>\$ 6,053,500</u>

See independent auditor's report on supplementary information.

**BOROUGH OF HELLERTOWN
COMBINING STATEMENT OF CHANGES IN PLAN NET POSITION -
MODIFIED CASH BASIS - ALL PENSION TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Police Pension Plan	Non-Uniformed Pension Plan	Total
ADDITIONS			
Contributions			
Employer	\$ 6,497	\$ -	\$ 6,497
Employee	17,383	28,951	46,334
State Aid	40,695	21,350	62,045
Total Contributions	64,575	50,301	114,876
Investment Income			
Interest	26,029	-	26,029
Dividends	107,245	-	107,245
Realized Capital Gains	123,322	-	123,322
Net Appreciation in Fair Value of Investments	54,836	37,419	92,255
Total Investment Income	311,432	37,419	348,851
Less: Investment Expenses	(41,497)	-	(41,497)
Net Investment Income	269,935	37,419	307,354
Total Additions, Net	334,510	87,720	422,230
DEDUCTIONS			
Benefits	313,642	151,675	465,317
Administrative Expenses	4,027	-	4,027
Total Deductions	317,669	151,675	469,344
NET INCREASE (DECREASE) IN PLAN NET POSITION	16,841	(63,955)	(47,114)
NET POSITION - RESTRICTED FOR EMPLOYEES' PENSION BENEFITS:			
JANUARY 1, 2016	5,322,458	778,156	6,100,614
DECEMBER 31, 2016	\$ 5,339,299	\$ 714,201	\$ 6,053,500

See independent auditor's report on supplementary information.