

BOROUGH OF HELLERTOWN

**FINANCIAL STATEMENTS,
INDEPENDENT AUDITOR'S REPORT
AND SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2019

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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, 2019, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, 2019, 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.

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34745 Burbage Road, Frankford, DE 19945

2370 York Road, Suite A-5, Jamison, PA 18929
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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.

Emphasis of Matter

As discussed in Note 12, subsequent events may lead to the reduction of revenues or increase in expenditures to have a significant impact on the operations of the Borough of Hellertown. Management has determined that it is not possible to predict the eventual outcome of the subsequent event. The accompanying financial statements do not include any adjustments related to the subsequent event. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of employer contributions – police pension plan, schedule of investment returns – police pension plan, schedule of changes in net pension liability and related ratios – police pension plan, schedule of contributions to the OPEB plans, and schedule of changes in the total OPEB liability and related ratios on pages 3-8 and 39-43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough of Hellertown's basic financial statements. The other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining balance sheet and statement of revenues received, expenditures paid and changes in fund balance – modified cash basis budget and actual – all special revenue funds 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.

Zelenkofske Axlerod LLC

ZELENKOFKSKE AXELROD LLC

Jamison, Pennsylvania
May 28, 2020

BOROUGH OF HELLERTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019

The Borough of Hellertown's discussion and analysis provides an overview of the Borough's financial activities for the fiscal year ended December 31, 2019. Since this information is focused 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 of the primary government (excluding pensions and agency funds) increased \$1,138,496 during 2019. This is primarily due to expenditures paid in 2018 that were reimbursed through grants in 2019.
- The General Fund balance increased \$770,327 primarily due to expenditures paid in 2018 that were reimbursed in 2019.
- The net position of the Sanitation Fund increased by \$126,449 in 2019. This is attributed to an increase in recycling collections in 2019 and the reduction of sanitation costs.
- The Borough reduced its debt on the GON by \$89,972. There was no new debt in 2019. Overall the Borough of Hellertown had a total of \$1,410,831 in outstanding debt as of December 31, 2019.

USING THIS ANNUAL REPORT

The annual reports consist 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 – Modified Cash Basis and the Statement of Activities - Modified Cash Basis 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 government 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 4. 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 – Modified Cash Basis and the Statement of Activities – Modified Cash Basis 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.

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 – Modified Cash Basis and the Statement of Activities – Modified Cash Basis, 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 Funds (includes Liquid Fuels and Fire Protection Fund), Debt Service Fund and Capital Projects Funds (includes Fire Capital Fund). These funds are explained in more detail on page 20. The Borough has one Business Type Activity that is its Sanitation Fund.

BOROUGH OF HELLERTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2019

REPORTING THE BOROUGH'S MOST SIGNIFICANT FUNDS

Our analysis of the Borough's governmental funds begins on page 6 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 few 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 – Modified Cash Basis and the Statement Activities – Modified Cash Basis) and governmental *funds* in a reconciliation at the bottom of the fund financial statements.

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Government Wide</u>	
	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>
Cash & Cash Equivalent	\$ 5,448,034	\$ 6,369,134	\$ 308,248	\$ 434,697	\$ 5,756,282	\$ 6,803,831
Other Receivables	1,220	2,195	-	-	1,220	2,195
Total Assets	<u>\$ 5,449,254</u>	<u>\$ 6,371,329</u>	<u>\$ 308,248</u>	<u>\$ 434,697</u>	<u>\$ 5,757,502</u>	<u>\$ 6,806,026</u>
Current Liabilities	\$ 89,972	\$ 92,374	\$ -	\$ -	\$ 89,972	\$ 92,374
Non Current Liabilities - Notes Payable	1,410,831	1,318,457	-	-	1,410,831	1,318,457
Total Liabilities	<u>1,500,803</u>	<u>1,410,831</u>	<u>-</u>	<u>-</u>	<u>1,500,803</u>	<u>1,410,831</u>
Restricted for Special Purpose	3,951	118,014	-	-	3,951	118,014
Unreserved - Undesignated	3,944,500	4,842,484	308,248	434,697	4,252,748	5,277,181
Total Net Position	<u>\$ 3,948,451</u>	<u>\$ 4,960,498</u>	<u>\$ 308,248</u>	<u>\$ 434,697</u>	<u>\$ 4,256,699</u>	<u>\$ 5,395,195</u>

Certain amounts reported for 2018 were reclassified to correspond to the classifications used in 2019.

THE BOROUGH AS TRUSTEE

The Borough is a trustee, or fiduciary, over its employee's pension trust funds. It is also responsible for other assets than can only be used for the depositors based on the trust agreement in those depositors. All of the Borough's fiduciary activities are reported in a separate Statement of Fiduciary Net Position – Modified Cash Basis and Changes in Fiduciary Net Position – Modified Cash Basis on pages 17-18. 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 \$4,256,699 in 2018 to \$5,395,195, or a net increase of \$1,138,496. In contrast, 2018 net position decreased by \$113,173.

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

The net position of the Borough's governmental wide activities increased by 25.63% in 2019. Therefore, the Borough increased its net position for governmental activities by \$1,012,047 in 2019. 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 increased from \$3,944,500 at the end of 2018 to \$4,842,484 at the end of 2019.

BOROUGH OF HELLERTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2019

The net position of the Borough's Business Type Activities increased by 41.02%. Accordingly, the Borough increased its net position for Business Type Activities by \$126,449. The unrestricted net position – that part of net position that can be used to finance daily business type activities changed from \$308,248 in 2018 to \$434,697 in 2019.

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Government Wide</u>	
	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>
Revenue						
Taxes	\$ 3,625,240	\$ 3,765,297	\$ -	\$ -	\$ 3,625,240	\$ 3,765,297
Intergovernmental Revenue	489,730	1,051,424	26,352	24,938	516,082	1,076,362
Refuse Collection	-	-	536,089	584,473	536,089	584,473
Recycling	-	-	209,207	217,056	209,207	217,056
Charges for Service	181,783	208,949	-	-	181,783	208,949
Licenses & Permits	218,422	222,769	1,935	1,747	220,357	224,516
All Other	367,030	268,588	-	-	367,030	268,588
Total	4,882,205	5,517,027	773,583	828,214	5,655,788	6,345,241
Expenses						
General Government	690,300	743,960	35,471	23,720	725,771	767,680
Public Safety	1,555,947	1,561,636	-	-	1,555,947	1,561,636
Public Works	1,043,055	616,770	-	-	1,043,055	616,770
Personnel	-	-	318,757	348,958	318,757	348,958
Contracted Services	-	-	295,132	285,628	295,132	285,628
Culture & Recreation	726,725	641,039	-	-	726,725	641,039
Debt Service	42,700	40,255	-	-	42,700	40,255
Repairs & Maintenance	-	-	37,157	33,344	37,157	33,344
Employee Benefits & Taxes	1,017,166	910,435	-	-	1,017,166	910,435
All Other	6,551	1,000	-	-	6,551	1,000
Total	5,082,444	4,515,095	686,517	691,650	5,768,961	5,206,745
Transfers	10,000	10,115	(10,000)	(10,115)	-	-
Change in Net Position	\$ (190,239)	\$ 1,012,047	\$ 77,066	\$ 126,449	\$ (113,173)	\$ 1,138,496

Overall, the Borough's governmental program revenues, including intergovernmental aid, increased from \$4,882,205 in 2018 to \$5,517,027 in 2019 primarily due to increases in intergovernmental revenue (grants).

Business type revenue increased by \$54,631 due to increased recycling collections in 2019.

Governmental Activities

The cost of all governmental activities (government wide activities) in 2019 was \$4,515,095 compared to \$5,082,444 in 2018. The decrease in costs are primarily associated with a decrease in public works and employee benefits.

As shown in the Statement of Activities – Modified Cash Basis on page 10, the amount our taxpayers ultimately financed for these activities through Borough taxes, fines, licenses, and other revenue was \$3,254,722 (a decrease of \$1,156,209 from 2018). Some of these costs were paid by those who directly benefitted from the program which amounted to \$208,949 (an increase of \$27,166 from 2018). Other governments and organizations that subsidized certain programs with grants and contributions amounted to \$1,051,424 (up from \$561,694 in 2018).

BOROUGH OF HELLERTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2019

Business Type Activities

Overall the Sanitation Fund (business type activities) net position increased from \$308,248 in 2018 to \$434,697 in 2019. The increase is attributed to an increase in recycling collection and a decrease in sanitation costs.

The following table presents the cost of each of the Borough's five largest programs – General Government, Public Safety, Public Works, Culture & Recreation, and Employee Benefits, as well as each program's 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 two columns represent the net comparison to 2018 and 2017.

	Expenses	Charges for Service	Operating Grants	2019 Net Expense	2018 Net Expense	2017 Net Expense
General Government	\$ 743,960	\$ 6,555	\$ 146,344	\$ 591,061	\$ 690,300	\$ 720,811
Public Safety	1,561,636	24,223	33,794	1,503,619	1,499,324	1,140,841
Public Works	616,770	-	196,538	420,232	843,844	632,922
Culture & Recreation	641,039	178,171	504,663	(41,795)	507,360	176,740
Employee Benefits/Taxes	910,435	-	170,085	740,350	820,852	863,183

THE BOROUGH OF HELLERTOWN FUNDS

As the Borough completed the year, its governmental funds (as presented on the balance sheet on page 11) reported a fund balance of \$6,371,329 which is above last year's total of \$5,449,254. It must be noted, a significant contributor to the fund balance is operating grants and contributions which were higher in 2019.

The year-end fund balances consist of \$3,956,138 in unassigned funds, \$118,014 in restricted funds, \$1,016,243 in committed funds and \$1,280,934 in assigned funds.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual revenue of the General Fund (the main operating fund of the Borough) was \$506,894 above budget projections with the largest escalation seen in intergovernmental revenue.

The actual expenditures of the General Fund were \$374,719 below budget amounts. The most significant favorable variances of \$195,401 (public works) and \$358,779 (employee benefits).

BOROUGH OF HELLERTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2019

CAPITAL PROJECTS AND DEBT ADMINISTRATION

2019 Capital Improvements:

• Holiday Decorations	\$ 3,977
• Security/IT Upgrades	\$37,824
• Codes Vehicle	\$27,033
• Security/It Upgrades Police	\$31,864
• Stormwater Improvements/Trenches/Pathways	\$22,294
• Park & Playground Upgrades	\$31,049

The Borough of Hellertown's fiscal year 2020 Capital Budget calls for it to spend \$604,904 in capital improvements or equipment.

Debt

The Borough of Hellertown has one Note Payable, which is the 2012 GON with an outstanding balance of \$1,410,831 (reduced by \$89,972 in 2019) that was used for long term capital improvements.

HELLERTOWN BOROUGH DEMOGRAPHICS & ECONOMIC OUTLOOK

July 2019 US Census data estimates the population of Hellertown Borough is 5,857 (no change from 2018)

The median age of a Hellertown resident is 41.1 of which 25% is under age 18, 56% is between the ages of 18 and 65, and 18.6% is 65 years or older.

The median household income is \$67,135 (up from \$63,259 during the same period in 2018).

The median home value is \$183,100 (up from \$179,700 in 2018) of which 68 percent are owner occupied and 32 percent are rental units. There were 8 housing units added in 2019.

Hellertown has a total of 255 businesses. In 2019, the leading industries were Health Care, Social Services, Retail and Food Services. Hellertown welcomed 14 new businesses in 2019.

As of November 2019, the assessed value of all property in the Borough of Hellertown is \$133,501,800 up \$1,177,400 from 2018 – the largest increase in over a decade. 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.

As noted in Note 12, a global pandemic has led to widespread voluntary and government mandated closings which have resulted in significant job losses. These job losses may have a significant impact on all aspects of the Borough's operations resulting in a potential 10-20% loss of revenue.

Until early March 2020, The U.S. economic outlook was healthy according to key economic indicators. The gross domestic product, which measures the nation's output, was expected to remain between 2 and 3 percent.

As of December 2019, the unemployment rate dropped to 3.5 percent compared to 3.9 percent in December 2018. By April 2020 that number has increased to nearly 20%.

BOROUGH OF HELLERTOWN
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2019

Closer to home, the Lehigh Valley is one of the top five fastest growing regions with under a million people in the United States and the fastest growing region of its size in the Northeast for a fourth consecutive year. The Lehigh Valley is also the third largest metropolitan area in Pennsylvania and the 51st largest manufacturing center by GCP in the country.

The Borough of Hellertown continues on its path to provide a healthy and economically stable environment for its residents, businesses, and visitors. Fortunately, a healthy level of unrestricted fund balance does more than dress up the financial statements. No one could be prepared for this type of economic devastation brought on by COVID-19. The Borough of Hellertown is in a good position headed into this crisis, and early projections would support the idea that we can weather this storm. The position we are in as a borough is a testament to our borough employees, Council and Mayor that focuses on the overall well-being of our community above all else. Recent investments have added to our park system and infrastructure. The Main Street Pedestrian Initiative will continue to bring economic benefit to the community.

As with most small communities, the borough is continually challenged to provide necessary essential services with a sensible approach to taxing our property owners and generating enough revenue to sustain government services.

Borough Council and staff have anticipated the impact of the economy and cost of services on municipal revenue 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

The 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 to the Borough Manager, 685 Main St., Hellertown, PA 18055.

BOROUGH OF HELLERTOWN
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
DECEMBER 31, 2019

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	Total Primary Governmental
ASSETS			
Cash and Cash Equivalents	\$ 6,369,134	\$ 434,697	\$ 6,803,831
Other Receivables	2,195	-	2,195
Total Assets	\$ 6,371,329	\$ 434,697	\$ 6,806,026
LIABILITIES AND NET POSITION			
Current Liabilities			
Current Portion of Notes Payable	\$ 92,374	\$ -	\$ 92,374
Total Current Liabilities	92,374	-	92,374
Noncurrent Liabilities			
Notes Payable, Net of Current Portion	1,318,457	-	1,318,457
Total Liabilities	1,410,831	-	1,410,831
NET POSITION			
Restricted	118,014	-	118,014
Unrestricted	4,842,484	434,697	5,277,181
Total Net Position	4,960,498	434,697	5,395,195
Total Liabilities and Net Position	\$ 6,371,329	\$ 434,697	\$ 6,806,026

See accompanying Notes to Financial Statements.

BOROUGH OF HELLERTOWN
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities							
General Government	\$ 743,960	\$ 6,555	\$ 146,344	\$ -	\$ (591,061)	\$ -	\$ (591,061)
Public Safety	1,561,636	24,223	33,794	-	(1,503,619)	-	(1,503,619)
Public Works - Highway/Streets	616,770	-	196,538	-	(420,232)	-	(420,232)
Culture and Recreation	641,039	178,171	504,663	-	41,795	-	41,795
Employee Benefits/Taxes	910,435	-	170,085	-	(740,350)	-	(740,350)
Contingencies	1,000	-	-	-	(1,000)	-	(1,000)
Interest	40,255	-	-	-	(40,255)	-	(40,255)
Total Governmental Activities	4,515,095	208,949	1,051,424	-	(3,254,722)	-	(3,254,722)
Business-Type Activities:							
Sanitation	691,650	801,529	24,938	-	-	134,817	134,817
Total Business-Type Activities	691,650	801,529	24,938	-	-	134,817	134,817
Total Primary Government	\$ 5,206,745	\$ 1,010,478	\$ 1,076,362	\$ -	(3,254,722)	134,817	(3,119,905)
General Revenues and Transfers:							
Taxes					3,765,297	-	3,765,297
Licenses and Permits					222,769	1,747	224,516
Fines and Forfeitures					81,208	-	81,208
Interest and Rents					47,219	-	47,219
Miscellaneous					140,161	-	140,161
Transfers					10,115	(10,115)	-
Total General Revenues and Transfers					4,266,769	(8,368)	4,258,401
Change in Net Position					1,012,047	126,449	1,138,496
Net Position - Beginning of Year					3,948,451	308,248	4,256,699
Net Position - End of Year					\$ 4,960,498	\$ 434,697	\$ 5,395,195

See accompanying Notes to Financial Statements.

BOROUGH OF HELLERTOWN
BALANCE SHEET – MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
DECEMBER 31, 2019

	Major Funds		Other Nonmajor Funds	Total Governmental Funds
	General	Capital Projects Funds		
ASSETS				
Cash and Cash Equivalents	\$ 3,953,943	\$ 2,297,177	\$ 118,014	\$ 6,369,134
Other Receivables	2,195	-	-	2,195
Total Assets	\$ 3,956,138	\$ 2,297,177	\$ 118,014	\$ 6,371,329
LIABILITIES AND FUND BALANCES				
Total Liabilities	\$ -	\$ -	\$ -	\$ -
FUND BALANCES				
Restricted	-	-	118,014	118,014
Committed	-	1,016,243	-	1,016,243
Assigned	-	1,280,934	-	1,280,934
Unassigned	3,956,138	-	-	3,956,138
Total Fund Balances	3,956,138	2,297,177	118,014	6,371,329
Total Liabilities and Fund Balances	\$ 3,956,138	\$ 2,297,177	\$ 118,014	

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 governmental funds.

	(1,410,831)
Net Position of Governmental Activities	\$ 4,960,498

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, 2019

	Major Funds			Total Governmental Funds
	General Fund	Capital Projects Funds	Other Nonmajor Funds	
REVENUES RECEIVED				
Taxes	\$ 3,565,787	\$ -	\$ 199,510	\$ 3,765,297
Intergovernmental Revenues	739,781	126,101	185,542	1,051,424
Charges for Services	204,949	4,000	-	208,949
Fines and Forfeitures	81,208	-	-	81,208
Licenses and Permits	222,769	-	-	222,769
Interest and Rent	27,332	19,813	74	47,219
Miscellaneous Revenue	137,861	2,300	-	140,161
Total Revenues Received	4,979,687	152,214	385,126	5,517,027
EXPENDITURES PAID				
General Government				
Mayor and Council	16,320	-	-	16,320
Managerial	103,904	-	-	103,904
Clerical	151,852	-	-	151,852
Solicitor	16,867	-	-	16,867
General Government	364,317	90,703	-	455,020
Public Safety				
Police	1,491,552	-	-	1,491,552
Fire	-	-	70,084	70,084
Public Works				
Highways and Streets	440,913	13,486	162,371	616,770
Culture and Recreation				
Library	51,814	-	-	51,814
Park and Pool	421,131	168,094	-	589,225
Debt Service				
Principal	89,969	-	-	89,969
Interest	40,255	-	-	40,255
Contingencies	1,000	-	-	1,000
Employee Benefits/Taxes	910,435	-	-	910,435
Total Expenditures Paid	4,100,329	272,283	232,455	4,605,067
EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID	879,358	(120,069)	152,671	911,960
OTHER FINANCING SOURCES (USES)				
Net transfers in (out)	(109,031)	229,090	(109,944)	10,115
Total Other Financing Sources (Uses), Net	(109,031)	229,090	(109,944)	10,115
EXCESS (DEFICIT) OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES	770,327	109,021	42,727	922,075
Fund Balance - January 1, 2019	3,185,811	2,188,156	75,287	5,449,254
Fund Balance - December 31, 2019	\$ 3,956,138	\$ 2,297,177	\$ 118,014	\$ 6,371,329

See accompanying Notes to Financial Statements.

BOROUGH OF HELLERTOWN
 RECONCILIATION OF THE STATEMENT OF REVENUES RECEIVED, EXPENDITURES PAID AND CHANGES IN
 FUND BALANCES – MODIFIED CASH BASIS OF GOVERNMENTAL FUNDS TO THE STATEMENT OF
 ACTIVITIES – MODIFIED CASH BASIS OF GOVERNMENTAL ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2019

Net changes in fund balance - total governmental funds	\$ 922,075
--	------------

Amounts reported for Governmental Activities in the Statement of Activities
 are different because:

The governmental funds report debt proceeds as financing sources, while
 repayment of debt principal is reported as an expenditure. In the
 statement of net position - modified cash basis, however, issuing
 debt increases long term liabilities and does not affect the statement
 of activities and repayment of principal reduces the liability. The net
 effect of these differences in the treatment of long-term debt is
 as follows:

Principal repayments of long-term debt	89,972
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Net change in net position - governmental activities	\$ 1,012,047
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BOROUGH OF HELLERTOWN
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
PROPRIETARY FUND
DECEMBER 31, 2019

	Enterprise Fund
	Sanitation Fund
	Fund
ASSETS	
Cash and Cash Equivalents	\$ 434,697
Total Assets	\$ 434,697
LIABILITIES AND NET POSITION	
Total Liabilities	\$ -
NET POSITION	
Unrestricted	434,697
Total Net Position	434,697
Total Liabilities and Net Position	\$ 434,697

See accompanying Notes to Financial Statements.

BOROUGH OF HELLERTOWN
STATEMENT OF REVENUES RECEIVED, EXPENSES PAID
AND CHANGES IN NET POSITION – MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2019

	Sanitation Fund
OPERATING REVENUES RECEIVED	
Refuse Collections	\$ 584,473
Recycling	217,056
Intergovernmental Revenues	24,938
Licenses and Permits	1,747
Total Operating Revenues Received	828,214
OPERATING EXPENSES PAID	
Personnel	348,958
Contracted Services	285,628
Repairs, Maintenance and Supplies	33,344
General Government	23,720
Total Operating Expenses Paid	691,650
EXCESS OF REVENUES RECEIVED OVER EXPENSES PAID	136,564
Other Financing Uses	
Operating Transfers Out	(10,115)
EXCESS OF REVENUES RECEIVED OVER EXPENSES PAID AND OTHER FINANCING USES	126,449
NET POSITION - JANUARY 1, 2019	308,248
NET POSITION - DECEMBER 31, 2019	\$ 434,697

See accompanying Notes to Financial Statements.

BOROUGH OF HELLERTOWN
STATEMENT OF CASH FLOWS – MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2019

	Sanitation Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received from Customers	\$ 803,276
Cash payment to Suppliers for Goods and Services	(342,692)
Cash Payments to Employees for Services	(348,958)
Other Operating Receipts	24,938
Net Cash Provided by Operating Activities	136,564
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Operating Transfers Out	(10,115)
Net Cash Used by Noncapital Financing Activities	(10,115)
Net Decrease in Cash and Cash Equivalents	126,449
CASH AND CASH EQUIVALENTS, JANUARY 1	308,248
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$ 434,697
Reconciliation of Operating Income to Net Cash Provided for Operating Activities	
Operating Income	\$ 136,564
Net Cash Provided by Operating Activities	\$ 136,564

See accompanying Notes to Financial Statements.

BOROUGH OF HELLERTOWN
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
ALL FIDUCIARY FUNDS
DECEMBER 31, 2019

	Pension Trust Fund	Custodial Funds	Total Fiduciary Funds
ASSETS			
Cash and Cash Equivalents	\$ 192,062	\$ 222,602	\$ 414,664
Investments at Fair Value			
U.S. Government Obligations	947,637	-	947,637
Balanced Funds/Fixed Income	911,846	-	911,846
International Bonds	165,299	-	165,299
Corporate Bonds	417,014	-	417,014
Mutual Funds	2,229,675	-	2,229,675
Domestic Stocks	1,466,169	-	1,466,169
Total Investments, at Fair Value	6,137,640	-	6,137,640
Total Assets	<u>\$ 6,329,702</u>	<u>\$ 222,602</u>	<u>\$ 6,552,304</u>
LIABILITIES AND NET POSITION			
Liabilities			
Due to Depositors	\$ -	\$ 222,602	\$ 222,602
Total Liabilities	-	222,602	222,602
Net Position			
Restricted	6,329,702	-	6,329,702
Total Net Position	6,329,702	-	6,329,702
Total Liabilities and Net Position	<u>\$ 6,329,702</u>	<u>\$ 222,602</u>	<u>\$ 6,552,304</u>

See accompanying Notes to Financial Statements.

BOROUGH OF HELLERTOWN
STATEMENT OF CHANGES IN NET POSITION – MODIFIED CASH BASIS
ALL FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	Pension Trust Fund	Custodial Funds	Total Fiduciary Funds
ADDITIONS			
Contributions:			
Fees Collected	\$ -	\$ 21,758	\$ 21,758
Employee	32,200	-	32,200
State Aid	149,960	-	149,960
Total Contributions	182,160	21,758	203,918
DEDUCTIONS			
Investment Income			
Interest	42,950	-	42,950
Dividends	129,745	-	129,745
Realized Capital Gains	39,395	-	39,395
Net Appreciation in Fair Value of Investments	837,151	-	837,151
Total Investment Income	1,049,241	-	1,049,241
Investment Expenses	(43,037)	-	(43,037)
Net Investment Income	1,006,204	-	1,006,204
Benefits	284,033	-	284,033
Administrative Expenses	5,406	-	5,406
Other Payments/Transfers	-	21,758	21,758
Total Deductions	289,439	21,758	311,197
NET INCREASE IN NET POSITION	898,925	-	898,925
Net Position January 1, 2019	5,430,777	-	5,430,777
Net Position December 31, 2019	\$ 6,329,702	\$ -	\$ 6,329,702

See accompanying Notes to Financial Statements.

BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 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 Borough's Police Pension Plan is operated by a Board of Trustees appointed by the Borough. The Police Pension Plan is a separate entity which is included in the Borough's financial statements as a blended component due to the financial burden that is placed on the Borough through its operation.

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.
- The Authority does not impose a financial benefit or burden on the Borough.

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.

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:

BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Fund Types (Continued)

Major 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.
- ***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.

Nonmajor Funds:

- ***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.

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.

- ***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 Major Enterprise Fund described below.
 - ***Sanitation 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:

BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiduciary Fund Types (Continued)

- ***Custodial Funds*** - are used to account for funds held in escrow for other parties. The 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 Fund*** - is used to account for pension benefits for police. The Police Pension Plan is a blended component unit of the Borough of Hellertown. 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 fund:
 - ***Police Pension Fund*** - is used to account for pension benefits for police officers.

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 (1) the recording of payroll withholdings when withheld from employees' pay, (2) the recording of investments held (in the Pension Trust Funds) as assets at fair value, (3) reporting long-term debt, (4) Other Receivables and (5) 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 Government-Wide Financial Statements. 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 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 reported as restricted net position. Proprietary fund-type operating statements present increases (revenues) and decreases (expenses) in net position.

BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus (Continued)

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, the Borough Manager meets with all Department Heads.
- Department Heads submit a proposed operating budget for the fiscal year commencing the following January 1.
- The Operating budget includes the proposed expenditures.
- The Borough Manager and Finance Manager meet to determine proposed revenue for the fiscal year commencing January 1.
- 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, the budget is legally enacted through a majority vote of Borough Council. An ordinance establishing the tax rate for the year was 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, 2019.

BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.
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

The restricted fund balances consisted of the Liquid Fuels Special Revenue Fund for \$27,196 and \$90,818 for the Fire Protection Special Revenue Fund. The Committed Fund Balance of \$1,016,243 and the Assigned Fund Balance of \$1,280,934 are included in the Fire Capital Projects Fund, which are set aside for fire protection.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available, it is the Borough's policy to use restricted fund balance first, followed by unrestricted fund balance. When expenditures are incurred for purposes for which committed, assigned or unassigned amounts are available, it is the Borough's policy to use committed first, then assigned and then finally unassigned.

Interfund Transactions

Certain interfund 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 interfund transactions are reported as transfers. Nonrecurring or nonroutine permanent transfers of net position are reported as residual transfers of net position. All other interfund transfers are reported as operating transfers.

BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 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 and all Special Revenue Funds.

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.

NOTE 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 that 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, 2019, the carrying amount of the Borough's bank deposits (excluding those held in the Pension Trust Funds, but including Custodial Funds) totaled \$7,026,433 and the corresponding bank balances were \$7,042,782, of which \$250,000 was insured by the Federal Deposit Insurance Corporation ("FDIC"); the uninsured bank balance of \$6,792,782 was collateralized, as described below.

BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 3 CASH AND CASH EQUIVALENTS (CONTINUED)

Cash (Cash on Hand and Bank Balances) (Continued)

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 \$6,792,782, 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, 2019, the petty cash balance was \$1,084.

NOTE 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, 2019, the Borough had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
<u>Pension Trust Funds</u>		
U.S. Government Obligations	2019 - 2024	\$ 947,637
Balanced Funds/Fixed Income		911,846
International Bonds	2020 - 2027	165,299
Corporate Bonds	2021 - 2028	417,014
Mutual Funds		2,229,675
Domestic Stocks		<u>1,466,169</u>
Total Pension Trust Funds		<u>\$ 6,137,640</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.

BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 4 INVESTMENTS (CONTINUED)

The Borough categorizes its fair value measurements within the fair value hierarchy established by U.S. generally accepted accounting principles. GASB Statement No. 72, *Fair Value Measurement and Application*, sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets of liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Borough has the ability to access.

Level 2 – Inputs to the valuation methodology include quoted market prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets in active markets; inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

All Borough Pension Trust Funds investments are classified as Level 1 measurements; quoted prices in active markets for identical assets.

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. The Borough's Police Pension Plan's investment in fixed income funds were rated by Moody's as follows:

Police Pension Plan Fixed Income Credit Ratings	Fair Value of Investments
AAA	\$ 1,042,529
AA+	38,138
AA-	23,890
A+	1,339
A	37,421
A-	123,033
BBB+	115,233
BBB	110,552
BB	3,881
Not Rated	33,934

BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 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. The following individual investments represented over 5% of total trust fund investments for each pension plan:

Police Pension Plan:

Vanguard Value Index Fund Admiral Cl.
PIMCO Income Fund Institutional Cl.

Nonuniform Plan:

Vantagepoint PLUS Fund R1

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.

At December 31, 2019, the Borough had the following debt instruments and maturities in its Police Pension Plan.

	Average Maturities (In Years)			
	Less than 1	1-5	6-10	Total
U.S. Government Obligations	\$ -	\$ 893,529	\$ 54,108	\$ 947,637
Domestic Corporate Bonds	-	305,477	111,537	417,014
International Corporate Bonds		61,706	103,593	165,299
	\$ -	\$ 1,260,712	\$ 269,238	\$ 1,529,950

NOTE 5 NOTES PAYABLE

The Borough of Hellertown issues notes payable to finance various capital improvements throughout the Borough. 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 30, 2012.

A description of the terms of the Borough's long-term debt obligation ("Note") and the balance outstanding at December 31, 2019 is presented below.

Notes Payable: General Obligation Notes	Balance Outstanding January 1, 2019	Additions	Reductions	Balance Outstanding December 31, 2019	Due Within One Year
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.	\$ 1,500,803	\$ -	\$ 89,972	\$ 1,410,831	\$ 92,374

BOROUGH OF HELLERTOWN
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2019

NOTE 5 NOTES PAYABLE (CONTINUED)

The annual debt service requirements to maturity for note payable as of December 31, 2019 is as follows:

Years ended December 31:	Principal	Interest	Total
2020	\$ 92,374	\$ 37,850	\$ 130,224
2021	95,062	35,162	130,224
2022	97,716	32,508	130,224
2023	100,446	29,778	130,224
2024	103,173	27,051	130,224
2025 - 2029	561,100	90,021	651,121
2030 - 2032	360,960	14,977	375,937
Totals	<u>\$ 1,410,831</u>	<u>\$ 267,347</u>	<u>\$ 1,678,178</u>

NOTE 6 REAL ESTATE TAXES

Based upon assessed valuations provided by Northampton County approximating \$133,665,800 in 2019, the Borough bills and collects its own real estate taxes. The schedule for real estate taxes levied for 2019 was as follows:

February 1	- levy date
February 1	- April 4- 2% discount period
April 5	- June 5 - face payment period
June 6	- March 2, 2020 - 10% penalty period
March 2, 2020	- 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 2019 municipal tax rate for all purposes was 21.5 mils (\$21.50 per \$1,000 of assessed valuation) of which 1.5 mils is allocated for fire protection and the remaining 20.0 mils is allocated for general purposes.

NOTE 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:

BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 7 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Compensated Absences (Continued)

<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	96 hours	N/A
5 years – but less than 11 years	N/A	15 days
5 years - but less than 10 years	144 hours	N/A
11 years – but less than 15 years	N/A	17 days
10 years - but less than 15 years	168 hours	N/A
15 years – but less than 20 years	192 hours	20 days
20 years and over	240 hours	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 seven non-accruable “sniffle” days per year, a maximum of six unused at year end are compensated for at the then-current base pay rate.

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.

Building and Contents	\$ 13,173,197
Boiler and Equipment	829,621
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
- Aggregate Limit	2,000,000
Commercial Auto	1,000,000
Worker's 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

BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 7 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 financial statements.

NOTE 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, 2017, 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 uniformed employees. The Borough's Police 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 pension plan 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.

BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 8 PENSION PLANS (CONTINUED)

Police Pension Plan (Continued)

Benefits Provided (Continued)

At January 1, 2019, the following employees were covered by the benefit terms:

Participants:		
Retirees and Beneficiaries	9	
Active Employees	10	
Terminated Employees	1	

Contributions

Commonwealth of Pennsylvania 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 3.5% 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 that 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.

Net Pension Liability

The Borough's net pension liability was determined by an actuarial valuation as of January 1, 2017, and rolled forward to the reporting date using the following significant actuarial assumptions applied to all periods included in the measurement:

Salary Increases:	5.0% compounded annually
Investment Return:	7.0% per annum, net of investment expenses

The actuarial assumptions used in the January 1, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2017 to December 31, 2017. In addition, mortality rates were based on the Blue Collar RP-2000 Mortality Table Projected to 2017 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, 2019 are summarized in the following table:

BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 8 PENSION PLANS (CONTINUED)

Police Pension Plan (Continued)

Net Pension Liability (Continued)

Asset Class	Long-Term Expected Real Rate of Return	Asset Class	Long-Term Expected Real Rate of Return
Domestic Equity		International Equity	7.05%
Large Cap	6.09%	Fixed Income	3.17%
Mid Cap	7.27%	Emerging Markets	9.42%
Small Cap	7.27%	Cash	0.82%

Discount Rate

The discount rate used to measure the total pension liability 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 liability.

Changes in Net Position Liability

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

	Increase/(Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balance at December 31, 2018	\$ 5,613,338	\$ 5,444,994	\$ 168,344
Changes for the Year:			
Service Cost	174,480	-	174,480
Interest	378,587	-	378,587
Changes in Benefit Terms	38,003	-	38,003
Differences Between Expected and Actual Experience	(275,421)	-	(275,421)
Changes in Assumptions	-	-	-
Contributions - Employer	-	-	-
Contributions - State Aid	-	149,960	(149,960)
Contributions - Member	-	32,200	(32,200)
Net Investment Income	-	1,009,625	(1,009,625)
Benefit Payments	(284,033)	(284,033)	-
Administrative Expense	-	(9,406)	9,406
Other Charges	-	-	-
	<u>31,616</u>	<u>898,346</u>	<u>(866,730)</u>
Balance at December 31, 2019	\$ 5,644,954	\$ 6,343,340	\$ (698,386)

NOTE: This schedule was prepared on the accrual basis of accounting, not on the modified cash basis of accounting used for financial reporting purposes.

BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 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:

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Net Pension (Asset) Liability	\$ (10,549)	\$ (698,386)	\$ (1,347,097)

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, 2019, if the financial statements were issued in accordance with GAAP, the Borough would recognize pension expense of \$207,163. At December 31, 2019, the Borough would report deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Outflows of Resources	Inflows of Resources
Differences Between Expected and Actual Experience	\$ -	\$ (176,600)
Changes in Assumptions	8,085	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	(226,328)
Total	\$ 8,085	\$ (402,928)

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

Years Ended December 31,	
2020	\$ (67,383)
2021	(85,130)
2022	(22,042)
2023	(152,073)
2024	(25,075)
Thereafter	(43,140)

BOROUGH OF HELLERTOWN
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2019

NOTE 8 PENSION PLANS (CONTINUED)

Police Pension Plan (Continued)

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

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. During 2019, the Borough paid \$149,960 to fund the Police Pension Plan.

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 \$1,500 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, 2019, employee contributions amounted to \$35,500 and employer funding requirements for 2019 amounted to \$20,125, of which \$20,125 was funded from State Aid.

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%

BOROUGH OF HELLERTOWN
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2019

NOTE 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 Retiree Health Plan does not issue a publicly available financial report.

Benefits Provided

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 \$350 per month towards the cost of retiree medical and prescription drug coverage for non-uniform employees. For retirees in prior years, payments are as follows: \$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, and \$660 per month for uniformed employees retiring in 2008 or later. The above uniformed retiree payments shall cease upon the retiree reaching eligible Medicare age. Coverage must be purchased through the Borough in order to be eligible for the Borough's contribution. If the employee retired on or before December 31, 2015, coverage is provided for the life of the retiree. If retired on or after December 31, 2015, coverage ends on December 31, 2022. 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 the Borough's contribution does not exceed those listed above. As of December 31, 2018, twelve 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.

Plan Membership

At December 31, 2019, the Plan's membership consisted of the following:

Fully Eligible Active Employees	3
Other Active Employees not Fully Eligible	22
Retirees and Beneficiaries Currently Receiving Benefits	12
Total	37

Contributions

The Borough contributes to the cost of current-year premiums for eligible retired plan members as described above. The Borough is not currently making contributions to a qualified trust.

Net OPEB Liability

The Borough's total OPEB liability of \$3,416,838 was measured as of December 31, 2019, and was determined by an actuarial valuation as of January 1, 2018 rolled forward to December 31, 2019.

BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019

NOTE 9 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Actuarial assumptions and other inputs

The total OPEB liability in the January 1, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Investment Rate of Return:	There are no invested assets.
Actuarial Funding Method	Entry Age Normal
Salary Increases:	5% compounded annually.
Discount Rate:	3.50%
Healthcare cost	a. Non-Medicare Medical and prescription drug costs are assumed to increase by 6% during 2019, 8.5% during 2020 reduced by 0.25% per year thereafter to an ultimate level of 5% per year. b. Medicare Medical and prescription drug costs are assumed to increase by 3% during 2019 and 5% per year thereafter.
Mortality:	RP-2000 Combined Mortality Tables for Males and Females projected 17 years using Scale AA.
Participation Rate:	100% of retirees who are eligible to participate are assumed to do so. 80% of police retirees are assumed to have a spouse participating in the coverage. 60% of future non-uniformed and at-will retirees are assumed to have a spouse participating in coverage.
Age:	Female spouses of future retirees are assumed to be 3 years younger than male spouses.

The discount rate was based on the S&P 20 Year AA municipal bond rate.

An actuarial valuation of the total OPEB liability is performed biennially. The total OPEB liability was determined as part of an actuarial valuation at January 1, 2018. Update procedures were used to roll forward to the Borough's fiscal year ended December 31, 2019.

Changes in the Net OPEB Liability

Changes in the Borough's net OPEB liability for the plan for the year ended December 31, 2019 were as follows:

	Increase/Decrease		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Balances at 1/1/2019	\$ 3,289,720	\$ -	\$ 3,289,720
Changes for the year:			
Service Cost	158,506	-	158,506
Interest	118,072	-	118,072
Changes in Benefit Terms	-	-	-
Differences Between Expected and Actual Experience	-	-	-
Changes in Assumptions & Cost Method	-	-	-
Contributions - Employer	-	149,460	(149,460)
Contributions - Other	-	-	-
Net Investment Income	-	-	-
Benefit Payments **	(149,460)	(149,460)	-
Administrative Expense	-	-	-
Other Charges	-	-	-
Net Charges	127,118	-	127,118
Balances at 12/31/2019	<u>\$ 3,416,838</u>	<u>\$ -</u>	<u>\$ 3,416,838</u>

** Payments are actuarially determined expected benefit payments, which may vary from actual benefit payments due to implied subsidy and experience that is different from expected.

BOROUGH OF HELLERTOWN
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2019

NOTE 9 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rates

The following presents the net OPEB liability of the Borough, as well as what the Borough's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current discount rate:

	1% Decrease 2.50%	Current Discount Rate 3.50%	1% Increase 4.50%
12/31/2019 Net OPEB Liability	\$ 3,786,542	\$ 3,416,838	\$ 3,094,432

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trends Rates

The following presents the net OPEB liability of the Borough, as well as what the Borough's net OPEB liability would be if it were calculated using health care cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates:

	1% Decrease	Current Trend Rates	1% Increase
12/31/2019 Net OPEB Liability	\$ 3,022,392	\$ 3,416,838	\$ 3,862,727

NOTE 10 OPERATING LEASE

The Borough leases certain equipment under a long-term lease agreement, expiring December 2020. Rent expense under the leases was \$ 5,187 in 2019. Future minimum lease payments of \$4,498 are due in 2020.

NOTE 11 EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended December 31, 2019, expenditures exceeded appropriations in the General Fund department levels (the legal level of budgetary control) in General Government (\$162,122), Public Safety (\$16,723) and Culture and Recreation (\$21,685). The excess expenditures were funded by the available fund balance.

NOTE 12 SUBSEQUENT EVENTS

Subsequent to year end, a global pandemic due to the spread of the COVID-19 coronavirus caused the United States government to declare a national emergency. The pandemic has led to widespread voluntary and government-mandated closings of local stores and businesses, which has resulted in significant job losses. These job losses have the potential to have a significant impact on all aspects of the Borough's operations. In addition, due to the temporary closure of all businesses that are not deemed life sustaining, State and Federal tax revenues are also significantly decreased. This decrease could result in less grant money that is relied upon by local municipalities to fund specific projects. In addition, the Borough's own source revenue or derived revenues could be affected negatively. Overall, decreased funding could result in the Borough having to curtail or eliminate some services.

In preparing these financial statements, the Borough has evaluated events and transactions for potential recognition or disclosure through May 28, 2020, the date the financial statements were available to be issued, and has determined that no additional material subsequent events exist that require disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

BOROUGH OF HELLERTOWN
STATEMENT OF REVENUE RECEIVED, EXPENDITURES PAID
AND CHANGES IN FUND BALANCE – MODIFIED CASH BASIS
BUDGET AND ACTUAL – GENERAL FUND (1)
FOR THE YEAR ENDED DECEMBER 31, 2019

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES RECEIVED			
Taxes	\$ 3,469,420	\$ 3,565,787	\$ 96,367
Licenses and Permits	186,900	222,769	35,869
Fines and Forfeitures	96,400	81,208	(15,192)
Interest and Rent	-	12,774	12,774
Intergovernmental Revenue	201,940	739,781	537,841
Charges for Services	219,585	204,949	(14,636)
Miscellaneous Revenue	259,507	113,378	(146,129)
Total Revenues Received	<u>4,433,752</u>	<u>4,940,646</u>	<u>506,894</u>
EXPENDITURES PAID			
General Government	481,402	643,524	(162,122)
Public Safety	1,443,429	1,460,152	(16,723)
Public Works - Highways and Streets	636,314	440,913	195,401
Culture and Recreation	451,100	472,785	(21,685)
Employee Benefits/Taxes	1,269,214	910,435	358,779
Debt Principal and Interest	130,225	130,224	1
Contingencies	22,068	1,000	21,068
Total Expenditures Paid	<u>4,433,752</u>	<u>4,059,033</u>	<u>374,719</u>
EXCESS OF REVENUES RECEIVED OVER EXPENDITURES PAID	-	881,613	881,613
FUND BALANCE - JANUARY 1, 2019	<u>1,886,718</u>	<u>1,933,203</u>	<u>46,485</u>
FUND BALANCE - DECEMBER 31, 2019	<u>\$ 1,886,718</u>	2,814,816	<u>\$ 928,098</u>
FUND BALANCES OF NONREPORTED FUNDS		<u>1,141,322</u>	
Total Fund Balance		<u>\$ 3,956,138</u>	

There were no amendments to the originally adopted 2019 budget.

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

See independent auditor's report on supplementary information.

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

	2014	2015	2016	2017	2018	2019
Actuarially Determined Contribution	\$ 50,846	\$ 48,460	\$ 46,457	\$ 49,085	\$ 125,382	\$ 126,988
Contributions in Relation to the Actuarially Determined Contribution	<u>50,846</u>	<u>48,460</u>	<u>46,457</u>	<u>83,589</u>	<u>142,852</u>	<u>149,960</u>
Contribution Deficiency (Excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(34,504)</u>	<u>(17,470)</u>	<u>(22,972)</u>
Covered Payroll	\$ 910,959	\$ 951,342	\$ 892,383	\$ 908,827	\$ 908,827	\$ 908,827
Contributions as a Percentage of Covered Payroll	5.6%	5.1%	5.2%	9.2%	15.7%	16.5%

SCHEDULE OF INVESTMENT RETURNS
POLICE PENSION PLAN
FOR THE LAST TEN YEARS

	2015	2016	2017	2018	2019
Annual Money-Weighted Rate of Return, Net of Investment Expenses	-0.41%	5.31%	12.99%	-4.34%	18.73%

Ultimately, these schedules 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 required 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) LIABILITY AND RELATED RATIOS
POLICE PENSION PLAN
FOR THE LAST TEN YEARS**

	2015	2016	2017	2018	2019
Total Pension Liability					
Service Cost	\$ 172,891	\$ 181,536	\$ 175,447	\$ 184,219	\$ 174,480
Interest	321,886	335,925	357,605	376,493	378,587
Changes of Benefit Terms	-	-	3,969	26,613	38,003
Differences Between Expected and Actual Experience	-	-	95,446	-	(275,421)
Changes of Assumptions	-	-	12,741	-	-
Benefit Payments, Including Refunds of Member Contributions	(292,085)	(313,642)	(313,990)	(283,242)	(284,033)
Net Change in Total Pension Liability	202,692	203,819	331,218	304,083	31,616
Total Pension Liability - Beginning	4,571,526	4,774,218	4,978,037	5,309,255	5,613,338
Total Pension Liability - Ending	4,774,218	4,978,037	5,309,255	5,613,338	5,644,954
Plan Fiduciary Net Position					
Contributions - Employer	-	-	3,360	-	-
Contributions - State Aid	48,460	46,457	80,229	142,852	149,960
Contributions - Member	12,642	18,118	22,808	28,148	32,200
Net Investment Income	(22,095)	274,803	680,983	(249,784)	1,009,625
Benefit Payments, Including Refunds of Member Contributions	(292,085)	(313,642)	(313,990)	(283,242)	(284,033)
Administrative Expense	(8,476)	(7,854)	(8,967)	(8,712)	(9,406)
Net Change in Plan Fiduciary Net Position	(261,554)	17,882	464,423	(370,738)	898,346
Plan Net Position - Beginning	5,594,981	5,333,427	5,351,309	5,815,732	5,444,994
Plan Net Position - Ending	5,333,427	5,351,309	5,815,732	5,444,994	6,343,340
Municipality's Net Pension Liability (Asset)	\$ (559,209)	\$ (373,272)	\$ (506,477)	\$ 168,344	\$ (698,386)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	111.7%	107.5%	109.5%	97.0%	112.4%
Covered Payroll	\$ 951,342	\$ 892,383	\$ 908,827	\$ 935,001	\$ 976,241
Municipality's Net Pension Liability (Asset) as a Percentage of Covered Payroll	-58.8%	-41.8%	-55.7%	18.0%	-71.5%

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 required supplementary information.

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

BOROUGH OF HELLERTOWN
NOTES TO REQUIRED SUPPLEMENTARY SCHEDULE
POLICE PENSION PLAN
DECEMBER 31, 2019

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 of 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 2017 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 CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
LAST 10 YEARS

	<u>2018</u>	<u>2019</u>
Total OPEB liability		
Service cost	\$ 150,958	\$ 158,506
Interest	113,913	118,072
Changes of benefit terms	-	-
Differences between expected and actual experience	-	-
Changes of assumptions or other inputs	-	-
Benefit payments	<u>(157,723)</u>	<u>(149,460)</u>
Net change in total OPEB liability	107,148	127,118
Total OPEB liability - beginning	<u>3,182,572</u>	<u>3,289,720</u>
Total OPEB liability - ending	<u>\$ 3,289,720</u>	<u>\$ 3,416,838</u>
Covered Payroll	\$ 1,910,705	\$ 2,006,240
Total OPEB Liability as a Percent of Covered Payroll	172.2%	170.3%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, OPEB plans should present information for those years for which information is available.

Note to Schedule: No assets are accumulated in a trust to pay the related benefits.

OTHER SUPPLEMENTARY INFORMATION

BOROUGH OF HELLERTOWN
 COMBINING BALANCE SHEET – MODIFIED CASH BASIS – SPECIAL REVENUE FUNDS
 DECEMBER 31, 2019

	Fire Protection	State Liquid Fuels	Total
ASSETS			
Restricted Cash	\$ 90,818	\$ 27,196	\$ 118,014
Total Assets	<u>\$ 90,818</u>	<u>\$ 27,196</u>	<u>\$ 118,014</u>
LIABILITIES AND FUND BALANCES			
Fund Balance Restricted	\$ 90,818	\$ 27,196	\$ 118,014
Total Liabilities and Fund Balances	<u>\$ 90,818</u>	<u>\$ 27,196</u>	<u>\$ 118,014</u>

See independent auditor's report on supplementary information.

BOROUGH OF HELLERTOWN
 COMBINING STATEMENT OF REVENUES RECEIVED, EXPENDITURES PAID AND CHANGES IN FUND
 BALANCES – MODIFIED CASH BASIS – SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2019

	Fire Protection	State Liquid Fuels	Total
REVENUES RECEIVED			
Taxes	\$ 199,510	\$ -	\$ 199,510
Intergovernmental Revenues	-	185,542	185,542
Interest	-	74	74
Miscellaneous Revenues	-	-	-
Total Revenue Received	199,510	185,616	385,126
EXPENDITURES PAID			
General Government	-	-	-
Public Works - Highways and Streets	-	162,371	162,371
Public Safety - Fire	70,084	-	70,084
Total Expenditures Paid	70,084	162,371	232,455
EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID	129,426	23,245	152,671
OTHER FINANCING SOURCES (USES)			
Transfers In	56	10,000	10,056
Transfers Out	(110,000)	(10,000)	(120,000)
Total Other Financing Uses, Net	(109,944)	-	(109,944)
EXCESS (DEFICIT) OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES	19,482	23,245	42,727
Fund Balances - January 1, 2019	71,336	3,951	75,287
Fund Balances - December 31, 2019	<u>\$ 90,818</u>	<u>\$ 27,196</u>	<u>\$ 118,014</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, 2019

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES RECEIVED			
Taxes	\$ 192,751	\$ 199,510	\$ 6,759
Interest	215	74	(141)
Intergovernmental Revenues	182,858	185,542	2,684
Total Revenues Received	<u>375,824</u>	<u>385,126</u>	<u>9,302</u>
EXPENDITURES PAID			
Public Works - Highways and Streets	181,000	162,371	18,629
Public Safety - Fire	192,810	70,084	122,726
Total Expenditures Paid	<u>373,810</u>	<u>232,455</u>	<u>141,355</u>
EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID	2,014	152,671	150,657
OTHER FINANCING SOURCES (USES)			
Operating Transfers - Net	-	(109,944)	(109,944)
EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING SOURCES (USES)	-	42,727	42,727
FUND BALANCE - JANUARY 1, 2019	<u>74,782</u>	<u>75,287</u>	<u>505</u>
FUND BALANCE - DECEMBER 31, 2019	<u>\$ 74,782</u>	<u>\$ 118,014</u>	<u>\$ 42,727</u>