

BOROUGH OF HELLERTOWN
Financial Statements, Auditors' Report
and Supplementary Information

December 31, 2009

CAMPBELL, RAPPOLD & YURASITS LLP
Certified Public Accountants
1033 SOUTH CEDAR CREST BOULEVARD
ALLENTOWN, PA 18103

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INDEPENDENT AUDITORS' REPORT

Borough Council
Borough of Hellertown
Hellertown, Pennsylvania

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 ("Borough"), as of and for the year ended December 31, 2009, which collectively comprise the Borough's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Borough's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, these financial statements were prepared substantially on the modified-cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. In addition, the financial statements referred to above do not include the general fixed assets and the general long-term debt account groups, which should be included in order to conform with accounting principles generally accepted in the United States of America. The amounts that should be recorded in the general fixed assets account group are not known.

In our opinion, except for the effect of the matters discussed in the preceding paragraph, 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 as of December 31, 2009, and its revenues received, expenditures paid, and changes in fund balance for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2010, on our consideration of the Borough of Hellertown's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, budgetary comparison, and pension information on pages 3 through 11 and pages 42 through 48, respectively, are not a required part of the basic financial statements but are defined as supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

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

Campbell, Rappold & Yusaite LLP

Certified Public Accountants

June 24, 2010

BOROUGH OF HELLERTOWN
2009 FINANCIAL STATEMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Borough of Hellertown is providing readers of our financial statements with this narrative overview and analysis of the financial activities of the Borough for the fiscal year ended December 31, 2009. The Borough's financial performance is discussed and analyzed within the content of the financial statements and notes that follow.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The Borough's basic financial statements include government-wide financial statements, fund financial statements, and notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Borough's finances, in a manner similar to private-sector businesses.

The *statement of net assets* presents information on all of the Borough's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Borough is improving or deteriorating.

The *statement of revenues received, expenditures paid and changes in fund balance* present information on how fund balances changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned benefits such as unused vacation leave).

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Borough's funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

The Borough maintains four individual *governmental funds*: the General, Special Revenue, Capital Project, and Debt Service funds. Each is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures, and other financing sources and uses. The Borough adopts an annual appropriated budget to allocate and account for government resources provided to these funds.

**BOROUGH OF HELLERTOWN
2009 FINANCIAL STATEMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Borough maintains one *proprietary fund*, the garbage fund, used to account for collection and disposal of municipal waste and recyclable goods.

Finally, the Borough maintains *fiduciary funds* to account for escrowed monies paid by developers / property owners (for land development and property improvement fees and expenses), and pension funds for both Police and Non-Uniformed employees of the Borough.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes can be found on pages 23 to 40 of this report.

Financial Analysis

The governmental fund assets of the Borough exceeded liabilities at the close of business on December 31, 2009 by approximately \$3,317,835, a decrease of less than \$1,400 from year-end 2008. Debt decreased by \$60,731 from prior year, standing at \$676,331 at December 31, 2009.

General fund revenues increased only \$19,046 (0.57%) from a year earlier period. Tax revenues, the largest contributor to overall revenues, were essentially unchanged from 2008, but bested budget by about \$10,000. Regarding some individual contributors, current year Real Estate Tax collections were within \$5,000 of the year earlier figure, and when including collection of prior and delinquent taxes, total contribution from Real Estate Tax revenues was up about \$9,000 over the 2008 total. However, this slight gain was overshadowed by a continuing drop in Real Estate Transfer Tax revenues (dropping a further \$12,283 on top of a drop of more than \$109,000 year-over-year 2007 to 2008) and a year-over-year decrease in the Earned Income Tax collections of \$1,898 which ended 2009 at \$575,337. Real Estate Transfer Tax collections underperformed conservatively set budget projections by about \$27,000, as the unwinding of the mortgage credit crisis and slowed home sales continued to negatively impact those revenues. Bank interest on invested savings (totaling \$11,034 for the year) continued its decline, almost entirely responsible for the drop in the Interest and Rent revenues category to \$17,718, approximately \$20,000 under a more optimistic budget projection. In light of the continued economic weakness keeping interest rates at historically low levels, the 2010 budget has taken into account the lower interest rate on savings, projecting 2010 collections at just over \$12,000. The increase in Intergovernmental Revenues can be attributed to the Borough's receipt of a Community Development Block Grant reimbursement of \$168,699 from Northampton County for construction of handicap accessibility ramps at various intersection locations within the Borough.

**BOROUGH OF HELLERTOWN
2009 FINANCIAL STATEMENTS
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On the General Fund expenditures side, wages for both Non-Uniformed and Uniformed employees saw increases - \$0.85 per hour for Non-Uniformed employees and 4% for Uniformed Employees. The Non-Uniformed contract closed out the final year of a five (5) year contract in 2009, and negotiations with the employees' Association reached terms on a contract extension of one (1) year through 2010, with an additional \$0.25 per hour salary increase effective on January 1, 2010. On the Uniformed Contract side, 2010 will also be the final year of the three (3) year contract with the Police, which includes a 5% salary increase. Personnel changes in the Police Department during 2009 included the appointment of a new Police Chief and Police Secretary, and the temporary appointment of a Lead Patrolman to serve as a shift supervisor in the absence of a Captain and a Sergeant. At year end, the Department was in the process of completing a revision of its organization, selecting a permanent Police Sergeant to replace the Lead Patrolman and beginning the Civil Service process of appointing two full time Police Officers. Due to terms of a severance agreement with the former Police Chief, the Police Chief Salary expense was approximately \$62,285 over budget, accounting for the Department's overall budget being exceeded by \$21,385.

Expenditures in a number of other categories did not meet budget. In General Government, Engineering and Other Services expense exceeded 2008 performance by nearly \$35,000, and was \$99,942 over budget at \$193,442. This was a result of work on the CDBG Handicap Ramps project (\$54,684 reimbursed through the CDBG grant mentioned previously) and engineering services for soil remediation and underground storage tank removal at the Reinhard School (\$33,027). Another contributor to the overage was fees for Police Labor Attorney Services (\$25,162) utilized to handle a settlement with the Borough's former Police Chief, a Police pension arbitration, and work with the Civil Service Commission.

In addition, the Maintenance & Repairs category at \$50,450 was \$41,950 over budget primarily due to the Library elevator construction project. The Borough was the grantee on the project and administered the grant funds and payment of the contractor. The cost of the project above the \$75,000 grant received from Keystone Libraries is being reimbursed to the Borough by the Hellertown Library. Those reimbursements were not completed by yearend, leaving a balance that was credited to the account in 2010.

The Public Works-Highway & Streets budget was negatively impacted by three items: Road Maintenance Materials, Capital Outlay, and Construction & Rebuilding. Road Maintenance Materials at \$184,872 was driven by the installation of handicap ramps under a CDBG grant with funding credited in Intergovernmental Revenues.

In the Capital category, spending for the year was actually lower by \$25,000 over 2008 performance, but exceeded budget due the purchase of a critically needed dump truck for Highway service.

Construction & Rebuilding spending for 2009 was slightly lower than 2008, but well over budget by \$125,000. This was due entirely due to purchased paving materials for road resurfacing, reimbursed from the Liquid Fuels account.

**BOROUGH OF HELLERTOWN
2009 FINANCIAL STATEMENTS
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Finally, in the Employee Benefits/Taxes category, the budget was exceeded by approximately \$39,000 driven by two insurance areas, Hospitalization and General Liability Insurance. Although Hospitalization Insurance costs were up approximately 8.2% year-over-year, this is well below community average increases which averaged in the mid-teen to 20% range. The Borough's participation in a municipal health insurance cooperative is a positive factor in keeping rate increases under control. In the area of General Insurance, the cost increase was due to an increase in the premium costs for Workmen's Comp insurance (\$26,000) as our performance mode over the last three years has been impacted by an increased number of cases during the period. If Workmen's Comp claims continue the improvement shown in 2009, we can anticipate much lower premium costs in 2010 for this coverage.

Summarizing the numbers:

<u>Revenues Received</u>	<u>2009 Actual</u>	<u>2008 Actual</u>
Taxes	\$ 2,720,076	\$ 2,720,433
Licenses and Permits	181,515	181,998
Fines and Forfeits	62,807	50,086
Interest and Rent	17,718	38,870
Intergovernmental Revenue	219,546	157,825
Charges for Services	123,721	117,392
Miscellaneous Revenue	<u>35,792</u>	<u>75,525</u>
Total Revenues Received	3,361,175	3,342,129

<u>Expenditures Paid</u>		
General Government	752,394	669,376
Public Safety	907,384	852,646
Health and Human Services	---	4,860
Public Works-Highway & Streets	920,926	758,651
Culture and Recreation	323,555	271,727
Employee Benefits / Taxes	712,694	645,360
Debt Interest	---	---
Contingencies	<u>---</u>	<u>---</u>
Total Expenditures Paid	3,616,953	3,202,620

EXCESS (DEFICIT) REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID	(255,778)	139,509
Other Financing Sources (Uses)		
Operating Transfers – Net	<u>37,195</u>	<u>98,120</u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS**

EXCESS (DEFICIT) REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES	(218,583)	237,629
 FUND BALANCE – JANUARY 1 ST	<u>2,100,734</u>	<u>1,863,105</u>
 FUND BALANCE – DECEMBER 31 ST	\$ 1,882,151	\$ 2,100,734

Both the 2009 Real Estate Tax rate and the 2009 Fire Tax rate remained unchanged from the prior year levels. Looking ahead, Borough Council approved a 2010 Budget that leaves Real Estate and Fire Tax rates yet again unchanged. The respective tax rates approved for 2010 and the previous five years are tabulated here:

<u>Year</u>	<u>Real Estate Tax Rate</u>	<u>Fire Tax Rate</u>
2010	16.0	1.50
2009	16.0	1.50
2008	16.0	1.50
2007	16.0	1.50
2006	13.1	1.50
2005	13.1	1.50

Business-type activities (*Garbage Fund*) contributed \$31,267 to revenues. The Borough provides municipal trash collection services to residents and businesses within the town limits. During 2009, the Borough entered into a new five (5) year trash disposal contract with IESI Landfill at much improved rates. In 2008, the last year of the prior contract, the tipping rate per ton of trash disposed was \$65.27 per ton, while in 2009, the first year of the new contract, the tipping rate was \$62.00 per ton. During the remainder of the five year contract, the rate will rise by an incremental \$0.63 per ton, culminating in the 2013 contract year at \$64.51, still lower than the rate charged in 2008. Obtaining these lowered landfill charges should help to offset expected increases in employment, fuel, and fleet maintenance costs over the term of the contract and delay increases in trash collection fees for our residents and businesses. The current residential trash collection fee is \$175 per annum. The Borough's residential curbside recycling contract with J. P. Mascaro & Sons concluded the third and final year of its three year term in 2009 with an annual collection cost of approximately \$124,000. As was the case with the landfill contract, the Borough was able to obtain improved terms on a new three (3) contract with an annual collection cost of approximately \$110,000 per year during the term of the agreement, again delaying a need to raise rates to our residents. The Borough's current residential recycling fee is \$55 per annum. In addition to the recycling of the usual household commodities through curbside collection, the Borough embarked on a partnership with neighboring Lower Saucon Township in 2007 for the collection of yard waste.

**BOROUGH OF HELLERTOWN
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A five (5) acre, DEP approved yard waste collection facility located on Borough-owned land in the Township is operated jointly from April through November, accepting household yard waste such as tree branches, leaves, and hedge trimmings. During Saturdays in January, it is open for collection of Christmas trees. Together with twice yearly curbside collection of yard waste, the facility has removed well over 1,000 tons of plant material from the waste stream during its existence, and produces mulch that is available at no charge to the residents of the two communities. We see excellent opportunities ahead to expand the capabilities of the facility going forward, broadening the array of recycling options to benefit the residents of our communities.

Economic Condition and Outlook

The slowdown in the economy that began in 2008 with rising fuel costs, the mortgage credit crisis, and the “meltdown” of the financial markets, spilled over into 2009, and had a noticeable effect in some areas of the municipal budget. As noted earlier, real estate transfer tax revenues continued their descent, albeit at a slower rate than 2008, with collections ending 2009 at \$73,362, over \$12,000 off of 2008 levels and over \$121,000 below 2007 collections. After holding up surprisingly well in 2008, earned income tax collections were flat, dropping slightly (by \$1,898 or .32%) in 2009, but still relatively positive considering the environment. Overall, with revenues from real estate taxes and local services taxes gaining slightly, the Borough’s tax revenues weathered the year in relatively good shape and within budget. We remain optimistic that 2009 was a bottom, with gradual improvements going forward, however, as a precautionary measure, the Borough’s 2010 tax revenues budget projections have been adjusted downward slightly to account for some remaining uncertainty entering the new year. As noted in last year’s discussion, Hellertown’s overall economic direction and outlook remains positive. We continue to see many new, small businesses coming into town, and building permit and business registration fees actually increased slightly in 2009, indicative of a recognition of Hellertown as a good place to do business and its strategic location near Interstate 78, the Bethlehem Commerce Center and Lehigh Valley Industrial Park VII to our immediate north, and the Sands Casino and Bethlehem Works in south Bethlehem only a mile away.

The Borough continues its partnerships in various efforts to revitalize and strengthen our community. Hellertown remains a participant in the Borough Business Revitalization Program (BBRP), a State, County, and Chamber of Commerce sponsored program involving eight (8) older communities in the Lehigh Valley, a program supporting the revitalization of the downtown business districts in these communities. The program provides technical support through the services of a shared “Main Street” manager, who facilitates grant applications and works with the business community on various promotions and business development activities. In 2009, \$16,000 in façade grants were allocated funding through the program, helping to restore storefronts and residences on Main Street.

**BOROUGH OF HELLERTOWN
2009 FINANCIAL STATEMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Over \$30,000 in grant funding has been provided since the program's start three years ago. In October, 2008, BBRP and the Borough selected a consultant to create a streetscape plan for the Main Street corridor that would form the basis of future revitalization efforts, and supplement and elaborate on the stated goals for Hellertown's downtown renewal outlined in a multi-municipal comprehensive plan, described elsewhere in this narrative. In May, 2009, this effort took a leap forward with the Governor's announcement that Hellertown had been approved for a \$90,500 Pennsylvania Communities Transportation Initiative (PCTI) grant to develop a multi-modal network of pedestrian and alternative transportation routes, together with traffic calming features, to ease traffic congestion and improve the quality of life in our municipality. A steering committee composed of elected and appointed officials, and representatives from the community and business began work on a transportation and streetscape plan in the fall of 2009, with the final plan expected to be completed in mid-2010. What began as a limited scope initiative with a budget of \$20,000 will now create a vision for the future to build upon for the entire length of Main Street for decades to come.

Continuing on the topic of building on partnerships that benefit our community, the Borough remains an active member of the Saucon Valley Partnership, a Council of Governments (COG) formed with neighboring Lower Saucon Township and the Saucon Valley School District. The group, which is composed of elected officials from each organization, meet monthly and share ideas and consider activities that benefit each entity and the region as a whole. In addition to the Saucon Valley Compost Center mentioned earlier in this report, mutual assistance in road resurfacing and repair projects, cooperation on traffic safety initiatives across municipal boundaries, and participating in studies to unite the five volunteer fire companies that service our communities are some of the ongoing activities. In the instance of road work, rather than contracting out road resurfacing, the Borough and Township's Public Works Departments pool resources to repair and pave roads, which for the Borough alone, has saved many hundreds of thousands of dollars over the last few years. In yet another area of cooperation, the passage of Act 32 which mandates the collection of earned income taxes (EIT) by one entity on a countywide basis, the Partnership recommended that one set of representatives be appointed to represent the Borough, Township, and School District in the deliberations now underway to establish the collection organization. Since voting to establish how this new collection entity will operate is spread across more than 45 municipalities and school districts, and votes are weighted based on EIT revenues and population, a collective partnership increases the "voice" we have on the final make-up, operation, and cost of the collection agency.

A major cooperative accomplishment concluded during 2009 was the adoption of a multimunicipal comprehensive plan by the Borough, Lower Saucon Township, and the Saucon Valley School District. Beginning in December, 2005 with a grant from the Pennsylvania Department of Community and Economic Development (DCED) and matching funding from the entities, followed in 2006 with the selection of a consultant to assist the two communities and the school district in the effort, the adopted plan sets goals and objectives for future development and land use, and protection of natural resources within the two communities.

**BOROUGH OF HELLERTOWN
2009 FINANCIAL STATEMENTS
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The plan emphasizes coordination and collaboration across a number of areas from planning and zoning to potential joint municipal services to business development and downtown revitalization in Hellertown. Following up on this achievement, the Saucon Valley Partnership has submitted a grant application to DCED to proceed to the next step, conducting a zoning audit of both communities. This work will identify areas in each community's zoning ordinances where they are either consistent or inconsistent with the Municipalities Planning Code (MPC), whether the ordinances are consistent with current legal practices, and finally, meet a requirement of the MPC by being generally consistent with the comprehensive plan itself. In the longer term, this effort could lead to development of cooperative zoning ordinances that will beneficially direct future growth and business development and overall quality of life in our portion of the Saucon Valley.

As noted in the 2008 MD&A, the Borough and Township, with the addition of municipal partners from Upper Saucon Township and the Borough of Coopersburg, continued working with the Southeastern Pennsylvania Transit Authority (SEPTA) to develop an 8 mile long abandoned rail line into a rail trail connecting the four municipalities and two counties, which promises to bring economic benefits to all. After years of negotiations, SEPTA signed lease agreements with Upper and Lower Saucon Townships in December 2009, with Hellertown and Coopersburg in January 2010. The Borough will be developing its portion of the trail during 2010.

Cooperative efforts are an important part of the Borough's future fiscal and economic success, and we will continue to pursue those appropriate joint activities that will improve the overall quality of life for our residents.

To offset the cost of essential public works and infrastructure projects, the Borough continues to pursue grant opportunities. In addition to the Pennsylvania Community Transportation Initiative grant (\$90,500) awarded to the Borough in 2009, an additional Community Block Grant (CDBG-R) of \$83,515 was provided by Northampton County to continue the handicap accessibility ramp improvements begun over four (4) years ago. Work on both projects will be completed in 2010. A Home Town Streets grant (\$355,000) awarded to the Borough in 2007 is finally ready for release to bid following receipt of the final right-of-way waivers from the twenty-one property owners along the Hellertown side of Cherry Lane. This PennDOT funded project will construct sidewalks and curbing, and plant trees along this gateway road into our municipality. During 2009, the Borough received a grant of \$165,000 from Northampton County for the demolition of the blighted Reinhard School building. A successful bidder for the demolition work was selected, but the project is on hold as the Borough and County work through required clearances with the Pennsylvania Historical and Museum Commission. The property, containing 3.9 acres, affords the Borough a multitude of municipal purpose redevelopment options that will be considered by Borough Council in 2010. During 2010, we will be pursuing grant opportunities including funding for installation of additional handicap accessibility ramps throughout the Borough, submitting an application for an H2O PA/PennVest grant for the installation of added stormwater collection piping for Main Street and other local roads, and seeking grants for the conversion of a 2.2 acre Borough-owned parcel into a public park and environmental learning center, and serving simultaneously as a trailhead for access to the developing rail trail.

**BOROUGH OF HELLERTOWN
2009 FINANCIAL STATEMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

2009 was an economically challenging year for everyone, including municipalities. As our municipality looks ahead to 2010, many challenges remain on the fiscal front. Borough Council and staff have attempted to anticipate the impact of the economy and cost of goods on municipal revenues and expenses, and made conservative projections in creating a balanced budget. As we move through this year, we will monitor performance and make adjustments in spending as are appropriate to preserve capital yet maintain necessary municipal services to our citizens. As noted in our 2008 MD&A report, one potential source of additional revenue, the introduction of the Sands Casino operation into the City of Bethlehem, one mile from the northern border of Hellertown, has *not* been factored into our revenue stream. Northampton County will be receiving a portion of the gross terminal revenue of the casino operation for distribution as municipal grants to municipalities in the host county, "*with priority given to municipalities contiguous to the host city*" (emphasis added, Section 1403(c)(2)(ii)(D.1) of the Act). The Northampton County Gaming Revenue and Redevelopment Authority was established to distribute these funds and, as of this writing, the nine member Authority has opened the application process for the municipalities. The Borough has a representative on the Authority that is representing our interests and we remain confident that the Borough will be a recipient of grant funding to offset possible negative impacts that the casino will have on traffic, crime, and demand for municipal and social services. Although concerned about the Casino's negative impacts, we remain cautiously optimistic that the benefits to our community will both neutralize and outweigh the negatives, and are prepared to address the problems should they arise.

Requests For Information

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

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BOROUGH OF HELLERTOWN
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
AS OF DECEMBER 31, 2009

ASSETS	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	Total
Cash & Cash Equivalents	\$ 3,319,672	\$ -	\$ 3,319,672
Investments	675,000	-	675,000
Total Assets	<u>\$ 3,994,672</u>	<u>\$ -</u>	<u>\$ 3,994,672</u>
 LIABILITIES AND NET ASSETS			
Liabilities:			
Other Withholding	\$ 506	\$ -	\$ 506
Notes Payable	676,331	-	676,331
Total Liabilities	<u>\$ 676,837</u>	<u>\$ -</u>	<u>\$ 676,837</u>
 NET ASSETS			
Unreserved - Undesignated	\$ 3,317,835	\$ -	\$ 3,317,835
Total Net Assets	<u>\$ 3,317,835</u>	<u>\$ -</u>	<u>\$ 3,317,835</u>
Total Liabilities and Net Assets	<u>\$ 3,994,672</u>	<u>\$ -</u>	<u>\$ 3,994,672</u>

The accompanying notes are an integral part of these financial statements.

BOROUGH OF HELLERTOWN
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2009

Functions/Programs	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	Expenses	Charges for Services	Operating Grants and Contributions		PRIMARY GOVERNMENT		
			Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Government activities:							
General Government	\$ 752,394	\$ 4,920	\$ -	\$ -	\$ (747,474)	\$ -	\$ (747,474)
Public Safety	968,625	7,535	-	-	(961,090)	-	(961,090)
Health & Human Services	-	-	-	-	-	-	-
Public Works - Hwy/Strts	920,926	1,294	320,165	-	(599,467)	-	(599,467)
Culture and Recreation	323,555	109,972	-	-	(213,583)	-	(213,583)
Employee Benefits/Taxes	712,694	-	16,631	-	(696,063)	-	(696,063)
Contingencies	-	-	-	-	-	-	-
Interest	30,200	-	-	-	(30,200)	-	(30,200)
Total Governmental Activities	\$ 3,708,394	\$ 123,721	\$ 336,796	\$ -	\$ (3,247,877)	\$ -	\$ (3,247,877)
Business Type Activities:							
Sanitation	635,195	666,462	-	-	-	31,267	31,267
Total Business-Type Activities	\$ 635,195	\$ 666,462	\$ -	\$ -	\$ -	\$ 31,267	\$ 31,267
Total Primary Government	\$ 4,343,589	\$ 790,183	\$ 336,796	\$ -	\$ (3,247,877)	\$ 31,267	\$ (3,216,610)
General Revenues:							
Taxes					2,910,490	-	2,910,490
Licenses & Permits					181,515	-	181,515
Fines & Forfeitures					62,807	-	62,807
Interest & Rents					24,661	-	24,661
Miscellaneous					35,792	-	35,792
Transfers					31,267	(31,267)	-
Total General Revenues & Transfers					3,246,532	(31,267)	3,215,265
Change in Net Assets					(1,345)	-	(1,345)
Net Assets - January 1, 2009					3,319,180	-	3,319,180
Net Assets - December 31, 2009					\$ 3,317,835	\$ -	\$ 3,317,835

The accompanying notes are an integral part of these financial statements.

**BOROUGH OF HELLERTOWN
BALANCE SHEET - MODIFIED CASH BASIS -
GOVERNMENTAL FUNDS
DECEMBER 31, 2009**

	General	Capital Projects Funds	Special Revenue Funds	Total Governmental Funds
ASSETS AND OTHER DEBITS				
Cash & Cash Equivalents	\$ 1,207,657	\$ 1,758,749	\$ 353,266	\$ 3,319,672
Investments	675,000	-	-	675,000
Restricted Assets	-	-	-	-
Amount to be Provided for Retirement of Notes Payable	-	-	-	-
TOTAL ASSETS & OTHER DEBITS	\$ 1,882,657	\$ 1,758,749	\$ 353,266	\$ 3,994,672
LIABILITIES AND FUND BALANCES				
Other Withholdings	\$ 506	\$ -	\$ -	\$ 506
Total Liabilities	\$ 506	\$ -	\$ -	\$ 506
FUND BALANCE				
Unreserved	1,882,151	1,758,749	-	3,640,900
Unreserved Reported in Special Revenue Fund	-	-	353,266	353,266
TOTAL FUND BALANCE	1,882,151	1,758,749	353,266	3,994,166
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,882,657	\$ 1,758,749	\$ 353,266	

Reconciliation to Statement of Net Assets - Modified Cash Basis:

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

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

(676,331)

Net assets of governmental activities

\$ 3,317,835

The accompanying notes are an integral part of these financial statements.

BOROUGH OF HELLERTOWN
STATEMENT OF REVENUES RECEIVED, EXPENDITURES PAID
AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	General Fund	Capital Projects Funds	Special Revenue Funds	Total Governmental Funds
REVENUES RECEIVED				
Taxes	\$ 2,720,076	\$ -	\$ 190,414	\$ 2,910,490
Intergovernmental Revenues	219,546	-	117,250	336,796
Charges for Service	123,721	-	-	123,721
Fines and forfeitures	62,807	-	-	62,807
Licenses and Permits	181,515	-	-	181,515
Interest and Rent	17,718	5,326	1,617	24,661
Miscellaneous Revenue	35,792	-	-	35,792
Total Revenues Received	<u>3,361,175</u>	<u>5,326</u>	<u>309,281</u>	<u>3,675,782</u>
EXPENDITURES PAID				
General Government				
Mayor & Council	16,340	-	-	16,340
Managerial	56,130	-	-	56,130
Clerical	121,595	-	-	121,595
Solicitor	40,072	-	-	40,072
General government	518,257	-	-	518,257
Public Safety				
Police	907,384	-	-	907,384
Fire	-	-	61,241	61,241
Health and Human Services	-	-	-	-
Public Works				
Highways and Streets	920,926	-	-	920,926
Culture and Recreation				
Library	58,000	-	-	58,000
Park and Pool	265,555	-	-	265,555
Interest	-	-	-	-
Contingencies	-	-	-	-
Employee Benefits/Taxes	712,694	-	-	712,694
Total Expenditures Paid	<u>3,616,953</u>	<u>-</u>	<u>61,241</u>	<u>3,678,194</u>
EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID				
	(255,778)	5,326	248,040	(2,412)
OTHER FINANCING SOURCES (USES)				
Transfers In	267,899	242,329	24,485	534,713
Transfers Out	(230,704)	(6,274)	(357,399)	(594,377)
Total Other Financing Sources (Uses), Net	<u>\$ 37,195</u>	<u>\$ 236,055</u>	<u>\$ (332,914)</u>	<u>\$ (59,664)</u>
EXCESS (DEFICIT) OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES				
	(218,583)	241,381	(84,874)	(62,076)
Fund Balances - January 1, 2009	<u>2,100,734</u>	<u>1,517,368</u>	<u>438,140</u>	<u>4,056,242</u>
Fund Balances - December 31, 2009	<u>\$ 1,882,151</u>	<u>\$ 1,758,749</u>	<u>\$ 353,266</u>	<u>\$ 3,994,166</u>

The accompanying notes are an integral part of these financial statements.

BOROUGH OF HELLERTOWN
STATEMENT OF REVENUES RECEIVED, EXPENDITURES PAID
AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS (CONTINUED)
GOVERNMENT FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

Reconciliation to the Statement of Activities:

Net change in fund balances - total governmental funds	\$ (62,076)
Amounts reported for governmental activities in the Statement of Activities - Modified Cash Basis are different because:	
Repayment of debt is a Transfer Out of the governmental funds to the Long-term Obligations Account Group whose Transfer In is included on the Statement of Activities - Modified Cash Basis	90,931
Amount of interest paid by the Long-term Obligations Account Group	<u>(30,200)</u>
Change in net assets of governmental activities	<u>\$ (1,345)</u>

The accompanying notes are an integral part of these financial statements.

BOROUGH OF HELLERTOWN
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
ALL FIDUCIARY FUNDS
DECEMBER 31, 2009

	<u>Pension Trust Funds</u>	<u>Agency Fund</u>
ASSETS		
Cash and Cash Equivalents	\$ 26,615	\$ 150,039
Investments at Fair Value		
Guaranteed Investment Contracts	600,964	-
U.S. Government Obligations	556,157	-
Balanced Funds/Fixed Income	1,311,625	-
Municipal Bonds	30,403	-
Corporate Bonds	1,408,259	-
Domestic Stocks	1,937,696	-
International Stocks	<u>1,672</u>	<u>-</u>
Total Investments, at Fair Value	<u>5,846,776</u>	<u>-</u>
Total Assets	<u>\$ 5,873,391</u>	<u>\$ 150,039</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Due to Depositors	<u>\$ -</u>	<u>\$ 150,039</u>
Total Liabilities	<u>-</u>	<u>150,039</u>
Net Assets		
Reserved for Employees' Pension Benefits	<u>5,873,391</u>	<u>-</u>
Total Net Assets	<u>5,873,391</u>	<u>-</u>
Total Liabilities and Net Assets	<u>\$ 5,873,391</u>	<u>\$ 150,039</u>

The accompanying notes are an integral part of these financial statements.

BOROUGH OF HELLERTOWN
COMBINED STATEMENT OF CHANGES IN PLAN NET ASSETS -
MODIFIED CASH BASIS - ALL PENSION TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

ADDITIONS

Contributions	
Employer	\$ 451
Employee	49,695
State Aid	16,631
Other Receipts	<u>10,052</u>
Total Contributions	76,829
Investment Income	
Interest	76,131
Dividends	87,591
Realized Capital Gains (Losses)	(80,424)
Net Appreciation (Depreciation) in Fair Market of Investments	<u>663,403</u>
Total Investment Income (Loss)	746,701
Less: Investment Expenses	<u>(35,904)</u>
Net Investment Income (Loss)	<u>710,797</u>
Total Additions (Losses), Net	787,626

DEDUCTIONS

Benefits	213,179
Administrative Expenses	<u>3,686</u>
Total Deductions	<u>216,865</u>

NET INCREASE (DECREASE) IN PLAN NET ASSETS 570,761

**FUND BALANCE - RESERVED FOR EMPLOYEES'
PENSION BENEFITS:**

JANUARY 1, 2009	<u>5,302,630</u>
DECEMBER 31, 2009	<u>\$ 5,873,391</u>

The accompanying notes are an integral part of these financial statements.

**BOROUGH OF HELLERTOWN
STATEMENT OF CASH FLOWS -
MODIFIED CASH BASIS - ALL PENSION TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

CASH FLOWS FROM OPERATING ACTIVITIES

Net Increase (Decrease) in Plan Net Assets	\$ 570,761
Adjustments to Reconcile Net Increase (Decrease) in Plan Net Assets	
To Net Cash Provided (Used) by Operating Activities:	
Realized (Gains) Losses on Investments	80,424
Unrealized (Gains) Losses on Investments	<u>(663,403)</u>
Cash Provided (Used) by Operating Activities	(12,218)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sale of Investments	5,636,275
Purchase of Investments	<u>(5,833,791)</u>
Cash Provided (Used) by Investing Activities	<u>(197,516)</u>

Increase (Decrease) in Cash and Cash Equivalents (209,734)

Cash and Cash Equivalents, January 1, 2009	236,349
Cash and Cash Equivalents, December 31, 2009	<u>\$ 26,615</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION

Cash Paid For:	
Interest	\$ -
Income Taxes	\$ -

The accompanying notes are an integral part of these financial statements.

**BOROUGH OF HELLERTOWN
STATEMENT OF REVENUES RECEIVED, EXPENDITURES PAID
AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS -
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2009**

	PROPRIETARY FUND TYPE
	Enterprise Fund
REVENUES RECEIVED	
Refuse Collections	\$ 525,441
Recycling	141,021
	<hr/>
Total Revenues Received	666,462
 EXPENDITURES PAID	
Personnel	146,366
Contracted Services	331,462
Repairs, Maintenance, and Supplies	28,744
Capital Outlay	128,623
	<hr/>
Total Expenditures Paid	635,195
 EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID	 31,267
 Other Financing Sources (Uses)	
Operating Transfers - Net	(31,267)
	<hr/>
EXCESS (DEFICIT) OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES	 -
 FUND BALANCE - JANUARY 1, 2009	 -
	<hr/>
FUND BALANCE - DECEMBER 31, 2009	\$ -
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

**BOROUGH OF HELLERTOWN
STATEMENT OF CASH FLOWS -
MODIFIED CASH BASIS - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2009**

CASH FLOWS FROM OPERATING ACTIVITIES

Excess (Deficit) of Revenues Received	
Over (Under) Expenditures Paid	\$ 31,267
Cash Provided (Used) by Operating Activities	31,267
Operating Transfers - Net	(31,267)
Increase (Decrease) in Cash and Cash Equivalents	-
Cash and Cash Equivalents, January 1, 2009	-
Cash and Cash Equivalents, December 31, 2009	\$ -

SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION

Cash Paid For:	
Interest	\$ -
Income Taxes	\$ -

The accompanying notes are an integral part of these financial statements.

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

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, Hellertown, Pennsylvania, and provides a full range of services, including public safety, roads, sanitation, recreation and general government services, to its approximately 6,000 residents.

The Borough follows generally accepted accounting principles in determining which governmental units should be included in its financial statements. Factors considered in determining whether a governmental unit should be included in the Borough's financial statements include financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

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

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

Basis of Presentation - Fund Accounting

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

BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

1. **Summary of Significant Accounting Policies (Continued)**

Basis of presentation - Fund Accounting (Continued)

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

Governmental Fund Types

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

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

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

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

- **Debt Service Fund** - is used to account for the accumulation of resources for, and the payment of, principal and interest on general obligation debt supported by the full faith and credit of the Borough. The fund balance contains a deficit, which will decrease as the loan payments are made.
- **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.

Proprietary Fund Types

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

BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

1. Summary of Significant Accounting Policies (Continued)

Basis of Presentation - Fund Accounting (Continued)

Proprietary Fund Types

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

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

Fiduciary Fund Types

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

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

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

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

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

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

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

1. Summary of Significant Accounting Policies (Continued)

Basis of Accounting and Management Focus

Basis of Accounting

Basis of accounting refers to the timing of recognition of revenues and expenditures or expenses in the financial statements regardless of the measurement focus. The modified cash basis of accounting is followed for all governmental, proprietary and fiduciary funds of the Borough. The modified cash basis differs from GAAP in that certain revenues and the related assets are recognized when received rather than when earned and certain expenditures or expenses are recognized when paid rather than when a liability is incurred. In addition, the modified cash basis differs from GAAP in that the Borough does not maintain records of its general fixed assets and general long-term debt. Accordingly, the accompanying financial statements do not include a general fixed assets account group and a general long-term debt account group, which should be included in order to conform with accounting principles generally accepted in the United States of America. Modifications to the cash basis of accounting include the recording of payroll withholdings when withheld from employees' pay; the recording of prepaid expenses when the Borough pays withholdings for employees and the paycheck is subsequently voided with the amount remitted the next month reduced by the prepaid amount; and the recording of investments held (in the Pension Trust Funds) as assets. In addition, net unrealized gains and losses on investments are recorded as a result of changes in the fair value of investments, not when the investments are sold. The Statement of Revenues Received, Expenditures Paid and Changes in Fund Balance - Modified Cash Basis - Governmental Funds presents the results of the Borough's activities; it does not purport to present the net income or loss for the period.

Measurement Focus

The accounting and reporting treatment applied to a fund is determined by its measurement focus. Governmental fund types are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on the statement of assets, liabilities and fund balance. The Borough has elected to exclude the general fixed assets account group and the general long-term debt account group and report the Borough's long-term indebtedness in the Debt Service Fund. Governmental fund-type operating statements present increased (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

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

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

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

1. Summary of Significant Accounting Policies (Continued)

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

Fund balances 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 fund balance and are not otherwise available for appropriation. All encumbrances lapsed at the end of the year. Accordingly, there were no fund balances reserved for encumbrances as of December 31, 2009.

Fund Balance

The fund balance of Governmental Fund Types and the Pension Trust Fund are classified in two separate categories. The categories, and their general meanings, are as follows:

- Reserved fund balance - indicates the portion of the fund balance that has been appropriated for specific purposes.
- Unreserved-undesignated fund balance - indicates the portion of the fund balance that is available for appropriation and expenditure, in future periods.

As of the date of these financial statements, the only reserved fund balance was that of the Pension Trust Funds (Police and Non-uniformed), which was comprised of amounts reserved for the payment of employee pension benefits.

Inter-fund Transactions

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

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

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

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 expenses during the reporting period. Actual results could differ from those estimated.

2. Non-GAAP Budgetary Basis of Accounting

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

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 transfers and any revisions to the budget also require approval by Borough Council. There were no amendments to the budget as presented in the current year.

3. Cash and Cash Equivalents

General

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

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

Cash (Cash on Hand and Bank Balances)

At December 31, 2009, the carrying amount of the borough's bank deposits (excluding those held in the Pension Trust Funds, but including Agency Funds) totaled \$3,468,810 and the corresponding bank balances were \$3,537,397, of which \$250,000 was insured by the Federal Deposit Insurance Corporation ("FDIC"); the uninsured bank balance of \$3,287,397 were collateralized, as described below.

BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

3. Cash and Cash Equivalents

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 \$3,287,397, 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, 2009, the petty cash balance was \$900.

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, 2009, the Borough had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
<u>General Fund</u>		
Certificates of Deposit	2010	\$ 675,000
Total General Fund		<u>\$ 675,000</u>
<u>Pension Trust Funds</u>		
Guaranteed Investment Contracts		\$ 600,964
U.S. Government Obligations		556,157
Balanced Funds/Fixes Income		1,311,625
Municipal Bonds	2016	30,403
Corporate Bonds	2010 - 2019	1,408,259
Domestic Stock		1,937,696
International Stock		<u>1,672</u>
Total Pension Trust Funds		<u>\$ 5,846,776</u>

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

3. Cash and Cash Equivalents (Continued)

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.

Concentration of Credit Risk

The Borough places limits on the amount the Borough may invest in any one issuer. Of the Borough's investments, (not including Pension Trust Funds) 100% are in certificates of deposit at one financial institution. The certificate of deposit balances were \$675,000, of which \$250,000 was insured by the FDIC; the uninsured bank balance of \$475,000 was collateralized under Act No. 72.

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.

4. Notes Payable

The Borough of Hellertown issues notes payable to finance various capital improvements throughout the Borough, which are reported in the Debt Service Fund. On June 1, 2003 the Borough refinanced its two General Obligation Notes Series I, 1996 and 1997, and borrowed an additional \$485,185 (taken down on July 21, 2003), bringing the total outstanding balance on the new note (General Obligation Note Series I, 2003) to \$1,000,000 as of July 31, 2003.

A description of the terms of each of the Borough's long-term debt obligations ("Notes") and the balance of each outstanding at December 31, 2009 is presented below.

Notes Payable: General Obligation Notes	Balance Outstanding January 1, 2009	Additions	Reductions	Balance Outstanding December 31, 2009
General Obligation Note Series I, 2003, fixed annual interest rate of 4.1% one annual principal and interest payment of \$90,931, due each June 1st through June 1, 2018.	\$ 737,062	\$ -	\$ 60,731	\$ 676,331
	<u>\$ 737,062</u>	<u>\$ -</u>	<u>\$ 60,731</u>	<u>\$ 676,331</u>

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

4. Notes Payable (Continued)

The annual debt service requirements to maturity for notes payable as of December 31, 2009 are as follows:

During the year (s) ended December 31:	Principal	Interest
2010	63,026	27,905
2011	65,646	25,285
2012	68,374	22,557
2013	71,217	19,714
2014-2018	408,068	51,625
Totals	<u>\$ 676,331</u>	<u>\$ 147,086</u>

5. Real Estate Taxes

Based upon assessed valuations provided by the Northampton County approximating \$127,467,300 in 2009, the Borough bills and collects its own real estate taxes. The schedule for real estate taxes levied for 2009 is as follows:

February 2, 2009	- levy date
February 2, 2009 - April 3, 2009	- 2% discount period
April 4, 2009 - June 2, 2009	- face payment period
June 3, 2009 - March 1, 2009	- 10% penalty period
March 2, 2010	- 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 2009 municipal tax rate for all purposes was 17.50 mills (\$17.50 per \$1,000 of assessed valuation) of which 1.50 mills is allocated for fire protection and the remaining 16.00 mills is allocated for general purposes. The 2010 municipal tax rate is 17.50 mills of which 1.50 mills is allocated for fire protection and the remaining 16.00 mills is allocated for general purposes.

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

6. Commitments and Contingencies

Compensated Absences

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

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

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

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

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.

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

6. Commitments and Contingencies (Continued)

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. The Borough has elected to obtain commercial insurance coverage for all of the aforementioned risk categories, except for employment practice liability for which it is currently uninsured. 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 for both 2009 and 2008.

	2009	2008
Building and Contents	\$ 10,208,925	\$ 10,993,515
Boiler and Equipment	\$ 605,967	\$ 532,826
Crime and Dishonesty (Per Employee)	\$ 100,000	\$ 100,000
Comprehensive General Liability		
- Each Occurrence	\$ 1,000,000	\$ 1,000,000
- Aggregate Limit	\$ 2,000,000	\$ 2,000,000
Employee Benefits Liability		
- Each Claim	\$ 1,000,000	\$ 1,000,000
- Aggregated Limit	\$ 2,000,000	\$ 2,000,000
Commercial Auto	\$ 1,000,000	\$ 1,000,000
Workers' Compensation		
- Per Accident	\$ 500,000	\$ 500,000
- Per Disease	\$ 500,000	\$ 500,000
- Disease Aggregate	\$ 500,000	\$ 500,000
Excess Liability (Umbrella) each occurrence	\$ 7,000,000	\$ 7,000,000
Excess Liability (Umbrella) aggregate limit	\$ 7,000,000	\$ 7,000,000

Federal and State Grants

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

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

7. 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 administers a single-employer defined benefit pension plan, Hellertown Borough Police Pension Plan ("Police Pension Plan" or "PPP"). This plan covers all existing and future full-time or regular members of the Borough's police force who work for a stated salary or compensation. It is the responsibility of a committee to function as administrative agents for the PPP. The committee consists of: (1) the Vice-president of Council; (2) one active policeman; (3) one retired policeman receiving pension benefits; and (4) two electors of the Borough (neither members of the police force nor individuals receiving pension benefits). The PPP does not issue a stand-alone report.

The PPP provides for normal retirement, disability, survivor, and death benefits to plan members and their beneficiaries under authority of Pennsylvania Act 205, the Municipal Pension Plan Funding Standard and Recovery Act ("Act 205"). Pension benefits vest after the completion of 12 years' of full-time service as a police officer.

Under the Police Pension Plan's provisions, participants are eligible for pension benefits after completing 25 years of continuous service and upon attaining the age of 50 or after completing 20 years of service. Eligible participants receive $\frac{1}{2}$ of their average monthly compensation over their last thirty-six (36) months of employment, continuing for life in equal monthly payments. Any officer who serves as a police officer with the Borough for one or more years in excess of the minimum 25 years of service is eligible to receive an additional benefit of \$100 per month for each year of service in excess of 25 years to a maximum of \$500.

As of December 31, 2009, the Police Pension Plan's membership consisted of the following:

Active employees	8
Retirees and beneficiaries currently receiving benefits	11
Terminated employee entitled to benefits but not yet receiving them	<u>0</u>
Total Plan Membership	<u><u>19</u></u>

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

7. Pension Plans (Continued)

Police Pension Plan (Continued)

Summary of Significant Accounting Policies

Financial information of the Police Pension Plan is presented on the modified cash basis of accounting. Plan member contributions and 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.

Investments of the PPP are reported at fair market value. Cash and cash equivalents are reported at cost, which approximates fair market value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value.

Concentration of Credit Risk

The Plan places no limit on the amount that may be invested with any one organization.

At December 31, 2009, the following are investments (other than U.S. Government and U.S. Government guaranteed obligations), in any one organization, that represent five percent or more of net assets available for benefits ($\$5,005,537 \times 105 = \$250,277$):

Vanguard Intermediate Bond Index Fund	\$773,110
GECC	\$254,230
Harbor International Fund	\$320,332
MFS Value Fund	\$500,389

In addition, the PPP did not have any investment transactions with related parties during the year ended December 31, 2009.

Adoption of Accounting Standards

In May 2007, the Governmental Accounting Standards Board issued Statement Number 50 (GASB 50) entitled Pension Disclosures. GASB 50, which is an amendment of GASB Statements 25 and 27, more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits by enhancing information disclosed in the notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension plans. GASB 50 requires defined benefit plans to present, in the notes to financial statements, disclosures regarding the funded status of the plan as of the most recent actuarial valuation date and the actuarial methods and significant assumptions used in that valuation. Previously, this information was only disclosed in RSI. GASB 50 further amends Statement 25 to require pension plans to disclose in the notes to financial statements the methods and assumptions used to determine the fair value of investments, if the fair value is based on other than quoted market prices. The requirements of GASB 50 are effective for periods beginning after June 15, 2007. As a result, the plan has adopted GASB 50 in these financial statements.

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

7. Pension Plans (Continued)

Police Pension Plan (Continued)

Contributions

Act 205 requires that annual contributions to the Police Pension Plan be based upon the PPP's Minimum Municipal Obligation ("MMO"). The MMO is based upon the biennial actuarial valuation. According to Act 205, actuarial valuations may be made biennially and the most recent actuarial valuation for the PPP was completed as of January 1, 2009. The MMO includes the normal cost, estimated administrative expenses and an amortization of the unfunded actuarial accrued liability, less estimated member contributions, and a credit equal to 10 percent of the excess (if any) of the actuarial value of assets over the actuarial accrued liability. The plan 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. Any funding requirements established by the MMO, which exceed the Commonwealth's allocation, must be contributed by the Borough in accordance with Act 205. The Borough's actuarially determined contribution to the Police Pension Plan for the year ended December 31, 2009, amounted to zero. Active plan members are not required to contribute to the PPP.

Administrative costs, including fees for investment, custodial trustee and actuarial services, are charged to the PPP and are funded from investment earnings.

The Borough of Hellertown does not have a net pension obligation as of December 31, 2009. The Police Pension Plan assets are in excess of the actuarial accrued liability, resulting in no amortization payment. Ten percent of the excess may be used each year to offset annual required contributions. Accordingly, there were no employer contributions made during the year ended December 31, 2009.

A summary of annual pension cost and net pension obligation (asset) for the most recent three years is set forth below.

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
12/31/2007	\$ -	100%	\$ -
12/31/2008	\$ -	100%	\$ -
12/31/2009	\$ -	100%	\$ -

Deposits and Investments

The Governmental Accounting Standards Board, in Statement No. 3 (GASB 3), as amended by GASB 40, requires certain note disclosures about a governmental entity's deposits with financial institutions, investments (including repurchase agreements) and reverse repurchase agreements. The disclosures required by GASB 3, as amended by GASB 40, provide readers with information concerning the credit and market risks associated with the Plan's deposits and investments.

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

7. Pension Plans (Continued)

Police Pension Plan (Continued)

Deposits and Investment Risks

At December 31, 2009, the Plan held \$26,615 in the Goldman Sachs Financial Square Treasury Obligation Fund. The average maturity of the fund is 17 days and the Moody's credit rating is AAA.

Investments

- (i) The Plan has no policy regarding credit risk. The Plan is authorized to invest in legal investments permitted under the Pennsylvania Fiduciaries Investment Act.
- (ii) Custodial Credit Risk – As of December 31, 2009 and throughout the year, the investments held by the plan in Mutual Funds were not exposed to custodial credit risk.
- (iii) Interest Rate Risk – The plan has no formal investment policy that limits its exposure to fair value losses arising from increasing interest rates. The plan invested in the following fixed income funds and corporate bonds:

<u>Corporate Bonds</u>	<u>Maturity (Years)</u>	<u>S & P Rating</u>
Vodafone Group PLC 7.750% 02/15/10	.17	WR
John Deere CC 5.400% 04/07/10	.33	A2
Deutsche Tel Fin 8.500% 06/15/10	.50	BAA1
Verizon Comm Inc. 5.350% 02/25/11	1.17	A3
Pacific Gas & Elec 4.200% 01/01/11	1.25	A3
United Tech Corp. 6.350% 03/01/11	1.25	A2
GECC 5.720% 08/22/11	1.75	AA2
Verizon Penn 5.650% 11/15/11	2.00	BAA1
Pfizer Inc. 4.450% 03/15/12	2.33	A1
Kraft Foods Inc. 6.250% 06/01/12	2.50	BAA2
Goldman Sachs Group 3.625% 09/17/12	2.67	A1
Prudential Fin Inc. 3.625% 09/17/12	2.83	BAA2
Bank of NY Mellon 4.950% 11/01/12	2.92	AA2
Westpac Banking 2.250% 11/19/12	3.00	AA1
BP Capital PLC 5.250% 11/07/13	3.92	AA1
AT&T Inc. 6.700% 11/15/13	4.00	A2
Diageo Capital PLC 7.375% 01/15/14	4.08	A3
Proctor & Gamble Co. 4.600% 01/15/14	4.08	AA3
General Dynamics 5.250% 02/01/14	4.17	A2
Eli Lilly & Co. 4.200% 03/06/14	4.25	A1
Shell Intl Finance 4.000% 03/21/14	4.33	AA1
JPMorgan Chase 4.650% 06/01/14	4.50	AA3
Wells Fargo & Co. 3.750% 10/01/14	4.83	A1
Boeing Cap Corp. 3.250% 10/27/14	4.92	A2
Conocophillips 4.600% 01/15/15	5.08	A1
Time Warner Cable 3.500% 02/01/15	5.17	BAA2
Kellogg Co. 4.450% 05/30/16	6.50	A3
Met Life Inc. 6.750% 06/01/2016	6.50	A2
SBC Communications 5.625% 06/15/16	6.58	A2
Merrill Lynch & Co. 6.875% 04/25/18	8.42	A2
Dominion Resources 6.400% 06/15/18	8.58	BAA2
Abbott Labs 5.125% 04/01/19	9.33	A1
Verizon Comm Inc. 6.350% 04/01/19	9.33	A3
JPMorgan Chase 6.300% 04/23/19	9.42	AA3
Citigroup Inc. 8.500% 05/22/19	9.50	A3
Atria Group Inc. 9.250% 08/06/19	9.67	BAA1
Lockheed Martin 4.250% 11/15/19	9.92	BAA1

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

7. Pension Plans (Continued)

Police Pension Plan (Continued)

Investments (Continued)

<u>Name</u>	<u>Duration (Years)</u>	<u>Average Credit Quality</u>	<u>Morningstar Rating</u>
Federated Corporate Bond Strat Portfolio (15)	5.74	Not Available	
Federated High Yield Strat Portfolio (744)	3.65	Not Available	
T Rowe Price Short Term Bond FD-055	1.90	AA	****
Vanguard Intermediate Term Bond FDX-SIG 1350	6.30	AA	****

- (iv) Foreign Currency Risk – As of December 31, 2009 and throughout the year, the investments held by the plan in the following International Common Stocks:

<u>Name</u>	<u>Amount</u>
Deutsche Tel Fin 8.50% due 6/15/10	\$ 6,201
Accenture PLC – CL A Ireland	\$ 11,080
Icon PLC	\$ 1,456
Teva Pharmaceutical Inds Ltd	\$ 10,506
Harbor International Fund	\$ 320,332

Funded Status and Funding Progress

As of January 1, 2009, the date of the most recent actuarial valuation, the funded status of the plan was as follows:

Actuarial Value of Assets (a)	\$ 4,566,515
Actuarial Accrued Liability (AAL) Entry age (b)	\$ 3,308,159
Unfunded (Assets in Excess of) AAL (b-a)	\$ (1,258,356)
Funded Ratio (a/b)	138.0%
Covered Payroll (c)	\$ 494,705
UAAL as a Percentage of Covered Payroll ((b-a)/c)	(254.4%)

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the Actuarial Accrued Liabilities for Benefits.

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

7. Pension Plans (Continued)

Police Pension Plan (Continued)

Actuarial Valuation and Significant Assumptions

Additional information regarding the actuarial methods and significant assumptions used in the most recent actuarial valuation follows:

Valuation Date:	January 1, 2009
Actuarial cost method:	Entry age
Amortization method:	Level dollar
Remaining amortization period:	None
Asset valuation method:	Market
Actuarial assumptions:	
Interest rate:	7.0%
Salary projection:	5.0%
Retirement age:	Age 55 and 25 years of service
Cost-of-living adjustments:	None

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 \$1,000 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, 2009, employee contributions amounted to \$49,595. Employer funding requirements for 2009, amounting to \$17,082, of which \$16,631 were funded from State Aid and \$451 were funded by the employer.

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

7. Pension Plans (Continued)

Actuarial Valuation and Assumptions (Continued)

Non-Uniformed Employees' Pension Plan (Continued)

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

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

8. Other Post-Employment Benefits

In addition to the pension benefits described in Note 7, the Borough provides health care benefits to retired employees. All full-time uniformed and non-uniformed employees who retire from the Borough are eligible to receive these benefits. The benefit provisions and obligations to contribute are established in accordance with separate employee contracts. In accordance with the employee contracts, the Borough's obligation for payment of health insurance coverage premiums is limited to \$200 per month for non-uniformed employees before January 1, 2001, \$250 per month for non-uniformed employees retiring between January 1, 2001 and December 31, 2009, and \$350 per month for non-uniformed employees retiring after January 1, 2010. \$250 per month for uniformed employees retiring between January 1, 2002 and December 31, 2004, \$350 per month for uniformed employees retiring in 2005, \$450 per month for uniformed employees retiring in 2006, \$550 per month for uniformed employees retiring in 2007, \$660 per month for uniformed employees retiring in 2008 and the contract is silent for employees retiring in 2009 and 2010. The retirees are obligated to absorb any and all monthly premium costs in excess of Borough contributions. Currently, the Borough pays the monthly health insurance premiums for each participant and is reimbursed by each retiree for an amount whereby the Borough's contribution does not exceed those listed above. As of December 31, 2009, eleven retirees are eligible to receive and are 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.

9. Subsequent Events

In preparing these financial statements, the Borough has evaluated events and transactions for potential recognition or disclosure through June 24, 2010, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

BOROUGH OF HELLERTOWN
STATEMENT OF REVENUES RECEIVED, EXPENDITURES PAID
AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
BUDGET AND ACTUAL - GENERAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	Actual	Budget	Variance Favorable (Unfavorable)
Revenues Received			
Taxes	\$ 2,720,076	\$ 2,710,150	\$ 9,926
Licenses and Permits	181,515	177,100	4,415
Fines and Forfeitures	62,807	35,200	27,607
Interest and Rent	17,718	37,840	(20,122)
Intergovernmental Revenue	219,546	150,528	69,018
Charges for Services	123,721	108,505	15,216
Miscellaneous Revenue	35,792	9,250	26,542
Total Revenues Received	<u>3,361,175</u>	<u>3,228,573</u>	<u>132,602</u>
EXPENDITURES PAID			
General Government	752,394	624,030	128,364
Public Safety	907,384	884,340	23,044
Health and Human Services	-	5,000	(5,000)
Public Works - Highways and Streets	920,926	748,993	171,933
Culture and Recreation	323,555	327,617	(4,062)
Employee Benefits/Taxes	712,694	673,726	38,968
Interest	-	-	-
Contingencies	-	103,000	(103,000)
Total Expenditures Paid	<u>3,616,953</u>	<u>3,366,706</u>	<u>250,247</u>
EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID	(255,778)	(138,133)	(117,645)
Other Financing Sources (Uses)			
Operating Transfers - Net	37,195	115,882	(78,687)
EXCESS (DEFICIT) OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES	(218,583)	(22,251)	(196,332)
FUND BALANCE - JANUARY 1, 2009	<u>2,100,734</u>	<u>1,327,747</u>	<u>772,987</u>
FUND BALANCE - DECEMBER 31, 2009	<u>\$ 1,882,151</u>	<u>\$ 1,305,496</u>	<u>\$ 576,655</u>

See accountants' report on supplementary information.

BOROUGH OF HELLERTOWN
STATEMENT OF REVENUES RECEIVED, EXPENDITURES PAID
AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
BUDGET AND ACTUAL - ALL CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	Actual	Budget	Variance Favorable (Unfavorable)
REVENUES RECEIVED			
Interest	\$ 5,326	\$ 12,250	\$ (6,924)
Total Revenues Received	<u>5,326</u>	<u>12,250</u>	<u>(6,924)</u>
EXPENDITURES PAID			
	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures Paid	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID	5,326	12,250	(6,924)
Other Financing Sources (Uses)			
Operating Transfers - Net	<u>236,055</u>	<u>-</u>	<u>236,055</u>
EXCESS (DEFICIT) OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES	241,381	12,250	229,131
FUND BALANCE - JANUARY 1, 2009	<u>1,517,368</u>	<u>1,124,020</u>	<u>393,348</u>
FUND BALANCE - DECEMBER 31, 2009	<u>\$ 1,758,749</u>	<u>\$ 1,136,270</u>	<u>\$ 622,479</u>

See accountants' report on supplementary information.

BOROUGH OF HELLERTOWN
COMBINED 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, 2009

	Actual	Budget	Variance Favorable (Unfavorable)
REVENUES RECEIVED			
Taxes	\$ 190,414	\$ 204,000	\$ (13,586)
Interest	1,617	12,500	(10,883)
Intergovernmental Revenue	117,250	-	117,250
Total Revenues Received	309,281	216,500	92,781
EXPENDITURES PAID			
Public Safety - Fire	61,241	200,000	(138,759)
Total Expenditures Paid	61,241	200,000	(138,759)
EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID	248,040	16,500	231,540
Other Financing Sources (Uses)			
Operating Transfers - Net	(332,914)	-	(332,914)
EXCESS (DEFICIT) OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES	(84,874)	16,500	(101,374)
FUND BALANCE - JANUARY 1, 2009	438,140	797,631	(359,491)
FUND BALANCE - DECEMBER 31, 2009	\$ 353,266	\$ 814,131	\$ (460,865)

See accountants' report on supplementary information.

BOROUGH OF HELLERTOWN
STATEMENT OF REVENUES RECEIVED, EXPENDITURES PAID
AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
BUDGET AND ACTUAL - DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	Actual	Budget	Variance Favorable (Unfavorable)
REVENUES RECEIVED			
	\$ -	\$ -	\$ -
Total Revenues Received	-	-	-
EXPENDITURES PAID			
Interest	30,200	35,000	(4,800)
Total Expenditures Paid	30,200	35,000	(4,800)
EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID	(30,200)	(35,000)	4,800
Other Financing Sources (Uses)			
Proceeds (Payments) General Obligation Notes	(60,731)	(55,000)	(5,731)
Operating Transfers - Net	90,931	90,000	931
EXCESS (DEFICIT) OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES	-	-	-
FUND BALANCE - JANUARY 1, 2009	-	-	-
FUND BALANCE - DECEMBER 31, 2009	\$ -	\$ -	\$ -

See accountants' report on supplementary information.

**BOROUGH OF HELLERTOWN
SCHEDULE OF FUNDING PROGRESS -
POLICE PENSION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2009**

Historical trend information about the Police Pension Plan ("PPP") is presented herewith as required supplementary information. It is intended to help users assess the PPP's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially, except for distressed pension plans, which require annual reporting. The historical information required to be disclosed, beginning as of January 1, 2005, is as follows:

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Excess of Assets Over (Under) AAL	(4) Funded Ratio	(5) Covered Payroll	(6) Excess as a % of Covered Payroll
	(a)	(b)	(a-b)	(a)/(b)	(c)	[(a-b)/(c)]
1/1/2005	\$ 4,896,790	\$ 2,004,499	\$ 2,892,291	244.29%	\$ 506,209	571.4%
1/1/2007	\$ 5,171,847	\$ 2,489,688	\$ 2,682,159	207.73%	\$ 560,772	478.3%
1/1/2009	\$ 4,566,515	\$ 3,308,159	\$ 1,258,356	138.04%	\$ 494,705	254.4%

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability and assets in excess of (Unfunded) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the PPP's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater the percentage, the stronger the plan.

Trends in assets in excess of (unfunded) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the assets in excess of (Unfunded) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the PPP's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller the percentage, the stronger the plan. However, when assets are in excess of the actuarial accrued liability, the higher the percentage, the stronger the plan.

See accountants' report on required supplementary information.

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

**BOROUGH OF HELLERTOWN
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES -
POLICE PENSION PLAN
FOR THE SEVEN YEARS ENDED DECEMBER 31**

<u>Calendar Year</u>	<u>Annual Required Contribution</u>	<u>Percent Contributed</u>
2003	\$ - (a)	N/A
2004	\$ - (a)	N/A
2005	\$ - (a)	N/A
2006	\$ - (a)	N/A
2007	\$ - (a)	N/A
2008	\$ - (a)	N/A
2009	\$ - (a)	N/A

Note: Contributions include state pension aid.

(a) No contribution required.

N/A = Not applicable as there was no contribution required.

See accountants' report on required supplementary information.

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

BOROUGH OF HELLERTOWN
NOTES TO SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2009

The information presented in the required supplementary schedules for the Police Pension Plan was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation date is set forth below.

Actuarial valuation date	1/1/09
Actuarial cost method	Entry Age
Amortization method	Level Dollar
Amortization period	None
Asset valuation method	Market

Actuarial assumptions:

Investment rate of return:	1/1/05	7%
Investment rate of return:	1/1/07	7%
Investment rate of return:	1/1/09	7%
Projected salary increases:	1/1/09	5%

There were no changes in actuarial methods and assumptions used for the actuarial valuation performed as of January 1, 2009, the most recent actuarial valuation.

OTHER SUPPLEMENTARY INFORMATION

BOROUGH OF HELLERTOWN
COMBINING STATEMENT OF PLAN NET ASSETS - MODIFIED CASH BASIS
ALL PENSION TRUST FUNDS
DECEMBER 31, 2009

	<u>Police Pension Plan</u>	<u>Non-Uniformed Pension Plan</u>	<u>Total</u>
ASSETS			
Cash and Cash Equivalents	\$ 26,615	\$ -	\$ 26,615
Investments, at Fair Value			
Guaranteed Investment Contracts	-	600,964	600,964
U.S. Government Obligations	556,157	-	556,157
Balanced Funds/Fixed Income	1,154,517	157,108	1,311,625
Municipal Bonds	30,403	-	30,403
Corporate Bonds	1,364,969	43,290	1,408,259
Domestic Stocks	1,847,927	89,769	1,937,696
International Stocks	-	1,672	1,672
	<u>4,953,973</u>	<u>892,803</u>	<u>5,846,776</u>
Total Investments, at Fair Value			
Total Assets	<u>\$ 4,980,588</u>	<u>\$ 892,803</u>	<u>\$ 5,873,391</u>
LIABILITIES AND NET ASSETS			
Net Assets			
Reserved for Employees' Pension Benefits	<u>\$ 4,980,588</u>	<u>\$ 892,803</u>	<u>\$ 5,873,391</u>
Total Liabilities and Net Assets	<u>\$ 4,980,588</u>	<u>\$ 892,803</u>	<u>\$ 5,873,391</u>

See accountants' report on supplementary information.

BOROUGH OF HELLERTOWN
COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS -
MODIFIED CASH BASIS - ALL PENSION TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	Police Pension Plan	Non-Uniformed Pension Plan	Total
ADDITIONS			
Contributions			
Employer	\$ -	\$ 451	\$ 451
Employee	-	49,695	49,695
State Aid	-	16,631	16,631
Other Receipt	9,186	866	10,052
Total Contributions	9,186	67,643	76,829
Investment Income			
Interest	76,131	-	76,131
Dividends	87,591	-	87,591
Realized Capital Gains (Losses)	(80,424)	-	(80,424)
Net Appreciation (Depreciation) in Fair Value of Investments	599,099	64,304	663,403
Total Investment Income (Loss)	682,397	64,304	746,701
Less: Investment Expenses	(35,904)	-	(35,904)
Net Investment Income (Loss)	646,493	64,304	710,797
Total Additions (Losses), Net	655,679	131,947	787,626
DEDUCTIONS			
Benefits	213,179	-	213,179
Administrative Expenses	3,686	-	3,686
Total Deductions	216,865	-	216,865
NET INCREASE (DECREASE) IN PLAN NET ASSETS	438,814	131,947	570,761
FUND BALANCE - RESERVED FOR EMPLOYEES' PENSION BENEFITS:			
JANUARY 1, 2009	4,541,774	760,856	5,302,630
DECEMBER 31, 2009	\$ 4,980,588	\$ 892,803	\$ 5,873,391

See accountants' report on supplementary information.



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

Members of the Board
Borough of Hellertown
Hellertown, Pennsylvania

We have audited the financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the Borough of Hellertown as of and for the year ended December 31, 2009, which collectively comprise the Borough of Hellertown's basic financial statements and have issued our report thereon dated June 24, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. However, we identified certain deficiencies in internal control over financial reporting described below that we consider significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged by governance.

Preparation of Annual Financial Statements and Footnote Disclosures

Borough management does not prepare the financial statements and footnote disclosures. The Borough relies on the auditors to prepare the financial statements and necessary disclosures. By definition, this condition is, in almost all cases, a control deficiency that we are required to report to the Organization's management and governance under Statement on Auditing Standards No. 115.

Inadequate Segregation of Duties

Due to the size of the Borough staff, an inadequate segregation of duties over the accounting functions exists. It would not be cost beneficial for the Borough to hire additional personnel to have an adequate segregation of duties of the accounting functions.

Inadequate Documentation of the Components of Internal Control

The Borough does not have a written manual or documentation of the internal control accounting processes. The auditors prepare an internal control procedures narrative during the annual audit.

Inadequate Design of Monitoring Controls used to Assess the Design and Operating Effectiveness of the Organization's Internal Control Over Time

No written internal controls procedures manual is on file. Therefore, the Borough has not implemented monitoring controls to assess the internal control procedures.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Borough of Hellertown, in a separate letter dated June 24, 2010.

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

Cory Bell, Roppold & Yucasita LLP

Certified Public Accountants

June 24, 2010