

**BOROUGH OF HELLERTOWN**

**Financial Statements, Auditors' Report  
and Supplementary Information**

**December 31, 2011**

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

**BOROUGH OF HELLERTOWN  
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1033 SOUTH CEDAR CREST BOULEVARD ALLENTOWN, PA 18103-5443  
PHONE (610) 435-7489 FAX (610) 435-8794 www.crycpas.com

LUTHER R. CAMPBELL, JR., CPA, CSEP, CSRP  
JAMES S. ANDERSON, CPA  
TARA L. BENDER, CPA  
JAMES F. BOVA, CPA  
MARYSUE BULCAVAGE, CPA  
MELISSA A. GRUBE, CPA, CSEP  
DENNIS S. HELLER, CPA  
WARREN R. HENDERSON, CPA

---

DAWN C. ANDERSON, CPA  
MICHELLE R. BITNER, CPA  
MARC A. BRINKER, CPA  
GAIL T. LYNCH, CPA  
PAUL G. MACK, CPA  
JASON L. SERFASS, CPA  
HEIDI D. WOJCIECHOWSKI, CPA  
JOHN R. ZAYAITZ, CPA

## 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, 2011, which collectively comprise the Borough's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Borough's management. Our responsibility is to express 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, 2011, 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 August 7, 2012, 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 7 and pages 39 through 51, 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.

*Congbell, Rappold & Yasuta LLP*

Certified Public Accountants

August 7, 2012

**BOROUGH OF HELLERTOWN  
2011 FINANCIAL STATEMENTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The discussion and analysis of Hellertown Borough's financial performance provides an overall review of the Borough's financial activities for the fiscal year ended December 31, 2011. The intent of this discussion and analysis is to look at the Borough's financial performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the Borough's financial performance.

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 Change 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 flow. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flow in future fiscal periods (uncollected taxes and earned benefits such as payment for 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 of Hellertown maintains four individual Governmental Funds:

General Fund – The General Fund is the operating fund of the Borough and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the Borough for any purpose provided it is expended or transferred according to the general laws of the State of Pennsylvania. The Borough's General Fund balance on December 31, 2011, was \$2,236,938, an increase of \$38,284 for the same period in 2010.

Special Revenue Fund – The Special Revenue Fund accounts for specific revenue sources which are legally restricted to expenditures for specific purposes. The Borough accounts for the Fire Tax and Liquid Fuels tax in this fund. The Borough's Special Revenue fund balance on December 31, 2011 was \$273,873. The Special Revenue Fund includes receipts of \$197,536 Fire Tax, an increase of \$7,564 from 2010 and a receipt of \$115,581 Liquid Fuels payment, an increase of \$1,235 from 2010. Expenses include \$568,000 for a fire truck and \$63,397 in road work resulting in a net decrease of \$51,551 for the same period in 2010.

Capital Project Fund – The Capital Project Fund account is used for the acquisition, construction, or improvement of facilities including the purchase of major equipment. The Capital Project Fund also includes the Fire Capital account. A transfer from Fire Capital to Fire Special Revenue of \$568,000 for the purchase of a fire truck resulted in the primary reduction in this account. Expenses of \$12,706 account for the remainder resulting in a net decrease of \$555,294 from the same period in 2010.

**BOROUGH OF HELLERTOWN  
2011 FINANCIAL STATEMENTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Debt Service Fund – The Debt Service Fund accounts for resources accumulated for the purpose of funding general long-term debt obligations. A total payment of \$90,931 (principal and interest) is due each June 1 through 2018 toward the Borough's long term debt. The balance as of December 31, 2011 is \$547,288.

The Borough maintains one Proprietary Fund:

Sanitation Fund – Is used to account for the operations that are financed and operated in a manner similar to private business enterprise where the cost of providing garbage service to the general public on a continuing basis are financed through user charges. Health and Sanitation receipts accounted for \$678,208, an increase of \$9,205 from 2010 with expenditures of \$507,548 and increase of \$22,349 from 2010 levels. The Sanitation Fund maintained a fund balance of \$170,660 for year end 2011 which was transferred to the General Fund. Moving forward into 2012, any fund balance in the Sanitation fund will remain in that fund.

Finally, the Borough maintains Fiduciary Funds to account for assets held by the Borough in a trustee capacity. This includes escrowed monies paid by developers or land owners for land development and/or site development projects, and pension funds for both the Police and Non-Uniform Pension Plans.

#### GENERAL FUND BUDGETARY ANALYSIS

The governmental fund assets of the Borough for year ending 2011 were \$3,856,283 with liabilities of \$547,632 for a net decrease of \$568,498 primarily due to the purchase of a necessary fire truck. The Borough's long-term debt decreased by \$65,752.

General Fund revenue increased from 2010 levels by \$135,838 primarily due to an increase in Real Estate Taxes. Real Estate Transfer taxes continue to decline with a decrease of \$48,734 from 2010 receipts. Charges for services, such as pool, refreshment stand, and street opening permits were below 2010 levels by \$2,341. Fines and forfeits increased by \$27,493 over previous year, primarily due to non-traffic citations issued. A very slight increase was seen in Interest & Rent. Based on the above, the General Fund revenue increased 3.97% from 2010.

General Fund expenditures for 2011 amounted to \$4,067,780 or \$562,874 or 13.84% higher than 2010 expenditures. It must be noted a significant amount of the increased expenditures were comprised of various sources of grant revenue which offset those expenditures.

General Government expenditures show an increase of \$72,406 which were offset by grant reimbursement of over \$40,000 from the Home Town Streets (Cherry Lane) project. An amount of \$27,540 may be attributed to the design and engineering for the PCTI project.

Police Department expenditures – although police department expenditures show an increase of \$362,240 from 2010 levels, it must be noted approximately \$220,535 was received from various grant sources, including the Northampton County Gaming Authority. The remainder may be attributed to police wages based on the first year increases as outlined in the collective bargaining unit, an increase in the cost of gasoline and slight increases in the cost of operational supplies.

Highways and Streets experienced a net decrease from 2010 levels of \$78,753. The audited number of \$947,763 includes \$208,900 of expenditures for the Hometown Streets project that was reimbursed through grant funding.

**BOROUGH OF HELLERTOWN  
2011 FINANCIAL STATEMENTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Recreation & Cultural Services experienced an increase of \$56,768 from 2010 levels with the majority of these expenditures deriving from pool maintenance with slight increases in wages, supplies, park maintenance, vehicle maintenance and pool capital.

Employee Benefits/Taxes/Insurance: An impressive reduction in the amount of \$101,607 from 2010 levels was experienced in this category with a major decrease seen in the insurance category, specifically a \$61,793 reduction in worker's compensation costs.

#### FINANCIAL HIGHLIGHTS

Key government-wide financial highlights for the year are as follows:

- Net assets for all funds were \$3,308,651 a decrease of \$502,746 over prior year
- Liabilities (Notes Payable) for year end 2011 were \$547,288
- Total Governmental fund revenue accounted for \$4,054,887; a 3.76% increase over the prior year
- The Borough had \$4,703,177 in expenses; \$931,085 of these expenses was offset by program specific charges for services (sanitation, pool), grants or contributions. General revenues (primarily real estate and earned income tax) were adequate to provide for these programs. Expenses, after program revenue was \$3,772,092.

Despite a considerable drop of \$48,000 in Real Estate Transfer tax and a slight drop in Earned Income Tax, overall, with revenues from real estate taxes gaining \$110,000 from 2010 levels, the Borough's tax revenue weathered the year in relatively good shape. Hellertown's overall economic direction continues to improve and remain positive. Notwithstanding the current economic conditions, we continue to see many new small businesses attracted to the community as building permit and business registration fees continue to increase indicative of a recognition of Hellertown as a viable place to do business with our strategic location near I-78, the Bethlehem Commerce Center and Lehigh Valley Industrial Park as well as the Sands Casino and Bethlehem Works.

Hellertown Borough continues its partnership in various efforts to revitalize and strengthen our community; we remain a participant in the Borough Business Revitalization Program. This 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 2011 funding in the amount of \$12,000 was awarded through various sources for streetscape amenities.

A \$90,000 Pennsylvania Communities Transportation Initiative grant, awarded in 2009, to develop a multi-modal network of pedestrian and alternative transportation routes, together with traffic calming measures was completed in 2010. A subsequent grant award in the amount of \$434,654 will install streetscape improvements which will facilitate multi-modal transportation options. Construction of this project is to begin in 2012 and will include traffic calming measures such as bump outs and crosswalk improvements.

**BOROUGH OF HELLERTOWN  
2011 FINANCIAL STATEMENTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The Borough remains an active member of the Saucon Valley Partnership, a Council of Governments comprised of Lower Saucon Township, the Saucon Valley School District and Hellertown Borough that undertake activities which benefit each entity and the Saucon Valley region as a whole. A cooperative accomplishment concluded during 2009 was the adoption of a multi-municipal comprehensive plan. Based on the observations and recommendations outlined in the 2009 Action Plan, the following projects were initiated in 2011:

**Peer-to-Peer Technical Assistance Grant:** A Peer-to-Peer Technical Assistance grant in the amount of \$10,000 with \$1,000 local match was awarded through the Department of Conservation and Natural Resources (DCNR). The consultant has begun work to address joint opportunities among the partnership members related to parks and recreation planning, administration, facilities, maintenance and programming.

**Saucon Rail Trail:** The Saucon Rail Trail officially opened in May 2011 and has proven a major recreational and economic opportunity for Hellertown, Lower Saucon as well and the entire region. Enjoyment of the trail continues to grow. A committee of dedicated residents and officials oversee the scheduling of events and are working toward the development of a web site.

**Act 32:** One representative has been appointed to represent the three entities which mandate the collection of earned income tax on a countywide basis. Since votes are weighted based on revenue and population, a collective partnership increases the voice we have on final operation.

**Yard Waste Collection Facility:** In 2007 the Borough embarked on a partnership with Lower Saucon Township for the collection of yard waste. A five acre DEP approved yard waste collection facility is operated jointly and accepts household yard waste. The total yard waste removed from the waste stream for 2011 is over 242 tons, bringing the total since inception to over 1,700 tons of plant material diverted from the waste stream.

Mutual assistance in road resurfacing and repair projects, cooperation on traffic safety initiatives across municipal boundaries, participation in studies to unite fire services , library services and police services are additional on-going activities.

To offset the cost of essential public works and infrastructure projects, the Borough continues to pursue grant opportunities. A Hometown Streets grant (\$355,000) awarded in 2007 was completed in 2011. This PennDot funded project constructed sidewalks and curbing as well as the planting of street trees along Cherry Lane. Assistance in watering the newly planted street trees was provided by Dewey Fire Company.

**Splash Pad:** The much anticipated installation of a water feature at the Hellertown Pool began in 2011. The total cost of this project is \$45,467 with over \$32,846 derived from various grant funds (county open space, Senator Boscola) and contributions (Lower Saucon Township, recreation fees).

**Casino Grants:** As a contiguous community, the Borough was successful in receiving over \$200,000 of committed funds from the Northampton County Gaming Authority toward two full time police officers and a police vehicle.

**BOROUGH OF HELLERTOWN  
2011 FINANCIAL STATEMENTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Economic Outlook:

2011 was again an economically challenging year for everyone, including municipalities. Two and a half years since economists formally declared the recession over, job growth was slow. The region's unemployment fell to 8.6 percent in November- almost a percentage point less than the same period in 2010. Regardless, layoffs appear to have abated. There were no announcements of massive reductions, while some companies even added jobs. Meanwhile the housing market, whose decline precipitated the recession, showed scant progress. Sales were light most of 2011, perhaps a hangover after the expiration of the previous year's temporary tax credit, though activity picked up late in the year. Homes that are selling are competing with foreclosures and short sales, keeping prices down. Ultimately, a revival in consumer confidence is linked to the health of the job market. Most economists project slow to moderate growth in 2012.

As we look ahead to 2012, many challenges remain on the fiscal front. Borough Council and staff have attempted to anticipate the impact of the economy and cost of services on municipal revenues and expenses and made conservative estimates while creating a balanced budget. As we move through the year, we will monitor performance and make adjustments in spending that are appropriate, use capital funds efficiently and effectively and maintain necessary municipal services to the community.

Request for Information

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

**BOROUGH OF HELLERTOWN  
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
AS OF DECEMBER 31, 2011**

<b>ASSETS</b>	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	Total
Cash & Cash Equivalents	\$ 3,856,283	\$ -	\$ 3,856,283
Total Assets	\$ 3,856,283	\$ -	\$ 3,856,283
<b>LIABILITIES AND NET ASSETS</b>			
Liabilities:			
Other Withholding	\$ 344	\$ -	\$ 344
Notes Payable	547,288	-	547,288
Total Liabilities	\$ 547,632	\$ -	\$ 547,632
<b>NET ASSETS</b>			
Unreserved - Undesignated	\$ 3,308,651	\$ -	\$ 3,308,651
Total Net Assets	\$ 3,308,651	\$ -	\$ 3,308,651
Total Liabilities and Net Assets	\$ 3,856,283	\$ -	\$ 3,856,283

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, 2011**

Functions/Programs	Expenses	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	PRIMARY GOVERNMENT		
					Governmental Activities	Business-Type Activities	Total
<b>Primary Government:</b>							
Government activities:							
General Government	\$ 747,243	\$ 4,790	\$ -	\$ -	\$ (742,453)	\$ -	\$ (742,453)
Public Safety	1,892,164	8,097	298,981	-	(1,585,086)	-	(1,585,086)
Health & Human Services	-	-	-	-	-	-	-
Public Works - Hwy/Strts	947,763	1,697	243,750	-	(702,316)	-	(702,316)
Culture and Recreation	393,172	124,932	-	-	(268,240)	-	(268,240)
Employee Benefits/Taxes	709,595	-	19,905	-	(689,690)	-	(689,690)
Contingencies	9,973	-	-	-	(9,973)	-	(9,973)
Employee Theft Bond	3,267	-	-	-	(3,267)	-	(3,267)
Interest	25,116	-	-	-	(25,116)	-	(25,116)
<b>Total Governmental Activities</b>	<b>\$ 4,728,293</b>	<b>\$ 139,516</b>	<b>\$ 562,636</b>	<b>\$ -</b>	<b>\$ (4,026,141)</b>	<b>\$ -</b>	<b>\$ (4,026,141)</b>
<b>Business Type Activities:</b>							
Sanitation	507,548	666,148	12,060	-	-	170,660	170,660
<b>Total Business-Type Activities</b>	<b>\$ 507,548</b>	<b>\$ 666,148</b>	<b>\$ 12,060</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 170,660</b>	<b>\$ 170,660</b>
<b>Total Primary Government</b>	<b>\$ 5,235,841</b>	<b>\$ 805,664</b>	<b>\$ 574,696</b>	<b>\$ -</b>	<b>\$ (4,026,141)</b>	<b>\$ 170,660</b>	<b>\$ (3,855,481)</b>
<b>General Revenues:</b>							
Taxes					3,048,082	-	3,048,082
Licenses & Permits					160,416	-	160,416
Fines & Forfeitures					76,525	-	76,525
Interest & Rents					17,943	-	17,943
Miscellaneous					49,769	-	49,769
Transfers					170,660	(170,660)	-
<b>Total General Revenues &amp; Transfers</b>					<b>3,523,395</b>	<b>(170,660)</b>	<b>3,352,735</b>
					Change in Net Assets		
					(502,746)	-	(502,746)
<b>Net Assets - January 1, 2011</b>					<b>3,811,397</b>	<b>-</b>	<b>3,811,397</b>
<b>Net Assets - December 31, 2011</b>					<b>\$ 3,308,651</b>	<b>\$ -</b>	<b>\$ 3,308,651</b>

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

**BOROUGH OF HELLERTOWN  
BALANCE SHEET - MODIFIED CASH BASIS -  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2011**

	General	Capital Projects Funds	Special Revenue Funds	Total Governmental Funds
<b>ASSETS AND OTHER DEBITS</b>				
Cash & Cash Equivalents	\$ 2,237,282	\$ 1,345,128	\$ 273,873	\$ 3,856,283
<b>TOTAL ASSETS &amp; OTHER DEBITS</b>	<b>\$ 2,237,282</b>	<b>\$ 1,345,128</b>	<b>\$ 273,873</b>	<b>\$ 3,856,283</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Other Withholdings	\$ 344	\$ -	\$ -	\$ 344
Total Liabilities	\$ 344	\$ -	\$ -	\$ 344
<b>FUND BALANCE</b>				
Assigned	-	-	273,873	273,873
Unassigned	2,236,938	1,345,128	-	3,582,066
<b>TOTAL FUND BALANCE</b>	<b>2,236,938</b>	<b>1,345,128</b>	<b>273,873</b>	<b>3,855,939</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 2,237,282</b>	<b>\$ 1,345,128</b>	<b>\$ 273,873</b>	

**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

(547,288)

Net assets of governmental activities

\$ 3,308,651

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, 2011**

	General Fund	Capital Projects Funds	Special Revenue Funds	Total Governmental Funds
<b>REVENUES RECEIVED</b>				
Taxes	\$ 2,850,546	\$ -	\$ 197,536	\$ 3,048,082
Intergovernmental Revenues	447,055	-	115,581	562,636
Charges for Service	139,516	-	-	139,516
Fines and forfeitures	76,525	-	-	76,525
Licenses and Permits	160,416	-	-	160,416
Interest and Rent	11,303	6,024	616	17,943
Miscellaneous Revenue	49,769	-	-	49,769
Total Revenues Received	<u>3,735,130</u>	<u>6,024</u>	<u>313,733</u>	<u>4,054,887</u>
<b>EXPENDITURES PAID</b>				
General Government				
Mayor & Council	16,320	-	-	16,320
Managerial	84,196	-	-	84,196
Clerical	127,767	-	-	127,767
Solicitor	44,384	-	-	44,384
General government	474,576	-	-	474,576
Public Safety				
Police	1,256,767	-	-	1,256,767
Fire	-	-	635,397	635,397
Health and Human Services	-	-	-	-
Public Works				
Highways and Streets	947,763	-	-	947,763
Culture and Recreation				
Library	58,000	-	-	58,000
Park and Pool	335,172	-	-	335,172
Interest	-	-	-	-
Contingencies	9,973	-	-	9,973
Employee Theft Bond	3,267	-	-	3,267
Employee Benefits/Taxes	709,595	-	-	709,595
Total Expenditures Paid	<u>4,067,780</u>	<u>-</u>	<u>635,397</u>	<u>4,703,177</u>
<b>EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID</b>	(332,650)	6,024	(321,664)	(648,290)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	471,278	125,421	578,185	1,174,884
Transfers Out	(100,344)	(686,739)	(308,072)	(1,095,155)
Total Other Financing Sources (Uses), Net	<u>\$ 370,934</u>	<u>\$ (561,318)</u>	<u>\$ 270,113</u>	<u>\$ 79,729</u>
<b>EXCESS (DEFICIT) OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES</b>	38,284	(555,294)	(51,551)	(568,561)
Fund Balances - January 1, 2011	<u>2,198,654</u>	<u>1,900,422</u>	<u>325,424</u>	<u>4,424,500</u>
Fund Balances - December 31, 2011	<u>\$ 2,236,938</u>	<u>\$ 1,345,128</u>	<u>\$ 273,873</u>	<u>\$ 3,855,939</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, 2011**

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**Reconciliation to the Statement of Activities:**

Net change in fund balances - total governmental funds	\$	(568,561)
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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
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Amount of interest paid by the Long-term Obligations Account Group		(25,116)
--------------------------------------------------------------------	--	----------

Change in net assets of governmental activities	\$	<u>(502,746)</u>
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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, 2011**

	<u>Pension Trust Funds</u>	<u>Agency Fund</u>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 88,580	\$ 33,618
Investments at Fair Value		
Guaranteed Investment Contracts	554,544	-
U.S. Government Obligations	661,949	-
Balanced Funds/Fixed Income	1,461,995	-
Municipal Bonds	64,575	-
Agency Bonds	103,387	-
International Bonds	109,124	-
Corporate Bonds	716,544	-
Mutual Funds	1,163,731	-
Domestic Stocks	1,045,327	-
International Stocks	2,381	-
Total Investments, at Fair Value	<u>5,883,557</u>	<u>-</u>
Total Assets	<u>\$ 5,972,137</u>	<u>\$ 33,618</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Due to Depositors	\$ -	\$ 33,618
Total Liabilities	<u>-</u>	<u>33,618</u>
Net Assets		
Assigned	<u>5,972,137</u>	<u>-</u>
Total Net Assets	<u>5,972,137</u>	<u>-</u>
Total Liabilities and Net Assets	<u>\$ 5,972,137</u>	<u>\$ 33,618</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, 2011**

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**ADDITIONS**

Contributions			
Employer	\$		3,495
Employee			49,673
State Aid			19,905
Total Contributions			73,073
Investment Income			
Interest			69,205
Dividends			113,146
Realized Capital Gains (Losses)			31,528
Net Appreciation (Depreciation) in Fair Market of Investments			(41,595)
Total Investment Income (Loss)			172,284
Less: Investment Expenses			(38,267)
Net Investment Income (Loss)			134,017
Total Additions (Losses), Net			207,090

**DEDUCTIONS**

Benefits			244,997
Administrative Expenses			3,725
Total Deductions			248,722

**NET INCREASE (DECREASE) IN PLAN NET ASSETS** (41,632)

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

<b>JANUARY 1, 2011</b>			6,013,769
<b>DECEMBER 31, 2011</b>	\$		5,972,137

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, 2011**

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**CASH FLOWS FROM OPERATING ACTIVITIES**

Net Increase (Decrease) in Plan Net Assets	\$ (41,632)
Adjustments to Reconcile Net Increase (Decrease) in Plan Net Assets	
To Net Cash Provided (Used) by Operating Activities:	
Realized (Gains) Losses on Investments	31,528
Unrealized (Gains) Losses on Investments	<u>(41,595)</u>
Cash Provided (Used) by Operating Activities	(51,699)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sale of Investments	4,776,880
Purchase of Investments	<u>(4,663,216)</u>
Cash Provided (Used) by Investing Activities	<u>113,664</u>

Increase (Decrease) in Cash and Cash Equivalents 61,965

Cash and Cash Equivalents, January 1, 2011 26,615

Cash and Cash Equivalents, December 31, 2011 \$ 88,580

**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, 2011**

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	PROPRIETARY FUND TYPE
	Enterprise Fund
<b>REVENUES RECEIVED</b>	
Refuse Collections	\$ 534,932
Recycling	143,276
	678,208
<b>EXPENDITURES PAID</b>	
Personnel	165,905
Contracted Services	243,303
Repairs, Maintenance, and Supplies	98,340
	507,548
<b>EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID</b>	170,660
Other Financing Sources (Uses)	
Operating Transfers - Net	(170,660)
<b>EXCESS (DEFICIT) OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES</b>	-
<b>FUND BALANCE - JANUARY 1, 2011</b>	-
<b>FUND BALANCE - DECEMBER 31, 2011</b>	\$ -

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, 2011**

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**CASH FLOWS FROM OPERATING ACTIVITIES**

Excess (Deficit) of Revenues Received	
Over (Under) Expenditures Paid	\$ 170,660
	<u>170,660</u>
Cash Provided (Used) by Operating Activities	170,660
Operating Transfers - Net	<u>(170,660)</u>
Increase (Decrease) in Cash and Cash Equivalents	-
Cash and Cash Equivalents, January 1, 2011	<u>-</u>
Cash and Cash Equivalents, December 31, 2011	<u><u>\$ -</u></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  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

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**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, 2011**

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**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, 2011**

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**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, 2011**

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**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 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' 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, 2011**

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**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, 2011.

**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:

- Assigned fund balance - indicates the portion of the fund balance that has been appropriated for specific purposes.
- Unassigned 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 Borough had two assigned fund balances. The Pension Trust Funds for \$5,972,136 (Police and Non-uniformed), which was comprised of amounts reserved for the payment of employee pension benefits and the Special Revenue Fund for \$273,873, which was comprised of amounts reserved for fire protection and liquid fuels.

**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, 2011**

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**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.

**New Accounting Standard**

In March 2009, the Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). GASB 54 establishes a hierarchy based largely on the extent to which a government is bound to observe spending constraints that govern how it can use amounts reported in the governmental funds balance sheet. GASB 54 established the following classifications depicting the relative strength of the constraints: Nonspendable, Restricted, Committed, Assigned, and Unassigned. The Statement is effective for financial statements issued for fiscal years first ending June 30, 2011. Accordingly, the Borough adopted the Statement for the year ended December 31, 2011.

**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.

**BOROUGH OF HELLERTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

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**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, 2011, the carrying amount of the borough's bank deposits (excluding those held in the Pension Trust Funds, but including Agency Funds) totaled \$3,889,001 and the corresponding bank balances were \$3,969,088, of which \$500,000 was insured by the Federal Deposit Insurance Corporation ("FDIC"); the uninsured bank balance of \$3,469,088 were collateralized, as described below.

Under Act No. 72 of the 1972 Session of the Pennsylvania General Assembly (the "Act of 72"), financial institutions were granted the authority to secure the deposits of the public bodies by pledging a pool of assets, as defined in the Act of 72, to cover all public funds deposited in excess of the FDIC limits. The uninsured bank balances (as defined by Statement No. 3 of the GASB) of the Borough in the amount of \$3,469,088, 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, 2011, 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.

**BOROUGH OF HELLERTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

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**3. Cash and Cash Equivalents (Continued)**

Investments (Continued)

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

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
<u>Pension Trust Funds</u>		
Guaranteed Investment Contracts		\$ 554,544
U.S. Government Obligations		661,949
Balanced Funds/Fixed Income		1,461,995
Municipal Bonds	2014 - 2016	64,575
Agency Bonds	2014	103,387
International Bonds	2012 - 2016	109,124
Corporate Bonds	2013 - 2021	716,544
Mutual Funds		1,163,731
Domestic Stocks		1,045,327
International Stocks		<u>2,381</u>
 Total Pension Trust Funds		 <u>\$ 5,883,557</u>

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. Currently the Borough does not have any investments not included in the Pension Trust Funds.

Custodial Credit Risk

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

**BOROUGH OF HELLERTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

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**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, 2011 is presented below.

Notes Payable: General Obligation Notes	Balance Outstanding January 1, 2011	Additions	Reductions	Balance Outstanding December 31, 2011
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.	\$ 613,103	\$ -	\$ 65,815	\$ 547,288
	<u>\$ 613,103</u>	<u>\$ -</u>	<u>\$ 65,815</u>	<u>\$ 547,288</u>

The annual debt service requirements to maturity for notes payable as of December 31, 2011 are as follows:

During the year (s) ended December 31:	Principal	Interest
2012	68,374	22,556
2013	71,217	19,714
2014	74,177	16,754
2015	77,261	13,670
2016	80,472	10,459
2017-2018	175,787	10,742
Totals	<u>\$ 547,288</u>	<u>\$ 93,895</u>

**BOROUGH OF HELLERTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

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**5. Real Estate Taxes**

Based upon assessed valuations provided by the Northampton County approximating \$130,569,900 in 2011, the Borough bills and collects its own real estate taxes. The schedule for real estate taxes levied for 2011 is as follows:

February 1, 2011	- levy date
February 1, 2011 - April 4, 2011	- 2% discount period
April 5, 2011 - June 3, 2011	- face payment period
June 4, 2011 - March 5, 2012	- 10% penalty period
March 6, 2012	- 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 2011 municipal tax rate for all purposes was 18.50 mills (\$18.50 per \$1,000 of assessed valuation) of which 1.50 mills is allocated for fire protection and the remaining 17.00 mills is allocated for general purposes. The 2012 municipal tax rate is 19.25 mills of which 1.50 mills is allocated for fire protection and the remaining 17.75 mills is allocated for general purposes.

**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.

**BOROUGH OF HELLERTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

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**6. Commitments and Contingencies (Continued)**

***Compensated Absences (Continued)***

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

***Insurance***

The Borough is exposed to various risks of loss, including workers’ compensation; property, casualty and public official liability; employee benefit administration; employment practice liability; and general liability claims. 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 2011 and 2010.

	2011
Building and Contents	\$ 12,993,914
Boiler and Equipment	\$ 616,867
Crime and Dishonesty (Per Employee)	\$ 10,000
Comprehensive General Liability	
- Each Occurrence	\$ 1,000,000
- Aggregate Limit	\$ 2,000,000
Employee Benefits Liability	
- Each Claim	\$ 1,000,000
- Aggregated Limit	\$ 2,000,000
Commercial Auto	\$ 1,000,000
Workers' Compensation	
- Per Accident	\$ 500,000
- Per Disease	\$ 500,000
- Disease Aggregate	\$ 500,000
Excess Liability (Umbrella) each occurrence	\$ 7,000,000
Excess Liability (Umbrella) aggregate limit	\$ 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, 2011**

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**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 ½ 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, 2011, the Police Pension Plan's membership consisted of the following:

Active employees	12
Retirees and beneficiaries currently receiving benefits	10
Terminated employee entitled to benefits but not yet receiving them	<u>0</u>
Total Plan Membership	<u><u>22</u></u>

**BOROUGH OF HELLERTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

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**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, 2011, 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 ( $\$5,040,901 \times .05 = \$252,045$ ):

Vanguard Intermediate Term Bond Index – SIG 1350	\$736,087
MFS Value Fund	\$313,370
PIMCO Total Return Fund Inst (35)	\$276,704

In addition, the PPP did not have any investment transactions with related parties during the year ended December 31, 2011.

**BOROUGH OF HELLERTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

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**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, 2011. 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, 2011, 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, 2011. 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, 2011.

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)
12/31/2009	\$ -	100%	\$ -
12/31/2010	\$ -	100%	\$ -
12/31/2011	\$ -	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, 2011**

**7. Pension Plans (Continued)**

***Police Pension Plan (Continued)***

**Deposits and Investment Risks**

At December 31, 2011, the Plan held \$88,580 in the Goldman Sachs Financial Square Treasury Obligation Fund. The average maturity of the fund is 0 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, 2011 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>Moody's Rating</u>
Prudential Fin 2.750% 01/14/13	1.08	BAA2
AT&T Inc. 6.700% 11/15/13	1.92	A2
Diageo Capital PLC 7.375% 01/15/14	2.08	A3
Sempra Energy 2.000% 03/15/14	2.25	BAA1
Toyota Motor Credit 1.250% 11/17/14	2.92	AA3
Hewlett-Packard Co 2.625% 12/09/14	3.00	A3
Raytheon Co 1.400% 12/15/14	3.00	A3
JP Morgan Chase 3.450% 03/01/16	4.25	AA3
Raymond James Finl. 4.250% 04/15/16	4.33	BAA2
Metlife Inc 6.750% 06/01/16	4.50	A3
SBC Communications 5.625% 06/15/16	4.50	A2
AT&T Inc 2.400% 08/15/16	4.67	A2
Boeing Cap Corp. 2.125% 08/15/16	4.67	A2
Toyota Motor Credit 2.000% 09/15/16	4.75	AA3
Wells Fargo & Co 2.625% 12/15/16	5.00	A2
Cisco Systems Inc 3.150% 03/14/17	5.25	A1
Merrill Lynch & Co. 6.875% 04/25/18	6.33	BAA1
Goldman Sachs Grp 6.000% 06/15/20	8.50	A1
JP Morgan Chase & Co. 4.400% 07/22/20	8.58	AA3
Citigroup Inc. 5.375% 08/09/20	8.67	A3
State Street Corp 4.375% 03/07/21	9.25	A1
Wal-Mart Stores 4.250% 04/15/21	9.33	AA2
Altria Group Inc 4.750% 05/05/21	9.42	BAA1
Blackrock Inc 4.250% 05/24/21	9.42	A1
Goldman Sachs Group 5.25% 07/27/21	9.58	A1
Morgan Stanley 5.500% 07/28/21	9.58	A2
Verizon Comm Inc 3.500% 11/01/21	9.92	A3
Rabobank 2.125% 10/13/15	3.83	AAA
Shell Intl Fin 3.100% 06/28/15	3.50	AA1
Statoil Asa 1.800% 11/23/16	4.92	AA2
Westpac Banking 2.250% 11/19/12	.92	AA2

**BOROUGH OF HELLERTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

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**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 (157)		Not Available	
Vanguard Intermediate Term Bond FDX-SIG 1350	5.38	BBB	****
Federated Institutional High Yield Bond Fund	4.08	B	*****
PIMCO Total Return Fund	7.14	Not Rated	****

(iv) Foreign Currency Risk – As of December 31, 2011 and throughout the year, the investments held by the plan in the following International Common Stocks:

<u>Name</u>	<u>Amount</u>
Accenture Plc Class A	\$ 10,912
Cooper Industries Plc Class A	\$ 4,657
Agrium Inc	\$ 10,335
BCE Inc.	\$ 9,792
Telefonica SA	\$ 6,223
Teva Pharmaceutical Ind Ltd	\$ 2,462
Total Fina Elf SA	\$ 8,764
Vodafone Group Plc Sp ADR	\$ 9,782
Unilever Plc – Sponsored PDR	\$ 6,235
Glaxosmithkline Plc - ADR	\$ 11,271
Icon Plc – Sponsored ADR	\$ 342
National Grid Plc Sponsored ADR	\$ 8,387

**Funded Status and Funding Progress**

As of January 1, 2011, the date of the most recent actuarial valuation, the funded status of the plan was as follows:

Actuarial Value of Assets (a)	\$ 5,177,306
Actuarial Accrued Liability (AAL) Entry age (b)	\$ 3,473,431
Unfunded (Assets in Excess of) AAL (b-a)	(\$ 1,703,875)
Funded Ratio (a/b)	149.1%
Covered Payroll (c)	\$ 667,578
UAAL as a Percentage of Covered Payroll ((b-a)/c)	(255.2%)

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, 2011**

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**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, 2011
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 \$1,300 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, 2011, employee contributions amounted to \$49,673 Employer funding requirements for 2011, amounting to \$23,400, of which \$19,905 was funded from State Aid and \$3,495 was funded by the employer.

**BOROUGH OF HELLERTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

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**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. Postemployment Benefits Other Than Pensions**

*Plan Description:* The Borough of Hellertown administers a single-employer defined benefit healthcare plan. All full-time uniformed and non-uniformed employees who retire from the Borough are eligible to receive these benefits. The benefit provisions and obligations to contribute are established in accordance with separate employee contracts. In accordance with the employee contracts, the Borough's obligation for payment of health insurance coverage premiums is limited to \$200 per month for non-uniformed employees before January 1, 2001, \$250 per month for non-uniformed employees retiring between January 1, 2001 and December 31, 2010, and \$350 per month for non-uniformed employees retiring after January 1, 2011. \$250 per month for uniformed employees retiring between January 1, 2002 and December 31, 2004, \$350 per month for uniformed employees retiring in 2005, \$450 per month for uniformed employees retiring in 2006, \$550 per month for uniformed employees retiring in 2007, \$660 per month for uniformed employees retiring in 2010 and the contract is silent for employees retiring in 2010 and 2011. 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, 2011, ten 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. The Retiree Health Plan does not issue a publicly available financial report.

*Funding Policy:* The Borough contributes to the cost of current-year premiums for eligible retired plan members as described above. For the year ended December 31, 2011, the Borough paid \$49,010 toward retiree health care premiums. Plan members receiving benefits contribute the remaining amount of their premium costs above the amount paid by the Borough as described above. In the year ended December 31, 2011, total member contributions were \$21,038.

**BOROUGH OF HELLERTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

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**8. Postemployment Benefits Other Than Pensions (Continued)**

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

Annual required contribution	\$ 73,382
Interest on net OPEB obligation	3,230
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	76,612
Contributions made	<u>(49,010)</u>
Increase in net OPEB obligation	27,602
Net OPEB obligation—beginning of year	<u>34,458</u>
 Net OPEB obligation—end of year	 <u>\$ 62,060</u>

The town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and 2010 is as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/11	\$ 76,612	63.97%	\$ 62,060
12/31/10	\$ 81,318	57.62%	\$ 34,458

*Funded Status and Funding Progress:* As of December 31, 2011, the actuarial accrued liability for benefits was \$900,405, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,708,575, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 52.70 percent.

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

**BOROUGH OF HELLERTOWN**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011**

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**8. Postemployment Benefits Other Than Pensions (Continued)**

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

The following simplifying assumptions were made:

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

*Mortality*—Life expectancies were based on mortality tables from the National Center for Health Statistics. The 2011 United States Life Tables for Males and for Females were used.

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

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

Based on the historical and expected returns of the Borough's short-term investment portfolio, a discount rate of 5.5 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2011, was twenty-nine years.

**9. Operating Lease**

The Borough leases certain equipment under a long-term lease agreement, expiring October 2012. Rent expense under the leases was \$3,432 in 2011. Future minimum lease payment is as follows:

Year ending December 31,		
	2012	\$ 2,960
	2013	2,960
	2014	2,960
	2015	2,960
	2016	<u>1,480</u>
Total Minimum Lease Payments		<u>\$ 13,320</u>

**10. Subsequent Events**

In preparing these financial statements, the Borough has evaluated events and transactions for potential recognition or disclosure through August 7, 2012, 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, 2011**

	Actual	Budget	Variance Favorable (Unfavorable)
<b>Revenues Received</b>			
Taxes	\$ 2,850,546	\$ 2,723,173	\$ 127,373
Licenses and Permits	160,416	173,150	(12,734)
Fines and Forfeitures	76,525	35,000	41,525
Interest and Rent	11,303	12,600	(1,297)
Intergovernmental Revenue	447,055	148,136	298,919
Charges for Services	139,516	121,575	17,941
Miscellaneous Revenue	49,769	11,000	38,769
Total Revenues Received	<u>3,735,130</u>	<u>3,224,634</u>	<u>510,496</u>
<b>EXPENDITURES PAID</b>			
General Government	747,243	620,137	127,106
Public Safety	1,256,767	1,024,150	232,617
Health and Human Services	-	2,500	(2,500)
Public Works - Highways and Streets	947,763	843,230	104,533
Culture and Recreation	393,172	413,787	(20,615)
Employee Benefits/Taxes	709,595	535,547	174,048
Interest	-	-	-
Contingencies	9,973	83,620	(73,647)
Employee Theft Bond	3,267	-	3,267
Total Expenditures Paid	<u>4,067,780</u>	<u>3,522,971</u>	<u>544,809</u>
<b>EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID</b>	(332,650)	(298,337)	(34,313)
Other Financing Sources (Uses)			
Operating Transfers - Net	370,934	-	370,934
<b>EXCESS (DEFICIT) OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES</b>	38,284	(298,337)	336,621
<b>FUND BALANCE - JANUARY 1, 2011</b>	<u>2,198,654</u>	<u>2,198,654</u>	<u>-</u>
<b>FUND BALANCE - DECEMBER 31, 2011</b>	<u>\$ 2,236,938</u>	<u>\$ 1,900,317</u>	<u>\$ 336,621</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, 2011**

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	Actual	Budget	Variance Favorable (Unfavorable)
<b>REVENUES RECEIVED</b>			
Interest	\$ 6,024	\$ 8,500	\$ (2,476)
Total Revenues Received	6,024	8,500	(2,476)
<b>EXPENDITURES PAID</b>			
Total Expenditures Paid	-	-	-
<b>EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID</b>	6,024	8,500	(2,476)
Other Financing Sources (Uses)			
Operating Transfers - Net	(561,318)	-	(561,318)
<b>EXCESS (DEFICIT) OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES</b>	(555,294)	8,500	(563,794)
<b>FUND BALANCE - JANUARY 1, 2011</b>	1,900,422	1,900,422	-
<b>FUND BALANCE - DECEMBER 31, 2011</b>	\$ 1,345,128	\$ 1,908,922	\$ (563,794)

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, 2011**

	Actual	Budget	Variance Favorable (Unfavorable)
<b>REVENUES RECEIVED</b>			
Taxes	\$ 197,536	\$ 197,000	\$ 536
Interest	616	800	(184)
Intergovernmental Revenue	115,581	-	115,581
Total Revenues Received	<u>313,733</u>	<u>197,800</u>	<u>115,933</u>
<b>EXPENDITURES PAID</b>			
Public Safety - Fire	<u>635,397</u>	<u>201,300</u>	<u>434,097</u>
Total Expenditures Paid	<u>635,397</u>	<u>201,300</u>	<u>434,097</u>
<b>EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID</b>	(321,664)	(3,500)	(318,164)
Other Financing Sources (Uses)			
Operating Transfers - Net	<u>270,113</u>	<u>-</u>	<u>270,113</u>
<b>EXCESS (DEFICIT) OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES</b>	(51,551)	(3,500)	(48,051)
<b>FUND BALANCE - JANUARY 1, 2011</b>	<u>325,424</u>	<u>325,424</u>	<u>-</u>
<b>FUND BALANCE - DECEMBER 31, 2011</b>	<u>\$ 273,873</u>	<u>\$ 321,924</u>	<u>\$ (48,051)</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 - DEBT SERVICE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Actual	Budget	Variance Favorable (Unfavorable)
<b>REVENUES RECEIVED</b>			
	\$ -	\$ -	\$ -
Total Revenues Received	-	-	-
<b>EXPENDITURES PAID</b>			
Interest	25,116	25,000	116
Total Expenditures Paid	25,116	25,000	116
<b>EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID</b>	(25,116)	(25,000)	(116)
Other Financing Sources (Uses)			
Proceeds (Payments) General Obligation Notes	(65,815)	(65,000)	(815)
Operating Transfers - Net	90,931	-	90,931
<b>EXCESS (DEFICIT) OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES</b>	-	(90,000)	90,000
<b>FUND BALANCE - JANUARY 1, 2011</b>	-	-	-
<b>FUND BALANCE - DECEMBER 31, 2011</b>	\$ -	\$ (90,000)	\$ 90,000

See accountants' report on supplementary information.

**BOROUGH OF HELLERTOWN  
SCHEDULE OF FUNDING PROGRESS -  
POLICE PENSION PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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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, 2007, is as follows:

Actuarial Valuation Date	(1) Actuarial Value of Assets  (a)	(2) Actuarial Accrued Liability (AAL)  (b)	(3) Excess of Assets Over (Under) AAL  (b-a)	(4) Funded Ratio  (a)/(b)	(5) Covered Payroll  (c)	(6) Excess as a % of Covered Payroll  [(b-a)/(c)]
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)%
1/1/2011	\$ 5,177,306	\$ 3,473,431	\$ (1,703,875)	149.05%	\$ 667,587	(255.2)%

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 THREE YEARS ENDED DECEMBER 31**

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Calendar Year	Annual Required Contribution	Percent Contributed
2009	\$ - (a)	N/A
2010	\$ - (a)	N/A
2011	\$ - (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, 2011**

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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	1/1/11
Actuarial cost method	Entry Age
Amortization method	Level Dollar
Amortization period	None
Asset valuation method	Market

Actuarial assumptions:

Investment rate of return: 1/1/07	7%
Investment rate of return: 1/1/09	7%
Investment rate of return: 1/1/11	7%
Projected salary increases: 1/1/11	5%

There were no changes in actuarial methods and assumptions used for the actuarial valuation performed as of January 1, 2011 the most recent actuarial valuation.

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 FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL)- Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a / b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b - a) / c)</b>
12/31/11	\$-0-	\$900,405	\$900,405	0.0%	\$1,708,575	52.70%
12/31/10	\$-0-	\$861,187	\$861,187	0.0%	\$1,411,346	61.02%

See accountants' report on required supplementary information.

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

OTHER SUPPLEMENTARY INFORMATION

**BOROUGH OF HELLERTOWN**  
**COMBINING BALANCE SHEET - MODIFIED CASH BASIS - SPECIAL REVENUE FUNDS**  
**DECEMBER 31, 2011**

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	Fire Protection	State Liquid Fuels	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 133,734	\$ 140,139	\$ 273,873
Total Assets	\$ 133,734	\$ 140,139	273,873
<b>LIABILITIES AND NET ASSETS</b>			
Net Assets Assigned	\$ 133,734	\$ 140,139	\$ 273,873
Total Liabilities and Net Assets	\$ 133,734	\$ 140,139	\$ 273,873

See accountants' report on supplementary information.

**BOROUGH OF HELLERTOWN  
COMBINING STATEMENT OF REVENUES RECEIVED, EXPENDITURES PAID  
AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS  
SPECIAL REVENUE FUNDS  
DECEMBER 31, 2011**

	Fire Protection	State Liquid Fuels	Total
<b>REVENUES RECEIVED</b>			
Taxes	\$ 197,536	\$ -	\$ 197,536
Intergovernmental Revenues	-	115,581	115,581
Interest	202	414	616
Total Revenue Received	197,738	115,995	313,733
<b>EXPENDITURES PAID</b>			
Public Safety - Fire	635,397	-	635,397
Total Expenditures Paid	635,397	-	635,397
<b>EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID</b>			
	(437,659)	115,995	(321,664)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	572,119	6,066	578,185
Transfers Out	(129,530)	(178,542)	(308,072)
Total Other Financing Sources (Uses), Net	\$ 442,589	\$ (172,476)	\$ 270,113
<b>EXCESS (DEFICIT) OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES</b>			
	4,930	(56,481)	(51,551)
Fund Balances - January 1, 2011	128,804	196,620	325,424
Fund Balances - December 31, 2011	\$ 133,734	\$ 140,139	\$ 273,873

See accountants' report on supplementary information.

**BOROUGH OF HELLERTOWN**  
**COMBINING STATEMENT OF PLAN NET ASSETS - MODIFIED CASH BASIS**  
**ALL PENSION TRUST FUNDS**  
**DECEMBER 31, 2011**

	Police Pension Plan	Non-Uniformed Pension Plan	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 88,580	\$ -	\$ 88,580
Investments, at Fair Value			
Guaranteed Investment Contracts	-	554,544	554,544
U.S. Government Obligations	661,949	-	661,949
Balanced Funds/Fixed Income	1,244,547	217,448	1,461,995
Municipal Bonds	64,575	-	64,575
Agency Bonds	103,387	-	103,387
International Bonds	109,124	-	109,124
Corporate Bonds	694,209	22,335	716,544
Mutual Funds	1,163,731	-	1,163,731
Domestic Stocks	896,221	149,106	1,045,327
International Stocks	-	2,381	2,381
	<u>4,937,743</u>	<u>945,814</u>	<u>5,883,557</u>
Total Assets	<u>\$ 5,026,323</u>	<u>\$ 945,814</u>	<u>\$ 5,972,137</u>
<b>LIABILITIES AND NET ASSETS</b>			
Net Assets			
Assigned	<u>\$ 5,026,323</u>	<u>\$ 945,814</u>	<u>\$ 5,972,137</u>
Total Liabilities and Net Assets	<u>\$ 5,026,323</u>	<u>\$ 945,814</u>	<u>\$ 5,972,137</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, 2011**

	Police Pension Plan	Non-Uniformed Pension Plan	Total
<b>ADDITIONS</b>			
Contributions			
Employer	\$ -	\$ 3,495	\$ 3,495
Employee	-	49,673	49,673
State Aid	-	19,905	19,905
Total Contributions	-	73,073	73,073
Investment Income			
Interest	69,205	-	69,205
Dividends	113,146	-	113,146
Realized Capital Gains (Losses)	31,528	-	31,528
Net Appreciation (Depreciation) in Fair Value of Investments	(53,441)	11,846	(41,595)
Total Investment Income (Loss)	160,438	11,846	172,284
Less: Investment Expenses	(38,267)	-	(38,267)
Net Investment Income (Loss)	122,171	11,846	134,017
Total Additions (Losses), Net	122,171	84,919	207,090
<b>DEDUCTIONS</b>			
Benefits	244,997	-	244,997
Administrative Expenses	3,725	-	3,725
Total Deductions	248,722	-	248,722
<b>NET INCREASE (DECREASE) IN PLAN NET ASSETS</b>	(126,551)	84,919	(41,632)
<b>FUND BALANCE - ASSIGNED FOR EMPLOYEES' PENSION BENEFITS:</b>			
<b>JANUARY 1, 2011</b>	5,152,874	860,895	6,013,769
<b>DECEMBER 31, 2011</b>	\$ 5,026,323	\$ 945,814	\$ 5,972,137

See accountants' report on supplementary information.



1033 SOUTH CEDAR CREST BOULEVARD ALLENTOWN, PA 18103-5443  
PHONE (610) 435-7489 FAX (610) 435-8794 www.crycpas.com

LUTHER R. CAMPBELL, JR., CPA, CSEP, CSRP  
JAMES S. ANDERSON, CPA  
TARA L. BENDER, CPA  
JAMES F. BOVA, CPA  
MARYSUE BULCAVAGE, CPA  
MELISSA A. GRUBE, CPA, CSEP  
DENNIS S. HELLER, CPA  
WARREN R. HENDERSON, CPA

---

DAWN C. ANDERSON, CPA  
MICHELLE R. BITNER, CPA  
MARC A. BRINKER, CPA  
GAIL T. LYNCH, CPA  
PAUL G. MACK, CPA  
JASON L. SERFASS, CPA  
HEIDI D. WOJCIECHOWSKI, CPA  
JOHN R. ZAYAITZ, CPA

**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, each major fund, and the aggregate remaining fund information of the Borough of Hellertown as of and for the year ended December 31, 2011, which collectively comprise the Borough of Hellertown's basic financial statements and have issued our report thereon dated August 7, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Borough of 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*.

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.

*Congell, Rappold & Yucasita LLP*

Certified Public Accountants

August 7, 2012