

BOROUGH OF HELLERTOWN

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

December 31, 2012

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

**BOROUGH OF HELLERTOWN
TABLE OF CONTENTS**

	Page(s)
Independent Auditors' Report	1 - 3
Management's Discussion & Analysis	4 - 8
<u><i>Financial Statements</i></u>	
Statement of Net Assets - Modified Cash Basis	9
Statement of Activities - Modified Cash Basis	10
Balance Sheet - Modified Cash Basis - Governmental Funds	11
Statement of Revenues Received, Expenditures Paid and Changes in Fund Balances - Modified Cash Basis - Governmental Funds	12
Statement of Net Assets - Modified Cash Basis - All Fiduciary Funds	13
Combined Statement of changes in Net Assets - Modified Cash Basis - All Fiduciary Funds	14
Statement of Cash Flows - Modified Cash Basis - All Fiduciary Trust Funds	15
Statement of Net Assets – Modified Cash Basis – Proprietary Funds	16
Statement of Revenues Received, Expenditures Paid and Changes in Fund Balance - Modified Cash Basis - Proprietary Fund Type	17
Statement of Cash Flows - Modified Cash Basis - Proprietary Fund Type	18
Notes of Financial Statements	19 - 39
<u><i>Required Supplementary Information</i></u>	
Statement of Revenues Received, Expenditures Paid and Changes in Fund Balance - Modified Cash Basis - Budget and Actual - General Fund	41
Statement of Revenues Received, Expenditures Paid and Changes in Fund Balance - Modified Cash Basis - Budget and Actual - All Capital Projects Funds	42
Combined Statement of Revenues Received, Expenditures Paid and Changes in Fund Balance - Modified Cash Basis - Budget and Actual - All Special Revenue Funds	43

**BOROUGH OF HELLERTOWN
TABLE OF CONTENTS (Continued)**

	Page(s)
Statement of Revenues Received, Expenditures Paid and Changes in Fund Balance - Modified Cash Basis - Budget and Actual - Debt Service Fund	44
Schedule of Funding Progress - Police Pension Fund	45
Schedule of Contributions from Employer and Other Contributing Entities - Police Pension Fund	46
Notes to Supplementary Schedules	47
Schedule of Funding Progress for the Retiree Health Plan	48
<u>Other Supplementary Information</u>	
Combining Balance Sheet - Modified Cash Basis - Special Revenue Funds	50
Combining Statement of Revenues Received, Expenditures Paid and Changes in Fund Balance - Modified Cash Basis - Special Revenue Funds	51
Combining Statement of Plan Net Assets - Modified Cash Basis - All Pension Funds	52
Combining Statement of Changes in Plan Net Assets - Modified Cash Basis - All Pension Funds	53
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	54 - 55



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, CSEP
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
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

Report on the Financial Statements

We have audited the accompanying modified-cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Hellertown, Pennsylvania, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Borough's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

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

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

Opinions

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, the financial statements referred to above present fairly, in all material respects, the modified-cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Hellertown, Pennsylvania, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles described in Note 1.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison, and pension information on pages 3-7 and 39-47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

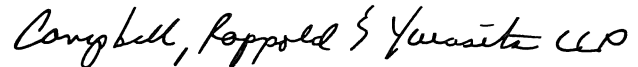
Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 10, 2013 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Borough of Hellertown's internal control over financial reporting and compliance.



Certified Public Accountants
Allentown, PA

July 10, 2013

**BOROUGH OF HELLERTOWN
2012 FINANCIAL STATEMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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, 2012. 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, 2012, was \$1,340,488 a decrease of \$896,450 for the same period in 2011 primarily due to a \$220,075 restatement of the prior year fund balance (footnote #11 on page 39) and the inclusion of the debt service fund balance of \$547,288 (footnote #12, page 39).

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, 2012 was \$276,557, a \$2,684 increase over the same period for the previous year. The Special Revenue Fund includes receipts of \$204,645 Fire Tax, an increase of \$7,109 from 2011 and a receipt of \$121,654 Liquid Fuels payment, an increase of \$6,073 from 2011. Expenses include \$71,458 for fire general operating and \$152,639 in road work resulting in a net increase of \$2,684 for the same period in 2011. Total liabilities and net assets amount to \$167,212 Fire and \$109,345 Liquid Fuels.

**BOROUGH OF HELLERTOWN
2012 FINANCIAL STATEMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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 total of \$222,683 was spent for various capital purchases in general government, police, public works and parks and recreation. Capital expenditures in the amount of \$18,236 were realized in the Fire Capital account. The fund balance as of 12/31/12 was \$1,679,811 which includes \$1,317,154 Capital and \$362,656 Fire Capital. Excess of revenues received over expenditures paid is \$114,608 for the year ending 2012.

Debt Service Fund – The Debt Service Fund accounts for resources accumulated for the purpose of funding general long-term debt obligations. The Borough of Hellertown issued notes payable to finance various capital improvements throughout the Borough, which are reported in the Debt Service Fund. The Borough refinanced its General Obligation Note Series I, 2003 and borrowed an additional \$1,452,712 bringing the total outstanding balance on the new note to \$2,000,000. The 2012 GON is fixed at 2.72% for 10 years, thereafter a floating rate of 65% of prime due 11/1/32 with monthly principal and interest in the amount of \$10,853. The balance due on the 2012 Note is \$1,985,226. The fund balance contains a deficit, which will decrease as the loan is paid off.

The Borough also borrowed \$100,000 for the purchase of a sanitation truck. The 2012 GON II is fixed rate of 2.95% for five years with principal and interest installments of \$1,796. The balance of the 2012 GON II as of 12/31/12 is \$98,408.

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 \$667,963, a decrease of \$10,245 from 2011 with expenditures of \$737,860, an increase of \$230,312 from 2011 levels primarily attributed to the purchase and debt service of a sanitation truck. The Sanitation Fund maintained a fund balance of \$75,680 for year end 2012.

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 2012 were \$3,296,856 with liabilities of \$1,985,228 reflecting a \$11,795 decrease in net assets and a \$1,437,596 increase in liability (2012 GON).

General Fund revenue increased from 2011 levels by \$363,085. An increase from previous years was seen in all categories except Interest & Rent. Based on the above, the General Fund revenue increased 9.72% from 2011.

General Fund expenditures for 2012 amounted to \$3,944,957 or \$122,823 or 3.02% less than 2011 expenditures.

**BOROUGH OF HELLERTOWN
2012 FINANCIAL STATEMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

General Government expenditures show an increase of \$8,448 or 1.78% increase. Police Department expenditures increased by \$108,959. Various grants, including a Northampton County Gaming Authority and Vest Partnership amounting to \$135,500 was received. Highways and Streets experienced a net decrease from 2011 levels of \$457,000. Again, it must be noted, in 2011 the Hometown Streets (Cherry Lane) project costs were included in this category.

Recreation & Cultural Services experienced a decrease of \$16,652 from 2011 levels with the majority of these expenditures deriving from pool maintenance with slight increases in wages, supplies, park maintenance, vehicle maintenance and pool capital.

FINANCIAL HIGHLIGHTS

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

- Net assets for all government activities were \$3,274,128 an increase of \$34,523 over prior year
- Liabilities (Notes Payable) for year end 2012 were \$1,985,228
- Total Governmental Activities accounted for \$5,282,084; that increase in cash is mostly attributable to the cash received from the General Obligation Note.
- Total primary government expenses were \$5,129,597; a 2.3% decrease from 2011. \$1,560,973 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.
- 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 2012 funding in the amount of \$16,008 was awarded through various sources for streetscape amenities, flags, gateway sign, restaurant week, planters and handicapped ramps at the Hellertown Pool.

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 2012 in the amount of \$557,958 will install streetscape and stormwater improvements which will facilitate multi-modal transportation options. Construction of this project began in early 2013 and will include traffic calming measures such as bump outs and crosswalk improvements. The project completion date is anticipated to be late spring 2013.

**BOROUGH OF HELLERTOWN
2012 FINANCIAL STATEMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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 or completed in 2012:

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 and committee members formed the Saucon Valley Peer Recreation Committee who will 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 have completed the development of a web site. The Saucon Rail Trail Oversight Commission in partnership with the Saucon Valley Watershed Association continues to identify and map invasive species for removal. Interpretive, education signs have been installed along the Hellertown Marsh.

Saucon Valley Compost Center: 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 and mulch produced in 2012 was 885 tons, bringing the total since inception to over 2,585 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 with final reimbursement of \$183,813 received in 2012. 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 awarded from various grant funds (county open space, Senator Boscola) and contributions (Lower Saucon Township, recreation fees).

Reinhard School: Demolition of the former Reinhard School was completed in 2012. CDBG funding in the amount of \$162,316 was received.

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

**BOROUGH OF HELLERTOWN
2012 FINANCIAL STATEMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Economic Outlook:

Economic growth will remain slow this year, CBO anticipates, as gradual improvement in many of the forces that drive the economy is offset by the effects of budgetary changes that are scheduled to occur under current law. After this year, economic growth will speed up, CBO projects, causing the unemployment rate to decline and inflation and interest rates to eventually rise from their current low levels. Nevertheless, the unemployment rate is expected to remain above 7½ percent through next year; if that happens, 2014 will be the sixth consecutive year with unemployment exceeding 7½ percent of the labor force—the longest such period in the past 70 years. In the last months of 2012, every major indicator of economic health showed marked improvement; manufacturing, sentiment, holiday sales, inflation and employment. The most optimistic economists foresee a small improvement in growth this year, followed by 3% or more in 2014. Now, growth is less impressive but for the first time in a long while, it is real. It is an actual economic activity undistorted by bubbles (1990's or even mid-2000's). As we look ahead to 2013, 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, 2012

ASSETS	PRIMARY GOVERNMENT		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Cash & Cash Equivalents	<u>\$ 5,282,084</u>	<u>\$ 75,680</u>	<u>\$ 5,357,764</u>
Total Assets	<u><u>\$ 5,282,084</u></u>	<u><u>\$ 75,680</u></u>	<u><u>\$ 5,357,764</u></u>
 LIABILITIES AND NET ASSETS			
Liabilities:			
Notes Payable	<u>\$ 1,985,228</u>	<u>\$ 98,408</u>	<u>\$ 2,083,636</u>
Total Liabilities	<u><u>\$ 1,985,228</u></u>	<u><u>\$ 98,408</u></u>	<u><u>\$ 2,083,636</u></u>
 NET ASSETS			
Unreserved - Undesignated	<u>\$ 3,296,856</u>	<u>\$ (22,728)</u>	<u>\$ 3,274,128</u>
Total Net Assets	<u><u>\$ 3,296,856</u></u>	<u><u>\$ (22,728)</u></u>	<u><u>\$ 3,274,128</u></u>
Total Liabilities and Net Assets	<u><u>\$ 5,282,084</u></u>	<u><u>\$ 75,680</u></u>	<u><u>\$ 5,357,764</u></u>

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

BOROUGH OF HELLERTOWN
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2012

Functions/Programs	PROGRAM REVENUES					NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Business-Type Activities	PRIMARY GOVERNMENT		
						Governmental Activities	Business-Type Activities	Total
Primary Government:								
Government activities:								
General Government	\$ 803,424	\$ -	\$ 173,566	\$ -	\$ -	\$ (629,858)	\$ -	\$ (629,858)
Public Safety	1,534,421	22,183	136,717	-	-	(1,375,521)	-	(1,375,521)
Health & Human Services	-	-	-	-	-	-	-	-
Public Works - Hwy/Slrfs	673,480	20,595	338,153	-	-	(314,732)	-	(314,732)
Culture and Recreation	416,814	126,955	10,585	-	-	(279,274)	-	(279,274)
Employee Benefits/Taxes	913,433	-	66,932	-	-	(846,501)	-	(846,501)
Contingencies	14,956	-	-	-	-	(14,956)	-	(14,956)
Employee Theft Bond	-	-	-	-	-	-	-	-
Interest	35,209	-	-	-	-	(35,209)	-	(35,209)
Total Governmental Activities	\$ 4,391,737	\$ 169,733	\$ 725,953	\$ -	\$ -	\$ (3,496,051)	\$ -	\$ (3,496,051)
Business Type Activities:								
Sanitation	737,860	665,287	-	-	-	-	(72,573)	(72,573)
Total Business-Type Activities	\$ 737,860	\$ 665,287	\$ -	\$ -	\$ -	\$ -	\$ (72,573)	\$ (72,573)
Total Primary Government	\$ 5,129,597	\$ 835,020	\$ 725,953	\$ -	\$ -	\$ (3,496,051)	\$ (72,573)	\$ (3,568,624)
General Revenues:								
Taxes						3,156,228	-	3,156,228
Licenses & Permits						178,489	2,409	180,898
Fines & Forfeitures						80,615	-	80,615
Interest & Rents						11,921	257	12,178
Miscellaneous						104,172	10	104,182
Transfers						(47,169)	47,169	-
Total General Revenues & Transfers						3,484,256	49,845	3,534,101
Change in Net Assets						(11,795)	(22,728)	(34,523)
Net Assets - January 1, 2012						3,308,651	-	3,308,651
Net Assets - December 31, 2012						\$ 3,296,856	\$ (22,728)	\$ 3,274,128

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

**BOROUGH OF HELLERTOWN
BALANCE SHEET - MODIFIED CASH BASIS -
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	General	Capital Projects Funds	Special Revenue Funds	Total Governmental Funds
ASSETS AND OTHER DEBITS				
Cash & Cash Equivalents	\$ 3,325,716	\$ 1,679,811	\$ 276,557	\$ 5,282,084
TOTAL ASSETS & OTHER DEBITS	<u>\$ 3,325,716</u>	<u>\$ 1,679,811</u>	<u>\$ 276,557</u>	<u>\$ 5,282,084</u>
LIABILITIES AND FUND BALANCES				
Other Withholdings	\$ -	\$ -	\$ -	\$ -
Total Liabilities	\$ -	\$ -	\$ -	\$ -
FUND BALANCE				
Assigned	-	-	276,557	276,557
Unassigned, as Restated	3,325,716	1,679,811	-	5,005,527
TOTAL FUND BALANCE	<u>3,325,716</u>	<u>1,679,811</u>	<u>276,557</u>	<u>5,282,084</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 3,325,716</u>	<u>\$ 1,679,811</u>	<u>\$ 276,557</u>	

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

(1,985,228)

Net assets of governmental activities

\$ 3,296,856

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, 2012

	General Fund	Capital Projects Funds	Special Revenue Funds	Total Governmental Funds
REVENUES RECEIVED				
Taxes	\$ 2,951,583	\$ -	\$ 204,645	\$ 3,156,228
Intergovernmental Revenues	604,299	-	121,654	725,953
Charges for Service	169,733	-	-	169,733
Fines and forfeitures	80,615	-	-	80,615
Licenses and Permits	178,489	-	-	178,489
Interest and Rent	9,766	1,731	424	11,921
Miscellaneous Revenue	103,730	-	442	104,172
Total Revenues Received	4,098,215	1,731	327,165	4,427,111
EXPENDITURES PAID				
General Government				
Mayor & Council	16,320	-	-	16,320
Managerial	81,527	-	-	81,527
Clerical	120,900	-	-	120,900
Solicitor	46,817	-	-	46,817
General government	483,024	54,836	-	537,860
Public Safety				
Police	1,365,726	79,001	-	1,444,727
Fire	-	18,236	71,458	89,694
Health and Human Services	-	-	-	-
Public Works				
Highways and Streets	490,525	30,316	152,639	673,480
Culture and Recreation				
Library	58,000	-	-	58,000
Park and Pool	318,520	40,294	-	358,814
Interest	35,209	-	-	35,209
Contingencies	14,956	-	-	14,956
Employee Theft Bond	-	-	-	-
Employee Benefits/Taxes	913,433	-	-	913,433
Total Expenditures Paid	3,944,957	222,683	224,097	4,391,737
EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID	153,258	(220,952)	103,068	35,374
OTHER FINANCING SOURCES (USES)				
Transfers In	669,919	382,729	8,722	1,061,370
Transfers Out	(952,264)	(47,169)	(109,106)	(1,108,539)
Total Other Financing Sources (Uses), Net	\$ (282,345)	\$ 335,560	\$ (100,384)	\$ (47,169)
EXCESS (DEFICIT) OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES	(129,087)	114,608	2,684	(11,795)
Fund Balances - January 1, 2012, as Restated (Note 11 & Note 12)	1,469,575	1,565,203	273,873	3,308,651
Fund Balances - December 31, 2012	\$ 1,340,488	\$ 1,679,811	\$ 276,557	\$ 3,296,856

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, 2012

	Pension Trust Funds	Agency Fund
ASSETS		
Cash and Cash Equivalents	\$ 80,465	\$ 80,720
Investments at Fair Value		
Guaranteed Investment Contracts	589,271	-
U.S. Government Obligations	761,937	-
Real Estate Securities	512	
Balanced Funds/Fixed Income	1,397,751	-
Municipal Bonds	33,650	-
International Bonds	214,426	-
Corporate Bonds	706,288	-
Mutual Funds	1,373,527	-
Domestic Stocks	1,088,018	-
International Stocks	3,638	-
Total Investments, at Fair Value	<u>6,169,018</u>	<u>-</u>
Total Assets	<u><u>\$ 6,249,483</u></u>	<u><u>\$ 80,720</u></u>
LIABILITIES AND NET ASSETS		
Liabilities		
Due to Depositors	\$ -	\$ 80,670
Total Liabilities	<u>-</u>	<u>80,670</u>
Net Assets		
Unassigned	-	50
Assigned	<u>6,249,483</u>	<u>-</u>
Total Net Assets	<u>6,249,483</u>	<u>50</u>
Total Liabilities and Net Assets	<u><u>\$ 6,249,483</u></u>	<u><u>\$ 80,720</u></u>

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

**BOROUGH OF HELLERTOWN
COMBINED STATEMENT OF CHANGES IN NET ASSETS -
MODIFIED CASH BASIS - ALL FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Pension Trust Funds</u>	<u>Agency Fund</u>
ADDITIONS		
Contributions		
Employer	\$ -	\$ -
Employee	30,581	-
State Aid	22,100	-
	<u>52,681</u>	<u>-</u>
Total Contributions	52,681	-
Investment Income		
Interest	39,243	50
Dividends	121,591	-
Realized Capital Gains (Losses)	48,689	-
Net Appreciation (Depreciation) in Fair Market of Investments	312,730	-
	<u>522,253</u>	<u>50</u>
Total Investment Income (Loss)	522,253	50
Less: Investment Expenses	(38,821)	-
	<u>483,432</u>	<u>50</u>
Net Investment Income (Loss)	483,432	50
Total Additions (Losses), Net	536,113	50
DEDUCTIONS		
Benefits	254,668	-
Administrative Expenses	4,099	-
	<u>258,767</u>	<u>-</u>
Total Deductions	258,767	-
NET INCREASE (DECREASE) IN PLAN NET ASSETS	277,346	50
FUND BALANCE - ASSIGNED FOR EMPLOYEES' PENSION BENEFITS:		
JANUARY 1, 2012	<u>5,972,137</u>	<u>-</u>
DECEMBER 31, 2012	<u><u>\$ 6,249,483</u></u>	<u><u>\$ 50</u></u>

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

**BOROUGH OF HELLERTOWN
STATEMENT OF CASH FLOWS -
MODIFIED CASH BASIS - ALL FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

CASH FLOWS FROM OPERATING ACTIVITIES

Net Increase (Decrease) in Plan Net Assets	\$ 277,396
Adjustments to Reconcile Net Increase (Decrease) in Plan Net Assets	
To Net Cash Provided (Used) by Operating Activities:	
Realized (Gains) Losses on Investments	48,689
Unrealized (Gains) Losses on Investments	<u>312,730</u>
Cash Provided (Used) by Operating Activities	638,815

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sale of Investments	5,592,875
Purchase of Investments	<u>(6,239,755)</u>
Cash Provided (Used) by Investing Activities	<u>(646,880)</u>

Increase (Decrease) in Cash and Cash Equivalents (8,065)

Cash and Cash Equivalents, January 1, 2012	169,250
Cash and Cash Equivalents, December 31, 2012	<u><u>\$ 161,185</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
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS -
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>PROPRIETARY FUND TYPE</u> <u>Enterprise Fund</u>
ASSETS	
Cash & Cash Equivalents	<u>\$ 75,680</u>
Total Assets	<u><u>\$ 75,680</u></u>
 LIABILITIES AND NET ASSETS	
Liabilities:	
Notes Payable	<u>\$ 98,408</u>
Total Liabilities	<u><u>\$ 98,408</u></u>
 NET ASSETS	
Unrestricted	<u>\$ (22,728)</u>
Total Net Assets	<u><u>\$ (22,728)</u></u>
Total Liabilities and Net Assets	<u><u>\$ 75,680</u></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 -
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>PROPRIETARY FUND TYPE</u>
	<u>Enterprise Fund</u>
REVENUES RECEIVED	
Refuse Collections	\$ 534,788
Recycling	130,499
Licenses and Permits	2,409
Interest	257
Miscellaneous	<u>10</u>
Total Revenues Received	667,963
EXPENDITURES PAID	
Personnel	246,733
Contracted Services	188,287
Repairs, Maintenance, and Supplies	302,625
General Government	10
Interest	<u>205</u>
Total Expenditures Paid	<u>737,860</u>
EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID	(69,897)
Other Financing Sources (Uses)	
Operating Transfers - Net	<u>47,169</u>
EXCESS (DEFICIT) OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES	(22,728)
FUND BALANCE - JANUARY 1, 2012	<u>-</u>
FUND BALANCE - DECEMBER 31, 2012	<u><u>\$ (22,728)</u></u>

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, 2012**

CASH FLOWS FROM OPERATING ACTIVITIES

Excess (Deficit) of Revenues Received	
Over (Under) Expenditures Paid	\$ (69,897)

Cash Provided (Used) by Operating Activities	(69,897)
--	----------

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from Long-Term Debt	100,000
Principal Paid on Long-Term Debt	(1,592)

Cash Provided (Used) by Financing Activities	98,408
--	--------

Operating Transfers - Net	47,169
---------------------------	--------

Increase (Decrease) in Cash and Cash Equivalents	75,680
--	--------

Cash and Cash Equivalents, January 1, 2012	-
--	---

Cash and Cash Equivalents, December 31, 2012	\$ 75,680
--	-----------

SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION

Cash Paid For:	
Interest	\$ 205
Income Taxes	\$ -

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

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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, 2012**

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, 2012

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, 2012

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's activities; it does not purport to present the net income or loss for the period.

Measurement Focus

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

Proprietary funds and similar discretely presented component units are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with this activity are included on their statements of assets, liabilities, and 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, 2012**

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, 2012.

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 \$6,249,483 (Police and Non-uniformed), which was comprised of amounts reserved for the payment of employee pension benefits and the Special Revenue Fund for \$276,557, 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, 2012**

1. Summary of Significant Accounting Policies (Continued)

Management Estimates

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

2. Non-GAAP Budgetary Basis of Accounting

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

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

3. Cash and Cash Equivalents

General

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

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

Cash (Cash on Hand and Bank Balances)

At December 31, 2012, the carrying amount of the borough's bank deposits (excluding those held in the Pension Trust Funds, but including Agency Funds) totaled \$5,437,635 and the corresponding bank balances were \$5,517,674, of which \$500,000 was insured by the Federal Deposit Insurance Corporation ("FDIC"); the uninsured bank balance of \$5,017,674 were collateralized, as described below.

BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

3. Cash and Cash Equivalents (Continued)

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

Under Act No. 72 of the 1972 Session of the Pennsylvania General Assembly (the "Act of 72"), financial institutions were granted the authority to secure the deposits of the public bodies by pledging a pool of assets, as defined in the Act of 72, to cover all public funds deposited in excess of the FDIC limits. The uninsured bank balances (as defined by Statement No. 3 of the GASB) of the Borough in the amount of \$5,017,674, 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, 2012, the petty cash balance was \$900.

4. Investments

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

As of December 31, 2012, the Borough had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
<u>Pension Trust Funds</u>		
Guaranteed Investment Contracts		\$ 589,271
U.S. Government Obligations	2013 - 2017	761,937
Real Estate Securities		512
Balanced Funds/Fixed Income		1,397,751
Municipal Bonds	2016	33,650
International Bonds	2015 - 2023	214,426
Corporate Bonds	2014 - 2023	706,288
Mutual Funds		1,373,527
Domestic Stocks		1,088,018
International Stocks		<u>3,638</u>
Total Pension Trust Funds		<u>\$ 6,169,018</u>

BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

4. Investments (Continued)

Interest Rate Risk

The Borough has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Borough has no investment policy that would limit its investment choices to certain credit ratings.

Concentration of Credit Risk

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

Custodial Credit Risk

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

5. Notes Payable

The Borough of Hellertown issues notes payable to finance various capital improvements throughout the Borough, which are reported in the Debt Service Fund. The Borough refinanced its General Obligation Notes Series I, 2003, and borrowed an additional \$1,515,243 (taken down on November 16, 2012), bringing the total outstanding balance on the new note (General Obligation Note Series I, 2012) to \$2,000,000 as of November 31, 2012.

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

BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

5. Notes Payable (Continued)

A description of the terms of each of the Borough's long-term debt obligations ("Notes") and the balance of each outstanding at December 31, 2012 is presented below.

Notes Payable: General Obligation Notes	Balance Outstanding January 1, 2012	Additions	Reductions	Balance Outstanding December 31, 2012
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.	\$ 547,288	\$ -	\$ 547,288	\$ -
General Obligation Note I 2012, fixed annual interest rate of 2.72% for 10 years, thereafter a floating rate of 65% of Prime Rate, due November 1, 2032 with monthly principal and interest installments of \$10,853.	-	2,000,000	14,774	1,985,226
General Obligation Note II 2012, fixed annual interest rate of 2.95%, due November 28, 2017 with monthly principal and interest installments of \$1,796	-	100,000	1,592	98,408
Total Notes Payable	<u>\$ 547,288</u>	<u>\$2,100,000</u>	<u>\$ 563,654</u>	<u>\$ 2,083,634</u>

The annual debt service requirements to maturity for notes payable as of December 31, 2012 are as follows:

During the year (s) ended December 31:	Principal	Interest
2013	95,075	56,708
2014	97,775	54,007
2015	100,552	51,230
2016	103,271	48,511
2017	104,505	45,440
2018-2032	<u>1,582,456</u>	<u>351,614</u>
Totals	<u>\$ 2,083,634</u>	<u>\$ 607,510</u>

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

6. Real Estate Taxes

Based upon assessed valuations provided by the Northampton County approximating \$131,027,000 in 2012, the Borough bills and collects its own real estate taxes. The schedule for real estate taxes levied for 2012 is as follows:

February 1, 2012	- levy date
February 1, 2012 - April 2, 2012	- 2% discount period
April 3, 2012 - June 1, 2012	- face payment period
June 2, 2012 - March 5, 2013	- 10% penalty period
March 4, 2013	- 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 2012 municipal tax rate for all purposes was 19.25 mills (\$19.25 per \$1,000 of assessed valuation) of which 1.5 mills is allocated for fire protection and the remaining 17.75 mills is allocated for general purposes. The 2013 municipal tax rate is 20.25 mills of which 1.5 mills is allocated for fire protection and the remaining 18.75 mills is allocated for general purposes.

7. Commitments and Contingencies

Compensated Absences

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

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

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

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

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

7. Commitments and Contingencies (Continued)

Compensated Absences (Continued)

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

Insurance

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

	<u>2012</u>
Building and Contents	\$ 12,040,347
Boiler and Equipment	\$ 616,867
Crime and Dishonesty (Per Employee)	\$ 100,000
Comprehensive General Liability	
- Each Occurrence	\$ 1,000,000
- Aggregate Limit	\$ 2,000,000
Employee Benefits Liability	
- Each Claim	\$ 1,000,000
- Aggregated Limit	\$ 2,000,000
Commercial Auto	\$ 1,000,000
Workers' Compensation	
- Per Accident	\$ 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, 2012**

8. Pension Plans

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

Police Pension Plan

Plan Description

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

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

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

As of December 31, 2012, 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	-
Total Plan Membership	<u>22</u>

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

8. 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, 2012, 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 ($\$5,213,064 \times .05 = \$260,653$):

Vanguard Intermediate Term Bond Index – SIG 1350	\$647,234
Vanguard Value Index Fund – SIG 1346	\$297,035
PIMCO Total Return Fund Inst (35)	\$272,035

In addition, the PPP did not have any investment transactions with related parties during the year ended December 31, 2012.

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

8. 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, 2012, 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, 2012. 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, 2012.

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

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
12/31/2010	\$ -	100%	\$ -
12/31/2011	\$ -	100%	\$ -
12/31/2012	\$ -	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, 2012**

8. Pension Plans (Continued)

Police Pension Plan (Continued)

Deposits and Investment Risks

At December 31, 2012, the Plan held \$88,384 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, 2012 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>
Diageo Capital PLC 7.375% 01/15/14	1.08	A-
Sempra Energy 2.000% 03/15/14	1.25	BBB+
Hewlett-Packard Co 2.625% 12/09/14	2.00	BBB+
Raymond James Finl. 4.250% 04/15/16	3.33	BBB
Metlife Inc 6.750% 06/01/16	3.50	A-
SBC Communications 5.625% 06/15/16	3.50	A-
Merrill Lynch & Co 6.875% 04/25/18	5.33	A-
Goldman Sachs Grp 6.000% 06/15/20	7.50	A-
JP Morgan Chase & Co. 4.400% 07/22/20	7.58	A
Citigroup Inc. 5.375% 08/09/20	7.67	A-
Morgan Stanley 5.500% 07/28/21	8.58	A-
Rabobank 2.125% 10/13/15	2.83	AA-
Statoil Asa 1.800% 11/23/16	3.92	AA-
AIG 3.000% 03/20/15	2.25	A-
Bank of America 1.500% 10/09/15	2.83	A-
JP Morgan Chase & Co. 1.100% 10/15/15	2.83	A
Morgan Stanley 4.750% 3/22/17	4.25	A-
JP Morgan Chase 2.000% 08/15/17	4.67	A
Dominion Resources 1.400% 09/15/17	4.75	A-
Oracle Corp. 1.200% 10/15/17	4.83	A+
AT&T Inc. 1.400% 12/10/17	5.00	A-
Chevron Corp 1.104% 12/05/17	5.00	AA
Intel Corp 1.350% 12/15/17	5.00	A+
Wells Fargo & Co 1.500% 01/16/18	5.08	A+
Goldman Sachs 5.750% 01/24/22	9.08	A-
Burlington North 3.050% 09/01/22	9.75	BBB+
JP Morgan Chase & Co 3.250% 09/23/22	9.75	A
Verizon Co., Inc 2.450% 11/01/22	9.91	A-
Apache Corp 2.625% 01/15/23	10.08	A-
Bank Nova Scotia 1.375% 12/18/17	5.00	A+
BP Capital PLC 1.375% 11/06/17	4.91	A
Petrobras Intl Fin 3.500% 02/06/17	4.16	BBB
Rio Tinto Fin PLC 1.625% 18/21/17	4.67	A-
Shell Intl Fin 2.250% 01/06/23	10.08	AA

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

8. 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)	1.60	BBB	***
Vanguard Intermediate Term Bond IDX-SIG 1350	5.30	A	****
PIMCO Total Return Fund	4.02	Not Rated	****

- (iv) Foreign Currency Risk – As of December 31, 2012 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	\$ 13,233
BCE Inc.	\$ 10,778
Teva Pharmaceutical Ind Ltd	\$ 2,278
Total Fina Elf SA	\$ 12,400
Vodafone Group Plc Sp ADR	\$ 1,813
Unilever Plc – Sponsored PDR	\$ 3,136
Glaxosmithkline Plc - ADR	\$ 11,476
National Grid Plc Sponsored ADR	\$ 12,751
Potash Corp Sask Inc.	\$ 2,604
Royal Dutch Shell PLC – ADRB	\$ 12,218
Astra Zeneca PLC – Spons ADR	\$ 12,196

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, 2012**

8. 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, 2012, employee contributions amounted to \$30,581 Employer funding requirements for 2012, amounting to \$22,100, of which \$22,100 was funded from State Aid.

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

8. 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:

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

9. Postemployment Benefits Other Than Pensions

Plan Description: The Borough of Hellertown administers a single-employer defined benefit healthcare plan. All full-time uniformed and non-uniformed employees 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 since 2010. The retirees are obligated to absorb any and all monthly premium costs in excess of Borough contributions. Currently, the Borough pays the monthly health insurance premiums for each participant and is reimbursed by each retiree for an amount whereby the Borough's contribution does not exceed those listed above. As of December 31, 2012, eleven retirees are eligible to receive and ten 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, 2012, the Borough paid \$45,360 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, 2012, total member contributions were \$26,146.

**BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

9. 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	\$ 75,307
Interest on net OPEB obligation	3,413
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	78,720
Contributions made	<u>(45,360)</u>
Increase in net OPEB obligation	
Net OPEB obligation—beginning of year	<u>62,060</u>
Net OPEB obligation—end of year	<u>\$ 95,420</u>

The town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012, 2011 and 2010 are as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/12	\$ 78,720	57.62%	\$ 95,420
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, 2012, the actuarial accrued liability for benefits was \$951,414, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,740,797, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 54.65% 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, 2012**

9. Postemployment Benefits Other Than Pensions (Continued)

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

The following simplifying assumptions were made:

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

Mortality—Life expectancies were based on mortality tables from the National Center for Health Statistics. The 2012 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, 2012, was twenty-nine years.

10. Operating Lease

The Borough leases certain equipment under a long-term lease agreement, expiring June 2017. Rent expense under the leases was \$3,791 in 2012. Future minimum lease payment is as follows:

Year ending December 31,		
2013	\$	4,017
2014		4,017
2015		4,017
2016		2,536
2017		<u>528</u>
Total Minimum Lease Payments	\$	<u>15,115</u>

BOROUGH OF HELLERTOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

11. Restatement of Financial Statements

The prior year financial statements were restated to accurately reflect General Fund Balance and Capital Projects Fund Balance at December 31, 2011. Capital Projects Fund Balance had been erroneously classified on the Statement of Revenue Received, Expenditures Paid and Changes in Fund Balances in the prior year. The restatement flows through as presented below and does not have any effect on the Organization's net income (loss). The restatement of the 2011 financial statements is as follows:

	<u>12/31/2011</u>
Beginning General Fund Balance	\$ 2,236,938
Restatement	<u>(220,075)</u>
Beginning General Fund Balance, as Restated	<u>\$ 2,016,863</u>
Beginning Capital Projects Fund Balance	\$ 1,345,128
Restatement	<u>220,075</u>
Beginning Capital Projects Fund Balance, as Restated	<u>\$ 1,565,203</u>
Beginning Total Fund Balance	\$ 3,855,939
Restatement of General Fund Balance	(220,075)
Restatement of Capital Projects Fund Balance	<u>220,075</u>
Beginning Total Fund Balance, as Restated	<u>\$ 3,855,939</u>

12. Prior Period Adjustments

The December 31, 2011 General Fund Balance has been restated to include the Debt Service Fund Balance that amounted to \$(547,288). The restatement of the 2011 financial statements is as follows:

	<u>12/31/2011</u>
General Fund Balance (as previously reported December 31, 2011)	\$ 2,236,938
Restatement (Note 10)	(220,075)
Debt Service Fund Balance	<u>(547,288)</u>
General Fund Balance (as restated December 31, 2011)	<u>\$ 1,469,575</u>

13. Subsequent Events

In preparing these financial statements, the Borough has evaluated events and transactions for potential recognition or disclosure through July 10, 2013, 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, 2012

	Actual	Budget	Variance Favorable (Unfavorable)
Revenues Received			
Taxes	\$ 2,951,583	\$ 2,974,422	\$ (22,839)
Licenses and Permits	178,489	151,150	27,339
Fines and Forfeitures	80,615	64,700	15,915
Interest and Rent	8,703	5,285	3,418
Intergovernmental Revenue	464,799	62,971	401,828
Charges for Services	169,733	126,975	42,758
Miscellaneous Revenue	84,352	47,951	36,401
Total Revenues Received	<u>3,938,274</u>	<u>3,433,454</u>	<u>504,820</u>
EXPENDITURES PAID			
General Government	738,437	480,320	(258,117)
Public Safety	1,073,143	1,172,731	99,588
Health and Human Services	-	500	500
Public Works - Highways and Streets	490,525	522,427	31,902
Culture and Recreation	372,558	347,661	(24,897)
Employee Benefits/Taxes	913,433	942,631	29,198
Interest	-	118,296	118,296
Contingencies	14,956	15,000	44
Employee Theft Bond	-	-	-
Total Expenditures Paid	<u>3,603,052</u>	<u>3,599,566</u>	<u>(3,486)</u>
EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID	335,222	(166,112)	501,334
Other Financing Sources (Uses)			
Operating Transfers - Net	(394,980)	167,500	(562,480)
EXCESS (DEFICIT) OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES	(59,758)	1,388	(61,146)
FUND BALANCE - JANUARY 1, 2012, as Restated (Note 11)	<u>2,016,863</u>	<u>2,016,863</u>	<u>-</u>
FUND BALANCE - DECEMBER 31, 2012	<u><u>\$ 1,957,105</u></u>	<u><u>\$ 2,018,251</u></u>	<u><u>\$ (61,146)</u></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, 2012

	<u>Actual</u>	<u>Budget</u>	Variance Favorable (Unfavorable)
REVENUES RECEIVED			
Interest	\$ 1,731	\$ -	\$ 1,731
Total Revenues Received	<u>1,731</u>	<u>-</u>	<u>1,731</u>
EXPENDITURES PAID			
General Government	54,836	-	54,836
Public Safety	97,237	-	97,237
Public Works - Highways and Streets	30,316	-	30,316
Culture and Recreation	<u>40,294</u>	<u>-</u>	<u>40,294</u>
Total Expenditures Paid	<u>222,683</u>	<u>-</u>	<u>40,294</u>
EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID	(220,952)	-	(38,563)
Other Financing Sources (Uses)			
Operating Transfers - Net	<u>335,560</u>	<u>-</u>	<u>335,560</u>
EXCESS (DEFICIT) OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES	114,608	-	296,997
FUND BALANCE - JANUARY 1, 2012, as Restated (Note 11)	<u>1,565,203</u>	<u>1,565,203</u>	<u>-</u>
FUND BALANCE - DECEMBER 31, 2012	<u><u>\$ 1,679,811</u></u>	<u><u>\$ 1,565,203</u></u>	<u><u>\$ 296,997</u></u>

See accountants' report on supplementary information.

BOROUGH OF HELLERTOWN
COMBINED STATEMENT OF REVENUES RECEIVED, EXPENDITURES PAID
AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
BUDGET AND ACTUAL - ALL SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Actual	Budget	Variance Favorable (Unfavorable)
REVENUES RECEIVED			
Taxes	\$ 204,645	\$ 197,000	\$ 7,645
Interest	424	3,450	(3,026)
Intergovernmental Revenue	121,654	-	121,654
Miscellaneous Revenue	442	115,000	(114,558)
Total Revenues Received	<u>327,165</u>	<u>315,450</u>	<u>11,715</u>
EXPENDITURES PAID			
Public Works - Highways and Streets	152,639	212,000	(59,361)
Public Safety - Fire	71,458	202,990	(131,532)
Total Expenditures Paid	<u>224,097</u>	<u>414,990</u>	<u>(190,893)</u>
EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID	103,068	(99,540)	202,608
Other Financing Sources (Uses)			
Operating Transfers - Net	<u>(100,384)</u>	<u>-</u>	<u>(100,384)</u>
EXCESS (DEFICIT) OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES	2,684	(99,540)	102,224
FUND BALANCE - JANUARY 1, 2012	<u>273,873</u>	<u>273,873</u>	<u>-</u>
FUND BALANCE - DECEMBER 31, 2012	<u><u>\$ 276,557</u></u>	<u><u>\$ 174,333</u></u>	<u><u>\$ 102,224</u></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, 2012**

	Actual	Budget	Variance Favorable (Unfavorable)
REVENUES RECEIVED			
Interest	\$ 4	\$ -	\$ 4
Total Revenues Received	4	-	4
EXPENDITURES PAID			
General Government	298		298
Interest	35,209	-	35,209
Total Expenditures Paid	35,507	-	35,507
EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID	(35,503)	-	(35,503)
Other Financing Sources (Uses)			
Operating Transfers - Net	112,635	-	112,635
EXCESS (DEFICIT) OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES	77,132	-	77,132
FUND BALANCE - JANUARY 1, 2012	(547,287)	-	(547,287)
FUND BALANCE - DECEMBER 31, 2012	\$ (470,155)	\$ -	\$ (470,155)

See accountants' report on supplementary information.

**BOROUGH OF HELLERTOWN
SCHEDULE OF FUNDING PROGRESS -
POLICE PENSION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2012**

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:

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Excess of Assets Over (Under) AAL	Funded Ratio	Covered Payroll	Excess as a % of Covered Payroll
	(a)	(b)	(a-b)	(a)/(b)	(c)	[(a-b)/(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**

<u>Calendar Year</u>	<u>Annual Required Contribution</u>	<u>Percent Contributed</u>
2010	\$ - (a)	N/A
2011	\$ - (a)	N/A
2012	\$ - (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, 2012**

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, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
12/31/12	\$-0-	\$951,414	\$951,414	0.0%	\$1,740,797	54.65%
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, 2012

	<u>Fire Protection</u>	<u>State Liquid Fuels</u>	<u>Total</u>
ASSETS			
Cash and Cash Equivalents	\$ 167,212	\$ 109,345	\$ 276,557
Total Assets	<u>\$ 167,212</u>	<u>\$ 109,345</u>	<u>276,557</u>
LIABILITIES AND NET ASSETS			
Net Assets Assigned	<u>\$ 167,212</u>	<u>\$ 109,345</u>	<u>\$ 276,557</u>
Total Liabilities and Net Assets	<u>\$ 167,212</u>	<u>\$ 109,345</u>	<u>\$ 276,557</u>

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, 2012

	Fire Protection	State Liquid Fuels	Total
REVENUES RECEIVED			
Taxes	\$ 204,645	\$ -	\$ 204,645
Intergovernmental Revenues	-	121,654	121,654
Interest	233	191	424
Miscellaneous Revenue	442	-	442
Total Revenue Received	205,320	121,845	327,165
EXPENDITURES PAID			
Public Works - Highways and Streets	-	152,639	152,639
Public Safety - Fire	71,458	-	71,458
Total Expenditures Paid	71,458	152,639	224,097
EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID	133,862	(30,794)	103,068
OTHER FINANCING SOURCES (USES)			
Transfers In	8,722	-	8,722
Transfers Out	(109,106)	-	(109,106)
Total Other Financing Sources (Uses), Net	\$ (100,384)	\$ -	\$ (100,384)
EXCESS (DEFICIT) OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES	33,478	(30,794)	2,684
Fund Balances - January 1, 2012	133,734	140,139	273,873
Fund Balances - December 31, 2012	\$ 167,212	\$ 109,345	\$ 276,557

See accountants' report on supplementary information.

BOROUGH OF HELLERTOWN
COMBINING STATEMENT OF PLAN NET ASSETS - MODIFIED CASH BASIS
ALL PENSION TRUST FUNDS
DECEMBER 31, 2012

	Police Pension Plan	Non-Uniformed Pension Plan	Total
ASSETS			
Cash and Cash Equivalents	\$ 80,465	\$ -	\$ 80,465
Investments, at Fair Value			
Guaranteed Investment Contracts	-	589,271	589,271
U.S. Government Obligations	761,937	-	761,937
Real Estate Securities	-	512	512
Balanced Funds/Fixed Income	1,147,744	250,007	1,397,751
Municipal Bonds	33,650	-	33,650
International Bonds	214,426	-	214,426
Corporate Bonds	682,245	24,043	706,288
Mutual Funds	1,373,527	-	1,373,527
Domestic Stocks	907,879	180,139	1,088,018
International Stocks	-	3,638	3,638
	<u>5,121,408</u>	<u>1,047,610</u>	<u>6,169,018</u>
Total Investments, at Fair Value			
	<u>5,121,408</u>	<u>1,047,610</u>	<u>6,169,018</u>
Total Assets	<u>\$ 5,201,873</u>	<u>\$ 1,047,610</u>	<u>\$ 6,249,483</u>
LIABILITIES AND NET ASSETS			
Net Assets			
Assigned	<u>\$ 5,201,873</u>	<u>\$ 1,047,610</u>	<u>\$ 6,249,483</u>
Total Liabilities and Net Assets	<u>\$ 5,201,873</u>	<u>\$ 1,047,610</u>	<u>\$ 6,249,483</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, 2012

	Police Pension Plan	Non-Uniformed Pension Plan	Total
ADDITIONS			
Contributions			
Employer	\$ -	\$ -	\$ -
Employee	-	30,581	30,581
State Aid	-	22,100	22,100
Total Contributions	-	52,681	52,681
Investment Income			
Interest	39,243	-	39,243
Dividends	121,591	-	121,591
Realized Capital Gains (Losses)	48,689	-	48,689
Net Appreciation (Depreciation) in Fair Value of Investments	258,100	54,630	312,730
Total Investment Income (Loss)	467,623	54,630	522,253
Less: Investment Expenses	(38,821)	-	(38,821)
Net Investment Income (Loss)	428,802	54,630	483,432
Total Additions (Losses), Net	428,802	107,311	536,113
DEDUCTIONS			
Benefits	249,153	5,515	254,668
Administrative Expenses	4,099	-	4,099
Total Deductions	253,252	5,515	258,767
NET INCREASE (DECREASE) IN PLAN NET ASSETS	175,550	101,796	277,346
FUND BALANCE - ASSIGNED FOR EMPLOYEES' PENSION BENEFITS:			
JANUARY 1, 2012	5,026,323	945,814	5,972,137
DECEMBER 31, 2012	\$ 5,201,873	\$ 1,047,610	\$ 6,249,483

See accountants' report on supplementary information.



CAMPBELL, RAPPOLD & YURASITS LLP
Certified Public Accountants

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, CSEP
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
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, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Borough of Hellertown, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Borough of Hellertown's basic financial statements, and have issued our report thereon dated July 10, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Borough of Hellertown's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Borough of Hellertown's internal control. Accordingly, we do not express an opinion on the effectiveness of Borough of Hellertown's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. However, we identified certain deficiencies in internal control over financial reporting described below that we consider significant deficiencies in internal control over financial reporting.

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

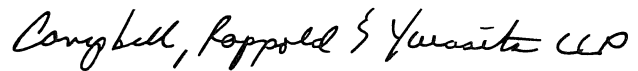
Due to the size of the Borough staff, an inadequate segregation of duties over the accounting functions exists. It would not be cost beneficial for the Borough to hire additional personnel to have an adequate segregation of duties of the accounting functions.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Borough of Hellertown's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants

July 10, 2013