

**BOROUGH OF HELLERTOWN**

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

**December 31, 2013**

**CAMPBELL, RAPPOLD & YURASITS LLP**

**Certified Public Accountants  
1033 SOUTH CEDAR CREST BOULEVARD  
ALLENTOWN, PA 18103**

**BOROUGH OF HELLERTOWN  
TABLE OF CONTENTS**

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	<b>Page(s)</b>
<b>Independent Auditors' Report</b>	1 - 3
Management's Discussion & Analysis	4 - 8
<u><i>Financial Statements</i></u>	
Statement of Net Position - 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 Position - Modified Cash Basis - All Fiduciary Funds	13
Combined Statement of changes in Net Position - Modified Cash Basis - All Fiduciary Funds	14
Statement of Cash Flows - Modified Cash Basis - All Fiduciary Trust Funds	15
Statement of Net Position – Modified Cash Basis – Proprietary Funds	16
Statement of Revenues Received, Expenditures Paid and Changes in Net Position - 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
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)**

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	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 Balances - Modified Cash Basis - Special Revenue Funds	51
Combining Statement of Plan Net Position - Modified Cash Basis - All Pension Funds	52
Combining Statement of Changes in Plan Net Position - Modified Cash Basis - All Pension Funds	53
Schedule of Expenditures of Federal Awards for the Year Ended December 31, 2014	54
Notes to the Schedule of Expenditures of Federal Awards	55
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	56 - 57
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	58 - 59
Schedule of Findings and Questioned Costs for the Year Ended December 31, 2014	60 - 62



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## 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, 2013, and the related notes to the financial statements, which collectively comprise the Borough's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified-cash basis of accounting described in Note 1; this includes determining that the modified-cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *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***

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, 2013, 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.

### ***Basis of Accounting***

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. Our opinion is not modified with respect to this matter. 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.

### ***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 4-8 and 41-48 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.

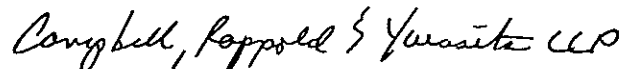
#### ***Other Information***

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 August 15, 2014 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

August 15, 2014

**BOROUGH OF HELLERTOWN  
2013 FINANCIAL STATEMENTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The discussion and analysis of Hellertown Borough's financial performance provides an overall review of the Borough's financial activities for the fiscal year ended December 31, 2013. 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 Position presents information on all of the Borough's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Borough is improving or deteriorating. Compared to 2012, the net position of the borough was \$550,893 less than the previous year mainly due to the significant amount of capital improvements completed. The sanitation fund saw an increase in net position of \$145,529.

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 fund balances 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). These financial statements may be found on pages 9-18 of this report.

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, 2013, was \$948,124 a decrease of \$392,364 for the same period in 2012 primarily due to the General Obligation note and Borough Hall Streetscape expenses.

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, 2013 was \$108,361, a \$168,196 decrease over the same period for the previous year. The Special Revenue Fund includes receipts of \$199,296 Fire Tax, a decrease of \$5,349 from 2012 and a receipt of \$139,036 Liquid Fuels payment, an increase of \$17,382 from 2012. Expenses include \$263,732 for fire general operating and \$144,384 in road work resulting in a net increase of \$184,019 compared to 2012. The increase is attributable to the purchase of air packs totaling \$187,110 during 2013. Fire Appropriations fund balance is \$24,349 and Liquid Fuels fund balance is \$84,012.

**BOROUGH OF HELLERTOWN  
2013 FINANCIAL STATEMENTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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 \$200,654 was spent for various capital purchases in general government, police, public works and parks and recreation. The fund balance as of December 31, 2013 was \$1,689,478 which includes \$1,169,892 Capital and \$519,586 Fire Capital.

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 2012 GON is fixed at 2.72% for 10 years, thereafter a floating rate of 65% of prime due November 1, 2032 with monthly principal and interest in the amount of \$10,853. The balance due on the 2012 Note is \$1,915,147. The fund balance contains a deficit, which will decrease as the loan is paid off.

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 December 31, 2013 is \$81,126.

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 \$710,977, an increase of \$43,014 from 2012 with expenditures of \$556,520, a decrease of \$181,340 from 2012 levels primarily attributed to the purchase of a sanitation truck for \$150,000 in the prior year. The Sanitation Fund maintained a net position of \$122,801 for year end 2013.

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. The borough holds \$6,704,343 in police and non-uniform pension funds and \$85,543 in escrow funds.

The notes to financial statement may be found on pages 19-39 of this report.

GENERAL FUND BUDGETARY ANALYSIS

The governmental fund assets of the Borough for year ending 2013 were \$4,663,802 with current liabilities of \$1,917,839 reflecting a \$ 550,893 (GON and Capital Improvements) decrease in net assets and a \$67,389 decrease in liability (2012 GON). Therefore, assets of the Borough exceeded liabilities by \$2,745,963.

General Fund revenue increased from 2012 levels by \$813,876, the increase is primarily due to the Borough Hall Streetscape grant that amounted to \$473,000. Other factors related to the increase in revenue were Real Estate taxes, Real Estate Transfer taxes, and Earned Income Tax which accounted for \$263,000 of the increase and miscellaneous revenue of almost \$160,000 of PHMIC surplus and H&L reimbursement.



**BOROUGH OF HELLERTOWN  
2013 FINANCIAL STATEMENTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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General Fund expenditures for 2013 amounted to \$5,303,383 or \$1,358,426 more than in 2012. Primarily due to the significant capital improvements completed in 2013 (Dimmick Park grandstand, band shell and pool house, pool liner, Borough Hall Streetscape Improvements).

#### FINANCIAL HIGHLIGHTS

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

- Net assets for all government activities were \$2,868,764 a decrease of \$405,364 from prior year
- Liabilities (Notes Payable & Other Withholdings) for year end 2013 were \$1,998,965
- Total Governmental Activities accounted for \$4,663,802. The decrease in cash is mostly attributable to the capital projects funded in 2013.
- Total primary government expenses were \$6,468,673; a 26% increase from 2012. \$1,997,080 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 contracted BBRP Coordinator through the Greater Lehigh Valley Chamber of Commerce, who facilitates grant applications and works with the business community on various promotions and business development activities such as restaurant week, patriot flags and sidewalk planters. In 2013 funding in the amount of \$3,000 was awarded through various sources for restaurant week and the restoration of the Authority Park fountain.

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 saw the installation and completion of streetscape and stormwater improvements which facilitate multi-modal transportation options. Construction of this project began in early 2013 and include traffic calming measures such as bump outs and crosswalk improvements as well as stormwater improvements. This project was substantially complete in 2013.

**BOROUGH OF HELLERTOWN  
2013 FINANCIAL STATEMENTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The Borough remains an active member of the Saucon Valley Partnership, a Council of Governments comprised of Lower Saucon Township, the Saucon Valley School District and Hellertown Borough that undertake activities which benefit each entity and the Saucon Valley region as a whole. A cooperative accomplishment concluded during 2009 was the adoption of a multi-municipal comprehensive plan. Based on the observations and recommendations outlined in the 2009 Action Plan, the following projects were initiated or completed in 2013:

**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 with mulch produced in 2013 was 793 tons, bringing the total since inception to over 3,378 tons of plant material diverted from the waste stream.

**Library Consolidation:** Lower Saucon Township officially joined the Hellertown Library in the fall of 2013. Technological and personnel advances have been completed. Remodeling activities are expected to commence in 2014. To offset the cost of essential public works and infrastructure projects, the Borough continues to pursue grant opportunities.

**Casino Grants:** As a contiguous community, the Borough was awarded over \$275,000 of committed funds from the Northampton County Gaming Authority toward two full time police officers and camera equipment.

**Capital Improvements:** Not since the 1930's has the borough of Hellertown accomplished the amount of activity related to capital improvements spending nearly \$770,000 toward a significant rehabilitation of the historic grandstand, construction of a band shell and pool bathhouse renovations that include new decking and fencing. This project was substantially complete in 2013.

**Bridges:** The Harris Street bridge was updated and repaired at a cost of \$159,656.

**BOROUGH OF HELLERTOWN  
2013 FINANCIAL STATEMENTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Economic Outlook

Consumer spending and confidence are still way below what would be considered normal levels by the standards of past economic expansions. As job growth returns and consumers feel more secure, a virtuous cycle of spending begetting more consumer income begetting more spending could be initiated. What's more, there's a decent chance of an upside surprise to 2014 growth. If this occurs, quarterly growth is likely to exceed an annualized pace of 3%. If that doesn't pan out in 2014, it is nevertheless very likely to happen before the end of 2015.

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 POSITION - MODIFIED CASH BASIS**  
**AS OF DECEMBER 31, 2013**

ASSETS	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	Total
Cash & Cash Equivalents	\$ 4,663,802	\$ 203,927	\$ 4,867,729
Total Assets	<u>\$ 4,663,802</u>	<u>\$ 203,927</u>	<u>\$ 4,867,729</u>
LIABILITIES AND NET POSITION			
Liabilities:			
Current Liabilities			
Other Withholdings	\$ 2,692	\$ -	\$ 2,692
Current Portion of Notes Payable	<u>78,333</u>	<u>19,442</u>	<u>97,775</u>
Total Current Liabilities	81,025	19,442	100,467
Noncurrent Liabilities			
Notes Payable, net of Current Portion	<u>1,836,814</u>	<u>61,684</u>	<u>1,898,498</u>
Total Liabilities	<u>\$ 1,917,839</u>	<u>\$ 81,126</u>	<u>\$ 1,998,965</u>
NET POSITION			
Unreserved - Undesignated	<u>\$ 2,745,963</u>	<u>\$ 122,801</u>	<u>\$ 2,868,764</u>
Total Net Position	<u>\$ 2,745,963</u>	<u>\$ 122,801</u>	<u>\$ 2,868,764</u>
Total Liabilities and Net Position	<u>\$ 4,663,802</u>	<u>\$ 203,927</u>	<u>\$ 4,867,729</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, 2013**

Functions/Programs	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	PRIMARY GOVERNMENT		
					Governmental Activities	Business-Type Activities	Total
<b>Primary Government:</b>							
Government activities:							
General Government	\$ 666,258	\$ -	\$ 6,000	\$ -	\$ (660,258)	\$ -	\$ (660,258)
Public Safety	1,544,970	39,227	275,298	-	(1,230,445)	-	(1,230,445)
Public Works - Hwy/Streets	1,386,731	18,444	607,483	-	(760,804)	-	(760,804)
Culture and Recreation	1,300,328	95,820	168,758	-	(1,035,750)	-	(1,035,750)
Employee Benefits/Taxes	964,199	-	78,215	-	(885,984)	-	(885,984)
Contingencies	374	-	-	-	(374)	-	(374)
Interest	49,293	-	-	-	(49,293)	-	(49,293)
<b>Total Governmental Activities</b>	<b>\$ 5,912,153</b>	<b>\$ 153,491</b>	<b>\$ 1,135,754</b>	<b>\$ -</b>	<b>\$ (4,622,908)</b>	<b>\$ -</b>	<b>\$ (4,622,908)</b>
<b>Business Type Activities:</b>							
Sanitation	556,520	691,073	16,762	-	-	151,315	151,315
<b>Total Business-Type Activities</b>	<b>\$ 556,520</b>	<b>\$ 691,073</b>	<b>\$ 16,762</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 151,315</b>	<b>\$ 151,315</b>
<b>Total Primary Government</b>	<b>\$ 6,468,673</b>	<b>\$ 844,564</b>	<b>\$ 1,152,516</b>	<b>\$ -</b>	<b>\$ (4,622,908)</b>	<b>\$ 151,315</b>	<b>\$ (4,471,593)</b>
<b>General Revenues:</b>							
Taxes					3,432,762	-	3,432,762
Licenses & Permits					199,808	2,388	202,196
Fines & Forfeitures					56,927	-	56,927
Interest & Rents					12,195	351	12,546
Miscellaneous					273,217	403	273,620
Gain on Sale of Equipment					88,178	-	88,178
Transfers					8,928	(8,928)	-
<b>Total General Revenues &amp; Transfers</b>					<b>4,072,015</b>	<b>(5,785)</b>	<b>4,066,229</b>
<b>Change in Net Position</b>					<b>(550,893)</b>	<b>145,529</b>	<b>(405,364)</b>
<b>Net Position - January 1, 2013</b>					<b>3,296,856</b>	<b>(22,728)</b>	<b>3,274,128</b>
<b>Net Position - December 31, 2013</b>					<b>\$ 2,745,963</b>	<b>\$ 122,801</b>	<b>\$ 2,868,764</b>

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

**BOROUGH OF HELLERTOWN  
BALANCE SHEET - MODIFIED CASH BASIS -  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2013**

	General	Capital Projects Funds	Special Revenue Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash & Cash Equivalents	\$ 2,865,963	\$ 1,689,478	\$ 108,361	\$ 4,663,802
<b>TOTAL ASSETS</b>	<u>\$ 2,865,963</u>	<u>\$ 1,689,478</u>	<u>\$ 108,361</u>	<u>\$ 4,663,802</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Other Withholdings	\$ 2,692	\$ -	\$ -	\$ 2,692
Total Liabilities	<u>\$ 2,692</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,692</u>
<b>FUND BALANCES</b>				
Assigned	-	-	108,361	108,361
Unassigned	<u>2,863,271</u>	<u>1,689,478</u>	<u>-</u>	<u>4,552,749</u>
<b>TOTAL FUND BALANCE</b>	<u>2,863,271</u>	<u>1,689,478</u>	<u>108,361</u>	<u>4,661,110</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 2,865,963</u>	<u>\$ 1,689,478</u>	<u>\$ 108,361</u>	

**Reconciliation to Statement of Net Position - Modified Cash Basis:**

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

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

(1,915,147)

Net position of governmental activities

\$ 2,745,963

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, 2013**

	General Fund	Capital Projects Funds	Special Revenue Funds	Total Governmental Funds
<b>REVENUES RECEIVED</b>				
Taxes	\$ 3,233,466	\$ -	\$ 199,296	\$ 3,432,762
Intergovernmental Revenues	996,718	-	139,036	1,135,754
Charges for Service	149,491	4,000	-	153,491
Fines and forfeitures	56,927	-	-	56,927
Licenses and Permits	199,808	-	-	199,808
Interest and Rent	10,144	1,651	400	12,195
Miscellaneous Revenue	265,537	6,492	1,188	273,217
Gain on Sale of Equipment	-	88,178	-	88,178
Total Revenues Received	<u>4,912,091</u>	<u>100,321</u>	<u>339,920</u>	<u>5,352,332</u>
<b>EXPENDITURES PAID</b>				
General Government				
Mayor & Council	16,320	-	-	16,320
Managerial	87,257	-	-	87,257
Clerical	121,960	-	-	121,960
Solicitor	45,636	-	-	45,636
General government	387,976	7,109	-	395,085
Public Safety				
Police	1,276,638	1,100	-	1,277,738
Fire	3,500	-	263,732	267,232
Public Works				
Highways and Streets	1,177,859	64,488	144,384	1,386,731
Culture and Recreation				
Library	58,000	-	-	58,000
Park and Pool	1,114,371	127,957	-	1,242,328
Interest	49,293	-	-	49,293
Contingencies	374	-	-	374
Employee Benefits/Taxes	964,199	-	-	964,199
Total Expenditures Paid	<u>5,303,383</u>	<u>200,654</u>	<u>408,116</u>	<u>5,912,153</u>
<b>EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID</b>	<b>(391,292)</b>	<b>(100,333)</b>	<b>(68,196)</b>	<b>(559,821)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	2,831,498	110,000	-	2,941,498
Transfers Out	<u>(2,832,570)</u>	<u>-</u>	<u>(100,000)</u>	<u>(2,932,570)</u>
Total Other Financing Sources (Uses), Net	<u>\$ (1,072)</u>	<u>\$ 110,000</u>	<u>\$ (100,000)</u>	<u>\$ 8,928</u>
<b>EXCESS (DEFICIT) OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES</b>	<b>(392,364)</b>	<b>9,667</b>	<b>(168,196)</b>	<b>(550,893)</b>
Fund Balance - January 1, 2013	<u>1,340,488</u>	<u>1,679,811</u>	<u>276,557</u>	<u>3,296,856</u>
Fund Balance - December 31, 2013	<u>\$ 948,124</u>	<u>\$ 1,689,478</u>	<u>\$ 108,361</u>	<u>\$ 2,745,963</u>

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

**BOROUGH OF HELLERTOWN**  
**STATEMENT OF NET POSITION - MODIFIED CASH BASIS**  
**ALL FIDUCIARY FUNDS**  
**DECEMBER 31, 2013**

	<u>Pension Trust Funds</u>	<u>Agency Fund</u>	<u>Total Fiduciary Funds</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 91,097	\$ 85,543	\$ 176,640
Investments at Fair Value			
Guaranteed Investment Contracts	619,236	-	619,236
U.S. Government Obligations	766,630	-	766,630
Balanced Funds/Fixed Income	1,190,515	-	1,190,515
Municipal Bonds	33,216	-	33,216
International Bonds	103,985	-	103,985
Corporate Bonds	716,555	-	716,555
Mutual Funds	1,757,248	-	1,757,248
Domestic Stocks	1,421,892	-	1,421,892
International Stocks	3,969	-	3,969
	<u>6,613,246</u>	<u>-</u>	<u>6,613,246</u>
Total Investments, at Fair Value			
	<u>\$ 6,704,343</u>	<u>\$ 85,543</u>	<u>\$ 6,789,886</u>
<b>LIABILITIES AND NET POSITION</b>			
Liabilities			
Due to Depositors	\$ -	\$ 85,445	\$ 85,445
	<u>-</u>	<u>85,445</u>	<u>85,445</u>
Total Liabilities			
Net Position			
Unassigned	-	98	98
Assigned	<u>6,704,343</u>	<u>-</u>	<u>6,704,343</u>
	<u>6,704,343</u>	<u>98</u>	<u>6,704,441</u>
Total Net Position			
	<u>\$ 6,704,343</u>	<u>\$ 85,543</u>	<u>\$ 6,789,886</u>
Total Liabilities and Net Position			

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



**BOROUGH OF HELLERTOWN  
COMBINED STATEMENT OF CHANGES IN NET POSITION -  
MODIFIED CASH BASIS - ALL FIDUCIARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Pension Trust Funds	Agency Fund	Total Fiduciary Funds
<b>ADDITIONS</b>			
Contributions			
Employer	\$ -	\$ -	\$ -
Employee	30,394	-	30,394
State Aid	15,794	-	15,794
Total Contributions	46,188	-	46,188
Investment Income			
Interest	32,825	48	32,873
Dividends	116,532	-	116,532
Realized Capital Gains (Losses)	45,323	-	45,323
Net Appreciation (Depreciation) in Fair Market of Investments	620,523	-	620,523
Total Investment Income (Loss)	815,203	48	815,251
Less: Investment Expenses	(40,137)	-	(40,137)
Net Investment Income (Loss)	775,066	48	775,114
Total Additions (Losses), Net	821,254	48	821,302
<b>DEDUCTIONS</b>			
Benefits	363,047	-	363,047
Administrative Expenses	3,347	-	3,347
Total Deductions	366,394	-	366,394
<b>NET INCREASE (DECREASE) IN NET POSITION</b>	454,860	48	454,908
<b>NET POSITION - FIDUCIARY FUNDS</b>			
JANUARY 1, 2013	6,249,483	50	6,249,533
DECEMBER 31, 2013	\$ 6,704,343	\$ 98	\$ 6,704,441

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, 2013**

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**CASH FLOWS FROM OPERATING ACTIVITIES**

Net Increase (Decrease) in Net Position - Fiduciary Funds	\$ 454,908
Adjustments to Reconcile Net Increase (Decrease) in Net Position To Net Cash Provided (Used) by Operating Activities:	
Realized (Gains) Losses on Investments	45,323
Unrealized (Gains) Losses on Investments	620,523
(Decrease) Increase Due to Depositors	<u>4,775</u>
Cash Provided (Used) by Operating Activities	1,125,529

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sale of Investments	4,292,853
Purchase of Investments	<u>(5,402,927)</u>
Cash Provided (Used) by Investing Activities	<u>(1,110,074)</u>

Increase (Decrease) in Cash and Cash Equivalents	15,455
Cash and Cash Equivalents, January 1, 2013	<u>161,185</u>
Cash and Cash Equivalents, December 31, 2013	<u><u>\$ 176,640</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 POSITION - MODIFIED CASH BASIS -  
PROPRIETARY FUND TYPE  
FOR THE YEAR ENDED DECEMBER 31, 2013

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	<u>PROPRIETARY</u> <u>FUND TYPE</u> Enterprise Fund
<b>ASSETS</b>	
Cash & Cash Equivalents	\$ 203,927
Total Assets	<u>\$ 203,927</u>
<b>LIABILITIES AND NET POSITION</b>	
Liabilities:	
Current Liabilities	
Current Portion of Notes Payable	\$ 19,442
Noncurrent Liabilities	
Notes Payable, net of Current Portion	<u>61,684</u>
Total Liabilities	<u>\$ 81,126</u>
<b>NET POSITION</b>	
Unrestricted	<u>\$ 122,801</u>
Total Net Position	<u>\$ 122,801</u>
Total Liabilities and Net Position	<u>\$ 203,927</u>

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

**BOROUGH OF HELLERTOWN**  
**STATEMENT OF REVENUES RECEIVED, EXPENDITURES PAID**  
**AND CHANGES IN NET POSITION - MODIFIED CASH BASIS -**  
**PROPRIETARY FUND TYPE**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

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	PROPRIETARY FUND TYPE
	Enterprise Fund
<b>REVENUES RECEIVED</b>	
Refuse Collections	\$ 555,587
Recycling	135,486
Licenses and Permits	2,388
Intergovernmental Revenue	16,762
Interest	351
Miscellaneous	403
	<hr/>
Total Revenues Received	710,977
<b>EXPENDITURES PAID</b>	
Personnel	268,058
Contracted Services	172,667
Repairs, Maintenance, and Supplies	108,317
General Government	5,000
Interest	2,478
	<hr/>
Total Expenditures Paid	556,520
	<hr/>
<b>EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID</b>	154,457
<b>Other Financing Sources (Uses)</b>	
Operating Transfers - Net	(8,928)
	<hr/>
<b>EXCESS (DEFICIT) OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES</b>	145,529
<b>NET POSITION - JANUARY 1, 2013</b>	(22,728)
	<hr/>
<b>NET POSITION - DECEMBER 31, 2013</b>	\$ 122,801
	<hr/> <hr/>

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

**BOROUGH OF HELLERTOWN  
STATEMENT OF CASH FLOWS -  
MODIFIED CASH BASIS - PROPRIETARY FUND TYPE  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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**CASH FLOWS FROM OPERATING ACTIVITIES**

Excess (Deficit) of Revenues Received	\$ 154,457
Over (Under) Expenditures Paid	<u>154,457</u>

Cash Provided (Used) by Operating Activities	154,457
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**CASH FLOWS FROM FINANCING ACTIVITIES**

Principal Paid on Long-Term Debt	<u>(17,282)</u>
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Cash Provided (Used) by Financing Activities	(17,282)
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Operating Transfers - Net	<u>(8,928)</u>
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Increase (Decrease) in Cash and Cash Equivalents	128,247
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Cash and Cash Equivalents, January 1, 2013	75,680
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Cash and Cash Equivalents, December 31, 2013	<u><u>\$ 203,927</u></u>
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**SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION**

Cash Paid For:	
Interest	\$ 2,478
Income Taxes	\$ -

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

**BOROUGH OF HELLERTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

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**1. Summary of Significant Accounting Policies**

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

**The Financial Reporting Entity**

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

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

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

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

**Basis of Presentation - Fund Accounting**

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

BOROUGH OF HELLERTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

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

**Basis of presentation - Fund Accounting (Continued)**

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

***Governmental Fund Types***

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

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

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

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

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

***Proprietary Fund Types***

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

BOROUGH OF HELLERTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

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1. Summary of Significant Accounting Policies (Continued)

**Basis of Presentation - Fund Accounting (Continued)**

**Proprietary Fund Types**

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

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

**Fiduciary Fund Types**

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

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

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

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

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

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



**BOROUGH OF HELLERTOWN**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

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

**Basis of Accounting and Management Focus**

***Basis of Accounting***

Basis of accounting refers to the timing of recognition of revenues and expenditures or expenses in the financial statements regardless of the measurement focus. The modified cash basis of accounting is followed for all governmental, proprietary and fiduciary funds of the Borough. The modified cash basis differs from GAAP in that certain revenues and the related assets are recognized when received rather than when earned and certain expenditures or expenses are recognized when paid rather than when a liability is incurred. In addition, the modified cash basis differs from GAAP in that the Borough does not maintain records of its general fixed assets and general long-term debt. Accordingly, the accompanying financial statements do not include a general fixed assets account group and a general long-term debt account group, which should be included in order to conform with accounting principles generally accepted in the United States of America. Modifications to the cash basis of accounting include the recording of payroll withholdings when withheld from employees' pay and the recording of investments held (in the Pension Trust Funds) as assets. In addition, net unrealized gains and losses on investments are recorded as a result of changes in the fair value of investments, not when the investments are sold. The Statement of Revenues Received, Expenditures Paid and Changes in Fund Balance - Modified Cash Basis - Governmental Funds presents the results of the Borough'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 net position. The Borough has elected to exclude the general fixed assets account group and the general long-term debt account group and report the Borough's long-term indebtedness in the Debt Service Fund. Governmental fund-type operating statements present increased (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

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

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

**BOROUGH OF HELLERTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

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

**Cash and Cash Equivalents**

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

**Restricted Assets**

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

**Encumbrances**

Net position of the Governmental Fund Types may be reserved for encumbrances. Encumbrances, which represent commitments for goods and services not yet received, are reported as a reservation of net position and are not otherwise available for appropriation. All encumbrances lapsed at the end of the year. Accordingly, there was no net position reserved for encumbrances as of December 31, 2013.

**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 \$6,704,343 (Police and Non-uniformed), which was comprised of amounts reserved for the payment of employee pension benefits and the Special Revenue Fund for \$108,361, 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 net position are reported as residual transfers of net position. All other inter-fund transfers are reported as operating transfers.

**BOROUGH OF HELLERTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

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

**Management Estimates**

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

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

**3. Cash and Cash Equivalents**

**General**

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

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

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

At December 31, 2013, the carrying amount of the borough's bank deposits (excluding those held in the Pension Trust Funds, but including Agency Funds) totaled \$4,952,372 and the corresponding bank balances were \$5,223,224, of which \$250,000 was insured by the Federal Deposit Insurance Corporation ("FDIC"); the uninsured bank balance of \$4,973,224 were collateralized, as described below.

**BOROUGH OF HELLERTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

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**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 \$4,973,224, 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, 2013, 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, 2013, the Borough had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
<u>Pension Trust Funds</u>		
Guaranteed Investment Contracts		\$ 619,236
U.S. Government Obligations	2014 - 2018	766,630
Balanced Funds/Fixed Income		1,190,515
Municipal Bonds	2016	33,216
International Bonds	2014 - 2018	103,985
Corporate Bonds	2014 - 2024	716,555
Mutual Funds		1,757,248
Domestic Stocks		1,421,892
International Stocks		<u>3,969</u>
Total Pension Trust Funds		<u>\$ 6,613,246</u>

BOROUGH OF HELLERTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

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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 1, 2012.

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

**BOROUGH OF HELLERTOWN**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**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, 2013 is presented below.

Notes Payable: General Obligation Notes	Balance Outstanding January 1, 2013	Additions	Reductions	Balance Outstanding December 31, 2013
General Obligation Note I 2012, fixed annual interest rate of 2.72% for 10 years, thereafter a floating rate of 65% of Prime Rate, due November 1, 2032 with monthly principal and interest installments of \$10,853.	1,985,226	-	70,079	1,915,147
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	98,408	-	17,282	81,126
Total Notes Payable	\$ 2,083,634	\$ -	\$ 87,361	\$ 1,996,273

The annual debt service requirements to maturity for notes payable as of December 31, 2013 are as follows:

During the year (s) ended December 31:	Principal	Interest
2014	97,775	54,007
2015	100,552	54,007
2016	103,271	51,230
2017	106,093	48,511
2018	89,896	42,772
2019-2032	1,498,686	308,842
Totals	\$ 1,996,273	\$ 559,369

**BOROUGH OF HELLERTOWN**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

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**6. Real Estate Taxes**

Based upon assessed valuations provided by the Northampton County approximating \$131,162,500 in 2013, the Borough bills and collects its own real estate taxes. The schedule for real estate taxes levied for 2013 is as follows:

February 1, 2013	- levy date
February 1, 2013 - April 2, 2013	- 2% discount period
April 3, 2013 - June 3, 2013	- face payment period
June 4, 2013 - February 27, 2014	- 10% penalty period
March 5, 2014	- 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 2013 municipal tax rate for all purposes was 20.25 mills (\$20.25 per \$1,000 of assessed valuation) of which 1.5 mills is allocated for fire protection and the remaining 18.75 mills is allocated for general purposes. The 2014 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:

Length of Service	Vacation Allowance	
	Uniformed	Non-uniformed
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, 2013**

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**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>2013</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, 2013**

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**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, 2013, 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, 2013**

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**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, 2013, 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 ( $\$5,533,006 \times .05 = \$276,650$ ):

Vanguard Institutional Index Fund (94)	\$293,635
Vanguard Value Index Fund – SIG 1346	\$385,797

In addition, the PPP did not have any investment transactions with related parties during the year ended December 31, 2013.

BOROUGH OF HELLERTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

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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, 2013. 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, 2013, 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, 2013. 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, 2013.

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

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
12/31/2011	\$ -	100%	\$ -
12/31/2012	\$ -	100%	\$ -
12/31/2013	\$ -	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, 2013**

**8. Pension Plans (Continued)**

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

**Deposits and Investment Risks**

At December 31, 2013, the Plan held \$91,097 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, 2013 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	0.08	A-
Sempra Energy 2.000% 03/15/14	0.25	BBB+
SBC Communications 5.625% 06/15/16	2.50	A-
Merrill Lynch & Co 6.875% 04/25/18	4.33	A-
Goldman Sachs Group 6.000% 06/15/20	6.50	A-
JP Morgan Chase & Co. 4.400% 07/22/20	6.58	A
Citigroup Inc. 5.375% 08/09/20	6.67	A-
Morgan Stanley 5.500% 07/28/21	7.58	A-
Rabobank 2.125% 10/13/15	1.83	AA-
AIG 3.000% 03/20/15	1.25	A-
Morgan Stanley 4.750% 3/22/17	3.25	A-
Petrobras Intl Fin 3.500% 02/06/17	3.16	BBB
Rio Tinto Fin PLC 1.625% 08/21/17	3.67	A-
CitiGroup Inc. 1.250% 01/15/16	2.08	A-
CitiGroup Inc. 1.300% 11/15/16	2.92	A-
Bank of America Corp 1.350% 11/21/16	2.92	A+
Bank of Nova Scotia 2.050% 10/31/18	4.83	A+
AT&T Inc. 2.375% 11/27/18	4.92	A-
Microsoft Corp. 1.625% 12/06/18	4.92	AAA
Oracle Corp. 2.375% 01/15/19	5.08	A+
Bank of Montreal 2.375% 01/25/19	5.08	A+
Kinder Morgan 2.650% 02/01/19	5.16	BBB
Apple Inc. 2.400% 05/03/23	9.42	AA+
Verizon Comm. 5.150% 09/15/23	9.75	BBB+
Altria Group 4.000% 01/31/24	10.08	BBB
Rio Tinto Fin PLC 2.250% 12/14/18	4.92	A-

**BOROUGH OF HELLERTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

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**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)		Not Available	
Vanguard Intermediate Term Bond IDX-SIG 1350	6.50	A	***
PIMCO Total Return Fund	4.40	Not Rated	****
Osterweis Strategic Income	2.10	B	**

- (iv) Foreign Currency Risk – As of December 31, 2013 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	\$ 16,197
BCE Inc.	\$ 3,896
Total Fina Elf SA	\$ 14,705
Vodafone Group Plc Sp ADR	\$ 15,174
Unilever Plc – Sponsored PDR	\$ 3,337
Glaxosmithkline Plc – ADR	\$ 10,785
National Grid Plc Sponsored ADR	\$ 13,586
Potash Corp Sask Inc.	\$ 2,175
Royal Dutch Shell PLC – ADRB	\$ 13,370
Astra Zeneca PLC – Spons ADR	\$ 13,418
Petrochina Co LTD – ADR	\$ 6,584

**Funded Status and Funding Progress**

As of January 1, 2013, the date of the most recent actuarial valuation, the funded status of the plan was as follows:

Actuarial Value of Assets (a)	\$ 5,213,064
Actuarial Accrued Liability (AAL) Entry age (b)	\$ 4,041,607
Unfunded (Assets in Excess of) AAL (b-a)	\$ (1,171,457)
Funded Ratio (a/b)	129.0%
Covered Payroll (c)	\$ 829,224
UAAL as a Percentage of Covered Payroll ((b-a)/c)	(131.3%)

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, 2013**

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**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, 2013
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, 2013, employee contributions amounted to \$30,394. Employer funding requirements for 2013, amounting to \$15,794, of which \$15,794 was funded from State Aid.

**BOROUGH OF HELLERTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

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**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:

<b>Years of Service</b>	<b>Percent Vested</b>
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, 2013, eleven retirees are eligible and receiving these benefits. The health care benefits cover retired employees only; however, the retirees have the option to continue coverage for their spouses at their own expense. The Retiree Health Plan does not issue a publicly available financial report.

*Funding Policy:* The Borough contributes to the cost of current-year premiums for eligible retired plan members as described above. For the year ended December 31, 2013, the Borough paid \$42,960 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, 2013, total member contributions were \$23,007.

**BOROUGH OF HELLERTOWN**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**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	\$ 74,830
Interest on net OPEB obligation	3,327
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	78,057
Contributions made	<u>(42,960)</u>
Increase in net OPEB obligation	35,197
Net OPEB obligation—beginning of year	<u>95,420</u>
Net OPEB obligation—end of year	<u>\$130,617</u>

The town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011, 2012 and 2013 are as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/11	\$ 76,612	63.97%	\$ 62,060
12/31/12	\$ 78,720	57.62%	\$ 95,420
12/31/13	\$ 78,057	55.04%	\$ 130,617

*Funded Status and Funding Progress:* As of December 31, 2013, the actuarial accrued liability for benefits was \$927,589, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,813,856, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 51.14% 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, 2013**

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**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 2013 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, 2013, was twenty-eight years.

**10. Operating Lease**

The Borough leases certain equipment under a long-term lease agreement, expiring June 2017. Rent expense under the leases was \$3,752 in 2013. Future minimum lease payment is as follows:

Year ending December 31,		
2014	\$	4,280
2015		4,016
2016		2,536
2017		<u>528</u>
Total Minimum Lease Payments	\$	<u>11,360</u>

**BOROUGH OF HELLERTOWN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

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**11. Subsequent Events**

In preparing these financial statements, the Borough has evaluated events and transactions for potential recognition or disclosure through August 15, 2014, 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, 2013**

	Actual	Budget	Variance Favorable (Unfavorable)
<b>REVENUES RECEIVED</b>			
Taxes	\$ 3,233,466	\$ 3,069,067	\$ 164,399
Licenses and Permits	199,808	165,095	34,713
Fines and Forfeitures	56,927	64,700	(7,773)
Interest and Rent	7,994	1,250	6,744
Intergovernmental Revenue	628,040	72,538	555,502
Charges for Services	149,491	130,600	18,891
Miscellaneous Revenue	210,669	242,937	(32,268)
Total Revenues Received	<u>4,486,395</u>	<u>3,746,187</u>	<u>740,208</u>
<b>EXPENDITURES PAID</b>			
General Government	572,473	543,403	(29,070)
Public Safety	1,244,115	1,185,394	(58,721)
Public Works - Highways and Streets	994,705	472,543	(522,162)
Culture and Recreation	374,258	351,955	(22,303)
Employee Benefits/Taxes	964,199	1,042,120	77,921
Interest	-	130,226	130,226
Contingencies	374	15,000	14,626
Total Expenditures Paid	<u>4,150,124</u>	<u>3,740,641</u>	<u>(409,483)</u>
<b>EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID</b>	336,271	5,546	330,725
Other Financing Sources (Uses)			
Operating Transfers - Net	<u>50,173</u>	<u>(65,000)</u>	<u>115,173</u>
<b>EXCESS (DEFICIT) OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES</b>	386,444	(59,454)	445,898
<b>FUND BALANCE - JANUARY 1, 2013</b>	<u>1,957,105</u>	<u>1,957,105</u>	<u>-</u>
<b>FUND BALANCE - DECEMBER 31, 2013</b>	<u><u>\$ 2,343,549</u></u>	<u><u>\$ 1,897,651</u></u>	<u><u>\$ 445,898</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, 2013**

	Actual	Budget	Variance Favorable (Unfavorable)
<b>REVENUES RECEIVED</b>			
Interest	\$ 1,651	\$ -	\$ (1,651)
Charges for Service	4,000	-	(4,000)
Miscellaneous Revenue	6,492	-	(6,492)
Gain on Sale of Equipment	88,178	-	(88,178)
Total Revenues Received	<u>100,321</u>	<u>-</u>	<u>(100,321)</u>
<b>EXPENDITURES PAID</b>			
General Government	7,109	-	(7,109)
Public Safety	1,100	-	(1,100)
Public Works - Highways and Streets	64,488	-	(64,488)
Culture and Recreation	127,957	-	(127,957)
Total Expenditures Paid	<u>200,654</u>	<u>-</u>	<u>(200,654)</u>
<b>EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID</b>	(100,333)	-	100,333
Other Financing Sources (Uses)			
Operating Transfers - Net	<u>110,000</u>	<u>-</u>	<u>110,000</u>
<b>EXCESS (DEFICIT) OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES</b>	9,667	-	210,333
<b>FUND BALANCE - JANUARY 1, 2013</b>	<u>1,679,811</u>	<u>1,679,811</u>	<u>-</u>
<b>FUND BALANCE - DECEMBER 31, 2013</b>	<u>\$ 1,689,478</u>	<u>\$ 1,679,811</u>	<u>\$ 210,333</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 SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	Actual	Budget	Variance Favorable (Unfavorable)
<b>REVENUES RECEIVED</b>			
Taxes	\$ 199,296	\$ 197,000	\$ 2,296
Interest	400	325	75
Intergovernmental Revenue	139,036	116,746	22,290
Miscellaneous Revenue	1,188	-	1,188
Total Revenues Received	<u>339,920</u>	<u>314,071</u>	<u>25,849</u>
<b>EXPENDITURES PAID</b>			
Public Works - Highways and Streets	144,384	160,000	15,616
Public Safety - Fire	263,732	384,800	121,068
Total Expenditures Paid	<u>408,116</u>	<u>544,800</u>	<u>136,684</u>
<b>EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID</b>	(68,196)	(230,729)	(110,835)
Other Financing Sources (Uses)			
Operating Transfers - Net	<u>(100,000)</u>	<u>-</u>	<u>(100,000)</u>
<b>EXCESS (DEFICIT) OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES</b>	(168,196)	(230,729)	(210,835)
<b>FUND BALANCE - JANUARY 1, 2013</b>	<u>276,557</u>	<u>276,557</u>	<u>-</u>
<b>FUND BALANCE - DECEMBER 31, 2013</b>	<u><u>\$ 108,361</u></u>	<u><u>\$ 45,828</u></u>	<u><u>\$ (210,835)</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, 2013**

	Actual	Budget	Variance Favorable (Unfavorable)
<b>REVENUES RECEIVED</b>			
Intergovernmental Revenues	\$ 130,343	\$ -	\$ (130,343)
Interest	1,127	-	(1,127)
Miscellaneous Revenue	30,000	-	(30,000)
Total Revenues Received	<u>161,470</u>	<u>-</u>	<u>(161,470)</u>
<b>EXPENDITURES PAID</b>			
General Government	64,161	-	(64,161)
Highways and Streets	183,154	-	(183,154)
Park and Pool	769,744	-	(769,744)
Interest	49,293	-	(49,293)
Total Expenditures Paid	<u>1,066,352</u>	<u>-</u>	<u>(1,066,352)</u>
<b>EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID</b>	(904,882)	-	904,882
Other Financing Sources (Uses)			
Operating Transfers - Net	<u>119,372</u>	<u>-</u>	<u>119,372</u>
<b>EXCESS (DEFICIT) OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES</b>	(785,510)	-	1,024,254
<b>FUND BALANCE - JANUARY 1, 2013</b>	<u>(470,155)</u>	<u>-</u>	<u>(470,155)</u>
<b>FUND BALANCE - DECEMBER 31, 2013</b>	<u><u>\$ (1,255,665)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 554,099</u></u>

See accountants' report on supplementary information.

**BOROUGH OF HELLERTOWN  
SCHEDULE OF FUNDING PROGRESS -  
POLICE PENSION PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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, 2009, is as follows:

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Excess of Assets Over (Under) AAL	(4) Funded Ratio	(5) Covered Payroll	(6) Excess as a % of Covered Payroll
	(a)	(b)	(a-b)	(a)/(b)	(c)	[(b-a)/(c)]
1/1/2009	\$ 4,566,515	\$ 3,308,159	\$ 1,703,875	138.04%	\$ 494,705	(254.36%)
1/1/2011	\$ 5,177,306	\$ 3,473,431	\$ 1,703,875	149.05%	\$ 667,587	(255.23%)
1/1/2013	\$ 5,213,064	\$ 4,071,607	\$ 1,141,457	128.03%	\$ 892,224	(127.93%)

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

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

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

See accountants' report on required supplementary information.

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



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

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<u>Calendar Year</u>	<u>Annual Required Contribution</u>	<u>Percent Contributed</u>
2011	\$ - (a)	N/A
2012	\$ - (a)	N/A
2013	\$ - (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, 2013**

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

Actuarial valuation date	1/1/13
Actuarial cost method	Entry Age
Amortization method	Level Dollar
Amortization period	None
Asset valuation method	Market

Actuarial assumptions:

Investment rate of return:	1/1/09	7%
Investment rate of return:	1/1/11	7%
Investment rate of return:	1/1/13	7%
Projected salary increases:	1/1/13	5%

There were no changes in actuarial methods and assumptions used for the actuarial valuation performed as of January 1, 2013 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, 2013**

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<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL)- Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a / b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b - a) / c)</b>
12/31/11	\$-0-	\$900,405	\$900,405	0.0%	\$1,708,575	52.70%
12/31/12	\$-0-	\$951,414	\$951,414	0.0%	\$1,740,797	54.65%
12/31/13	\$-0-	\$927,589	\$927,589	0.0%	\$1,813,856	51.14%

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, 2013**

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	<u>Fire Protection</u>	<u>State Liquid Fuels</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 24,349	\$ 84,012	\$ 108,361
Total Assets	<u>\$ 24,349</u>	<u>\$ 84,012</u>	<u>\$ 108,361</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Fund Balance Assigned	\$ 24,349	\$ 84,012	\$ 108,361
Total Liabilities and Fund Balances	<u>\$ 24,349</u>	<u>\$ 84,012</u>	<u>\$ 108,361</u>

See accountants' report on supplementary information.

**BOROUGH OF HELLERTOWN**  
**COMBINING STATEMENT OF REVENUES RECEIVED, EXPENDITURES PAID**  
**AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS**  
**SPECIAL REVENUE FUNDS**  
**DECEMBER 31, 2013**

	Fire Protection	State Liquid Fuels	Total
<b>REVENUES RECEIVED</b>			
Taxes	\$ 199,296	\$ -	\$ 199,296
Intergovernmental Revenues	20,143	118,893	139,036
Interest	242	158	400
Miscellaneous Revenue	1,188	-	1,188
	<u>220,869</u>	<u>119,051</u>	<u>339,920</u>
<b>EXPENDITURES PAID</b>			
Public Works - Highways and Streets	-	144,384	144,384
Public Safety - Fire	263,732	-	263,732
	<u>263,732</u>	<u>144,384</u>	<u>408,116</u>
<b>EXCESS (DEFICIT) OF REVENUES RECEIVED OVER (UNDER) EXPENDITURES PAID</b>	<u>(42,863)</u>	<u>(25,333)</u>	<u>(68,196)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	-	-	-
Transfers Out	(100,000)	-	(100,000)
	<u>(100,000)</u>	<u>-</u>	<u>(100,000)</u>
<b>Total Other Financing Sources (Uses), Net</b>	<u>\$ (100,000)</u>	<u>\$ -</u>	<u>\$ (100,000)</u>
<b>EXCESS (DEFICIT) OF REVENUES RECEIVED AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES PAID AND OTHER FINANCING USES</b>	<u>(142,863)</u>	<u>(25,333)</u>	<u>(168,196)</u>
Fund Balances - January 1, 2013	<u>167,212</u>	<u>109,345</u>	<u>276,557</u>
Fund Balances - December 31, 2013	<u>\$ 24,349</u>	<u>\$ 84,012</u>	<u>\$ 108,361</u>

See accountants' report on supplementary information.

**BOROUGH OF HELLERTOWN**  
**COMBINING STATEMENT OF PLAN NET POSITION - MODIFIED CASH BASIS**  
**ALL PENSION TRUST FUNDS**  
**DECEMBER 31, 2013**

	<u>Police Pension Plan</u>	<u>Non-Uniformed Pension Plan</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 91,097	\$ -	\$ 91,097
Investments, at Fair Value			
Guaranteed Investment Contracts	-	619,236	619,236
U.S. Government Obligations	766,630	-	766,630
Balanced Funds/Fixed Income	897,019	293,496	1,190,515
Municipal Bonds	33,216	-	33,216
International Bonds	103,985	-	103,985
Corporate Bonds	693,394	23,161	716,555
Mutual Funds	1,757,248	-	1,757,248
Domestic Stocks	1,176,589	245,303	1,421,892
International Stocks	-	3,969	3,969
	<u>5,428,081</u>	<u>1,185,165</u>	<u>6,613,246</u>
Total Investments, at Fair Value			
Total Assets	<u>\$ 5,519,178</u>	<u>\$ 1,185,165</u>	<u>\$ 6,704,343</u>
<b>LIABILITIES AND NET POSITION</b>			
Net Position			
Assigned	<u>\$ 5,519,178</u>	<u>\$ 1,185,165</u>	<u>\$ 6,704,343</u>
Total Liabilities and Net Position	<u>\$ 5,519,178</u>	<u>\$ 1,185,165</u>	<u>\$ 6,704,343</u>

See accountants' report on supplementary information.

**BOROUGH OF HELLERTOWN**  
**COMBINING STATEMENT OF CHANGES IN PLAN NET POSITION -**  
**MODIFIED CASH BASIS - ALL PENSION TRUST FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	Police Pension Plan	Non-Uniformed Pension Plan	Total
<b>ADDITIONS</b>			
Contributions			
Employer	\$ -	\$ -	\$ -
Employee	-	30,394	30,394
State Aid	-	15,794	15,794
	<u>-</u>	<u>46,188</u>	<u>46,188</u>
Total Contributions			
Investment Income			
Interest	32,825	-	32,825
Dividends	116,532	-	116,532
Realized Capital Gains (Losses)	45,323	-	45,323
Net Appreciation (Depreciation) in Fair Value of Investments	<u>517,177</u>	<u>103,346</u>	<u>620,523</u>
Total Investment Income (Loss)	711,857	103,346	815,203
Less: Investment Expenses	<u>(40,137)</u>	<u>-</u>	<u>(40,137)</u>
Net Investment Income (Loss)	<u>671,720</u>	<u>103,346</u>	<u>775,066</u>
Total Additions (Losses), Net	671,720	149,534	821,254
<b>DEDUCTIONS</b>			
Benefits	351,068	11,979	363,047
Administrative Expenses	<u>3,347</u>	<u>-</u>	<u>3,347</u>
Total Deductions	<u>354,415</u>	<u>11,979</u>	<u>366,394</u>
<b>NET INCREASE (DECREASE) IN PLAN NET POSITION</b>	317,305	137,555	454,860
<b>Net POSITION - ASSIGNED FOR EMPLOYEES' PENSION BENEFITS:</b>			
<b>JANUARY 1, 2013</b>	<u>5,201,873</u>	<u>1,047,610</u>	<u>6,249,483</u>
<b>DECEMBER 31, 2013</b>	<u>\$ 5,519,178</u>	<u>\$ 1,185,165</u>	<u>\$ 6,704,343</u>

See accountants' report on supplementary information.



**BOROUGH OF HELLERTOWN  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>PASS-THROUGH AWARDS</b>			
<b>Passed Through the State of Pennsylvania</b>			
<u>U.S. Department of Transportation</u>			
Highway Planning and Construction	20.205	057265	\$ 547,274
<u>U.S. Department of Homeland Security</u>			
Disaster Grants - Public Assistance	97.036	FEMA-4099-DR	27,738
<b>Passed Through the County of Northampton</b>			
<u>U.S. Department of Housing and Urban Development</u>			
Community Development Block Grant/Entitlement Grants	14.218	NONE	15,426
			<u>\$ 590,438</u>

**BOROUGH OF HELLERTOWN**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

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**NOTE A - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Borough of Hellertown under programs of the federal government for the year ended December 31, 2013. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of state, local governments, and Non-Profit Organizations*. Because this schedule represents only a selected portion of operations of the Borough of Hellertown, it is not intended to and does not present the financial position, changes in net position or cash flows of the Borough of Hellertown.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

(1) Expenditures reported on the Schedule are reported on the modified cash basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-Through entity identifying numbers are present where available.



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**INDEPENDENT AUDITOR'S 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, 2013, 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 August 15, 2014.

**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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies (findings FS2013-001 and FS2013-002).

### **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*.

### **Borough of Hellertown's Response to Findings**

Borough of Hellertown's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Borough of Hellertown's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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.

*Cory Bell, Rappold & Yurasita LLP*

Certified Public Accountants

August 15, 2014



**CAMPBELL, RAPPOLD & YURASITS LLP**  
Certified Public Accountants

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## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Members of the Board  
Borough of Hellertown  
Hellertown, Pennsylvania

### **Report on Compliance for Each Major Federal Program**

We have audited Borough of Hellertown's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Borough of Hellertown's major federal programs for the year ended December 31, 2013. Borough of Hellertown's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Borough of Hellertown's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Borough of Hellertown's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Borough of Hellertown's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Borough of Hellertown complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

### **Report on Internal Control over Compliance**

Management of Borough of Hellertown is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Borough of Hellertown's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Borough of Hellertown's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Campbell, Rappold & Yussita LLP*

Certified Public Accountants

August 15, 2014

**BOROUGH OF HELLERTOWN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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**A. SUMMARY OF AUDITOR'S RESULTS**

1. The auditors' report expresses an unmodified opinion on the financial statements of the Borough of Hellertown.
2. Significant deficiencies related to the audit of the financial statements are reported in part B of this schedule. No material weaknesses are reported.
3. No instances of noncompliance material to the financial statements of the Borough of Hellertown, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs disclosed during the audit is reported on Schedule C. No material weaknesses are reported.
5. The auditors' report on compliance for the major federal award programs for the Borough of Hellertown expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with section 510(a) or OMB-Circular A-133 are reported in Part C of this schedule.
7. The program tested as major program includes:

Highway Planning and Construction	CFDA # 20.205
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8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Borough of Hellertown did not qualify as a low-risk auditee.

**BOROUGH OF HELLERTOWN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

**SIGNIFICANT DEFICIENCIES**

**FS2013-001      Preparation of Annual Financial Statements and Footnote Disclosures**

**Condition:**            The Audit firm prepared the financial statements, including required footnote disclosures.

**Criteria:**            The Borough's system of internal controls should include the ability to accurately prepare complete financial statements, including notes, in conformity with the modified-cash basis of accounting. Audit standards prohibit the audit firm from being part of managements internal control design and operations.

**Effect:**              This condition may indicate that the Borough does not have sufficient controls or expertise over the auditors' preparation on the financial statements or footnote disclosures.

**Recommendation:** Management should consider what steps can be taken to prepare financial statements with disclosures.

**Management Response:**      Management recognizes the importance of complete, accurate and GASB compliant financial statements. Not having the in-house expertise or resources available to obtain such, management believes that continued reliance on the audit firm to prepare year-end financial statements is most cost effective for the Borough at this time. Management will continue to evaluate the condition for possible future remediation.

**FS2013-002      Inadequate Segregation of Duties**

**Condition:**            The size of the Borough's accounting and administrative staff precludes certain internal controls that would be preferred if the staff were large enough to provide optimum segregation of duties.

**Criteria:**            A proper internal control structure requires the performance of accounting functions by separate employees.

**Effect:**              Lack of segregation of duties increases the Borough's exposure to fraud.

**Recommendation:** Management should consider what steps can be taken to minimize the effects from the lack of segregation of duties.

**Management Response:**      Management has determined that the hiring of additional staff solely for the purpose of segregation of duties would not be cost effective for the Borough. Therefore, Members of the Board should remain involved in the affairs of the Borough to provide additional oversight controls.



BOROUGH OF HELLERTOWN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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C. FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS

- NONE –