

**REPORT ON  
THE BOROUGH OF QUAKERTOWN  
FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2010**

THE BOROUGH OF QUAKERTOWN

Financial Statements

For the Year Ended December 31, 2010

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THE BOROUGH OF QUAKERTOWN

Financial Statements

For the Year Ended December 31, 2010

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**I N T R O D U C T O R Y   S E C T I O N**

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October 21, 2011

Borough Council  
The Borough of Quakertown  
35 North Third Street  
Quakertown, PA 18951

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Quakertown as of and for the year ended December 31, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Borough of Quakertown's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Borough of Quakertown's internal control. Accordingly, we do not express an opinion on the effectiveness of the Borough of Quakertown's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

### ***Recommendations***

In addition, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated October 21, 2011, on the financial statements of The Borough of Quakertown. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies.

The following recommendations are presented for your consideration:

### ***Consolidated Cash Reconciliation***

It was discovered during our audit that the consolidated cash account was not properly reconciled as of the audit date, December 31, 2010. There were five unposted transactions listed on the December bank reconciliation totaling \$10,483.28 and balances in the cash clearing accounts totaling \$2,265.08. It is recommended that the Borough properly reconcile the consolidated cash account on a timely basis making all necessary adjustments in order to ensure proper recordkeeping.

## **Borough Council**

### ***Fixed Asset Management System***

It was discovered during the audit that the Borough does not have an adequate system for monitoring additions and deletions to the fixed asset system. All fixed assets capitalized by the Borough must be tagged with a number and the location of the asset documented. Further when a fixed asset is no longer in use, either sold or scrapped this deletion must be taken off the fixed asset system. We recommend the Borough establish policies and procedures to properly monitor all equipment within the facilities owned by the Borough with constant updates to filter out disposals and adding new acquisitions.

### ***Infrastructure Management***

Under the modified approach of infrastructure management, the Borough is required to establish a policy regarding infrastructure upkeep. The policy should include the assessed condition, performed at least every three years of the infrastructure (roads, curbing, bridges, etc). In addition, the Borough needs to calculate an estimated amount at the beginning of the fiscal year to maintain and preserve at (or above) the condition level of the infrastructure established and disclosed by the government. The basis for the condition measurement and the measurement scale used to assess and report conditions of the infrastructure needs to be documented by the Borough.

### ***Proprietary Funds (Utility Billing and Receivables)***

It was discovered during the audit that the utility billing department did not maintain the proper records in order to prove out revenues and receivables at year end. As a result, additional time was required to prove out the utility revenues and receivable balances at December 31, 2010. We recommend that the Borough examine their internal procedures and end of year revenue/receivable reports for adequacy. All reports should be saved and not discarded to ensure proper recordkeeping.

### ***Payroll***

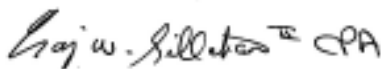
During our testing and reconciliation of the payroll accounts it was noted that certain payroll transactions were not properly recorded. It is recommended that management properly record and reconciles the payroll after each pay period to ensure that the correct amounts are recorded in the various expenditure and liability accounts.

### ***Pool Fund***

During our testing, it was discovered, that the revenue records for the Pool Fund were inadequate. All swimming pool ticket sales must be documented and summarized in order to support receipt records recorded in the general ledger. Each sale should be categorized by child, student, adult, senior, family, etc. A spreadsheet should then be created and that spreadsheet should be reconciled to the general ledger on a periodic basis in order to ensure proper revenue recognition.

This communication is intended solely for the information and use of management, those charged with governance and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



October 21, 2011

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**FINANCIAL SECTION**

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October 21, 2011

Borough Council  
The Borough of Quakertown  
35 North Third Street  
Quakertown, PA 18951

### **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Quakertown as of and for the year ended December 31, 2010, which collectively comprise the Borough's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Borough's management. Our responsibility is to express 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 Standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements, referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Quakertown at December 31, 2010, and the respective changes in financial position, cash flows, and the budgetary comparison of the General Fund for the year ended in conformity with accounting principles, generally accepted in the United States of America.

In accordance with Government Auditing Standards we have also issued our report dated August 6, 2011, on our consideration of the Borough of Quakertown's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



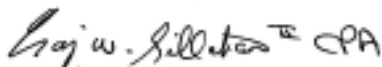
## BOROUGH OF QUAKERTOWN

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress – pension funds on page 5-12, and 52, respectively 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 regarding 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.

The Borough of Quakertown has not presented the required supplementary information or disclosures regarding the Borough's infrastructure assets under the modified approach deemed necessary by accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough of Quakertown's financial statements as a whole. The accompanying combining and individual fund financial statements, as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Respectfully submitted,

Handwritten signature of Craig W. Silliman, CPA. The signature is written in cursive and includes the letters "CPA" at the end.

October 21, 2011

**BOROUGH OF QUAKERTOWN**  
**Quakertown, Pennsylvania**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**Required Supplementary Information (RSI)**  
**For the Year Ended December 31, 2010**

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The discussion and analysis of the Borough of Quakertown's financial performance provides an overall review of the Borough's financial activities for the year ended December 31, 2010. The intent of this discussion and analysis is to look at the Borough's financial performance as a whole. The reader should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Borough's financial performance.

The Management Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999.

***FINANCIAL HIGHLIGHTS***

The Borough's overall financial position, as reflected in total net assets, increased by \$2,349,665 including special and extraordinary items. The net assets decreased in the governmental activities and funds by \$40,664 and increased in the business-type activities and funds by \$2,390,329.

During the year the Borough paid principal of \$882,602 resulting in ending outstanding debt as of December 31, 2010, of \$10,583,767.

**THE BOROUGH OF QUAKERTOWN**  
**Management's Discussion and Analysis (MD&A)**

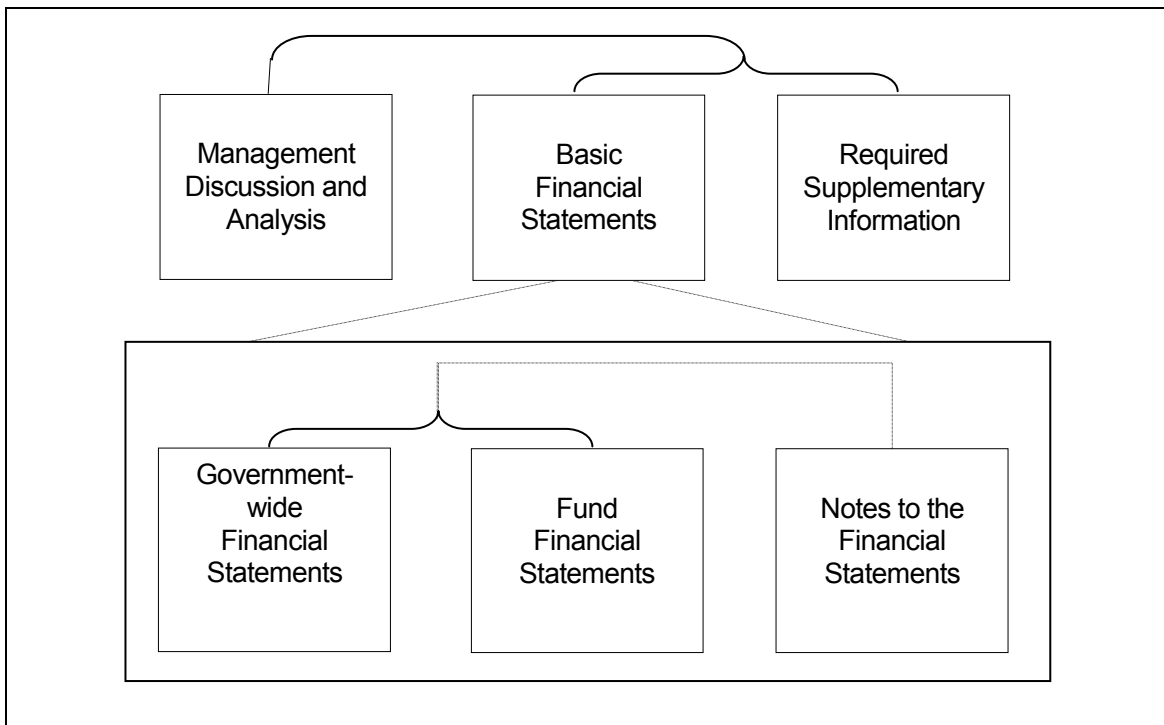
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The remaining statements are fund financial statements that focus on individual parts of the Borough's operations in more detail than the government-wide statements. The governmental funds statements tell how general Borough services were financed in the short term as well as what remains for future spending. Proprietary fund statements offer short- and long-term financial information about the activities that the Borough operates like a business. For this Borough, this is our Electric, Water, Sewer and Pool Funds. Fiduciary fund statements provide information about financial relationships where the Borough acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Figure A-1 shows how the required parts of the Financial Section are arranged and relate to one another:

**Figure A-1**  
**Required Components of**  
**The Borough of Quakertown's**  
**Financial Report**



**THE BOROUGH OF QUAKERTOWN**  
**Management's Discussion and Analysis (MD&A)**

Figure A-2 summarizes the major features of the Borough's financial statements, including the portion of the Borough they cover and the types of information they contain. The remainder of this overview section of management discussion and analysis explains the structure and contents of each of the statements.

**Figure A-2**  
**Major Features of the Borough of Quakertown's Government-wide and Fund Financial Statements**

		<b>Fund Statements</b>		
	<b>Government-wide Statements</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
Scope	Entire Borough (except proprietary and fiduciary funds)	The activities of the Borough that are not proprietary or fiduciary.	Activities the Borough operates similar to private business: <ul style="list-style-type: none"> <li>• Electric</li> <li>• Water</li> <li>• Sewer</li> <li>• Pool</li> </ul>	Instances in which the Borough is the trustee or agent to someone else's resources.
Required financial statements	Statement of net assets, Statement of activities	Balance Sheet, Statement of revenues, expenditures, and changes in fund balance	Statement of net assets, Statement of revenues, expenses and changes in net assets, Statement of cash flows	Statement of fiduciary net assets, Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow-outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods and services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

**THE BOROUGH OF QUAKERTOWN**  
**Management's Discussion and Analysis (MD&A)**

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**OVERVIEW OF FINANCIAL STATEMENTS**

*Government-wide Statements*

The government-wide statements report information about the Borough as a whole. The statement of net assets includes all assets and liabilities, both financial and capital, short-term and long-term. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The government-wide statements report the Borough's net assets and how they have changed. Net assets, the difference between the Borough's assets and liabilities are one way to measure the Borough's financial health or position.

Over time, increases or decreases in the Borough's net assets are an indication of whether its financial health is improving or deteriorating, respectively, based upon the basis of accounting used.

To assess the overall health of the Borough, you need to consider additional non-financial factors, such as changes in the Borough's property tax base and changes in the utility rates and usage.

The government-wide financial statements of the Borough are divided into two categories:

*Governmental Activities*

All of the Borough's basic services are included here, such as General Government, Public Safety, Public Works and Parks. Property Taxes, Earned Income Taxes and Other Public Taxes finance most of these activities.

*Business-Type Activities*

The Borough provides electric, water and sewer utilities as well as a recreation pool to residents of the Borough. Fees received for these utilities and pool use fees cover the costs of operations.

The Borough's fund financial statements, which begin on page 15, provide detailed information about the most significant funds - not the Borough as a whole.

Fund Financial Statements includes:

*Governmental Funds*

Most of the Borough's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. They are reported using an accounting method called modified accrual basis of accounting. Under this method revenues are recognized when cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon after. The governmental fund statements provide a detailed short-term view of the Borough's operations and services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Borough's programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is reconciled in the financial statements.

**THE BOROUGH OF QUAKERTOWN**  
**Management's Discussion and Analysis (MD&A)**

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*Proprietary Funds*

These funds are used to account for the Borough's activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the Borough charges customers for services it provides - these services are generally reported in proprietary funds. The electric, water, sewer and pool funds, are the Borough's proprietary funds and is the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information such as cash flow.

*Fiduciary Funds*

The Borough is a fiduciary for the uniform and non-uniform pension funds as well as the escrow fund and the police health reimbursement arrangement fund. All of the Borough's activities are reported in separate statements or fiduciary net assets on page 23. These activities have been excluded from the Borough's financial statements because the Borough cannot use these assets to finance their operations.

**FINANCIAL ANALYSIS OF THE BOROUGH AS A WHOLE**

The Borough's total net assets were \$48,198,560 at December 31, 2010.

**Table A-1**  
**Year Ended December 31, 2010 and 2009**  
**Net Assets**

	2010			2009		
	(Accrual Basis)			(Modified Cash Basis)		
	Govern- mental Activities	Business- Type Activities	Total	Govern- mental Activities	Business- Type Activities	Total
<b>Current and Other Assets</b>	<u>\$ 24,787,870</u>	<u>\$ 37,630,828</u>	<u>\$ 62,418,698</u>	<u>\$ 9,155,705</u>	<u>\$ 35,139,196</u>	<u>\$ 44,294,901</u>
<b>Current and Other Liabilities</b>	<u>\$ 3,363,030</u>	<u>\$ 10,857,108</u>	<u>\$ 14,220,138</u>	<u>\$ 3,251,864</u>	<u>\$ 10,755,805</u>	<u>\$ 14,007,669</u>
<b>Net Assets</b>						
Invested in Capital Assets,						
Net of Related Debt	\$ 19,440,654	\$ 19,199,506	\$ 38,640,160	\$ 3,630,221	\$ 19,145,504	\$ 22,775,725
Unrestricted	1,984,186	7,574,214	9,558,400	2,273,620	5,237,887	7,511,507
<b>Total Net Assets</b>	<u><b>\$ 21,424,840</b></u>	<u><b>\$ 26,773,720</b></u>	<u><b>\$ 48,198,560</b></u>	<u><b>\$ 5,903,841</b></u>	<u><b>\$ 24,383,391</b></u>	<u><b>\$ 30,287,232</b></u>

The results of this year's operations as a whole are reported in the statement of activities on page 14. All expenses are reported in the first column. The two largest revenues are provided by utility services and general public taxes.

**THE BOROUGH OF QUAKERTOWN**  
**Management's Discussion and Analysis (MD&A)**

Table A-2 takes the information from that statement, rearranges it slightly, so that you can see our total revenues and expenses for the year.

**Table A-2**  
**Year Ended December 31, 2010 and 2009**  
**Changes in Net Assets**

	2010			2009		
	(Accrual Basis)			(Modified Cash Basis)		
	Govern- mental Activities	Business- Type Activities	Total	Govern- mental Activities	Business- Type Activities	Total
<b>REVENUES</b>						
<i>Program Revenues</i>						
Charges for Services	\$ 536,196	\$ 20,300,671	\$ 20,836,867	\$ 533,425	\$ 18,557,645	\$ 19,091,070
Operating Grants and Contributions	179,925	89,322	269,247	246,959	88,832	335,791
Capital Grants and Contributions	160,551	-	160,551	166,498	-	166,498
<i>General Revenues</i>						
Property Taxes	125,384	-	125,384	131,923	-	131,923
Other Taxes	1,213,822	-	1,213,822	1,278,114	-	1,278,114
Grants, Subsidies and Contributions, unrestricted	211,437	-	211,437	237,657	-	237,657
Investment Earnings	51,798	59,875	111,673	102,019	82,652	184,671
Sale of Property	-	-	-	41,857	5,663	47,520
Other Revenue	33,510	8,878	42,388	74,062	26,322	100,384
<b>TOTAL REVENUES</b>	<b>2,512,623</b>	<b>20,458,746</b>	<b>22,971,369</b>	<b>2,812,514</b>	<b>18,761,114</b>	<b>21,573,628</b>
<b>EXPENSES</b>						
<i>Governmental Activities</i>						
General Government	817,810	-	817,810	777,204	-	777,204
Public Safety	2,284,125	-	2,284,125	2,229,647	-	2,229,647
Public Works	1,166,998	-	1,166,998	1,800,946	-	1,800,946
Culture and Recreation	245,569	-	245,569	285,955	-	285,955
Community Development	136,300	-	136,300	102,267	-	102,267
Non-Departmental	1,526,602	-	1,526,602	1,648,239	-	1,648,239
Debt Service Payments	42,443	-	42,443	115,456	-	115,456
Depreciation	174,940	-	174,940	-	-	-
Transfers Between Activities	(3,841,500)	3,841,500	-	(2,654,310)	2,654,310	-
<i>Business-Type Activities</i>						
Electric	-	10,296,552	10,296,552	-	9,806,055	9,806,055
Water	-	1,458,206	1,458,206	-	2,268,331	2,268,331
Sewer	-	2,147,054	2,147,054	-	2,023,569	2,023,569
Pool	-	325,105	325,105	-	547,235	547,235
<b>TOTAL EXPENSES</b>	<b>2,553,287</b>	<b>18,068,417</b>	<b>20,621,704</b>	<b>4,305,404</b>	<b>17,299,500</b>	<b>21,604,904</b>
<b>INCREASE (DECREASE) IN</b>						
<b>NET ASSETS</b>	<b>\$ (40,664)</b>	<b>\$ 2,390,329</b>	<b>\$ 2,349,665</b>	<b>\$ (1,492,890)</b>	<b>\$ 1,461,614</b>	<b>\$ (31,276)</b>

**THE BOROUGH OF QUAKERTOWN**  
**Management's Discussion and Analysis (MD&A)**

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**DEBT ADMINISTRATION**

As of January 1, 2010, the Borough had total outstanding debt of \$11,466,369. During the year, the Borough paid principal of \$882,602 resulting in ending outstanding debt as of December 31, 2010, of \$10,583,767.

**Table A-3**  
**Outstanding Debt**

	2010	2009
2003 General Obligation Note - Pool Fund	\$ 968,470	\$ 1,270,757
2004 Guaranteed Revenue Note - Water Fund	5,308,175	5,548,157
2004 Guaranteed Revenue Note - Sewer Fund	3,217,049	3,362,492
2005 General Obligation Note - Water Capital Fund	1,090,073	1,284,963

**General Fund Budget**

The Borough adopts an annual budget for its General Fund. This adoption, by law, occurs prior to December 31 of each year for the subsequent year. A comprehensive budgetary comparison, original to final is provided in this report. Below is a summarized version of the budget comparison.

**Table A-4**  
**Budgetary Comparison**

	2010			
	Budgeted Original	Budget Amounts Final	Actual (Budgetary Basis)	Variances with Final Budget Positive (Negative)
Revenues	\$ 2,420,875	\$ 2,420,875	\$ 2,353,603	\$ (67,272)
Expenditures	6,099,270	6,099,270	5,740,138	359,132
Deficiency of Revenues over Expenditures	(3,678,395)	(3,678,395)	(3,386,535)	291,860
Other Financing Sources	3,648,900	3,648,900	3,640,981	(7,919)
Net Change in Fund Balance	(29,495)	(29,495)	254,446	283,941
Fund Balance - January 1, 2010 - Restated	29,495	29,495	(154,003)	(183,498)
Fund Balance - December 31, 2010	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,443</u>	<u>\$ 100,443</u>
	2009			
	Budgeted Original	Budget Amounts Final	Actual (Budgetary Basis)	Variances with Final Budget Positive (Negative)
Revenues	\$ 3,315,300	\$ 3,315,300	\$ 2,431,663	\$ (883,637)
Expenditures	6,230,231	6,230,231	5,820,616	409,615
Deficiency of Revenues over Expenditures	(2,914,931)	(2,914,931)	(3,388,953)	(474,022)
Other Financing Sources	2,153,000	2,153,000	2,353,000	200,000
Net Change in Fund Balance	(761,931)	(761,931)	(1,035,953)	(274,022)
Fund Balance - January 1, 2009	761,931	761,931	1,096,324	334,393
Fund Balance - December 31, 2009	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,371</u>	<u>\$ 60,371</u>



**THE BOROUGH OF QUAKERTOWN**  
**Management's Discussion and Analysis (MD&A)**

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**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Borough of Quakertown has always been considered to be the core of Upper Bucks County. Although the neighboring municipalities continue to expand in population, the Borough of Quakertown will remain the center of activity and focus. The Borough continues to be perceived by the public as a very desirable place to live, work and play, and there are many reasons for this perception. Quakertown is a "full service community". That provides a comprehensive complement of public services to our residents. Not only do we provide these services, but they are provided in an efficient and cost effective way. Many of the services are subtle, but are not provided by any other municipalities in our larger region. The list includes: police services, water, sewer, electric, leaf collection, brush clipping and branch drop-off, street lights, traffic light maintenance, street maintenance, community swimming pool, and park and recreation facilities (for the Quakertown Community School District). We look forward to our continued focus of Economic Development and the recruitment of new businesses. Creating and retaining jobs for our citizens will help stabilize our local economy as well as assist with maintaining a stable tax rate. Our water, sewer and electric rates are extremely competitive compared to others in our region. Our property tax rate of 1.625 mills equates to the average property owner paying approximately \$40 in real estate taxes per year for the services we provide to residents and non-residents.

The 2011 Budget reflects cautious optimism about the local economy, which continues to be resilient in spite of the declining national economy. The 2011 budget is reflective of the economic situation faced by everyone. This has yet again forced us to postpone several infrastructure projects to 2012. It is the universal belief by each department that we must continue to deliver core municipal services foremost. Within our revenue decline, this budget responds to the challenge of balancing the preservation of our infrastructure and maintaining the community's high standards of quality of life. Each Department was instructed to be cautious when developing the 2011 budget, and instructed to:

- Maintain services while adhering to a budget freeze in 2010;
- Postpone or delay, where possible, the hiring or replacement of positions that are vacant;
- Limit unnecessary travel and training;
- Continue to review and implement streamlining and cost savings measures;
- Reduce all non-emergency overtime;

This relative strength allows the Borough of Quakertown to continue to focus resources on building the infrastructure to deliver core services while addressing community priorities. Although there is limited revenue growth, the 2011 budget responds to the challenge of continuing to provide exceptional municipal services.

**CONTACTING THE BOROUGH FINANCIAL MANAGEMENT**

The Borough's financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Borough's finances and to show Borough Council's accountability for the money it receives. If you have questions, please contact Borough Manager, Scott McElree, 35 North Third Street, Quakertown, PA 18951, phone 215.536.5001.

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**BASIC FINANCIAL STATEMENTS**

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**THE BOROUGH OF QUAKERTOWN**  
**Statement of Net Assets**  
**As of December 31, 2010**

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and Cash Equivalents	\$ 2,820,516	\$ 4,944,408	\$ 7,764,924
Investments	1,353,202	-	1,353,202
Taxes Receivable	10,628	-	10,628
Accounts Receivable (Net of Allowance for Doubtful Accounts)	72,797	2,806,557	2,879,354
Internal Balances	-	1,186,663	- (1)
Other Receivables	-	-	-
<b>TOTAL CURRENT ASSETS</b>	<u>4,257,143</u>	<u>8,937,628</u>	<u>12,008,108</u>
<b>NON-CURRENT ASSETS:</b>			
Land	1,851,952	-	1,851,952
Buildings (Net of Depreciation)	1,337,703	15,785,399	17,123,102
Improvements other than Buildings (Net of Depreciation)	375,095	1,294,093	1,669,188
Machinery and Equipment (Net of Depreciation)	920,077	813,985	1,734,062
Sewer Lines (Net of Depreciation)	-	4,147,257	4,147,257
Water Lines (Net of Depreciation)	-	6,652,466	6,652,466
Infrastructure	16,045,900	-	16,045,900
<b>TOTAL NON-CURRENT ASSETS</b>	<u>20,530,727</u>	<u>28,693,200</u>	<u>49,223,927</u>
<b>TOTAL ASSETS</b>	<u>\$ 24,787,870</u>	<u>\$ 37,630,828</u>	<u>\$ 62,418,698</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES:</b>			
Internal Balances	\$ 1,186,663	\$ -	\$ - (1)
Sales Tax Payable	-	25,722	25,722
Accounts Payable	27,974	905,977	933,951
Accrued Salaries and Benefits	69,881	30,941	100,822
Notes Payable	207,195	711,303	918,498
Accrued Compensated Absences	164,362	-	164,362
Other Payables	2,265	-	2,265
<b>TOTAL CURRENT LIABILITIES</b>	<u>1,658,340</u>	<u>1,673,943</u>	<u>2,145,620</u>
<b>NON-CURRENT LIABILITIES:</b>			
Accrued Compensated Absences	821,812	400,774	1,222,586
Notes Payable	882,878	8,782,391	9,665,269
<b>TOTAL NON-CURRENT LIABILITIES</b>	<u>1,704,690</u>	<u>9,183,165</u>	<u>10,887,855</u>
<b>TOTAL LIABILITIES</b>	<u>3,363,030</u>	<u>10,857,108</u>	<u>13,033,475</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	19,440,654	19,199,506	38,640,160
Unrestricted	1,984,186	7,574,214	9,558,400
<b>TOTAL NET ASSETS</b>	<u>21,424,840</u>	<u>26,773,720</u>	<u>48,198,560</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 24,787,870</u>	<u>\$ 37,630,828</u>	<u>\$ 62,418,698</u>

(1) Internal balances represent the amount owed to or from the two types of activities within the Primary Government. Since internal balances do not represent assets or liabilities of the total Primary Government, their balances are eliminated in the "total" column (GASB Statement No. 34, para. 58).

The Accompanying Notes are an integral part of these financial statements.

**THE BOROUGH OF QUAKERTOWN**  
**Statement of Activities**  
**For the Year Ended December 31, 2010**

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>GOVERNMENTAL ACTIVITIES:</b>							
General Government	\$ 817,810	\$ 283,506	\$ 1,650	\$ -	\$ (532,654)	\$ -	\$ (532,654)
Public Safety	2,284,125	224,517	161,916	-	(1,897,692)	-	(1,897,692)
Public Works	1,166,998	33	9,523	160,551	(996,891)	-	(996,891)
Culture and Recreation	245,569	28,140	6,836	-	(210,593)	-	(210,593)
Community Development	136,300	-	-	-	(136,300)	-	(136,300)
Non-Departmental	1,526,602	-	-	-	(1,526,602)	-	(1,526,602)
Debt Service Payments	42,443	-	-	-	(42,443)	-	(42,443)
Depreciation	174,940	-	-	-	(174,940)	-	(174,940)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>6,394,787</b>	<b>536,196</b>	<b>179,925</b>	<b>160,551</b>	<b>(5,518,115)</b>	<b>-</b>	<b>(5,518,115)</b>
<b>BUSINESS-TYPE ACTIVITIES:</b>							
Electric	10,296,552	15,617,910	30,878	-	-	5,352,236	5,352,236
Water	1,458,206	2,085,046	24,234	-	-	651,074	651,074
Sewer	2,147,054	2,414,390	34,210	-	-	301,546	301,546
Pool	325,105	183,325	-	-	-	(141,780)	(141,780)
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 20,621,704</b>	<b>\$ 20,836,867</b>	<b>\$ 269,247</b>	<b>\$ 160,551</b>	<b>\$ (5,518,115)</b>	<b>\$ 6,163,076</b>	<b>\$ 644,961</b>
<b>GENERAL REVENUES:</b>							
Property Taxes. Levied for General Purposes					\$ 125,384	\$ -	\$ 125,384
Other Taxes Levied for General Purposes					1,213,822	-	1,213,822
Grants, Subsidies, & Contributions Not Restricted					211,437	-	211,437
Investment and Rental Earnings					51,798	59,875	111,673
Miscellaneous Income					28,921	8,878	37,799
Insurance Claim Refund					4,589	-	4,589
Proceeds from Sale of Property					-	-	-
Transfers					3,841,500	(3,841,500)	-
<b>TOTAL GENERAL REVENUES, SPECIAL ITEMS, EXTRAORDINARY ITEMS, AND TRANSFERS</b>					<b>5,477,451</b>	<b>(3,772,747)</b>	<b>1,704,704</b>
<b>CHANGE IN NET ASSETS</b>					<b>(40,664)</b>	<b>2,390,329</b>	<b>2,349,665</b>
<b>NET ASSETS - BEGINNING (RESTATED)</b>					<b>21,465,504</b>	<b>24,383,391</b>	<b>45,848,895</b>
<b>NET ASSETS - ENDING</b>					<b>\$ 21,424,840</b>	<b>\$ 26,773,720</b>	<b>\$ 48,198,560</b>

The Accompanying Notes are an integral part of these financial statements.

**THE BOROUGH OF QUAKERTOWN**  
**Balance Sheet**  
**All Governmental Funds**  
**As of December 31, 2010**

	<u>GENERAL</u>	<u>CAPITAL PROJECTS</u>	<u>NON-MAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b><u>ASSETS</u></b>				
Cash and Cash Equivalents	\$ 279,944	\$ 2,503,954	\$ 36,618	\$ 2,820,516
Investments	-	1,353,202	-	1,353,202
Taxes Receivable	10,628	-	-	10,628
Accounts Receivable	72,797	-	-	72,797
Due from Other Funds	-	-	-	-
Other Receivables	-	-	-	-
<b>TOTAL ASSETS</b>	<b><u>\$ 363,369</u></b>	<b><u>\$ 3,857,156</u></b>	<b><u>\$ 36,618</u></b>	<b><u>\$ 4,257,143</u></b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b>LIABILITIES:</b>				
Due to Other Funds	\$ -	\$ 1,186,663	\$ -	\$ 1,186,663
Accounts Payable	26,418	1,556	-	27,974
Accrued Salaries and Benefits	69,881	-	-	69,881
Accrued Compensated Absences	164,362	-	-	164,362
Other Payables	2,265	-	-	2,265
<b>TOTAL LIABILITIES</b>	<b><u>262,926</u></b>	<b><u>1,188,219</u></b>	<b><u>-</u></b>	<b><u>1,451,145</u></b>
<b>FUND BALANCES:</b>				
- General Fund	100,443	-	-	100,443
- Liquid Fuels Fund	-	-	36,360	36,360
- Fire Company Capital Fund	-	-	258	258
- Capital Projects Funds	-	2,668,937	-	2,668,937
<b>TOTAL FUND BALANCES</b>	<b><u>100,443</u></b>	<b><u>2,668,937</u></b>	<b><u>36,618</u></b>	<b><u>2,805,998</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 363,369</u></b>	<b><u>\$ 3,857,156</u></b>	<b><u>\$ 36,618</u></b>	<b><u>\$ 4,257,143</u></b>

The Accompanying Notes are an integral part of these financial statements.

**THE BOROUGH OF QUAKERTOWN**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**To the Statement of Net Assets**  
**As of December 31, 2010**

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**TOTAL FUND BALANCES - GOVERNMENTAL FUNDS** **\$ 2,805,998**

**Amounts reported for governmental activities in the statement of net assets are different because:**

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$22,924,659 and the accumulated depreciation is \$2,393,932. 20,530,727

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Notes Payable	\$ (1,090,073)	
Accrued Interest on the Bonds	-	
Compensated Absences	(821,812)	
Other Retirement Benefits	-	<u>(1,911,885)</u>

**TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES** **\$ 21,424,840**

The Accompanying Notes are an integral part of these financial statements.

**THE BOROUGH OF QUAKERTOWN**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**All Governmental Funds**  
**For the Year Ended December 31, 2010**

	<u>GENERAL</u>	<u>CAPITAL PROJECTS</u>	<u>NON-MAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>REVENUES</b>				
Taxes	\$ 1,209,560	\$ -	\$ -	\$ 1,209,560
Licenses and Permits	140,570	-	-	140,570
Fines and Forfeits	118,741	-	-	118,741
Intergovernmental	423,350	-	160,551	583,901
Charges for Services	416,680	-	-	416,680
Investment and Rental Earnings	4,919	44,376	2,503	51,798
Miscellaneous	39,783	14,319	-	54,102
<b>TOTAL REVENUES</b>	<u>2,353,603</u>	<u>58,695</u>	<u>163,054</u>	<u>2,575,352</u>
<b>EXPENDITURES</b>				
<b>CURRENT:</b>				
General Government	764,094	176,603	-	940,697
Public Safety	2,202,885	9,555	80,000	2,292,440
Public Works	898,727	102,187	269,178	1,270,092
Culture and Recreation	269,678	60,572	-	330,250
Community Development	75,877	-	-	75,877
Non-Departmental	1,528,877	-	-	1,528,877
<b>DEBT SERVICE:</b>				
Principal	-	194,889	-	194,889
Interest	-	42,443	-	42,443
<b>TOTAL EXPENDITURES</b>	<u>5,740,138</u>	<u>586,249</u>	<u>349,178</u>	<u>6,675,565</u>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	<u>(3,386,535)</u>	<u>(527,554)</u>	<u>(186,124)</u>	<u>(4,100,213)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund Transfers In	3,770,000	128,688	71,831	3,970,519
Operating Transfers Out	(129,019)	-	-	(129,019)
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>3,640,981</u>	<u>128,688</u>	<u>71,831</u>	<u>3,841,500</u>
<b>NET CHANGE IN FUND BALANCES</b>	254,446	(398,866)	(114,293)	(258,713)
<b>FUND BALANCES - BEGINNING (RESTATED)</b>	<u>(154,003)</u>	<u>3,067,803</u>	<u>150,911</u>	<u>3,064,711</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 100,443</u>	<u>\$ 2,668,937</u>	<u>\$ 36,618</u>	<u>\$ 2,805,998</u>

The Accompanying Notes are an integral part of these financial statements.

**THE BOROUGH OF QUAKERTOWN**  
**Reconciliation of the Governmental Funds**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**To the Statement of Activities**  
**For the Year Ended December 31, 2010**

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**NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS** \$ (258,713)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

	Depreciation Expense \$	174,940	
	Less - Capital Outlays	<u>228,820</u>	53,880

Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 194,889

In the statement of activities, certain operating expenses--compensated absences and special termination benefits --are measured by the amounts earned during the year. In the governmental funds; however, expenditures for the for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used. 32,008

In the statement of activities, certain operating revenues are recognized when earned versus the revenues using the modified accrual basis of accounting in the fund statements that are recognized when the funds are available. As such, accounts receivable decreased by this amount this year. (62,728)

**CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES** **\$ (40,664)**

The Accompanying Notes are an integral part of these financial statements.



**THE BOROUGH OF QUAKERTOWN**  
**Statement of Net Assets**  
**All Proprietary Funds**  
**As of December 31, 2010**

	MAJOR			NON-MAJOR	TOTAL
	ELECTRIC FUND	WATER FUND	SEWER FUND	POOL FUND	
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash and Cash Equivalents	\$ 2,682,481	\$ 151,537	\$ 2,029,417	\$ 80,973	\$ 4,944,408
Investments	-	-	-	-	-
Accounts Receivable (Net of Allowance for Doubtful Accounts)	2,289,756	324,407	192,394	-	2,806,557
Due from Other Funds	-	1,186,663	-	-	1,186,663
<b>TOTAL CURRENT ASSETS</b>	<b>4,972,237</b>	<b>1,662,607</b>	<b>2,221,811</b>	<b>80,973</b>	<b>8,937,628</b>
<b>NON-CURRENT ASSETS:</b>					
Buildings (Net of Depreciation)	6,449,811	2,488,805	6,135,085	711,698	15,785,399
Improvements other than Buildings (Net of Depreciation)	7,919	12,574	40,415	1,233,185	1,294,093
Machinery and Equipment (Net of Depreciation)	156,600	101,096	556,289	-	813,985
Sewer Lines Infrastructure (Net of Depreciation)	-	-	4,147,257	-	4,147,257
Water Lines Infrastructure (Net of Depreciation)	-	6,652,466	-	-	6,652,466
<b>TOTAL NON-CURRENT ASSETS</b>	<b>6,614,330</b>	<b>9,254,941</b>	<b>10,879,046</b>	<b>1,944,883</b>	<b>28,693,200</b>
<b>TOTAL ASSETS</b>	<b>\$ 11,586,567</b>	<b>\$ 10,917,548</b>	<b>\$ 13,100,857</b>	<b>\$ 2,025,856</b>	<b>\$ 37,630,828</b>
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES:</b>					
Sales Tax Payable	\$ 25,722	\$ -	\$ -	\$ -	\$ 25,722
Accounts Payable	882,110	16,652	7,215	-	905,977
Accrued Salaries and Benefits	10,110	9,011	11,820	-	30,941
Notes Payable	-	246,640	149,412	315,251	711,303
<b>TOTAL CURRENT LIABILITIES</b>	<b>917,942</b>	<b>272,303</b>	<b>168,447</b>	<b>315,251</b>	<b>1,673,943</b>
<b>NON-CURRENT LIABILITIES:</b>					
Compensated Absences	175,398	92,988	132,388	-	400,774
Notes Payable	-	5,061,535	3,067,637	653,219	8,782,391
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>175,398</b>	<b>5,154,523</b>	<b>3,200,025</b>	<b>653,219</b>	<b>9,183,165</b>
<b>TOTAL LIABILITIES</b>	<b>1,093,340</b>	<b>5,426,826</b>	<b>3,368,472</b>	<b>968,470</b>	<b>10,857,108</b>
<b>NET ASSETS</b>					
Invested in Capital Assets, Net of Related Debt	6,614,330	1,344,291	7,661,997	976,413	16,597,031
Restricted for Legal Purposes	-	-	-	-	-
Unrestricted Net Assets	3,878,897	4,146,431	2,070,388	80,973	10,176,689
<b>TOTAL NET ASSETS</b>	<b>10,493,227</b>	<b>5,490,722</b>	<b>9,732,385</b>	<b>1,057,386</b>	<b>26,773,720</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 11,586,567</b>	<b>\$ 10,917,548</b>	<b>\$ 13,100,857</b>	<b>\$ 2,025,856</b>	<b>\$ 37,630,828</b>

The Accompanying Notes are an integral part of these financial statements.

**THE BOROUGH OF QUAKERTOWN**  
**Statement of Revenues, Expenses and Changes in Net Assets –**  
**All Proprietary Funds**  
**For the Year Ended December 31, 2010**

	MAJOR			NON-MAJOR	TOTAL
	ELECTRIC FUND	WATER FUND	SEWER FUND	POOL FUND	
<b><u>OPERATING REVENUES</u></b>					
Charges for Services	\$ 15,400,165	\$ 1,316,052	\$ 2,401,705	\$ 183,325	\$ 19,301,247
Debt Service Fees	-	737,923	-	-	737,923
Permits and Fees	77,274	11,400	-	-	88,674
Penalties	140,471	19,671	12,685	-	172,827
Rental Income	-	24,289	-	-	24,289
Other Income	2,378	5,263	911	326	8,878
<b>TOTAL OPERATING REVENUES</b>	<b>15,620,288</b>	<b>2,114,598</b>	<b>2,415,301</b>	<b>183,651</b>	<b>20,333,838</b>
<b><u>OPERATING EXPENSES</u></b>					
Costs of Furnishing Utility	9,834,166	825,935	1,380,756	-	12,040,857
Costs of Pool Operations	-	-	-	168,125	168,125
Employee Benefits	161,796	149,405	171,565	9,093	491,859
Employee Pension	54,106	42,464	60,667	-	157,237
Insurance	66,473	64,840	91,760	17,808	240,881
Debt Service	-	146,627	88,864	38,261	273,752
Depreciation	180,011	228,935	353,442	91,818	854,206
<b>TOTAL OPERATING EXPENSES</b>	<b>10,296,552</b>	<b>1,458,206</b>	<b>2,147,054</b>	<b>325,105</b>	<b>14,226,917</b>
<b>OPERATING INCOME (LOSS)</b>	<b>5,323,736</b>	<b>656,392</b>	<b>268,247</b>	<b>(141,454)</b>	<b>6,106,921</b>
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>					
Interest Earned	18,232	799	15,302	1,253	35,586
Gain (Loss) on Sale of Fixed Assets	-	-	-	-	-
State Aid - Pension	30,878	24,234	34,210	-	89,322
Transfers from Other Funds	-	-	-	400,000	400,000
Transfers to Other Funds	(3,871,500)	(185,000)	(185,000)	-	(4,241,500)
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>(3,822,390)</b>	<b>(159,967)</b>	<b>(135,488)</b>	<b>401,253</b>	<b>(3,716,592)</b>
<b>CHANGES IN NET ASSETS</b>	<b>1,501,346</b>	<b>496,425</b>	<b>132,759</b>	<b>259,799</b>	<b>2,390,329</b>
<b>NET ASSETS, JANUARY 1, 2010 (RESTATED)</b>	<b>8,991,881</b>	<b>4,994,297</b>	<b>9,599,626</b>	<b>797,587</b>	<b>24,383,391</b>
<b>NET ASSETS, DECEMBER 31, 2010</b>	<b>\$ 10,493,227</b>	<b>\$ 5,490,722</b>	<b>\$ 9,732,385</b>	<b>\$ 1,057,386</b>	<b>\$ 26,773,720</b>

The Accompanying Notes are an integral part of these financial statements.

**THE BOROUGH OF QUAKERTOWN**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**As of December 31, 2010**

	<u>ELECTRIC FUND</u>	<u>MAJOR WATER FUND</u>	<u>SEWER FUND</u>	<u>NON-MAJOR POOL FUND</u>	<u>TOTAL</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>					
Cash Received from Users	\$ 14,195,519	\$ 1,883,819	\$ 2,310,918	\$ 183,325	\$ 18,573,581
Cash Received from Other Operating Revenue	2,378	5,263	911	326	8,878
Cash Payments to Employees for Services	(687,923)	(637,303)	(762,061)	(114,587)	(2,201,874)
Cash Payments to Suppliers for Goods and Services	(9,427,764)	(590,538)	(1,061,649)	(118,074)	(11,198,025)
Cash Payments to Other Operating Expenses	(1,013)	(4)	-	(626)	(1,643)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>4,081,197</u>	<u>661,237</u>	<u>488,119</u>	<u>(49,636)</u>	<u>5,180,917</u>
<b><u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u></b>					
State Sources	30,878	24,234	34,210	-	89,322
Operating Transfers In	-	-	-	400,000	400,000
Operating Transfers Out	(3,871,500)	(185,000)	(185,000)	-	(4,241,500)
<b>NET CASH PROVIDED BY (USED) FOR NON-CAPITAL FINANCING ACTIVITIES</b>	<u>(3,840,622)</u>	<u>(160,766)</u>	<u>(150,790)</u>	<u>400,000</u>	<u>(3,752,178)</u>
<b><u>CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES</u></b>					
Loan Principal Payments	-	(239,982)	(145,442)	(302,287)	(687,711)
Purchase of Equipment	-	(207,294)	(13,202)	-	(220,496)
Interfund Loan Payments	-	(237,333)	-	-	(237,333)
<b>NET CASH USED FOR CAPITAL FINANCING ACTIVITIES</b>	<u>-</u>	<u>(684,609)</u>	<u>(158,644)</u>	<u>(302,287)</u>	<u>(1,145,540)</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>					
Sale of Investments	685,698	94,742	519,274	-	1,299,714
Purchase of Investments	-	-	-	-	-
Earnings on Investments	18,232	799	15,302	1,253	35,586
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>703,930</u>	<u>95,541</u>	<u>534,576</u>	<u>1,253</u>	<u>1,335,300</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>944,505</u>	<u>(88,597)</u>	<u>713,261</u>	<u>49,330</u>	<u>1,618,499</u>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>1,737,976</u>	<u>240,134</u>	<u>1,316,156</u>	<u>31,643</u>	<u>3,325,909</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 2,682,481</u>	<u>\$ 151,537</u>	<u>\$ 2,029,417</u>	<u>\$ 80,973</u>	<u>\$ 4,944,408</u>

The Accompanying Notes are an integral part of these financial statements.

**THE BOROUGH OF QUAKERTOWN**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**As of December 31, 2010**

**RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES**

	<u>ELECTRIC FUND</u>	<u>MAJOR WATER FUND</u>	<u>SEWER FUND</u>	<u>NON-MAJOR POOL FUND</u>	<u>TOTAL</u>
<b>OPERATING INCOME (LOSS)</b>	\$ 5,323,736	\$ 656,392	\$ 268,247	\$ (141,454)	\$ 6,106,921
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>					
Depreciation	180,011	228,935	353,442	91,818	854,206
<b>CHANGE IN ASSETS AND LIABILITIES:</b>					
(Increase) Decrease in Accounts Receivable	(1,428,062)	(225,516)	(103,472)	-	(1,757,050)
(Increase) Decrease in Advances from Other Funds	-	-	-	-	-
Increase (Decrease) in Accounts Payable	40,662	3,326	(19,538)	-	24,450
Increase (Decrease) in Accrued Salaries and Benefits	(3,995)	(3,709)	(4,249)	-	(11,953)
Increase (Decrease) in Sales Tax Payable	5,671	-	-	-	5,671
Increase (Decrease) in Compensated Absences	(36,826)	1,809	(6,311)	-	(41,328)
<b>TOTAL ADJUSTMENTS</b>	<u>(1,242,539)</u>	<u>4,845</u>	<u>219,872</u>	<u>91,818</u>	<u>(926,004)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 4,081,197</u>	<u>\$ 661,237</u>	<u>\$ 488,119</u>	<u>\$ (49,636)</u>	<u>\$ 5,180,917</u>

The Accompanying Notes are an integral part of these financial statements.

**THE BOROUGH OF QUAKERTOWN**  
**Statement of Net Assets**  
**Fiduciary Funds**  
**As of December 31, 2010**

	<u>AGENCY FUNDS</u>		
	<u>PENSION BENEFIT TRUST FUNDS</u>	<u>ESCROW FUND</u>	<u>POLICE HEALTH REIMBURSEMENT ARRANGEMENT FUND</u>
<b><u>ASSETS</u></b>			
Cash and Cash Equivalents	\$ 427,774	\$ 359,571	\$ 38,429
Investments	9,542,527	-	-
Accrued Investment Income	26,820	-	-
Accounts Receivable	411	-	-
<b>TOTAL ASSETS</b>	<b><u>\$ 9,997,532</u></b>	<b><u>\$ 359,571</u></b>	<b><u>\$ 38,429</u></b>
<b><u>LIABILITIES</u></b>			
Due to Escrow Holders	\$ -	\$ 359,571	\$ -
Due to Police Officers	-	-	38,429
<b>TOTAL LIABILITIES</b>	<b><u>-</u></b>	<b><u>359,571</u></b>	<b><u>38,429</u></b>
<b><u>NET ASSETS</u></b>			
Restricted for Employee Benefits	9,997,532	-	-
<b>TOTAL NET ASSETS</b>	<b><u>\$ 9,997,532</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>

The Accompanying Notes are an integral part of these financial statements.

**THE BOROUGH OF QUAKERTOWN**  
**Statement of Additions, Deductions and Changes in Net Assets**  
**Fiduciary Funds**  
**For the Year Ended December 31, 2010**

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	<b>PENSION BENEFIT TRUST FUNDS</b>
<b>ADDITIONS:</b>	
Contributions - Employer	\$ 355,090
Contributions - Employee	21,793
State Aid	268,491
Miscellaneous Income	721
<b>INVESTMENT EARNINGS:</b>	
Interest and Dividends	212,331
Change in Fair Value of Investments	754,680
<b>TOTAL ADDITIONS</b>	<u>1,613,106</u>
<b>DEDUCTIONS:</b>	
Administrative Charges	14,833
Investment Expenses	31,196
Employee Benefits	433,976
<b>TOTAL DEDUCTIONS</b>	<u>480,005</u>
<b>CHANGE IN NET ASSETS</b>	1,133,101
<b>NET ASSETS - BEGINNING OF YEAR (RESTATED)</b>	<u>8,864,431</u>
<b>NET ASSETS - END OF YEAR</b>	<u><b>\$ 9,997,532</b></u>

The Accompanying Notes are an integral part of these financial statements.

**THE BOROUGH OF QUAKERTOWN**  
**Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual**  
**General Fund**  
**For the Year Ended December 31, 2010**

	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL</b>	<b>VARIANCE WITH</b>	<b>BUDGET TO</b>	<b>ACTUAL</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	<b>(BUDGETARY BASIS)</b>	<b>FINAL BUDGET POSITIVE (NEGATIVE)</b>	<b>MODIFIED ACCRUAL DIFFERENCE</b>	<b>AMOUNTS MODIFIED ACCRUAL BASIS</b>
<b>RESOURCES (INFLOW):</b>						
Taxes	\$ 1,462,000	\$ 1,462,000	\$ 1,209,560	\$ (252,440)	\$ -	\$ 1,209,560
Licenses and Permits	203,000	203,000	140,570	(62,430)	-	140,570
Fines and Forfeits	147,000	147,000	118,741	(28,259)	-	118,741
Intergovernmental	145,775	145,775	423,350	277,575	-	423,350
Charges for Services	422,400	422,400	416,680	(5,720)	-	416,680
Miscellaneous	26,700	26,700	35,194	8,494	-	35,194
Insurance Claim Refund	1,000	1,000	4,589	3,589	-	4,589
Investment and Rental Earnings	13,000	13,000	4,919	(8,081)	-	4,919
Transfers from Other Funds	3,770,000	3,770,000	3,770,000	-	-	3,770,000
<b>TOTAL RESOURCES</b>	<b>6,190,875</b>	<b>6,190,875</b>	<b>6,123,603</b>	<b>(67,272)</b>	<b>-</b>	<b>6,123,603</b>
<b>CHARGES TO APPROPRIATIONS (OUTFLOWS):</b>						
<b>General Government</b>						
Legal	40,000	40,000	58,762	(18,762)	-	58,762
Mayor, Legislative, Borough Manager	286,500	286,500	261,495	25,005	-	261,495
Finance and Accounting	254,150	254,150	260,801	(6,651)	-	260,801
Tax Collection	5,000	5,000	7,890	(2,890)	-	7,890
IT-Networking Services-Data Processing	62,620	62,620	49,264	13,356	-	49,264
Engineering	80,000	80,000	49,779	30,221	-	49,779
Buildings and Plant	68,200	68,200	76,103	(7,903)	-	76,103
<b>Public Safety</b>						
Police	1,754,470	1,754,470	1,799,596	(45,126)	-	1,799,596
Fire Department	279,850	279,850	291,478	(11,628)	-	291,478
Inspections	105,920	105,920	111,811	(5,891)	-	111,811
<b>Public Works</b>						
Solid Waste and Collection	8,000	8,000	8,132	(132)	-	8,132
Street Maintenance and Lighting	991,300	991,300	890,595	100,705	-	890,595
<b>Culture and Recreation</b>						
Parks	254,150	254,150	269,678	(15,528)	-	269,678
<b>Community Development</b>						
	90,000	90,000	75,877	14,123	-	75,877
<b>Non-Departmental</b>						
Employer Paid Benefits and Withholding Items	1,458,760	1,458,760	1,381,941	76,819	-	1,381,941
Insurance	213,350	213,350	142,917	70,433	-	142,917
Miscellaneous	27,000	27,000	4,019	22,981	-	4,019
Budgetary Reserve	120,000	120,000	-	120,000	-	-
Transfer to Other Funds	121,100	121,100	129,019	(7,919)	-	129,019
<b>TOTAL CHARGES TO APPROPRIATIONS</b>	<b>6,220,370</b>	<b>6,220,370</b>	<b>5,869,157</b>	<b>351,213</b>	<b>-</b>	<b>5,869,157</b>
Excess (Deficiency) of Inflows Over Outflows	(29,495)	(29,495)	254,446	283,941	-	254,446
<b>FUND BALANCE - JANUARY 1, 2010 (RESTATE)</b>	<b>29,495</b>	<b>29,495</b>	<b>(154,003)</b>	<b>(183,498)</b>	<b>-</b>	<b>(154,003)</b>
<b>FUND BALANCE - DECEMBER 31, 2010</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 100,443</b>	<b>\$ 100,443</b>	<b>\$ -</b>	<b>\$ 100,443</b>

The Accompanying Notes are an integral part of these financial statements.

**THE BOROUGH OF QUAKERTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2010**

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**Note 1 - Description of the Borough and Reporting Entity**

The Borough of Quakertown, Pennsylvania (The Borough) was incorporated in 1855, under the provisions of the Laws of the Commonwealth of Pennsylvania. The Borough operates under a council-manager form of government and provides the following services as authorized by its charter: public safety (police), streets, sanitation, culture-recreation, public improvements, planning and zoning and general administrative services. Other services include providing water, sewer and electricity.

***Reporting Entity***

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the Borough are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Borough.

The Borough of Quakertown is a municipal Corporation governed by an elected council. As required by generally accepted accounting principles, these financial statements are to present the Borough of Quakertown (the primary government) and organizations for which the primary government is financially accountable. The Borough is financially accountable for an organization if the Borough appoints a voting majority of the organization's governing board and (1) the Borough is able to significantly influence the programs or services performed or provided by the organization; or (2) the Borough is legally entitled to or can otherwise access the organization's resources; the Borough is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Borough is obligated for the debt of the organization. Component units may also include organizations that are financially dependent on the Borough in that the Borough approved the budget, the issuance of debt, or the levying of taxes. The Borough of Quakertown does not have any material component units.

**Note 2 - Summary of Significant Accounting Policies**

The financial statements of the Borough have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. On June 15, 1987, the GASB issued a codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

***A. Basis of Presentation***

The Borough's basic financial statements consist of government-wide statements, including a statement of net assets, a statement of activities, and fund financial statements which provide a more detailed level of financial information.

***Government-wide Financial Statements*** The statement of net assets and the statement of activities display information about the Borough as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the Borough that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the Borough at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Borough's governmental activities and for four business-type activities of the Borough. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function.



**THE BOROUGH OF QUAKERTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2010**

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Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Borough, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business activity or governmental function is self-financing or draws from the general revenues of the Borough.

**Fund Financial Statements** During the year, the Borough segregates transactions related to certain government functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Borough at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

**B. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Government funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

**Revenues – Exchange and Non-Exchange Transactions.** Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year.

Non-exchange transactions, in which the Borough receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used for a specified purpose, and expenditure requirements, in which the Borough must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Borough on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**C. Fund Accounting**

The Borough uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

**Governmental Funds** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund

**THE BOROUGH OF QUAKERTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2010**

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from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Borough's **major** governmental funds:

General Fund

The General Fund is the general operating fund of the Borough. Substantially all tax revenues, Federal and State aid (except aid restricted for use in Special Revenue Funds) and other operating revenues are accounted for in the General Fund. This Fund also accounts for expenditures and transfers as appropriated in the budget which provides for the Borough's day-to-day operations.

Capital Projects Fund

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary or trust funds. The Borough has three (3) capital project funds, consisting of the Water Capital Fund, the Capital Projects Fund, and the Equipment Replacement Fund.

**Proprietary Funds** Proprietary funds focus on the determination of changes in net assets, financial position and cash flows and are classified as enterprise funds.

**Enterprise Funds** Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The Borough's major enterprise funds are:

*Electric Fund* This fund accounts for the financial transactions related to providing electricity to the residents of the Borough.

*Water Fund* This fund accounts for the financial transactions related to providing water services to the residents of the Borough.

*Sewer Fund* This fund accounts for the financial transactions related to providing waste water to the residents of the Borough.

The Borough applies Financial Accounting Standards Board (FASB) Statements and interpretations issued on or before November 30, 1989 to its proprietary funds, provided they do not conflict with or contradict GASB pronouncements.

**Fiduciary Funds** Fiduciary funds reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Borough under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Borough's own programs. The Borough has three (3) trust funds, consisting of a Police Pension Fund, a Non-Uniform Pension Fund, and a Post Retirement Medical Trust Fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Borough has two (2) agency funds, consisting of an Escrow Fund and a Police Health Reimbursement Arrangement Fund.

**D. Measurement Focus**

**Government-wide Financial Statements.** The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Borough are included on the statement of net assets.

**THE BOROUGH OF QUAKERTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2010**

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**Fund Financial Statements.** All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**E. Budgets and Budgetary Accounting**

The Borough follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with the Borough Code and Borough procedures, the Borough Manager submits to the Council, with whom the legal level of budgetary control resides, a proposed budget for the fiscal year commencing the following January 1. The budget must be advertised and available for public inspection before adoption. The budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year. Departments for budgetary purposes are general government, public safety, public works, culture and recreation, and insurance, employee benefits and miscellaneous.
2. Public hearings are conducted to obtain taxpayer comment.
3. By December 31, the budget is approved by motion of the Council. Expenditures for the budget may not legally exceed appropriations and prior year fund balance reserves. This is done as a level of budgetary control.
4. All modifications, transfers and amendments must be approved by the Council.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund.
6. The legally adopted budgets of the Borough are for the General Fund.
7. The budgets are adopted on the modified accrual basis of accounting discussed above. (The basis of accounting for budget purposes is the same as for financial statement reporting purposes.)
8. The Council may authorize supplemental appropriations during the year.

**Encumbrances**

Any encumbrances outstanding at year-end do not represent GAAP expenditures or liabilities but represent budgetary accounting controls. The General Fund Budget is maintained on the modified accrual basis of accounting, expect that budgetary basis expenditures include any encumbrances issued for goods or services not received at year-end and not terminated.

The actual results of operations are presented in accordance with GAAP and the Borough's accounting policies do not recognize encumbrances as expenditures until the period in which the goods or services are actually received and a liability is incurred. Any encumbrances are presented as a reservation for encumbrances on the balance sheet of the General Fund. If budgetary encumbrances exist at year-end, they are included in the fund financial statements to reflect actual revenues and expenditures on a budgetary basis consistent with the Borough's legally adopted budget.

**THE BOROUGH OF QUAKERTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2010**

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***F. Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

***G. Assets, Liabilities and Net Assets***

*Cash and Cash Equivalents*

For purposes of the Statement of Cash Flows, the Proprietary Fund type considers all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents.

*Investments*

In accordance with GASB Statement 31, investments are stated at fair value, except:

- a) Non-participating interest earning investment contracts are recorded at amortized cost;
- b) Money market investments and participating interest earning investment contracts that mature within one year of acquisition are recorded at amortized cost; and,
- c) Investments held in 2a7-like pools (Pennsylvania Local Government Investment Trust, and the Pennsylvania Treasurer's Invest Program) are recorded at the pool's share price.

*Receivables and Payables*

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

*Real Estate Taxes*

The total taxable assessed real estate valuation for the year ended 2010 is \$79,669,480 at a rate of 1.625 mills. Real estate taxes are levied on March 1 and are payable by June 30.

Real estate taxes paid by April 30 are subject to a 2% discount and after June 30 are subject to a 10% penalty. Delinquent real estate taxes are generally lienied by January 1 of the following year.

*Capital Assets*

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Borough maintains a capitalization threshold of five thousand (\$5,000) dollars.

**THE BOROUGH OF QUAKERTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2010**

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Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land, certain land improvements, infrastructure and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<b>Description</b>	<b>Governmental Activities Estimated Lives</b>
Buildings and Improvements	20 - 50 years
Machinery and Equipment	5 - 20 years
Vehicles	10 - 30 years
Infrastructure	Modified Approach
Water Lines	30 - 50 years
Sewer Lines	50 - 90 years

*Compensated Absences*

The Borough reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Borough will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the Borough's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. In enterprise funds, the entire amount of compensated absences is reported as a fund liability.

*Long-Term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets.

*Reclassification*

Certain amounts have been reclassified to conform to the December 31, 2010, presentation of government-wide financial statements on the accrual basis of accounting versus the governmental fund financial statements on the modified accrual basis of accounting.

**THE BOROUGH OF QUAKERTOWN**  
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*Net Assets*

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Borough or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Borough applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**Note 3 – Reconciliation of government-wide and fund financial statements**

*A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.*

The governmental fund balance sheet includes a reconciliation between “fund balance-total governmental funds” and “net assets – governmental activities” as reported in the government-wide statement of net assets. One element of that reconciliation explains that “capital assets used in government activities are not financial resources and therefore are not reported as assets in governmental funds”. The cost of the capital assets net of depreciation totals \$20,530,727. Another element of the reconciliation explains that “long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds”. The details of this \$1,911,885 difference are:

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Notes Payable	\$ 1,090,073
Compensated Absences	<u>821,812</u>
Net adjustment to reduce “fund balance – total governmental funds” to arrive at “net assets – governmental activities”	<u><b>\$ 1,911,885</b></u>

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*B. Explanation of Differences between Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities*

Due to the difference in the measurement focus and basis of accounting used on the governmental fund statements and borough-wide statements certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. Differences between the governmental funds statement of revenues, expenditures and changes in fund balance and the statement of activities fall into one of two broad categories. The amounts shown in the columns on the following page represent:

- a) Long-term revenue differences arise because governmental funds report revenues only when they are considered “available”, whereas the statement of activities reports revenues when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis whereas the accrual basis of accounting is used on the statement of activities.
- b) Capital related differences include: (1) the differences between proceeds for the sale of capital assets reported on governmental fund statements and the gain or loss on the sale of assets as reported on the statement of activities; and, (2) the difference between recording an expenditure for the purchase of capital items in the governmental fund statements, and capitalization and recording of depreciation expense on those items as recorded in the statement of activities.

**THE BOROUGH OF QUAKERTOWN**  
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- c) Long-term debt transaction differences occur because long-term debt proceeds are recorded as revenue and both interest and principal payments are recorded as expenditures in the governmental fund statements. In the statement of activities, long-term debt proceeds are recorded as a liability; principal payments are recorded as a reduction of liabilities.

Explanation of Differences between Governmental Fund Statements and Borough-Wide Statements

	TOTAL GOVERN- MENTAL FUNDS	LONG-TERM REVENUES/ EXPENSES	CAPITAL RELATED ITEMS	LONG-TERM DEBT TRANS- ACTIONS	TOTAL FOR STATEMENT OF ACTIVITIES
<b>REVENUES AND OTHER SOURCES</b>					
<b>LOCAL SOURCES:</b>					
Property Taxes	\$ 128,411	\$ (3,027)	\$ -	\$ -	\$ 125,384
Other Taxes Levied for General Purposes	871,182	(8,157)	-	-	863,025
Franchise Taxes	138,990	-	-	-	138,990
Local Service Taxes	211,807	-	-	-	211,807
Grants, Subsidies & Contributions Not Restricted	92,243	20,592	-	-	112,835
Investment and Rental Earnings	51,798	-	-	-	51,798
Miscellaneous	54,102	(20,592)	-	-	33,510
Charges for Services	536,196	-	-	-	536,196
Transfers In	3,970,519	(129,019)	-	-	3,841,500
<b>STATE SOURCES:</b>					
Operating and Capital Grants and Contributions	464,546	(51,545)	-	-	413,001
<b>FEDERAL SOURCES:</b>					
Operating and Capital Grants and Contributions	26,077	-	-	-	26,077
<b>SPECIAL AND EXTRAORDINARY ITEMS:</b>					
Gain or (Loss) on Disposal of Assets	-	-	-	-	-
<b>TOTAL REVENUES</b>	<b>6,545,871</b>	<b>(191,748)</b>	<b>-</b>	<b>-</b>	<b>6,354,123</b>
<b>EXPENDITURES/EXPENSES AND OTHER USES</b>					
General Government	940,697	(89,866)	(33,021)	-	817,810
Public Safety	2,292,440	65,912	(74,227)	-	2,284,125
Public Works	1,270,092	(5,782)	(97,312)	-	1,166,998
Culture and Recreation	330,250	(60,421)	(24,260)	-	245,569
Community Development	75,877	60,423	-	-	136,300
Non-Departmental	1,528,877	(2,275)	-	-	1,526,602
Debt Service Payments	237,332	-	-	(194,889)	42,443
Depreciation	-	-	174,940	-	174,940
Transfers Out	129,019	(129,019)	-	-	-
<b>TOTAL EXPENDITURES/EXPENSES</b>	<b>6,804,584</b>	<b>(161,028)</b>	<b>(53,880)</b>	<b>(194,889)</b>	<b>6,394,787</b>
<b>NET CHANGE FOR THE YEAR</b>	<b>\$ (258,713)</b>	<b>\$ (30,720)</b>	<b>\$ 53,880</b>	<b>\$ 194,889</b>	<b>\$ (40,664)</b>

**THE BOROUGH OF QUAKERTOWN**  
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**Note 4 - Cash**

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Borough does not have a policy for custodial credit risk. As of December 31, 2010, \$9,234,926 of the Borough's bank balance of \$10,126,926 was exposed to custodial credit risk as:

Uninsured and uncollateralized	\$ -
Collateralized with securities held by the pledging financial institution	-
Uninsured and collateral held by the pledging bank's trust department not in the Borough's name	9,234,926
<b>TOTAL</b>	<b>\$ 9,234,926</b>

Reconciliation to Financial Statements

Uncollateralized Amount Above	\$ 9,234,926
Plus: Insured Amount	892,000
Deposits in Transit	47,008
Less: Outstanding Checks	(307,531)
Carrying Amount - Bank balances	9,866,403
Plus: Petty Cash	550
Deposits in Investment Pools Considered Cash Equivalents	41,195
Deposits in Money Market Mutual Funds Considered Cash Equivalents	427,752
Less: Certificates of Deposit Considered Investment	(1,745,202)
<b>Total Cash Per Financial Statements</b>	<b>\$ 8,590,698</b>

Restricted Cash

The cash balance includes \$238,618 held as utility escrow funds and \$120,953 held as construction escrow funds. The utility escrow funds are security deposits from renters in the Borough. The construction escrow is funds held by the Borough to guarantee the completion of various construction projects by the developers.

**Note 5 - Investments**

The permitted investments for Pennsylvania Boroughs are defined in the Borough Code as:

1. United States Treasury Bills;
2. Short-term obligations of the United States Government or its agencies or instrumentalities;
3. Deposits in savings accounts or time deposits or share accounts of institutions insured by the F.D.I.C.; and,
4. Obligations of the United States of America or any of its agencies or instrumentalities, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities or any political subdivision of the Commonwealth of Pennsylvania, or any of its agencies or instrumentalities.

Pension Trust Funds – The uniform and non-uniformed pension funds may invest funds outside of those investments permitted for Pennsylvania Boroughs.



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As of December 31, 2010, the Borough had the following investments:

<i>Investment</i>	<b>Maturities</b>	<b>Fair Value</b>
PA Local Government Investment Trust		\$ 41,195
Federated Institutional Government Obligation Fund		427,752
Common Stocks		4,115,086
Corporate Bonds	9.5 mos-9 yrs 9.5 mos	1,242,166
U.S. Government Agency Bonds	1 yr 5 mos - 10 yrs	1,071,135
Certificates of Deposit	2 mos - 3 yrs	1,745,202
Mutual Funds		2,722,140
<b>TOTAL</b>		<b>\$ 11,364,676</b>

*Interest Rate Risk*

The Borough does not have a 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. As of December 31, 2010, the Borough's investments were rated as:

<b>Investment</b>	<b>Standard &amp; Poor's</b>
PLGIT	AAA
Common Stocks	Not Available
Corporate Bonds	Not Available
Federal Home Loan Bank Bonds	AAA
Federal Home Loan Mortgage Corp. Bonds	AAA
FNMA Bonds	AAA
Federal Agricultural Mortgage Co.	AAA
American Funds Europacific Growth Fund	Not Available
Federated Short-Term Income Fund	Not Available
Federal Total Return Bond Fund	Not Available
Federated Institutional Government Obligation Fund	Not Available
Goldman Sachs Mid Cap Value Fund	Not Available
Heartland Value Plus Fund	Not Available
Vanguard Explorer Fund	Not Available
Vanguard FTSE All World ETF	Not Available

*Concentration of Credit Risk*

The Borough places no limit on the amount the Borough may invest in any one issuer. More than 5% of the Borough's investments are in a certificate of deposit at the QNB Bank, the American Funds Europacific Growth Fund and the Vanguard FTSE All World ETF. These investments are 11.91%, 5.73% and 5.67%, respectively, of the Borough's investments. More than 5% of the Trust and Agency Funds' investments are in the American Funds Europacific Growth Fund, the Vanguard FTSE All World ETF and Federal Home Loan Bank Bonds. These investments are 6.53%, 6.46% and 5.32%, respectively of the Trust and Agency Funds investments. Of the Governmental Funds' investments, 97.05 is in a certificate of deposit at the QNB Bank. The Capital Projects Funds' investment is in a certificate of deposit at the QNB Bank.

**THE BOROUGH OF QUAKERTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2010**

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the 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 an outside party. The Borough has no investments subject to custodial credit risk.

Foreign Currency Risk

As of December 31, 2010, the Borough had the following investments that were subject to foreign currency risk:

Name	Amount
<b>Common Stocks:</b>	
Freeport-McMoran Copper and Gold	\$ 45,034
Teva Pharmaceutical Industries ADR	66,726
Potash Corporation Saskatchewan	68,125
<b>Corporate Bonds:</b>	
Barklays Banl PCL 4.00% due 4/28/17	49,648
AstraZeneca PLC 5.90% due 9/15/17	57,902
<b>Mutual Funds:</b>	
American Funds Europacific Growth Fund	651,429
Vanguard FTSE All World ETF	644,116

Reconciliation to Financial Statements

Total Investments Above	\$ 11,364,676
Less: Deposits in Investment Pool Considered Cash Equivalents	(41,195)
Deposits in Money Market Mutual Funds Considered Cash Equivalents	(427,752)
<b>Total Investments Per Financial Statements</b>	<b>\$ 10,895,729</b>

**Note 6 - Receivables**

Receivables as of year end for the government's individual major funds and non-major and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are:

	GENERAL FUND	CAPITAL PROJECT FUNDS	NON- MAJOR FUNDS	ELECTRIC FUND	WATER FUND	SEWER FUND	POOL FUND	FIDUCIARY FUNDS	TOTAL
<b>RECEIVABLES:</b>									
Taxes	\$ 10,628	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,628
Accounts	72,797	-	-	2,410,270	341,481	202,519	-	411	3,027,478
Intergovernmental	-	-	-	-	-	-	-	-	-
<b>GROSS RECEIVABLES</b>	<b>83,425</b>	<b>-</b>	<b>-</b>	<b>2,410,270</b>	<b>341,481</b>	<b>202,519</b>	<b>-</b>	<b>411</b>	<b>3,038,106</b>
Less: Allowance for Uncollectibles	-	-	-	120,514	17,074	10,125	-	-	147,713
<b>NET RECEIVABLES</b>	<b>\$ 83,425</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,289,756</b>	<b>\$ 324,407</b>	<b>\$ 192,394</b>	<b>\$ -</b>	<b>\$ 411</b>	<b>\$ 2,890,393</b>

**THE BOROUGH OF QUAKERTOWN**  
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**Note 7 – Capital Assets**

Capital asset balances and activity for the year ending December 31, 2010, were:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
<b>GOVERNMENTAL ACTIVITIES:</b>				
Capital Assets not being depreciated:				
Land	\$ 1,851,952	\$ -	\$ -	\$ 1,851,952
Construction in Progress	-	-	-	-
Infrastructure	16,045,900	-	-	16,045,900
<b>Total Capital Assets not being depreciated</b>	<b>17,897,852</b>	<b>-</b>	<b>-</b>	<b>17,897,852</b>
Capital Assets being depreciated:				
Buildings	2,226,264	33,021	-	2,259,285
Improvements Other than Buildings	819,500	24,260	-	843,760
Machinery and Equipment	1,752,223	171,539	-	1,923,762
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED</b>	<b>4,797,987</b>	<b>228,820</b>	<b>-</b>	<b>5,026,807</b>
Less Accumulated Depreciation for:				
Buildings	(884,495)	(37,087)	-	(921,582)
Improvements Other than Buildings	(434,851)	(33,814)	-	(468,665)
Machinery and Equipment	(899,646)	(104,039)	-	(1,003,685)
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>(2,218,992)</b>	<b>(174,940)</b>	<b>-</b>	<b>(2,393,932)</b>
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED     NET OF ACCUMULATED DEPRECIATION</b>	<b>2,578,995</b>	<b>53,880</b>	<b>-</b>	<b>2,632,875</b>
<b>GOVERNMENTAL ACTIVITIES CAPITAL ASSETS,     NET OF ACCUMULATED DEPRECIATION</b>	<b>\$ 20,476,847</b>	<b>\$ 53,880</b>	<b>\$ -</b>	<b>\$ 20,530,727</b>
<b>BUSINESS-TYPE ACTIVITIES:</b>				
Capital Assets being depreciated:				
Buildings	25,499,543	-	-	25,499,543
Improvements Other than Buildings	2,301,000	-	-	2,301,000
Machinery and Equipment	1,544,179	220,496	-	1,764,675
Sewer Lines Infrastructure	6,247,708	-	-	6,247,708
Water Lines Infrastructure	8,744,099	-	-	8,744,099
Less Accumulated Depreciation	(15,009,619)	(854,206)	-	(15,863,825)
<b>BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS,     NET OF ACCUMULATED DEPRECIATION</b>	<b>\$ 29,326,910</b>	<b>\$ (633,710)</b>	<b>\$ -</b>	<b>\$ 28,693,200</b>

The Borough did not dispose of any capital assets during the year. The depreciation was charged to the governmental activities as follows:

Depreciation – Unallocated                      **\$ 174,940**

**THE BOROUGH OF QUAKERTOWN**  
**Notes To Financial Statements**  
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**Note 8 – Short-Term Debt**

*Interfund Receivables and Payables*

The following Interfund receivable and payables were in existence as of December 31, 2010.

	INTERFUND RECEIVABLES	INTERFUND PAYABLES
Enterprise (Water) Fund	\$ 1,186,663	\$ -
Capital Projects (Water Capital) Fund	-	1,186,663
<b>TOTAL</b>	<b>\$ 1,186,663</b>	<b>\$ 1,186,663</b>

*Interfund Transfers*

The Borough also made the following interfund transfers during the year ended December 31, 2010.

	TRANSFER IN	TRANSFER OUT
General Fund	\$ 3,770,000	\$ 129,019
Special Revenue (Liquid Fuels) Fund	331	-
Enterprise (Electric) Fund	-	3,871,500
Enterprise (Water) Fund	-	185,000
Enterprise (Sewer) Fund	-	185,000
Enterprise (Pool) Fund	400,000	-
Special Revenue (Fire Company Capital) Fund	71,500	-
Capital Projects (Equipment Replacement) Fund	128,688	-
<b>TOTAL</b>	<b>\$ 4,370,519</b>	<b>\$ 4,370,519</b>

**Note 9 – Long-Term Debt Commitment**

Long-Term Liability balances and activity for the year ended December 31, 2010, were:

	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	AMOUNTS DUE WITHIN ONE YEAR
<b><u>GOVERNMENTAL ACTIVITIES</u></b>					
Notes Payable					
Capital Projects	\$ 1,284,963	\$ -	\$ 194,890	\$ 1,090,073	\$ 207,195
Compensated Absences	1,024,584	-	38,410	986,174	164,362
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>					
<b>LONG-TERM LIABILITIES</b>	<b>\$ 2,309,547</b>	<b>\$ -</b>	<b>\$ 233,300</b>	<b>\$ 2,076,247</b>	<b>\$ 371,557</b>
<b><u>BUSINESS-TYPE ACTIVITIES</u></b>					
Guaranteed Revenue Notes Payable					
Capital Projects	10,181,406	-	687,712	9,493,694	711,303
Compensated Absences	442,102	-	41,328	400,774	-
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>					
<b>LONG-TERM LIABILITIES</b>	<b>\$ 10,623,508</b>	<b>\$ -</b>	<b>\$ 729,040</b>	<b>\$ 9,894,468</b>	<b>\$ 711,303</b>

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Payments on bonds and notes are made by the Water Improvement Fund, Pool Fund, Sewer Fund and Water Fund.

Total interest paid during the year:

<b><u>GOVERNMENTAL ACTIVITIES</u></b>	<b><u>PAID</u></b>
General Obligation Debt	\$ 42,443
<b>TOTAL INTEREST PAID BY GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 42,443</u></b>
<b><u>BUSINESS-TYPE ACTIVITIES</u></b>	
Guaranteed Revenue Notes	\$ 235,492
General Obligation Note	38,261
<b>TOTAL INTEREST PAID BY BUSINESS-TYPE ACTIVITIES</b>	<b><u>\$ 273,753</u></b>

The total interest cost incurred and charged to expense in 2010 was \$316,196.

*General Obligation Promissory Note - Series 2003 – Pool Fund*

On December 15, 2003, the Borough obtained \$2,900,000 of financing from TD Bank. The debt is payable in 40 quarterly installments beginning March 1, 2004 of \$85,137 (principal and interest) at an interest rate of 3.28%. During the current year, additional principal was paid by the Borough, which is reflected in their future debt service obligations. The debt matures December 1, 2013. The future debt service obligations are:

<b>FISCAL YEAR</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>
2011	\$ 315,251	\$ 25,297
2012	323,021	17,527
2013	330,198	6,772
<b>TOTAL OUTSTANDING</b>	<b><u>\$ 968,470</u></b>	<b><u>\$ 49,596</u></b>

*Pennvest - Guaranteed Revenue Note - Water Fund*

On May 26, 2004, the Borough issued a \$5,974,300 guaranteed revenue note purchased by QNB. The purpose of this note is for the replacement of its aging water lines beginning in the year 2004. The effective interest rate is 2.696% for the first one hundred five (105) months and 3.429% for the remaining one hundred eighty (180) months. The future debt service obligations are:

<b>FISCAL YEAR</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>
2011	\$ 246,640	\$ 140,139
2012	253,372	133,407
2013	248,459	155,171
2014	254,544	152,456
2015	263,411	143,589
2016 to 2020	1,461,251	573,750
2021 to 2025	1,734,117	300,884
2026 to 2028	846,381	33,128
<b>TOTAL OUTSTANDING</b>	<b><u>\$ 5,308,175</u></b>	<b><u>\$ 1,632,524</u></b>

**THE BOROUGH OF QUAKERTOWN**  
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*Pennvest - Guaranteed Revenue Note - Sewer Fund*

On May 26, 2004, the Borough issued a \$3,712,608 guaranteed revenue note purchased by QNB. The purpose of this Note is for the replacement of its aging sewer lines beginning in the year 2004. The effective interest rate is 2.696% for the first one hundred five (105) months and 3.429% for the remaining one hundred eighty (180) months. The Borough subsequently requested that the principal amount of the Note be reduced from \$3,712,608 to \$3,632,743, which represents the actual amount drawn on the Note by the Borough since 2004. The future debt service obligations are:

FISCAL YEAR	PRINCIPAL	INTEREST
2011	\$ 149,412	\$ 84,895
2012	153,491	80,816
2013	150,514	94,001
2014	154,200	92,357
2015	159,572	86,985
2016 to 2020	885,212	347,572
2021 to 2025	1,050,511	182,273
2026 to 2028	514,137	20,069
<b>TOTAL OUTSTANDING</b>	<b>\$ 3,217,049</b>	<b>\$ 988,968</b>

*General Obligation Note – Series of 2005*

On November 16, 2005, the Borough issued a \$2,000,000 general obligation note purchased by Wachovia Bank. The purpose of this Note is for certain capital projects of the Borough including construction of a filter plant and replacement of a water system telemetry panel. The effective interest rate is 3.450% for ten (10) years with a quarterly payment of \$59,333.

The future debt service obligations are:

FISCAL YEAR	PRINCIPAL	INTEREST
2011	\$ 207,195	\$ 30,138
2012	209,494	27,839
2013	216,895	20,438
2014	224,475	12,858
2015	232,014	5,010
<b>TOTAL OUTSTANDING</b>	<b>\$ 1,090,073</b>	<b>\$ 96,283</b>

**Compensated Absences**

*Vacation, Sick and Personal Days*

Under the Borough's various agreements and plans, professional and eligible support personnel accumulate unused vacation days and sick days from year to year based on their classification. These accumulated vacation and sick days are non-vesting during the employee's tenure. An estimate based upon an ADP Benefit Accrual Report valuing these accumulated vacation and sick days has been recorded in these financial statements.

**THE BOROUGH OF QUAKERTOWN**  
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**Year Ended December 31, 2010**

*Combined Long-Term Debt*

The combined general long-term debt obligations for subsequent years are:

<u>FISCAL YEAR</u>	<u>PRINCIPAL REQUIREMENTS</u>				<u>TOTAL PAYMENTS</u>
	<u>G.O.N. SERIES 2003</u>	<u>REVENUE NOTE WATER FUND</u>	<u>REVENUE NOTE SEWER FUND</u>	<u>G.O.N. SERIES 2005</u>	
2011	\$ 315,251	\$ 246,640	\$ 149,412	\$ 207,195	\$ 918,498
2012	323,021	253,372	153,491	209,494	939,378
2013	330,198	248,459	150,514	216,895	946,066
2014	-	254,544	154,200	224,475	633,219
2015	-	263,411	159,572	232,014	654,997
2016-2020	-	1,461,251	885,212	-	2,346,463
2021-2025	-	1,734,117	1,050,511	-	2,784,628
2026-2028	-	846,381	514,137	-	1,360,518
<b>TOTAL</b>	<b>968,470</b>	<b>5,308,175</b>	<b>3,217,049</b>	<b>1,090,073</b>	<b>10,583,767</b>
LESS PAYABLE WITHIN ONE YEAR	315,251	246,640	149,412	207,195	918,498
<b>LONG-TERM PRINCIPAL DUE AFTER ONE YEAR</b>	<b>\$ 653,219</b>	<b>\$ 5,061,535</b>	<b>\$ 3,067,637</b>	<b>\$ 882,878</b>	<b>\$ 9,665,269</b>

<u>FISCAL YEAR</u>	<u>PRINCIPAL AND INTEREST REQUIREMENTS</u>				<u>TOTAL PAYMENTS</u>
	<u>G.O.N. SERIES 2003</u>	<u>REVENUE NOTE WATER FUND</u>	<u>REVENUE NOTE SEWER FUND</u>	<u>G.O.N. SERIES 2005</u>	
2011	\$ 340,548	\$ 386,779	\$ 234,307	\$ 237,333	\$ 1,198,967
2012	340,548	386,779	234,307	237,333	1,198,967
2013	336,970	403,630	244,515	237,333	1,222,448
2014	-	407,000	246,557	237,333	890,890
2015	-	407,000	246,557	237,024	890,581
2016-2020	-	2,035,001	1,232,784	-	3,267,785
2021-2025	-	2,035,001	1,232,784	-	3,267,785
2026-2028	-	879,509	534,206	-	1,413,715
<b>TOTAL</b>	<b>\$ 1,018,066</b>	<b>\$ 6,940,699</b>	<b>\$ 4,206,017</b>	<b>\$ 1,186,356</b>	<b>\$ 13,351,138</b>

**THE BOROUGH OF QUAKERTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2010**

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**Note 10 - Pension Plan Obligations**

The Borough maintains two pension plans, the Non-Uniformed Pension Plan and the Police Pension Plan. The Non-Uniformed Pension Plan covers substantially all full-time and permanently part-time non-police employees of the Borough and the Police Pension Plan covers the full-time police employees. The plans are single-employer defined benefit pension plans. The financial statements of the plans are part of the Borough's annual financial report which can be obtained from the Borough at 35 North Third St., Quakertown, PA 18951. The authority, under which the benefit provisions have been established or may be amended, remains with the Council of the Borough of Quakertown.

Non-Uniformed Pension Plan

Plan Description

The Borough of Quakertown Non-Uniformed Pension Plan is a single-employer defined benefit pension plan controlled by the provisions of Ordinance 1006. Act 205, the Municipal Pension Plan Funding Standard and Recovery Act, provides the authority for the Borough to establish and amend the plan.

All full-time non-police employees who were hired prior to 2008 are eligible to participate in the plan. The plan provides vesting, normal and early retirement, and survivor benefits to plan members and their beneficiaries. Cost of living allowances are provided at the discretion of the Borough.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting

The financial statements of the plans are prepared on the accrual basis of accounting. Employer contributions to the plan are recognized when received. Benefits and expenses are recognized when paid in accordance with the terms of the plan.

Method Used to Value Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities and mutual funds reported on a national exchange are valued at the last reported sales price at the end of the year.

Funding Policy

Act 205, of the Commonwealth of Pennsylvania, requires that the annual contributions be based on the plans' annual minimum municipal obligation (MMO). The MMO is based on the plans' biennial actuarial valuations, which were performed as of January 1, 2007. In accordance with the Borough's resolution; non-managerial personnel are required to contribute 1% of their compensation to the plan.

The Plans may also be eligible to receive an allocation of state aid from the General Municipal Pension System Aid Program, which must be used for pension funding. Any funding requirements established by the MMO in excess of aid must be paid by the municipality in accordance with Act 205.



**THE BOROUGH OF QUAKERTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2010**

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*Plan Membership*

Plan membership of the plan consisted of the following at December 31, 2010:

Active plan members	45
Retirees and beneficiaries currently receiving benefits	24
Terminated plan members entitled to benefits but not yet receiving them	26
<b>TOTAL</b>	<b>95</b>

*Annual Pension Cost and Net Pension Obligation*

The Borough's annual pension cost and net pension obligation for the year are:

Annual Pension Cost per MMO	\$	269,428
Contributions Made		269,428

*Three-Year Trend Information*

<b>THREE YEAR TREND INFORMATION</b>			
<b>Year Ending</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension</b>
12/31/2008	\$ 274,564	100.0%	\$ -
12/31/2009	274,607	100.0%	-
12/31/2010	269,428	100.0%	-

The annual contribution for the current year was determined as part of the January 1, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at January 1, 2007 included (a) 7.5% rate of return, (b) projected salary increases of 5.0% and (c) cost-of-living increases of 2.0%. The assumptions did not include post-retirement benefits. The actuarial value of the plan's assets was determined using market values as determined by the Administrator, using the 4 year smoothing method. The unfunded accrued liability (AAL) is being amortized on the level dollar method on a closed basis over 15 or 30 years. The remaining amortization periods at December 31, 2010, were 3-22 years.

*Funded Status and Funding Progress*

As of January 1, 2009, the most recent actuarial valuation date, the plan was 77.4% funded. The actuarial accrued liability for benefits was \$7,403,418 and the actuarial value of the assets was \$5,732,547, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,670,871. The covered payroll (annual payroll of active employees covered by the plan) was \$2,407,792 and the ratio of the UAAL to the covered payroll was 69.4%.

As a result of being 77.4% funded the plan is considered to be at the minimal distress level. As a result, the Borough has had to implement a plan for administrative improvements fund effective in 2011. (See administrative improvement plan note).

**THE BOROUGH OF QUAKERTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2010**

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The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial valuation of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Police Pension Plan

Plan Description

The Borough of Quakertown Police Pension Plan is a single-employer defined benefit pension plan controlled by the provisions of Section 2 of the code of Ordinances, Act 600. The Police Pension Act is the authority for the Borough to establish and amend the plan.

All full-time police employees are eligible to participate in the plan. The plan provides vesting, normal and early retirement, and survivor benefits to plan members and their beneficiaries. Cost-of-living allowances are provided at the discretion of the Borough.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting

The financial statements of the plan are prepared accrual basis of accounting. Employer contributions to the plan are recognized when received. Benefits and expenses are recognized when paid in accordance with the terms of the plan.

Method Used to Value Investments

Investments are reported at fair value. Short-term investments are reported as cost, which approximates fair value. Securities and mutual funds reported on a national exchange are valued at the last reported sales price at the end of the year.

Funding Policy

Act 205, of the Commonwealth of Pennsylvania, requires that the annual contributions be based on the plans' annual minimum municipal obligation (MMO). The MMO is based on the plans' biennial actuarial valuations, which were performed as of January 1, 2007. In accordance with the plan's governing resolution, members are not required to contribute any of their compensation to the plan.

The Plans may also be eligible to receive an allocation of state aid from the General Municipal Pension System Aid Program which must be used for pension funding. Any funding requirements established by the MMO in excess of aid must be paid by the municipality in accordance with Act 205.

Plan Membership

Plan membership of the plan consisted of the following at December 31, 2010:

Active plan members	17
Retirees and beneficiaries currently receiving benefits	8
Terminated plan members entitled to benefits but not yet receiving them	<u>2</u>
<b>TOTAL</b>	<b><u><u>27</u></u></b>

**THE BOROUGH OF QUAKERTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2010**

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Annual Pension Cost and Net Pension Obligation

The Borough's annual pension cost and net pension obligation for the year are:

Annual Pension Costs	\$ 354,154
Contributions Made	354,154

*Three-Year Trend Information*

<b>THREE YEAR TREND INFORMATION</b>			
<b>Year Ending</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Net Pension</b>
12/31/2008	\$ 320,583	100.0%	\$ -
12/31/2009	349,600	100.0%	-
12/31/2010	354,154	100.0%	-

The annual contribution for the current year was determined as part of the January 1, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at January 1, 2007 included (a) 7.5% rate of return, (b) projected salary increases of 5.0% and (c) cost-of-living increases of 3.0%. The assumptions did not include post-retirement benefits. The actuarial value of the plan's assets was determined using market values as determined by the Administrator, using the 4 year smoothing method. The unfunded accrued liability (AAL) is being amortized on the level dollar method on a closed basis over 10-30 years. The remaining amortization periods at December 31, 2010, were 2-22 years.

Funded Status and Funding Progress

As of January 1, 2009, the most recent actuarial valuation date, the plan was 59.0% funded. The actuarial accrued liability for benefits was \$5,645,512 and the actuarial value of the assets was \$3,332,507, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,313,005. The covered payroll (annual payroll of active employees covered by the plan) was \$1,387,429 and the ratio of the UAAL to the covered payroll was 166.7%.

As a result of being 59% funded, the plan is considered to be at the moderate distress level. As a result the Borough has had to implement a plan for administrative improvement fund effective in 2011. (See Administrative Improvement Plan Note).

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial valuation of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

***Plan for Administrative Improvement Fund***

As a result of being classed as a moderately distressed municipality the Borough of Quakertown has approved the following plan for administrative improvement for the Borough's Pension Plan to be implemented as of January 1, 2011.

**THE BOROUGH OF QUAKERTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2010**

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*Data for Form AG-385*

In prior years, the Borough had made errors in the certification of pension plan data on Form AG-385, resulting in an underpayment of State aid.

The Borough has trained its employees in applicable Act 205 guidelines for the certification of eligible employees.

In addition, the Borough has been having its actuary review the form for accuracy and compliance with the applicable Act 205 guidelines.

This improvement will help to avoid underpayments and overpayments of State aid and therefore avoid lost interest on underpayments and the administrative costs of repaying overpayments with interest.

*Review of Actuarial Assumptions*

Salary increases among the uniformed and non-uniformed employees have decreased in recent years from 6-7% per year to 2-3% per year. We will review this with our actuary during the process of preparing the January 1, 2011 actuarial valuation to see if the 5.0% annual salary increase assumption is still valid going forward.

In addition, we will review our investment return assumption, in light of recent history; to make sure that we use a rate going forward that reflects expected future fund experience.

*Member Contributions*

Historically, the Borough has funded the pension plan contributions with State aid and Borough contributions.

Since 2010, members of the non-uniformed pension plan have been contributing 1% of their salary to the plan.

We plan to increase member contributions to both plans where possible, given our collective bargaining agreements.

*Investment Performance*

We will meet regularly with our investment advisors to ensure that our strategy has the best chance of maximizing our returns while paying the lowest possible expenses.

*Investment Trust Funds*

As a result of the Police Pension Fund being classified as moderately distressed, the Borough is required to aggregate their pension funds into a single investment trust fund which was done in early 2011.

***Deferred Retirement Option Plan***

On November 29, 2006, the Borough adopted the Deferred Retirement Option Plan (DROP) for the Borough's police officers. Police officers who have not retired prior to the implementation of the DROP plan may enter into DROP on the first day of any month following completion of twenty-five years of credited service and attaining the age of fifty.

**THE BOROUGH OF QUAKERTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2010**

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A police officer electing to participate in the DROP must complete and file with the Borough a DROP option form which shall evidence the member's participation in the DROP. The form must be submitted prior to the date on which the member wishes the DROP option to be effective. The DROP Option notice shall include an irrevocable notice to the Borough that the member shall resign from employment with the Borough Police Department effective on a specific date (the "Resignation Date"). In no event shall the Resignation date be shorter than twelve months or longer than sixty months from the execution of the DROP Option form. An officer shall cease to work as a police officer on the officer's Resignation Date, unless the Borough terminates or honorably discharges the officer prior to the Resignation Date.

After the effective date of the DROP Option, the police officer shall no longer earn or accrue additional years of continuous service for pension purposes.

The monthly benefit that would have been payable had the police officer elected to cease employment and receive a normal retirement benefit, shall be upon the police officer commencing participation in DROP, be paid into the separate account established to receive the participant's monthly pension payments. This account shall be designated the DROP account. An individual officer's DROP account shall be a self-directed investment vehicle with the officer having exclusive control over the investment of his or her DROP account monies.

After a police officer elects to participate in the DROP program, all other contractual benefits shall continue to accrue with the exception of those provisions relating to the Police Pension Plan and the buy back of accrued, but unused sick or vacation time. A police officer may utilize leave time during the DROP period, but the Borough shall not be required to buyback any such unused leave time at the end of the DROP period.

Upon the resignation date set forth in the police officer's DROP option notice or such date as the Borough separates the member from employment, the retirement benefits payable to the police officer's designated beneficiary, if applicable, shall be paid to the police officer or beneficiary and shall no longer be paid the police officer's deferred retirement option account. Within thirty days following termination of the police officer's employment pursuant to their participating in the DROP program, the balance in the police officer's DROP account shall be paid to the police officer in a single lump sum payment or at the police officer's option, in any manner permitted by the law.

If a police officer becomes temporarily incapacitated during this participation in DROP, that police officer shall continue to participate in the DROP program as if fully employed. The police officer shall receive disability pay in the same amount as a disabled police officer that is not participating in DROP. In no event shall a police officer on temporary disability have the ability to draw from his DROP account. However, notwithstanding any other provision in this paragraph, if a police officer is disabled and has not returned to work as of his required Resignation Date, then such resignation shall take precedence over all other provisions herein, and said officer shall be required to resign. If a police officer becomes permanently disabled during the DROP period, the officer shall be honorably discharged from employment, on the date that the police officer may obtain the contents of his DROP account, and thereafter, commence receiving his normal pension benefit.

If a DROP participant dies before the DROP account balances are paid, the participant member's designated beneficiary shall have the same rights as the police officer to withdraw the account balance. However, if a DROP participant dies during the DROP period and the Act 600 killed-in-service death benefit is payable to the deceased DROP participant, then the DROP election shall be revoked and the DROP account shall not be payable to any designated beneficiary of the deceased DROP participant. If death occurs during the DROP period but the Act 600 Killed-In-Service Death Benefit is not payable, the DROP participant's designated beneficiary shall be entitled to a lump sum payment of the DROP account balance and any applicable survivor benefit shall be paid by the fund.

**THE BOROUGH OF QUAKERTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2010**

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Notwithstanding a police officer's participation in the DROP plan, a police officer, who is convicted or pleads guilty to engaging in criminal misconduct, which constitutes a "Crime related to public office or public employment" as that phrase is defined in Pennsylvania's Pension Forfeiture Law and interpreted there under, forfeit his right to receive a pension, including any monies currently deposited in the DROP account. In such a case, the police officer shall only be entitled to receive the contributions, if any, by the police officer to the Fund, without interest.

***Non-Uniformed Pension Early Retirement Options***

The Borough enacted an early retirement incentive plan for non-uniformed employees. The plan provided that if an employee retires in January 2010 and is within 5 years of his normal retirement date, his monthly pension would be equal to 1.7% of average compensation for each year of service, including all service through their normal retirement date measured in years and completed months subject to a maximum of 25 years. This benefit is unreduced by the number of years that early retirement precedes normal retirement. Four employees retired under this early retirement option.

***401(a) Pension Plan***

All employees of the Borough hired after January 1, 2008, are ineligible for the Borough's Non-Uniformed Pension Plan. The Borough has started a new 401(a) plan known as the Borough of Quakertown Governmental Money Purchase Plan and Trust. The plan provides retirement benefits for the participants. This plan is in accordance with Internal Revenue Code Section 401(a). This plan provides for employer and employee contribution at the election of the Borough. For 2010, the Borough elected to only have employer contributions and contributed \$27,504 to the plan.

All contributions made to the plan, all property and rights purchased with those amounts, and all income attributable to such amounts, are solely the property of and rights of the participants. Participant's rights created under the plan are equivalent and in an amount equal to the market value of the participant's account maintained for each participant.

***Deferred Compensation Plan***

The Borough has adopted the Deferred Compensation Plan for voluntary participation of eligible municipal employees. The plan is in accordance with Internal Revenue Code Section 457 and permits the employees to defer a portion of their current salary until future years. The deferred amounts are not available to employees until termination, retirement, death or unforeseeable emergency.

All compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to such amounts, are solely the property and rights of the participants. Participants' rights created under the plan are equivalent and in an amount equal to the fair market value of the deferred account maintained with respect to each participant.

**Note 9 - Contingencies**

The Borough of Quakertown is currently involved in a litigation proceeding. The proceeding involves contractual litigation potentially totaling \$177,000. The Borough believes this matter is defensible and does not anticipate any loss from this litigation. Discovery is not yet complete. Upon completion of the same, a more reasonable evaluation can take place.

The Borough of Quakertown is currently involved in a litigation proceeding involving liability litigation potentially totaling \$500,000. The total potential amount does not exceed the Borough's insurance for matters of this type. The Borough's financial position will not be affected with an unfavorable outcome due to this insurance coverage and the Borough is vigorously defending this matter.

**THE BOROUGH OF QUAKERTOWN**  
**Notes To Financial Statements**  
**Year Ended December 31, 2010**

**Note 10 – Risk Management**

The Borough is subject to risk of loss from employee risks, property damage, personal injury, auto accidents, etc. The Borough lowers these risks through the purchase of commercial insurance. The Borough workers' compensation policy is a retrospectively rated policy. The final premium is based on actual payroll for the policy year and is determined by the insurance company. Any settlements received by the Borough or its employees did not exceed insurance coverage in the last three years.

**Note 11 – Prior Period Adjustment**

The Borough of Quakertown implemented modified/full accrual GASB-34 statements during the 2010 year. As a result, the beginning fund balances/net assets of the affected funds had to be restated on January 1, 2010, as follows:

FUND	ORIGINAL FUND BALANCES JAN. 1, 2010	GASB-34 BASIS OF ACCOUNTING CHANGE	RESTATED FUND BALANCES JAN. 1, 2010
General	\$ 60,371	\$ (214,374)	\$ (154,003)
Electric	2,403,623	6,588,258	8,991,881
Water	334,876	4,659,421	4,994,297
Sewer	1,835,430	7,764,196	9,599,626
Pool	31,643	765,944	797,587
Liquid Fuels	142,332	-	142,332
Fire Company Capital	8,579	-	8,579
Water Capital	1,753,099	(949,331)	803,768
Capital Projects	2,125,624	(10,126)	2,115,498
Equipment Replacement	148,537	-	148,537
Escrow	-	-	-
Police Health Reimbursement Arrangement Fund	-	-	-
Police Pension Trust	3,415,732	7,421	3,423,153
Non-Uniformed Pension Trust	5,420,904	20,374	5,441,278
<b>TOTALS</b>	<b>\$ 17,680,750</b>	<b>\$ 18,631,783</b>	<b>\$ 36,312,533</b>

NET ASSETS	ORIGINAL NET ASSETS JAN. 1, 2010	GASB-34 BASIS OF ACCOUNTING CHANGE	RESTATED FUND BALANCES JAN. 1, 2010
Governmental Activities	\$ 4,238,542	\$ 17,226,962	\$ 21,465,504
Business-Type Activities	4,605,572	19,777,819	24,383,391
<b>TOTALS</b>	<b>\$ 8,844,114</b>	<b>\$ 37,004,781</b>	<b>\$ 45,848,895</b>

**Note 12 – Subsequent Events**

The subsequent events have been evaluated through August 6, 2011, which is the date of the financial statements were available to be issued.



Borough Council  
Borough of Quakertown  
35 North Third Street  
Quakertown, PA 18951

**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**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Quakertown, as of and for the year ended December 31, 2010, which collectively comprise the Borough of Quakertown's basic financial statements and have issued our report thereon dated October 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control over Financial Reporting***

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect, and correct misstatements on a timely basis. A material weakness is a deficiency, or 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



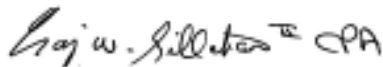
**Compliance and Other Matters**

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

We noted certain matters that we reported to management of Borough of Quakertown in a separate letter dated October 21, 2011.

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

Respectfully submitted,

Handwritten signature of Gregory W. Silliman, CPA. The signature is written in cursive and includes the letters "CPA" at the end.

October 21, 2011

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**REQUIRED SUPPLEMENTAL INFORMATION**

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**THE BOROUGH OF QUAKERTOWN**  
**Pension Funds**  
**Required Supplemental Information**  
**December 31, 2010**

**SCHEDULE OF FUNDING PROGRESS**

<b>ACTUARIAL VALUATION DATE</b>	<b>ACTUARIAL VALUATION OF ASSETS</b>	<b>ACTUARIAL ACCRUED LIABILITY ENTRY AGE PENSION</b>	<b>UNFUNDED AAL</b>	<b>FUNDED RATIO</b>	<b>COVERED PAYROLL</b>	<b>UAAL AS A % OF COVERED PAYROLL</b>
<b><u>NON-UNIFORMED PENSION PLAN</u></b>						
1/1/2005	\$ 4,342,242	\$ 6,131,389	\$ 1,789,147	70.82%	\$ 2,323,849	76.99%
1/1/2007	5,126,573	6,368,201	1,241,628	80.50%	2,375,605	52.27%
1/1/2009	5,732,547	7,403,418	1,670,871	77.43%	2,407,792	69.39%
<b><u>POLICE PENSION FUND</u></b>						
1/1/2005	\$ 2,525,257	\$ 3,929,023	\$ 1,403,766	64.27%	\$ 927,123	151.41%
1/1/2007	2,859,924	4,584,888	1,724,964	62.38%	1,121,934	153.75%
1/1/2009	3,332,507	5,645,512	2,313,005	59.03%	1,387,429	166.71%

**SCHEDULES OF EMPLOYER CONTRIBUTIONS**

<b><u>NON-UNIFORMED PENSION PLAN</u></b>				<b><u>POLICE PENSION PLAN</u></b>		
<b>YEAR ENDED DECEMBER 31</b>	<b>ANNUAL REQUIRED CONTRIBUTION</b>	<b>CONTRIBUTIONS FROM EMPLOYER</b>	<b>PERCENTAGE CONTRIBUTED</b>	<b>ANNUAL REQUIRED CONTRIBUTION</b>	<b>CONTRIBUTIONS FROM EMPLOYER</b>	<b>PERCENTAGE CONTRIBUTED</b>
2005	277,117	277,117	100.00%	149,186	149,186	100.00%
2006	287,837	287,837	100.00%	163,571	163,571	100.00%
2007	370,635	370,635	100.00%	246,697	246,697	100.00%
2008	274,564	274,564	100.00%	320,583	320,583	100.00%
2009	274,607	274,607	100.00%	349,600	349,600	100.00%
2010	269,428	269,428	100.00%	354,154	354,154	100.00%

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**OTHER SUPPLEMENTAL INFORMATION**

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**THE BOROUGH OF QUAKERTOWN**  
**Combining Balance Sheet**  
**All Non-Major Governmental Funds**  
**For the Year Ended December 31, 2010**

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	SPECIAL REVENUE		TOTAL NON-MAJOR GOVERNMENTAL FUNDS
	LIQUID FUELS FUND	FIRE COMPANY CAPITAL FUND	
<b><u>ASSETS</u></b>			
Cash and Cash Equivalents	\$ 36,360	\$ 258	\$ 36,618
<b>TOTAL ASSETS</b>	<b>\$ 36,360</b>	<b>\$ 258</b>	<b>\$ 36,618</b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>			
<b>FUND BALANCES:</b>			
Unreserved	\$ 36,360	\$ 258	\$ 36,618
<b>TOTAL FUND BALANCES</b>	<b>36,360</b>	<b>258</b>	<b>36,618</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 36,360</b>	<b>\$ 258</b>	<b>\$ 36,618</b>

**THE BOROUGH OF QUAKERTOWN**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**All Non-Major Governmental Funds**  
**For the Year Ended December 31, 2010**

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	<b>SPECIAL REVENUE</b>		<b>TOTAL NON-MAJOR GOVERNMENTAL FUNDS</b>
	<b>LIQUID FUELS FUND</b>	<b>FIRE COMPANY CAPITAL FUND</b>	
<b><u>REVENUES</u></b>			
Intergovernmental	\$ 160,551	\$ -	\$ 160,551
Investment Earnings	2,324	179	2,503
<b>TOTAL REVENUES</b>	162,875	179	163,054
<b><u>EXPENDITURES</u></b>			
Public Safety	-	80,000	80,000
Public Works	269,178	-	269,178
<b>TOTAL EXPENDITURES</b>	269,178	80,000	349,178
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	(106,303)	(79,821)	(186,124)
<b>OTHER FINANCING SOURCES</b>			
Transfers In/(Out)	331	71,500	71,831
<b>TOTAL OTHER FINANCING SOURCES</b>	331	71,500	71,831
<b>NET CHANGE IN FUND BALANCES</b>	(105,972)	(8,321)	(114,293)
<b>FUND BALANCES - BEGINNING</b>	142,332	8,579	150,911
<b>FUND BALANCES - ENDING</b>	\$ 36,360	\$ 258	\$ 36,618

**THE BOROUGH OF QUAKERTOWN**  
**Combining Balance Sheet**  
**All Capital Project Funds**  
**For the Year Ended December 31, 2010**

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	CAPITAL PROJECT FUNDS			TOTAL CAPITAL PROJECT FUNDS
	WATER CAPITAL FUND	CAPITAL PROJECTS FUND	EQUIPMENT REPLACEMENT FUND	
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 1,711,203	\$ 691,064	\$ 101,687	\$ 2,503,954
Investments	-	1,353,202	-	1,353,202
Due from Other Funds	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 1,711,203</b>	<b>\$ 2,044,266</b>	<b>\$ 101,687</b>	<b>\$ 3,857,156</b>
 <b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Due to Other Funds	\$ 1,186,663	\$ -	\$ -	\$ 1,186,663
Accounts Payable	-	1,556	-	1,556
<b>TOTAL LIABILITIES</b>	<b>1,186,663</b>	<b>1,556</b>	<b>-</b>	<b>1,188,219</b>
 <b>FUND BALANCES:</b>				
Restricted for Capital Projects	524,540	2,042,710	101,687	2,668,937
<b>TOTAL FUND BALANCES</b>	<b>524,540</b>	<b>2,042,710</b>	<b>101,687</b>	<b>2,668,937</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,711,203</b>	<b>\$ 2,044,266</b>	<b>\$ 101,687</b>	<b>\$ 3,857,156</b>

**THE BOROUGH OF QUAKERTOWN**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**All Capital Project Funds**  
**For the Year Ended December 31, 2010**

	CAPITAL PROJECT FUNDS			TOTAL CAPITAL PROJECT FUNDS
	WATER CAPITAL FUND	CAPITAL PROJECTS FUND	EQUIPMENT REPLACEMENT FUND	
<b>REVENUES</b>				
Food Bank Donation	\$ -	\$ 2,000	\$ -	\$ 2,000
Krupp Park Grant	-	-	-	-
Insurance Claim Refund	-	-	-	-
Miscellaneous	-	2,518	-	2,518
Investment Earnings	15,417	28,054	905	44,376
<b>TOTAL REVENUES</b>	<u>15,417</u>	<u>32,572</u>	<u>905</u>	<u>48,894</u>
	-----	-----	-----	-----
<b>EXPENDITURES</b>				
General Government	57,313	44,788	74,502	176,603
Public Safety	-	-	9,555	9,555
Public Works	-	-	102,187	102,187
Community Development	-	60,572	-	60,572
Debt Service	237,332	-	-	237,332
<b>TOTAL EXPENDITURES</b>	<u>294,645</u>	<u>105,360</u>	<u>186,244</u>	<u>586,249</u>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	<u>(279,228)</u>	<u>(72,788)</u>	<u>(185,339)</u>	<u>(537,355)</u>
<b>OTHER FINANCING SOURCES</b>				
Sale of Fixed Assets	-	-	9,801	9,801
Transfers In	-	-	128,688	128,688
Transfers Out	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>-</u>	<u>-</u>	<u>138,489</u>	<u>138,489</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>(279,228)</u>	<u>(72,788)</u>	<u>(46,850)</u>	<u>(398,866)</u>
<b>FUND BALANCES - BEGINNING (RESTATED)</b>	<u>803,768</u>	<u>2,115,498</u>	<u>148,537</u>	<u>3,067,803</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 524,540</u>	<u>\$ 2,042,710</u>	<u>\$ 101,687</u>	<u>\$ 2,668,937</u>



**THE BOROUGH OF QUAKERTOWN**  
**Combining Statement of Net Assets**  
**All Pension and Other Employee Trust Funds**  
**As of December 31, 2010**

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	<b>POLICE PENSION TRUST FUND</b>	<b>NON UNIFORMED PENSION TRUST FUND</b>	<b>TOTAL TRUST FUNDS</b>
<b><u>ASSETS</u></b>			
Cash and Cash Equivalents	\$ 167,159	\$ 260,615	\$ 427,774
Investments	3,746,265	5,796,262	9,542,527
Accrued Investment Income	10,913	15,907	26,820
Accounts Receivable	-	411	411
<b>TOTAL ASSETS</b>	<b>\$ 3,924,337</b>	<b>\$ 6,073,195</b>	<b>\$ 9,997,532</b>
 <b><u>LIABILITIES</u></b>			
Pension Fund Liability	\$ -	\$ -	\$ -
Due to Police Officers	-	-	-
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>-</b>
 <b><u>NET ASSETS</u></b>			
Restricted for Employee Benefits	3,924,337	6,073,195	9,997,532
<b>TOTAL NET ASSETS</b>	<b>\$ 3,924,337</b>	<b>\$ 6,073,195</b>	<b>\$ 9,997,532</b>

**THE BOROUGH OF QUAKERTOWN**  
**Combining Statement of Changes in Net Assets**  
**All Pension Trust Funds**  
**For the Year Ended December 31, 2010**

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	POLICE PENSION TRUST FUND	NON UNIFORMED PENSION TRUST FUND	TOTAL TRUST FUNDS
<b>ADDITIONS:</b>			
Contributions - Employer	\$ 237,700	\$ 117,390	\$ 355,090
Contributions - Employee	-	21,793	21,793
State Aid	116,454	152,037	268,491
Miscellaneous	290	431	721
<b>INVESTMENT EARNINGS:</b>			
Interest and Dividends	81,586	130,745	212,331
Change in Fair Value of Investments	284,624	470,056	754,680
<b>TOTAL ADDITIONS</b>	720,654	892,452	1,613,106
 <b>DEDUCTIONS:</b>			
Administrative Charges	7,736	7,097	14,833
Investment Expenses	12,023	19,173	31,196
Employee Benefits	199,711	234,265	433,976
<b>TOTAL DEDUCTIONS</b>	219,470	260,535	480,005
 <b>CHANGE IN NET ASSETS</b>	501,184	631,917	1,133,101
 <b>NET ASSETS - BEGINNING OF YEAR (RESTATED)</b>	3,423,153	5,441,278	8,864,431
 <b>NET ASSETS - END OF YEAR</b>	\$ 3,924,337	\$ 6,073,195	\$ 9,997,532

**THE BOROUGH OF QUAKERTOWN**  
**Combining Statement of Net Assets**  
**All Proprietary Funds**  
**As of December 31, 2010**

	<u>ELECTRIC FUND</u>	<u>MAJOR WATER FUND</u>	<u>SEWER FUND</u>	<u>NON-MAJOR POOL FUND</u>	<u>TOTAL</u>
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash and Cash Equivalents	\$ 2,682,481	\$ 151,537	\$ 2,029,417	\$ 80,973	\$ 4,944,408
Investments	-	-	-	-	-
Accounts Receivable (Net of Allowance for Doubtful Accounts)	2,289,756	324,407	192,394	-	2,806,557
Due from Other Funds	-	1,186,663	-	-	1,186,663
<b>TOTAL CURRENT ASSETS</b>	<u>4,972,237</u>	<u>1,662,607</u>	<u>2,221,811</u>	<u>80,973</u>	<u>8,937,628</u>
<b>NON-CURRENT ASSETS:</b>					
Buildings (Net of Depreciation)	6,449,811	2,488,805	6,135,085	711,698	15,785,399
Improvements other than Buildings (Net of Depreciation)	7,919	12,574	40,415	1,233,185	1,294,093
Machinery and Equipment (Net of Depreciation)	156,600	101,096	556,289	-	813,985
Sewer Lines Infrastructure (Net of Depreciation)	-	-	4,147,257	-	4,147,257
Water Lines Infrastructure (Net of Depreciation)	-	6,652,466	-	-	6,652,466
<b>TOTAL NON-CURRENT ASSETS</b>	<u>6,614,330</u>	<u>9,254,941</u>	<u>10,879,046</u>	<u>1,944,883</u>	<u>28,693,200</u>
<b>TOTAL ASSETS</b>	<u>\$ 11,586,567</u>	<u>\$ 10,917,548</u>	<u>\$ 13,100,857</u>	<u>\$ 2,025,856</u>	<u>\$ 37,630,828</u>
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES:</b>					
Sales Tax Payable	\$ 25,722	\$ -	\$ -	\$ -	\$ 25,722
Accounts Payable	882,110	16,652	7,215	-	905,977
Accrued Salaries and Benefits	10,110	9,011	11,820	-	30,941
Notes Payable	-	246,640	149,412	315,251	711,303
<b>TOTAL CURRENT LIABILITIES</b>	<u>917,942</u>	<u>272,303</u>	<u>168,447</u>	<u>315,251</u>	<u>1,673,943</u>
<b>NON-CURRENT LIABILITIES:</b>					
Compensated Absences	175,398	92,988	132,388	-	400,774
Notes Payable	-	5,061,535	3,067,637	653,219	8,782,391
<b>TOTAL NON-CURRENT LIABILITIES</b>	<u>175,398</u>	<u>5,154,523</u>	<u>3,200,025</u>	<u>653,219</u>	<u>9,183,165</u>
<b>TOTAL LIABILITIES</b>	<u>1,093,340</u>	<u>5,426,826</u>	<u>3,368,472</u>	<u>968,470</u>	<u>10,857,108</u>
<b>NET ASSETS</b>					
Invested in Capital Assets, Net of Related Debt	6,614,330	1,344,291	7,661,997	976,413	16,597,031
Restricted for Legal Purposes	-	-	-	-	-
Unrestricted Net Assets	3,878,897	4,146,431	2,070,388	80,973	10,176,689
<b>TOTAL NET ASSETS</b>	<u>10,493,227</u>	<u>5,490,722</u>	<u>9,732,385</u>	<u>1,057,386</u>	<u>26,773,720</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 11,586,567</u>	<u>\$ 10,917,548</u>	<u>\$ 13,100,857</u>	<u>\$ 2,025,856</u>	<u>\$ 37,630,828</u>

**THE BOROUGH OF QUAKERTOWN**  
**Combining Statement of Revenues, Expenses and Changes in Net Assets**  
**All Proprietary Funds**  
**For the Year Ended December 31, 2010**

	MAJOR			NON-MAJOR	TOTAL
	ELECTRIC FUND	WATER FUND	SEWER FUND	POOL FUND	
<b><u>OPERATING REVENUES</u></b>					
Charges for Services	\$ 15,400,165	\$ 1,316,052	\$ 2,401,705	\$ 183,325	\$ 19,301,247
Debt Service Fees	-	737,923	-	-	737,923
Permits and Fees	77,274	11,400	-	-	88,674
Penalties	140,471	19,671	12,685	-	172,827
Rental Income	-	24,289	-	-	24,289
Other Income	2,378	5,263	911	326	8,878
<b>TOTAL OPERATING REVENUES</b>	<b>15,620,288</b>	<b>2,114,598</b>	<b>2,415,301</b>	<b>183,651</b>	<b>20,333,838</b>
<b><u>OPERATING EXPENSES</u></b>					
Costs of Furnishing Utility	9,834,166	825,935	1,380,756	-	12,040,857
Costs of Pool Operations	-	-	-	168,125	168,125
Employee Benefits	161,796	149,405	171,565	9,093	491,859
Employee Pension	54,106	42,464	60,667	-	157,237
Insurance	66,473	64,840	91,760	17,808	240,881
Debt Service	-	146,627	88,864	38,261	273,752
Depreciation	180,011	228,935	353,442	91,818	854,206
<b>TOTAL OPERATING EXPENSES</b>	<b>10,296,552</b>	<b>1,458,206</b>	<b>2,147,054</b>	<b>325,105</b>	<b>14,226,917</b>
<b>OPERATING INCOME (LOSS)</b>	<b>5,323,736</b>	<b>656,392</b>	<b>268,247</b>	<b>(141,454)</b>	<b>6,106,921</b>
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>					
Interest Earned	18,232	799	15,302	1,253	35,586
Gain (Loss) on Sale of Fixed Assets	-	-	-	-	-
State Aid - Pension	30,878	24,234	34,210	-	89,322
Transfers from Other Funds	-	-	-	400,000	400,000
Transfers to Other Funds	(3,871,500)	(185,000)	(185,000)	-	(4,241,500)
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>(3,822,390)</b>	<b>(159,967)</b>	<b>(135,488)</b>	<b>401,253</b>	<b>(3,716,592)</b>
<b>CHANGES IN NET ASSETS</b>	<b>1,501,346</b>	<b>496,425</b>	<b>132,759</b>	<b>259,799</b>	<b>2,390,329</b>
<b>NET ASSETS, JANUARY 1, 2010 (RESTATED)</b>	<b>8,991,881</b>	<b>4,994,297</b>	<b>9,599,626</b>	<b>797,587</b>	<b>24,383,391</b>
<b>NET ASSETS, DECEMBER 31, 2010</b>	<b>\$ 10,493,227</b>	<b>\$ 5,490,722</b>	<b>\$ 9,732,385</b>	<b>\$ 1,057,386</b>	<b>\$ 26,773,720</b>

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**INDIVIDUAL FUND STATEMENTS  
AND SCHEDULES**

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**THE BOROUGH OF QUAKERTOWN**  
**General Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**For the Year Ended December 31, 2010**

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**REVENUES**

**TAXES:**

Real Estate Taxes - Current	\$ 125,135	
Real Estate Taxes - Interims	-	
Real Estate Taxes - Prior	3,276	
Real Estate Transfer Tax	95,385	
Earned Income Tax	773,957	
Local Services Tax	<u>211,807</u>	\$ 1,209,560

**FINES AND FORFEITS:**

Motor Vehicle Violations	110,075	
Fines	6,595	
Parking Tickets	<u>2,071</u>	118,741

**LICENSES AND PERMITS:**

Franchise Fee Cable	138,990	
Permits/Reports	<u>1,580</u>	140,570

**INTERGOVERNMENTAL:**

Public Utility Realty Tax	1,840	
In Lieu of Taxes	15,000	
Beverage Licenses	1,650	
Pension State Aid	179,170	
Allotment - Fireman's Relief	71,753	
Local Government Units	3,035	
Federal Grants	26,077	
State Grants	<u>124,825</u>	423,350

**CHARGES FOR SERVICES:**

General Government	146,565	
Public Safety	219,043	
Parking Meters	13,207	
Sale of Trash Bags	33	
Health	225	
Culture and Recreation	<u>37,607</u>	416,680

**INVESTMENT AND RENTAL EARNINGS:**

Interest Income	1,394	
Rentals	<u>3,525</u>	4,919

**MISCELLANEOUS:**

Contributions and Donations	12,965	
Overtime Reimbursement	2,308	
Insurance Claim Refund	4,589	
Sale of Fixed Assets	1,485	
Other	<u>18,436</u>	39,783

<b>TOTAL REVENUES</b>		<b>\$ 2,353,603</b>
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**THE BOROUGH OF QUAKERTOWN**  
**General Fund (Cont'd)**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**For the Year Ended December 31, 2010**

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**EXPENDITURES**

**GENERAL GOVERNMENT**

**LEGAL:**

Solicitor	\$	58,762
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**MAYOR, LEGISLATIVE, BOROUGH MANAGER:**

Salary		184,262
Materials and Supplies		2,834
Contracted Services		4,650
Association Dues and Conventions		9,955
Advertising, Printing and Postage		16,052
Gasoline		778
Telephone		13,092
Insurance		25,494
Small Tools and Equipment		4,378

**FINANCE AND ACCOUNTING:**

Salary		200,800
Auditing		34,345
Office Supplies		966
Bonding		1,271
Association Dues and Conventions		2,860
Contracted Services		20,559

**TAX COLLECTION:**

Salary		6,000
Contracted Services		1,890

**IT-NETWORKING SERVICES-DATA PROCESSING:**

Computer Hardware and Software		3,845
Computer Parts and Supplies		215
Internet Service		1,595
Contracted IT Services		36,752
Web Design and Maintenance		6,857

**ENGINEERING:**

Engineering Fees		49,779
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**BUILDINGS AND PLANT:**

Building Supplies		4,966
Cleaning Supplies		11,618
Repairs and Maintenance		54,365
Contracted Services		5,154

**TOTAL GENERAL GOVERNMENT**

	\$	764,094
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**THE BOROUGH OF QUAKERTOWN**  
**General Fund (Cont'd)**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**For the Year Ended December 31, 2010**

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**PUBLIC SAFETY**

**POLICE:**

Salaries and Benefits	\$ 1,527,810
Office Supplies	5,585
Postage	1,354
Fuel and Oil	35,569
Uniforms	38,076
K9	6,919
Vice	480
Ammunition	6,545
National Night Out	3,425
Vehicle Maintenance and Repair	14,002
Small Tools and Equipment	12,611
Telephone	22,275
Towing	17,591
Advertising and Printing	650
Police Professional Liability Insurance	17,849
Asset Forfeiture	11,814
Association Dues and Conventions	34,041
Contracted Services	20,550
Capital Purchases	22,450

**FIRE:**

Contribution to Fire Co.	65,000
Fireman's Relief	71,754
Fire Marshal	46,342
Insurance	42,191
Gasoline	61,217
Fire Truck Repairs	3,545
Small Tools and Equipment	1,429

**INSPECTIONS:**

Zoning and Administration	61,548
Salary of Clerical	31,313
Office Supplies	4,265
Fuel and Oil	1,727
Uniforms	205
Vehicle Maintenance and Repair	327
Small Tools and Equipment	1,107
Advertising and Printing	3,016
Association Dues and Conventions	3,058
Contracted Services	5,245

**TOTAL PUBLIC SAFETY** \$ 2,202,885



**THE BOROUGH OF QUAKERTOWN**  
**General Fund (Cont'd)**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**For the Year Ended December 31, 2010**

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**PUBLIC WORKS**

<b>SOLID WASTE AND COLLECTION:</b>		\$	8,132	
<b>STREET MAINTENANCE AND LIGHTING:</b>				
Salaries - Highways and Streets			615,042	
Office Supplies			1,130	
Fuel and Oil			27,984	
Uniforms			1,776	
Street and Traffic Signs			19,260	
Road Materials			31,181	
Vehicle Maintenance and Repairs			60,212	
Small Tools and Equipment			20,629	
Telephone			8,407	
Association Dues and Conventions			1,564	
CDL Drug and Alcohol Testing			212	
Capital Purchases			56,436	
Snow Removal Materials			46,762	
			46,762	
<b>TOTAL PUBLIC WORKS</b>		<b>\$</b>		<b>898,727</b>

**CULTURE AND RECREATION**

<b>PARKS AND POOL:</b>				
Salary			40,110	
Supplies			15,863	
Discount Tickets			20,649	
QSAA			1,766	
Vehicle Maintenance and Repairs			3,852	
Small Tools and Equipment			12,798	
Summer Concert Series			6,361	
Kids Program			1,610	
Advertising and Printing			286	
Contracted Services			109,102	
Field Improvements			3,410	
Capital Maintenance			53,871	
			53,871	
<b>TOTAL CULTURE AND RECREATION</b>				<b>269,678</b>

**COMMUNITY DEVELOPMENT**

Quakertown Alive			19,162	
Contracted Services			56,715	
			56,715	
<b>TOTAL COMMUNITY DEVELOPMENT</b>				<b>75,877</b>

**THE BOROUGH OF QUAKERTOWN**  
**General Fund (Cont'd)**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**For the Year Ended December 31, 2010**

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***EMPLOYER BENEFITS AND WITHHOLDING ITEMS***

Police Pension	\$	355,137	
Non-Uniformed Pension		125,162	
Employee Benefits		<u>901,642</u>	

***TOTAL EMPLOYER BENEFITS AND WITHHOLDING ITEMS*** \$ 1,381,941

***INSURANCE***

Insurance, Casualty, and Surety	142,917
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***UNCLASSIFIED EXPENDITURES*** 4,019

**TOTAL EXPENDITURES** 5,740,138

**DEFICIENCY OF REVENUES OVER EXPENDITURES** (3,386,535)

**OTHER FINANCING SOURCES AND  
OTHER FINANCING USES**

Interfund Transfers In	3,770,000	
Interfund Transfers Out	<u>(129,019)</u>	<u>3,640,981</u>

**NET CHANGE IN FUND BALANCES** 254,446

**FUND BALANCE - JANUARY 1, 2010 (RESTATED)** (154,003)

**FUND BALANCE - DECEMBER 31, 2010** \$ 100,443

**THE BOROUGH OF QUAKERTOWN**  
**Electric Fund**  
**Statement of Revenues, Expenditures, and Changes in Net Assets**  
**For the Year Ended December 31, 2010**

	<b>BUDGET</b>	<b>ACTUAL</b>
<b><u>OPERATING REVENUES</u></b>		
Charges for Services	\$ 14,840,000	\$ 15,400,165
Permits and Fees	42,000	77,274
Penalties	-	140,471
Other Income	2,000	2,378
<b>TOTAL OPERATING REVENUES</b>	<b>14,884,000</b>	<b>15,620,288</b>
<b><u>OPERATING EXPENSES</u></b>		
Costs of Furnishing Utility	10,465,875	9,834,166
Employee Benefits	191,300	161,796
Employee Pension	32,500	54,106
Insurance	68,100	66,473
Depreciation	-	180,011
<b>TOTAL OPERATING EXPENSES</b>	<b>10,757,775</b>	<b>10,296,552</b>
<b>OPERATING INCOME</b>	<b>4,126,225</b>	<b>5,323,736</b>
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>		
Interest Earned	60,000	18,232
Gain (Loss) on Sale of Fixed Assets	5,000	-
State Aid - Pension	-	30,878
Transfers to Other Funds	(3,870,000)	(3,871,500)
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>(3,805,000)</b>	<b>(3,822,390)</b>
<b>CHANGES IN NET ASSETS</b>	<b>321,225</b>	<b>1,501,346</b>
<b>NET ASSETS, JANUARY 1, 2010 (RESTATED)</b>	<b>(321,225)</b>	<b>8,991,881</b>
<b>NET ASSETS, DECEMBER 31, 2010</b>	<b>\$ -</b>	<b>\$ 10,493,227</b>

**THE BOROUGH OF QUAKERTOWN**  
**Water Fund**  
**Statement of Revenues, Expenditures, and Changes in Net Assets**  
**For the Year Ended December 31, 2010**

	<b>BUDGET</b>	<b>ACTUAL</b>
<b><u>OPERATING REVENUES</u></b>		
Charges for Services	\$ 1,300,000	\$ 1,316,052
Penalties	-	19,671
Debt Service Fee	778,000	737,923
Other Fees	9,900	11,400
Rental Income	22,300	24,289
Other Income	21,000	5,263
<b>TOTAL OPERATING REVENUES</b>	<b>2,131,200</b>	<b>2,114,598</b>
 <b><u>OPERATING EXPENSES</u></b>		
Costs of Furnishing Utility	1,056,825	825,935
Employee Benefits	149,000	149,405
Employee Pension	20,000	42,464
Insurance	55,450	64,840
Debt Service	777,997	146,627
Depreciation	-	228,935
<b>TOTAL OPERATING EXPENSES</b>	<b>2,059,272</b>	<b>1,458,206</b>
 <b>OPERATING INCOME</b>	 <b>71,928</b>	 <b>656,392</b>
 <b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>		
Interest Earned	20,000	799
State Aid - Pension	-	24,234
Gain (Loss) on Sale of Fixed Assets	1,000	-
Transfers to Other Funds	(220,000)	(185,000)
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>(199,000)</b>	<b>(159,967)</b>
 <b>CHANGES IN NET ASSETS</b>	 <b>(127,072)</b>	 <b>496,425</b>
 <b>NET ASSETS, JANUARY 1, 2010 (RESTATED)</b>	 <b>127,072</b>	 <b>4,994,297</b>
 <b>NET ASSETS, DECEMBER 31, 2010</b>	 <b>\$ -</b>	 <b>\$ 5,490,722</b>

**THE BOROUGH OF QUAKERTOWN**  
**Sewer Fund**  
**Statement of Revenues, Expenditures, and Changes in Net Assets**  
**For the Year Ended December 31, 2010**

	<u>BUDGET</u>	<u>ACTUAL</u>
<b><u>OPERATING REVENUES</u></b>		
Charges for Services	\$ 2,377,250	\$ 2,401,705
Penalties	-	12,685
Other Income	<u>2,000</u>	<u>911</u>
<b>TOTAL OPERATING REVENUES</b>	<b>2,379,250</b>	<b>2,415,301</b>
<b><u>OPERATING EXPENSES</u></b>		
Costs of Furnishing Utility	1,585,050	1,380,756
Employee Benefits	173,860	171,565
Employee Pension	28,200	60,667
Insurance	92,150	91,760
Debt Service	234,308	88,864
Depreciation	-	<u>353,442</u>
<b>TOTAL OPERATING EXPENSES</b>	<b>2,113,568</b>	<b>2,147,054</b>
<b>OPERATING INCOME</b>	<b>265,682</b>	<b>268,247</b>
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>		
Interest Earned	29,000	15,302
Gain (Loss) on Sale of Fixed Assets	1,000	-
State Aid - Pension	-	34,210
Sewage Facilities Grant	39,250	-
Transfers to Other Funds	<u>(245,031)</u>	<u>(185,000)</u>
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>(175,781)</b>	<b>(135,488)</b>
<b>CHANGES IN NET ASSETS</b>	<b>89,901</b>	<b>132,759</b>
<b>NET ASSETS, JANUARY 1, 2010 (RESTATED)</b>	<b>(89,901)</b>	<b>9,599,626</b>
<b>NET ASSETS, DECEMBER 31, 2010</b>	<b>\$ -</b>	<b>\$ 9,732,385</b>

**THE BOROUGH OF QUAKERTOWN**  
**Pool Fund**  
**Statement of Revenues, Expenditures, and Changes in Net Assets**  
**For the Year Ended December 31, 2010**

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	<b>BUDGET</b>	<b>ACTUAL</b>
<b><u>OPERATING REVENUES</u></b>		
Charges for Services	\$ 189,600	\$ 183,325
Other Income	200	326
<b>TOTAL OPERATING REVENUES</b>	189,800	183,651
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<b><u>OPERATING EXPENSES</u></b>		
Costs of Pool Operations	177,869	168,125
Employee Benefits	7,500	9,093
Insurance	16,250	17,808
Debt Service	340,548	38,261
Depreciation	-	91,818
Contingency	10,000	-
<b>TOTAL OPERATING EXPENSES</b>	552,167	325,105
 <b>OPERATING INCOME</b>	 (362,367)	 (141,454)
<b><u>NON-OPERATING REVENUES</u></b>		
Interest Earned	1,500	1,253
Transfers from Other Funds	400,000	400,000
<b>TOTAL NON-OPERATING REVENUES</b>	401,500	401,253
 <b>CHANGES IN NET ASSETS</b>	 39,133	 259,799
 <b>NET ASSETS, JANUARY 1, 2010 (RESTATED)</b>	 (39,133)	 797,587
 <b>NET ASSETS, DECEMBER 31, 2010</b>	 \$ -	 \$ 1,057,386

**The Borough of Quakertown  
Liquid Fuels Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
For the Year Ended December 31, 2010**

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<b>FUND BALANCE - JANUARY 1, 2010 (RESTATED)</b>	\$	142,332
 <b><u>REVENUES AND OTHER FINANCING SOURCES</u></b>		
<b>INTERGOVERNMENTAL:</b>		
Liquid Fuels Tax	\$	155,071
Highway/Turnback Income		5,480
<b>INVESTMENT EARNINGS:</b>		
Interest Earnings		2,324
<b>OTHER FINANCING SOURCES:</b>		
Transfer From Other Funds		331
		163,206
 <b>TOTAL FUNDS AVAILABLE</b>		 305,538
 <b><u>EXPENDITURES AND OTHER FINANCING USES</u></b>		
<b>PUBLIC WORKS:</b>		
Highway Construction		269,178
		269,178
 <b>FUND BALANCE - DECEMBER 31, 2010</b>	 \$	 <b>36,360</b>

**Fire Company Capital Fund  
Statement of Revenues, Expenditures and Changes in Fund Balance  
For the Year Ended December 31, 2010**

<b>FUND BALANCE - JANUARY 1, 2010 (RESTATED)</b>	\$	8,579
 <b><u>REVENUES AND OTHER FINANCING SOURCES</u></b>		
Interest Earnings	\$	179
Transfer From Other Funds		71,500
		71,679
 <b>TOTAL FUNDS AVAILABLE</b>		 80,258
 <b><u>EXPENDITURES AND OTHER FINANCING USES</u></b>		
<b>PUBLIC SAFETY:</b>		
Equipment Purchase		80,000
		80,000
 <b>FUND BALANCE - DECEMBER 31, 2010</b>	 \$	 <b>258</b>

**THE BOROUGH OF QUAKERTOWN**  
**Water Capital Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**For the Year Ended December 31, 2010**

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<b>FUND BALANCE - JANUARY 1, 2010 (RESTATED)</b>	\$	803,768
 <b><u>REVENUES AND OTHER FINANCING SOURCES</u></b>		
Interest Earnings		15,417
<b>TOTAL FUNDS AVAILABLE</b>		819,185
 <b><u>EXPENDITURES AND OTHER FINANCING USES</u></b>		
<b>GENERAL GOVERNMENT:</b>		
Engineering and Design	\$ 57,313	
<b>DEBT SERVICE:</b>		
Debt Principal	194,889	
Debt Interest	42,443	294,645
<b>FUND BALANCE - DECEMBER 31, 2010</b>	<b>\$</b>	<b><u>524,540</u></b>

**Capital Projects Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**For the Year Ended December 31, 2010**

<b>FUND BALANCE - JANUARY 1, 2010 (RESTATED)</b>	\$	2,115,498
 <b><u>REVENUES AND OTHER FINANCING SOURCES</u></b>		
Interest Earnings	\$ 28,054	
Food Bank Donation	2,000	
Miscellaneous	2,518	32,572
<b>TOTAL FUNDS AVAILABLE</b>		2,148,070
 <b><u>EXPENDITURES AND OTHER FINANCING USES</u></b>		
<b>GENERAL GOVERNMENT:</b>		
Equipment	\$ 8,388	
Buildings and Plant	36,400	
<b>COMMUNITY DEVELOPMENT:</b>		
Civic Contributions	45,328	
Community Contributions	15,244	105,360
<b>FUND BALANCE - DECEMBER 31, 2010</b>	<b>\$</b>	<b><u>2,042,710</u></b>



**THE BOROUGH OF QUAKERTOWN**  
**Equipment Replacement Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**For the Year Ended December 31, 2010**

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<b>FUND BALANCE - JANUARY 1, 2010 (RESTATED)</b>	\$	148,537
 <b><u>REVENUES AND OTHER FINANCING SOURCES</u></b>		
Interest Earnings	\$ 905	
Sale of Fixed Assets	9,801	
Transfer From Other Funds	<u>128,688</u>	<u>139,394</u>
 <b>TOTAL FUNDS AVAILABLE</b>		 287,931
 <b><u>EXPENDITURES AND OTHER FINANCING USES</u></b>		
<b><u>GENERAL GOVERNMENT:</u></b>		
Vehicle Purchase	\$ 57,781	
Equipment	16,721	
<b>PUBLIC SAFETY:</b>		
Vehicle Purchase	9,555	
<b>PUBLIC WORKS:</b>		
Vehicle Purchase	33,213	
Equipment	<u>68,974</u>	<u>186,244</u>
 <b>FUND BALANCE - DECEMBER 31, 2010</b>	 <b>\$</b>	 <b><u>101,687</u></b>

**THE BOROUGH OF QUAKERTOWN**  
**Escrow Fund**  
**Statement of Additions Received and Deductions Paid**  
**For the Year Ended December 31, 2010**

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<b>ASSETS</b>		
Escrow Checking	\$ 359,571	
Escrow Plgit	<u>-</u>	
<b>TOTAL ASSETS</b>		<b><u>\$ 359,571</u></b>

<b>LIABILITIES</b>		
Due to Escrow Holders	<u>\$ 359,571</u>	
<b>TOTAL LIABILITIES</b>		<b><u>\$ 359,571</u></b>

**Police Health Reimbursement Arrangement Fund**  
**Statement of Additions Received and Deductions Paid**  
**For the Year Ended December 31, 2010**

<b>ASSETS</b>		
Cash	<u>\$ 38,429</u>	
<b>TOTAL ASSETS</b>		<b><u>\$ 38,429</u></b>

<b>LIABILITIES</b>		
Due to Police Officers	<u>\$ 38,429</u>	
<b>TOTAL LIABILITIES</b>		<b><u>\$ 38,429</u></b>

**THE BOROUGH OF QUAKERTOWN**  
**Police Pension Trust Fund**  
**Statement of Additions and Deductions**  
**For the Year Ended December 31, 2010**

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<b>NET ASSETS - BEGINNING OF YEAR (RESTATED)</b>		\$	3,423,153
<b>ADDITIONS:</b>			
Contributions - Employer	\$		237,700
State Aid			116,454
Miscellaneous			290
<b>INVESTMENT EARNINGS:</b>			
Interest and Dividends			81,586
Change in Fair Value of Investments			284,624
<b>TOTAL ADDITIONS</b>			<u>720,654</u>
<b>DEDUCTIONS:</b>			
Administrative Charges			7,736
Investment Expenses			12,023
Employee Benefits			199,711
<b>TOTAL DEDUCTIONS</b>			<u>219,470</u>
<b>CHANGE IN NET ASSETS</b>			<u>501,184</u>
<b>NET ASSETS - END OF YEAR</b>		<b>\$</b>	<b><u>3,924,337</u></b>

**Non-Uniformed Pension Trust Fund**  
**Statement of Additions and Deductions**  
**For the Year Ended December 31, 2010**

<b>NET ASSETS - BEGINNING OF YEAR (RESTATED)</b>		\$	5,441,278
<b>ADDITIONS:</b>			
Contributions - Employer			117,390
Contributions - Employee			21,793
State Aid			152,037
Miscellaneous Income			431
<b>INVESTMENT EARNINGS:</b>			
Interest and Dividends			130,745
Change in Fair Value of Investments			470,056
<b>TOTAL ADDITIONS</b>			<u>892,452</u>
<b>DEDUCTIONS:</b>			
Administrative Charges			7,097
Investment Expenses			19,173
Employee Benefits			234,265
<b>TOTAL DEDUCTIONS</b>			<u>260,535</u>
<b>CHANGE IN NET ASSETS</b>			<u>631,917</u>
<b>NET ASSETS - END OF YEAR</b>		<b>\$</b>	<b><u>6,073,195</u></b>