

**EAST FALLOWFIELD TOWNSHIP,
CHESTER COUNTY, PENNSYLVANIA**

**FINANCIAL STATEMENTS
WITH REPORT OF INDEPENDENT AUDITORS**

DECEMBER 31, 2013

MINGIS, GUTOWSKI & COMPANY, LLP
Certified Public Accountants
Swarthmore, Pennsylvania 19081

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Supervisors
East Fallowfield Township
Chester County, Pennsylvania**

We have audited the accompanying financial statements of the governmental activities and each major fund of East Fallowfield Township, Pennsylvania, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of East Fallowfield Township, as of December 31, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 9 to the financial statements, the Township implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of pension funding progress, and schedule of contributions from the employer and other contributing entities, on pages 3 through 12 and 37 through 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Mingis, Gutowski & Company, LLP

Swarthmore, Pennsylvania
August 15, 2014

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

This section of the 2013 East Fallowfield Township annual report presents our discussion and analysis of the financial performance during the fiscal year ended December 31, 2013. The inclusion of this section is in compliance with *Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued by the Governmental Accounting Standards Board (GASB). Our comments are intended to be read in conjunction with the Independent Auditor's report preceding this discussion and the financial statements, and supplementary information immediately following this section.

FINANCIAL HIGHLIGHTS

The Township's Net Position as of December 31, 2013 totaled \$9,812,441, a decrease of \$31,827 from 2012. Net Position was comprised of capital assets, net of related debt, in the amount of \$8,296,266, assets restricted for road service maintenance in the amount of \$98,398 and unrestricted assets consisting primarily of cash and accounts receivable, net of liabilities totaling \$1,417,777.

During 2013, the Township's total revenue was \$3,040,102 and was \$53,230 more than the prior year. The increase was primarily due to a \$68,800 Park & Recreation grant in addition to an increase in building permits, offset by a decrease in earned income taxes.

Township expenses during 2013 increased by \$159,115 from 2012. Costs increased primarily due to an increase in police personnel costs.

On the legally enacted budgetary basis, the Township's General Fund ended the fiscal year with an increase in fund balance of \$124,107 compared to an increase in fund balance of \$478,921 in 2012. This difference was primarily due to the fact that in 2013, there was a decrease in tax revenues and an increase in public safety expenses.

OVERVIEW OF FINANCIAL STATEMENTS

Government-Wide Financial Statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The first two statements included in Government-Wide Financial Statements are the Statement of Net Position and the Statement of Activities. These statements provide long-term and short-term information about the Township's overall financial status.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The Statement of Net Position includes all of the Township's assets and liabilities. The Statement of Activities reflects all of the current year's revenues and expenses regardless of when cash is received or paid. These two government-wide statements when viewed in conjunction with each other report the Township's Net Position and how it has changed. Analyzing the difference between the Township's assets and liabilities and the resulting net position provides a measure of the Township's financial health or position. Increases or decreases in the Township's net position over time are an indication of changing financial health. The overall health of the Township, however, must consider additional non-financial factors, such as changes in the Township's earned income tax base, the adequacy of Township services, and the competence of Township employees and officials.

Our Township's Statement of Activities consist solely of governmental activities and discloses basic services, such as general government (administration), public safety, code enforcement, public works, and culture and recreation. Earned income taxes, real estate transfer taxes, and charges for municipal services finance most of the Township's activities.

Fund Level Financial Statements

Fund Level Financial Statements focus on individual segments of the Township's operations and offer greater detail than Government-Wide Financial Statements. These financial statements include activities from two types of funds: Government Funds and Agency Funds.

Most of the Township's activities are reported in Governmental Funds. Governmental Funds statements report the sources for financing the Township's general services for the short-term, and services that will remain to be funded by future spending. Governmental Funds are reported using a modified accrual accounting method which measures cash and all other financial assets that can readily be converted to cash. The focus of Government Funds is to account for changes in the Township's financial position. Accordingly, Governmental Fund information assists the reader in determining whether there are greater or fewer financial resources available in the near future to finance Township programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and reported in Governmental Funds is reconciled in the financial statements and accompanying Notes to Financial Statements are included to offer explanations for some of the information and provide more detailed data.

Agency Fund statements disclose activities when the Township serves as an Agent for escrowed funds. Agency Funds are custodial in nature. Since assets in the fund are restricted from use to finance Township operations, Agency Fund activity is reported in a separate statement entitled, Statement of Net Position – Agency Fund.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

**FINANCIAL ANALYSIS OF THE TOWNSHIP – GOVERNMENT-WIDE
STATEMENTS**

The Township's total net position was \$9,812,441 and \$9,844,268 on December 31, 2013 and 2012, respectively. The decrease of \$31,827 was comprised of a decrease of \$179,678 in total assets and a decrease of \$147,851 in current and non-current liabilities. The following table presents condensed financial information comparing Net Assets as of December 31, 2013 and 2012:

		Net Position December 31,	
		Governmental Activities 2013	2012
Assets			
Current and other assets	\$ 1,643,003	\$ 1,724,941	
Capital assets, net	<u>8,403,367</u>	<u>8,501,107</u>	
Total assets	<u>10,046,370</u>	<u>10,226,048</u>	
Liabilities			
Current and other liabilities	158,608	304,265	
Noncurrent liabilities	<u>75,321</u>	<u>77,515</u>	
Total liabilities	<u>233,929</u>	<u>381,780</u>	
Net Position			
Invested in capital assets	8,296,266	8,409,870	
Unrestricted	1,417,777	1,257,121	
Restricted	<u>98,398</u>	<u>177,277</u>	
Total net position	<u>\$ 9,812,441</u>	<u>\$ 9,844,268</u>	

The results of this year's operations as a whole are reported in the Statement of Activities. Specific charges, grants, revenues, and subsidies that directly relate to specific expense categories are represented to determine the final amount of the Township's activities that are supported by other general revenues. The Township's most significant revenues are generally from earned income taxes, real estate transfer taxes, and trash fees.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

The following table presents financial information extracted and condensed from the Statement of Activities to facilitate a comparison of total revenue from governmental activities from 2013 to 2012:

**Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31,**

	Governmental Activities	
	<u>2013</u>	<u>2012</u>
Revenues		
Program revenues:		
Charges for services	\$ 953,847	\$ 922,988
Operating grants and contributions	458,215	398,717
General revenues:		
Taxes	1,391,319	1,467,493
Other revenue	<u>236,721</u>	<u>197,674</u>
Total revenues	<u>3,040,102</u>	<u>2,986,872</u>
Expenses		
General government	338,311	298,526
Public safety	1,232,390	1,087,507
Codes	38,514	23,361
Public works – sanitation	574,559	590,965
Public works – highways	666,596	666,035
Culture and recreation	11,961	19,223
Unallocated depreciation	<u>209,598</u>	<u>227,197</u>
Total expenses	<u>3,071,929</u>	<u>2,912,814</u>
 Change in net position	 <u>\$ (31,827)</u>	 <u>\$ 74,058</u>

During 2013, the Township's total revenue was \$3,040,102 and increased by \$53,230 from the prior year. This increase was primarily due to a \$68,800 Park and Recreation grant, in addition to an increase in building permits, offset by a decrease in earned income taxes.

Township expenses during 2013 increased \$159,115 from 2012. Costs increased primarily due to an increase in police personnel costs.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

FINANCIAL ANALYSIS OF THE TOWNSHIP – GOVERNMENTAL FUNDS

Most Township activities are reported in Governmental Funds. Governmental Funds are reported using the modified accrual accounting method which measures cash and all other financial assets that can readily be converted to cash. The Township's Governmental Funds include the General Fund, Capital Projects Fund, Liquid Fuels Fund, and Parks and Recreation Fund. The Township has elected to present each fund as a major fund.

General Fund

The General Fund is the principal operating fund of the Township. On the legally enacted budgetary basis, the General Fund ended the fiscal year with an increase in fund balance of \$124,107 compared to an increase in fund balance of \$478,921 in 2012. The lower fund balance increase in 2013 is due to a decrease in revenues of \$110,013, and an increase in expenditures of \$206,483.

Revenues decreased primarily due to a decrease in earned income taxes.

Expenditures increased by \$206,483 in 2013 primarily due to increased police personnel costs.

The following table compares the actual revenues and expenditures for 2013 and 2012:

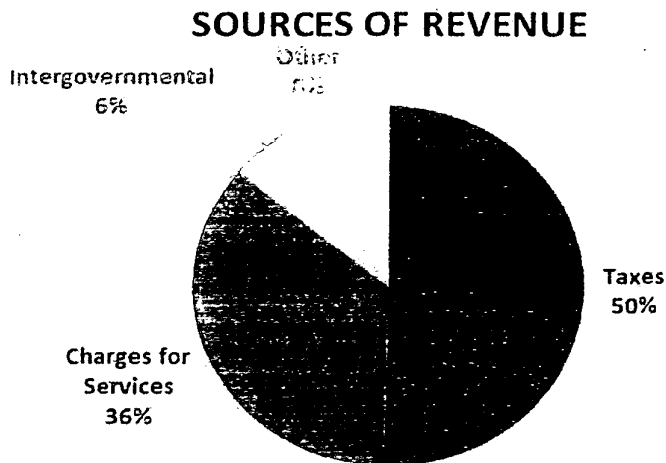
Comparison of Revenues, Expenditures, and Changes in Net Assets
General Fund
For the Years Ended December 31,

	<u>2013</u>	<u>2012</u>	<u>Variance</u>
Revenues			
Taxes	\$ 1,416,369	\$ 1,567,864	\$ (151,495)
Franchise fees	178,651	140,502	38,149
Fines and forfeits	21,677	40,004	(18,327)
Interest earned	732	377	355
Intergovernmental revenues	165,120	175,428	(10,308)
Charges for services:			
Trash fees	815,815	817,335	(1,520)
Building permits	95,038	54,534	40,504
Road and commercial permits	1,561	11,760	(10,199)
Other	32,781	36,321	(3,540)
Miscellaneous revenues	<u>13,835</u>	<u>7,467</u>	<u>6,368</u>
Total revenues	<u>2,741,579</u>	<u>2,851,592</u>	<u>(110,013)</u>

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

	<u>2013</u>	<u>2012</u>	<u>Variance</u>
Expenditures			
General government	\$ 322,094	\$ 298,526	\$ 23,568
Public safety	1,233,192	1,083,334	149,858
Codes	38,514	23,361	15,153
Public works – sanitation	574,559	590,965	(16,406)
Public works – highways	442,256	410,698	31,558
Culture and recreation	<u>6,857</u>	<u>4,105</u>	<u>2,752</u>
Total expenditures	<u>2,617,472</u>	<u>2,410,989</u>	<u>206,483</u>
Other Financing Sources (Uses)			
Sales of Capital Assets	-	945	(945)
Interfund Transfers In	-	(12,627)	12,627
Interfund Transfers Out	<u>-</u>	<u>50,000</u>	<u>(50,000)</u>
Total other financing sources	<u>-</u>	<u>38,318</u>	<u>(38,318)</u>
Net change in fund balance	124,107	478,921	\$ (354,814)
Fund balance, beginning	<u>427,360</u>	<u>(51,561)</u>	
Fund balance, ending	<u>\$ 551,467</u>	<u>\$ 427,360</u>	

Annual budgeting for the General Fund is based on four primary sources of revenue. The following chart illustrates each sources contribution by percentage. Earned income taxes and real estate transfer taxes contributed 50% of the General Fund's total revenues. Fees generated from charges for services contributed 36%. These two sources combined to contribute 86% of the General Fund's revenue. Revenues from "other" sources total 8% and included interest earnings, franchise fees, fines, and miscellaneous revenues. Intergovernmental revenues accounted for the remaining 6% of the General fund's revenue.



**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

General Fund Budgeted Revenues

The 2013 revenues from taxes were \$252,774 higher than budgeted due to higher earned income taxes than budgeted. Charges for services were \$28,650 less than budgeted overall, largely due to a decrease of \$63,130 of trash fee revenue lower than budgeted, offset by building permit fees \$45,038 higher than budgeted. The other revenues were relatively consistent with the overall budget projections.

General Fund Budgeted Expenditures

Departmental expenditures were \$126,571 over the projected budget. This was primarily due to higher than budgeted public safety expense, primarily for police personnel, in addition to higher than budgeted public works expenses. Overall, the result of last year's operations was an increase in fund balance of \$124,107.

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual
For the Year Ended December 31, 2013**

	<u>Original</u>	<u>Final</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Taxes	\$ 1,163,595	\$ 1,163,595	\$ 1,416,369	\$ 252,774
Franchise fees	141,000	141,000	178,651	37,651
Fines and forfeits	26,500	26,500	21,677	(4,823)
Interest earned	400	400	732	332
Intergovernmental revenues	149,000	149,000	165,120	16,120
Charges for services:				
Trash fees	878,945	878,945	815,815	(63,130)
Building permits	50,000	50,000	95,038	45,038
Road and commercial permits	10,300	10,300	1,561	(8,739)
Other	34,600	34,600	32,781	(1,819)
Miscellaneous revenues	<u>300</u>	<u>300</u>	<u>13,835</u>	<u>13,535</u>
Total revenues	<u>2,454,640</u>	<u>2,454,640</u>	<u>2,741,579</u>	<u>286,939</u>
Expenditures				
General government	339,348	339,348	322,094	17,254
Public safety	1,162,001	1,162,001	1,233,192	(71,191)
Codes	28,300	28,300	38,514	(10,214)
Public works – sanitation	566,260	566,260	574,559	(8,299)
Public works – highways	384,242	384,242	442,256	(58,014)
Culture and recreation	<u>10,750</u>	<u>10,750</u>	<u>6,857</u>	<u>3,893</u>
Total expenditures	<u>2,490,901</u>	<u>2,490,901</u>	<u>2,617,472</u>	<u>(126,571)</u>
Excess (deficiency) of revenues over expenditures	<u>(36,261)</u>	<u>(36,261)</u>	<u>124,107</u>	<u>160,368</u>

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

	<u>Original</u>	<u>Final</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
Other financing sources (uses)				
2012 projected surplus	\$ 40,000	\$ 40,000	\$ -	\$ (40,000)
Total other financing sources (uses)	<u>40,000</u>	<u>40,000</u>	<u>-</u>	<u>(40,000)</u>
Net change in fund balance	3,739	3,739	124,107	120,368
Fund balance, January 1	<u>427,360</u>	<u>427,360</u>	<u>427,360</u>	<u>-</u>
Fund balance, December 31	<u>\$ 431,099</u>	<u>\$ 431,099</u>	<u>\$ 551,467</u>	<u>\$ 120,368</u>

Liquid Fuels Fund

Under the Liquid Fuels Tax Act 655, the Township receives a subsidy from the Commonwealth of Pennsylvania for the maintenance of roads. Funds received are deposited into the Township's Liquid Fuels Fund and restricted from use in other Township activities. Costs subsidized include acquisition of vehicles and equipment, maintenance of vehicles and equipment, fuel, and supplies for snow removal. During 2013, subsidies received totaled \$224,295. Liquid Fuels Fund expenses totaled \$224,334. As of December 31, 2013, the Liquid Fuels Fund had a fund balance of \$98,398.

Capital Projects Fund

The Township maintains a Capital Projects Fund largely for the purpose of funding acquisitions of capital assets. During 2013, \$16,808 was used for lease payments on police vehicles and \$14,407 was used to partially fund the comprehensive plan update. As of December 31, 2013, the fund balance of the Capital Projects Fund amounted to \$387,432.

Parks and Recreation Fund

The Township maintains a Parks and Recreation Fund to restrict certain revenues for the sole use of improving and enhancing public parks. The primary sources of revenue for the Parks and Recreation Fund are grants, contributions, and proceeds from developers. Funding from developers occurs when the developer, who is obligated to comply with the Township ordinances and include recreation areas and facilities as a part of the land development plan, opts to provide "in lieu of" funds to be used by the Township for alternate recreation facilities. In 2013, a \$68,800 grant was received from the Department of Conservation and Natural Resources. As of December 31, 2013, the fund balance of the Parks and Recreation Fund was \$381,111.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

CAPITAL ASSETS

As of December 31, 2013, the Township had \$8,403,367 of value in a broad range of Capital Assets, including land, buildings and furniture, equipment and infrastructure. This amount represents a net decrease of \$97,740 in value from 2012 that is attributed to \$111,857 in asset additions and depreciation expense of \$209,598.

The following schedule delineates the ending value of Capital Assets for the period ending December 31, 2013 and changes in each capital asset category:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated				
Land	\$ 3,050,001			\$ 3,050,001
Park improvements	779,880			779,880
Building and improvements	316,451			316,451
Infrastructure	5,380,702			5,380,702
Vehicles	877,761	\$ 111,857	\$ 41,498	948,120
Machinery and equipment	236,924			236,924
Total capital assets, being depreciated	<u>10,641,719</u>	<u>111,857</u>	<u>41,498</u>	<u>10,712,078</u>
Less accumulated depreciation for:				
Park improvements	70,191	15,597		85,788
Building and improvements	187,584	12,884		200,468
Infrastructure	971,346	107,614		1,078,960
Vehicles	720,259	53,058	41,498	731,819
Machinery and equipment	191,232	20,444		211,676
Total accumulated depreciation	<u>2,140,612</u>	<u>209,597</u>	<u>41,498</u>	<u>2,308,711</u>
Governmental activities capital assets, net	<u>\$ 8,501,107</u>	<u>\$ (97,740)</u>	<u>\$ -</u>	<u>\$ 8,403,367</u>

THE TOWNSHIP'S FUTURE

East Fallowfield Township saw a decrease in earned income tax collections in 2013, as well as an increase in public safety expenses. As the pie chart on page 8 indicates, 50% of East Fallowfield's revenue comes from tax revenues. Our current revenues are limited to sources that are directly affected by general economic conditions. Tax revenues are driven by our residents' ability to be employed and earn taxable compensation. Real estate transfer taxes are driven by real estate sales.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Although one of our primary sources of revenue is billed trash collection services, these monies are offset by the cost incurred for trash collection contracts. The Township's financial solvency will therefore depend on creative new concepts for generating revenue while maintaining programs whose costs are escalating to ensure the safety of our residents. Future financial planning will consider the following:

- Development of new funding sources from enacting safety, real estate or other taxes.
- Capital project funding and fixed asset replacement and long-term infrastructure improvement strategy
- Multi-year budgeting and or projections.

FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens and taxpayers with a general overview of the Township's finances and to show the Board's accountability. If you have questions about this report or wish to request additional financial information, please contact the Township Treasurer.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
STATEMENT OF NET POSITION
DECEMBER 31, 2013

	<u>Governmental Activities</u>
Assets	
Current Assets:	
Cash	\$ 1,172,058
Receivables:	
Taxes	351,033
Trash, net of allowance of \$34,087	32,746
Franchise fees	39,491
Prepaid items	46,790
Miscellaneous	<u>885</u>
Total current assets	<u>1,643,003</u>
Capital Assets:	
Land	3,050,001
Other capital assets, net of accumulated depreciation	<u>5,353,366</u>
Total capital assets, net	<u>8,403,367</u>
Total assets	<u>10,046,370</u>
Liabilities	
Current Liabilities:	
Accounts payable and accrued liabilities	57,943
Accrued payroll	24,507
Deposits	9,923
Payroll deductions and withholdings	8,205
Lease obligations	<u>58,030</u>
Total current liabilities	<u>158,608</u>
Noncurrent Liabilities:	
Lease obligations	49,071
Compensated absences	<u>26,250</u>
Total noncurrent liabilities	<u>75,321</u>
Total liabilities	<u>233,929</u>
Net Position	
Invested in capital assets, net of related debt	8,296,266
Restricted for road service and maintenance	98,398
Unrestricted	<u>1,417,777</u>
Total net position	<u>\$ 9,812,441</u>

See Notes to Financial Statements.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2013**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants And Contributions</u>	
Governmental Activities:					
General government	\$ 338,311		\$ 165,120		\$ (173,191)
Public safety	1,232,390	\$ 21,677			(1,210,713)
Codes	38,514	96,599			58,085
Public works – sanitation	574,559	826,571			252,012
Public works – highways	666,596		224,295		(442,301)
Culture and recreation	11,961	9,000	68,800		65,839
Unallocated depreciation expense	<u>209,598</u>				<u>(209,598)</u>
Total governmental activities	<u>\$3,071,929</u>	<u>\$ 953,847</u>	<u>\$ 458,215</u>	<u>\$ -</u>	<u>(1,659,867)</u>
General revenues					
Taxes:					
Earned income taxes					1,225,547
Real estate transfer taxes					132,519
Local services taxes					33,253
Franchise fees					178,651
Investment earnings					1,419
Miscellaneous income					<u>56,651</u>
Total general revenues					<u>1,628,040</u>
Change in net position					(31,827)
Net position, beginning of year					<u>9,844,268</u>
Net position, end of year					<u>\$ 9,812,441</u>

See Notes to Financial Statements.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2013

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Liquid Fuels Fund</u>	<u>Parks and Recreation Fund</u>	<u>Total Governmental Funds</u>
Assets					
Cash	\$ 295,194	\$ 387,432	\$ 98,398	\$ 391,034	\$ 1,172,058
Receivables:					
Earned income tax	341,655				341,655
Local services tax	2,964				2,964
Real estate transfer tax	6,414				6,414
Trash fees	32,746				32,746
Franchise fees	39,491				39,491
Miscellaneous	885				885
Prepaid items	<u>46,790</u>	<u> </u>	<u> </u>	<u> </u>	<u>46,790</u>
Total assets	<u>\$ 766,139</u>	<u>\$ 387,432</u>	<u>\$ 98,398</u>	<u>\$ 391,034</u>	<u>\$ 1,643,003</u>
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities	\$ 57,943				\$ 57,943
Deposits				\$ 9,923	9,923
Accrued payroll	24,507				24,507
Payroll deductions and withholding	<u>8,205</u>	<u> </u>	<u> </u>	<u> </u>	<u>8,205</u>
Total liabilities	<u>90,655</u>	<u>\$ -</u>	<u>-</u>	<u>9,923</u>	<u>100,578</u>
Deferred Inflows of Resources:					
Unavailable revenue	124,017				124,017
Fund Balances:					
Nonspendable	46,790				46,790
Restricted – Road service and maintenance			98,398		98,398
Committed – Parks and Recreation				381,111	381,111
Committed – Capital Purchases		387,432			387,432
Assigned					
Unassigned	<u>504,677</u>	<u> </u>	<u> </u>	<u> </u>	<u>504,677</u>
Total fund balances	<u>551,467</u>	<u>387,432</u>	<u>98,398</u>	<u>381,111</u>	<u>1,418,408</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 766,139</u>	<u>\$ 387,432</u>	<u>\$ 98,398</u>	<u>\$ 391,034</u>	<u>\$ 1,643,003</u>

See Notes to Financial Statements.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2013**

Total fund balances – governmental funds \$ 1,418,408

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
assets is \$10,712,078 and the accumulated
depreciation is \$2,308,711. 8,403,367

Long-term liabilities, comprised of compensated absences,
are not due and payable in the current period and,
therefore, are not reported as liabilities in the funds. (26,250)

Capital lease obligations that consume resources of
governmental funds that have no input on net assets (107,101)

Trash and other fees will be collected next year, but are
not available soon enough to pay for the current
period's expenditures and, therefore, are deferred
in the funds statements. They are recorded as
revenue in the entity-wide statements. 22,956

Earned income taxes receivable will be collected next
year, but are not available soon enough to pay for the
current period's expenditures and, therefore, are
deferred in the funds. However, they are recorded
as revenue in the entity-wide statements. 101,061

Total net position – governmental activities \$ 9,812,441

See Notes to Financial Statements.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2013**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Liquid Fuels Fund</u>	<u>Parks and Recreation Fund</u>	<u>Total Governmental Funds</u>
Revenues:					
Taxes:					
Earned income	\$ 1,250,597				\$ 1,250,597
Real estate transfer	132,519				132,519
Local services	<u>33,253</u>				<u>33,253</u>
Total taxes	<u>1,416,369</u>				<u>1,416,369</u>
Grants				\$ 68,800	68,800
Franchise fees	178,651				178,651
Fines and forfeits	21,677				21,677
Interest	732	\$ 404	\$ 149	134	1,419
Intergovernmental revenues	165,120		224,295		389,415
Charges for services:					
Trash fees	815,815				815,815
Building permits	95,038				95,038
Road and commercial permits	1,561				1,561
Other	32,781				32,781
Fee in lieu				9,000	9,000
Miscellaneous revenues	<u>13,835</u>	<u>75</u>		<u>960</u>	<u>14,870</u>
Total revenues	<u>2,741,579</u>	<u>479</u>	<u>224,444</u>	<u>78,894</u>	<u>3,045,396</u>
Expenditures:					
General government	322,094	16,217			338,311
Public safety	1,233,192				1,233,192
Codes	38,514				38,514
Public works - sanitation	574,559				574,559
Public works - highways	442,256		224,334		666,590
Culture and recreation	<u>6,857</u>			<u>5,104</u>	<u>11,961</u>
Total expenditures	<u>2,617,472</u>	<u>16,217</u>	<u>224,334</u>	<u>5,104</u>	<u>2,863,127</u>
Excess (deficiency) of revenues over expenditures	<u>124,107</u>	<u>(15,738)</u>	<u>110</u>	<u>73,790</u>	<u>182,269</u>
Other financing sources (uses):					
Purchase of capital assets			(45,660)		(45,660)
Principal payment on capital lease		(16,808)	(33,625)		(50,433)
Total Other Financial Sources (Uses)	-	(16,808)	(79,285)	-	(96,093)
Net change in fund balances	124,107	(32,546)	(79,175)	73,790	86,176
Fund Balance, January 1	<u>427,360</u>	<u>419,978</u>	<u>177,573</u>	<u>307,321</u>	<u>1,332,232</u>
Fund Balance, December 31	<u>\$ 551,467</u>	<u>\$ 387,432</u>	<u>\$ 98,398</u>	<u>\$ 381,111</u>	<u>\$ 1,418,408</u>

See Notes to Financial Statements.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2013**

Total net change in fund balances – governmental funds \$ 86,176

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

Capital outlays are reported in government funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation. This is the amount by which depreciation exceeds capital outlays in the period.

Capital outlays	\$ 45,866	
Depreciation expense	<u>(209,598)</u>	(163,732)

Because some earned income taxes will not be collected for several months after the Township's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred earned income tax revenues decreased by this amount this year.

(15,929)

Long-term liabilities, including compensated absences, are not due and payable and, therefore, are not reported as liabilities in the funds.

(802)

The repayment of principal of long-term debt consumes the current financial resources of governmental funds but has no effect on net assets.

51,732

Because some trash and other fees will not be collected for several months after the Township's fiscal year ends, they are not considered as "available" in the funds statements. They have been earned and are recorded as revenue in the entity-wide statements. Deferred trash revenue increased by this amount.

10,728

Change in net position of governmental activities \$ (31,827)

See Notes to Financial Statements.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
STATEMENT OF NET POSITION – AGENCY FUND
DECEMBER 31, 2013**

	<u>Agency</u>
Assets	
Cash and cash equivalents	\$ 419,253
Contractor receivables	<u>13,041</u>
Total assets	<u>\$ 432,294</u>
Liabilities	
Contractor deposits	\$ 117,169
Deposits held for West Chester Road	281,607
Reserved for escrow liabilities	<u>33,518</u>
Total liabilities	<u>\$ 432,294</u>

See Notes to Financial Statements.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of East Fallowfield Township (the "Township") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies:

Organization

The Township is the basic level of government which has oversight responsibility and control over all activities related to the local government in East Fallowfield Township. The Township receives funding from local and Commonwealth government sources and must comply with the requirements of these funding source entities. However, the Township is not included in any other governmental "reporting entity" as defined by the GASB pronouncement, since the Township supervisors are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

The Township does not have a corresponding Municipal Authority. Based on component unit evaluation, no other organization is included as a component unit of the Township's reporting entity.

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the Township as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net position presents the financial condition of the governmental activities of the Township at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Township's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, are clearly identifiable to a particular function. 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 Township, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Township.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Fund Financial Statements

During the fiscal year, the Township segregates transactions related to certain Township 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 Township at this more detailed level. The focus of governmental fund financial statements is on major funds. The Township has elected to present each major and non-major fund in a separate column. Fiduciary funds are reported by type.

Fund Accounting

The accounts of the Township are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent. The Township has the following fund types:

Governmental Funds: Governmental funds are those through which most governmental functions of the Township 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 will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The Township's major governmental funds are as follows:

General Fund: The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects Fund: The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Liquid Fuels Fund: The Liquid Fuels Fund, as required by state law, accounts for receipts from the State Motor License Fund (gasoline tax distribution, etc.) and the payment of allowable street and highway-related expenditures.

Parks and Recreation Fund: The Parks and Recreation Fund is used to account for financial resources to be used for the acquisition of park and recreation related expenditures.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Fiduciary Funds: Trust and Agency Funds are used to account for assets held by the Township in a trustee capacity or as an agent for individuals. Agency Funds are custodial in nature and do not involve measurement of results of operations. The Township's Agency Fund is the Escrow Fund.

Measurement Focus and Basis of Accounting

The government-wide financial statements are prepared using a flow of economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the liability is incurred regardless of the timing of the related cash flows. All assets and liabilities associated with the operation of the Township are included on the statement of net assets.

In the 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 are generally included in the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects 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 reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

The basis of accounting that is used 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 and the fiduciary funds use the accrual basis of accounting. Differences in the accrual and 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 Nonexchange Transactions

Revenue 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 the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means 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. For the Township, "available" means expected to be received within sixty days of fiscal year end.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Nonexchange transactions, in which the Township receives value without directly giving equal value in return, include earned income taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year in 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 required to be used or the fiscal year when use is first permitted; matching requirements, in which the Township must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Township on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Township had no deferred outflows of resources.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Unavailable revenue qualifies for reporting in this category and arises only under a modified accrual basis of accounting. Accordingly, it is reported only in the governmental funds balance sheet.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time the obligation is incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Date of Management's Review

Management of the Township have evaluated subsequent events through August 15, 2014, the date on which the financial statements were available to be issued.

Equity Classification Government-Wide

Equity is classified as net assets and displayed in three components for government-wide presentation:

Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributions, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Equity

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*, establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved/ undesignated were replaced with five new classifications – Nonspendable, restricted, committed, assigned, and unassigned.

In the fund financial statements, governmental funds report the following components of fund balance:

- Nonspendable – Amounts that are not in spendable form or are legally or contractually required to be maintained intact.
- Restricted – Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

- **Committed** – Amounts that have been formally set aside by the Township board for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Township board.
- **Assigned** – Amounts that are intended to be spent on specific purposes expressed by the Township Board; or Supervisor, Clerk, and Treasurer; who are authorized by policy approved by the Township Board to make assignments. All current year assignments have been made by the Township Board.
- **Unassigned** – Amounts that do not fall into any other aforementioned category. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

Budgets

The Township is required by state law to adopt an annual budget for the General Fund. The budget is presented on the modified accrual basis of accounting which is consistent with accounting principles generally accepted in the United States of America. The following procedures are followed in establishing the budgetary data reflected in the financial statements.

1. Prior to November 15 of the preceding fiscal year, the Township prepares a budget for the next succeeding calendar year beginning January 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board of Supervisors is then called for the purpose of adopting the proposed budget.
3. Prior to December 31, the budget is legally enacted through passage of a resolution by the Board of Supervisors.
4. The budget must be filed with the Pennsylvania Department of Community Affairs by January 31.

Once a budget is approved, it can be amended at the Function and Fund level only by approval of a majority of the members of the Board of Supervisors. Amendments are presented at the Board at their regular meetings. Each amendment must have Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end as dictated by law.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

The budget is controlled by the finance officer at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board of Supervisors. Individual amendments were not material in relation to the original appropriations. All budget appropriations lapse at year end.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2013, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which the services are consumed.

Interfund Transactions

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as interfund receivables/payables. Interfund balances within the governmental activities are eliminated on the government-wide statement of net assets.

Earned Income Taxes, Real Estate Transfer Taxes, and Local Services Taxes

The Township recognizes assets from earned income taxes, real estate transfer taxes, and local services taxes when the underlying exchange transaction occurs or when resources are received, whichever is first. In the governmental fund financial statements, under the modified accrual basis of accounting, revenue is recorded when the underlying exchange occurs and when the resources are available. Revenue that is not available is deferred.

Property Tax

There have been no property taxes levied since 1996.

Compensated Absences

The Township's policy is to permit employees to accumulate sick days. Upon retirement, employees will be paid for 25% of unused sick days up to a maximum of 200 days at their current pay rate.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Capital Assets

Capital assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported in the fund financial statements. Purchases of capital assets are recognized as expenditures in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The Township maintains a capitalization threshold of \$5,000. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the assets are not capitalized.

All capital assets, except land, are depreciated. Improvements are depreciated over the estimated remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Depreciation</u>	<u>Estimated Lives</u>
Park improvements	15-50 years
Buildings and building improvements	15-40 years
Infrastructure	20-80 years
Furniture and fixtures	5-20 years
Vehicles	5-7 years
Equipment	5-20 years

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements. In general, governmental fund payables and accrued liabilities, once incurred, are paid in a timely manner and in full from current financial resources and are reported as obligations of the funds. However, contractually required pension contributions and compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Net Position

Net Position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net Position invested in capital assets represents the costs of capital assets net of related debt and net of accumulated depreciation. Net Position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Township or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Township's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Fund Balance Reserves

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Date of Management's Review

Management has evaluated subsequent events through August 15, 2014, which is the date the financial statements were available to be issued.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 2 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets, not being depreciated				
Land	<u>\$ 3,050,001</u>	<u> </u>	<u> </u>	<u>\$ 3,050,001</u>
Total capital assets, not being depreciated	<u>3,050,001</u>	<u> </u>	<u> </u>	<u>3,050,001</u>
Capital assets, being depreciated				
Park improvements	779,880			779,880
Building and improvements	316,451			316,451
Infrastructure	5,380,702			5,380,702
Vehicles	877,761	\$ 111,857	\$ 41,498	948,120
Machinery and equipment	<u>236,924</u>	<u> </u>	<u> </u>	<u>236,924</u>
Total capital assets, being depreciated	<u>7,591,718</u>	<u>111,857</u>	<u>41,498</u>	<u>7,662,077</u>
Less accumulated depreciation for:				
Park improvements	70,191	15,597		85,788
Building and improvements	187,584	12,884		200,468
Infrastructure	971,346	107,614		1,078,960
Vehicles	720,259	53,058	41,498	731,819
Machinery and equipment	<u>191,232</u>	<u>20,444</u>	<u> </u>	<u>211,676</u>
Total accumulated depreciation	<u>2,140,612</u>	<u>209,597</u>	<u>41,498</u>	<u>2,308,711</u>
Total capital assets being depreciated, net	<u>5,451,106</u>	<u>(97,740)</u>	<u> </u>	<u>5,353,366</u>
Governmental activities capital assets, net	<u>\$ 8,501,107</u>	<u>\$ (97,740)</u>	<u>\$ </u>	<u>\$ 8,403,367</u>

NOTE 3 CAPITAL LEASES

The Township's capital leases payable at December 31, 2013 consist of the following:

<u>Description</u>	<u>Balance 12/31/12</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 12/31/13</u>	<u>Due Within One Year</u>
Capital Lease – First Niagara Leasing, Inc., annual payment of \$35,785, interest at 3.189%, maturing 2014, secured by road equipment	\$ 68,286	\$ -	\$ 33,625	\$ 34,661	\$ 34,661
Capital Lease – Ford Motor Credit Co., annual payment of \$8,682, interest at 6.6%, maturing 2015, secured by police vehicle	\$ 22,951	-	-	\$ 22,951	\$ 7,640

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 3 CAPITAL LEASES (CONTINUED)

<u>Description</u>	<u>Balance 12/31/12</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 12/31/13</u>	<u>Due Within One Year</u>
Capital Lease – Susquehanna Commercial Finance, Inc., annual payment of \$8,465, interest at 4.68%, maturing 2016, secured by police vehicle	-	\$ 31,611	\$ 8,465	\$ 23,146	\$ 7,358
Capital Lease – Susquehanna Commercial Finance, Inc., annual payment of \$9,642, interest at 4.72%, maturing 2016, secured by police vehicle	-	\$ 35,985	\$ 9,642	\$ 26,343	\$ 8,371

The cost of equipment and related accumulated depreciation recorded under capital leases is as follows:

Road Equipment	\$ 136,640
Police Car	99,229
Less: Accumulated depreciation	<u>(84,570)</u>
	<u>\$ 151,299</u>

Future minimum capital lease payments are as follows:

	<u>Freighter</u>	<u>Police Vehicles</u>	<u>Total</u>
2014	\$ 35,785	\$ 26,790	\$ 62,575
2015	-	26,790	26,790
2016	<u>-</u>	<u>18,288</u>	<u>18,288</u>
	<u>\$ 35,785</u>	<u>\$ 71,868</u>	<u>\$ 107,653</u>

NOTE 4 INTERFUND RECEIVABLES, PAYABLE, AND TRANSFERS

There were no interfund receivables, payables, or transfers during the year ended December 31, 2013.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 5 EMPLOYEE PENSION PLANS

Non-Uniform Pension Plan

The Township maintains a defined contribution plan covering substantially all full-time employees of the Township except police. The pension program is administered by the Pennsylvania Municipal Retirement System ("PMRS"). PMRS is an agent, multiple-employer system with the purpose to administer sound, cost-effective pensions for local government employees. Responsibility for the organization and administration of the system is vested in the eleven-member Pennsylvania Municipal Retirement Board. PMRS issues a separate Comprehensive Annual Financial Report ("CAFR"). A copy of the CAFR can be obtained by contacting the PMRS Accounting Office, PO Box 1165, Harrisburg, PA 17108-1165.

Contributions to the plan are at the discretion of the Board of Supervisors. In 2004, the Board established an annual employer contribution rate of 5.0% of the employees' salary for the non-uniform pension plan. The Township contributed \$19,631 to the plan in 2013.

Police Pension Plan

The Township sponsors a defined benefit plan for police. As of December 31, 2013, all eligible police employees were participating in the plan. All employees are eligible to participate in the plan after six months of employment. The plan is authorized and enacted under authority of Act 205 of Pennsylvania ("the Act") and local ordinances. The plan is administered by PMRS.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 5 EMPLOYEE PENSION PLANS (CONTINUED)

As of December 31, 2013, pension plan membership consisted of:

	<u>Police</u>	<u>Non-Uniform</u>
Covered employees	All regular, full-time sworn police officers	All regular, full-time employees, excluding sworn police officers
Number of covered active employees	7	8
Number of persons receiving benefits:		
Retired employees and beneficiaries	1	2
Terminated employees vested but not receiving benefits	0	1
Normal retirement date	After 55 th birthday and 12 years of service	Normal social security mandated age
Retirement benefit	Equal 50% of the average monthly compensation during the final 36 months of employment	Plan is defined contribution
Early retirement date	Voluntary after 20 years of service	Normal social security mandated age

Contributions and Funding Policy for Police Pension Plan

The Act requires that annual contributions be based upon the calculation of the Minimum Municipal Obligation ("MMO"). The MMO calculation is based upon the biennial actuarial valuation. The Commonwealth allocates certain funds to assist in the pension funding. Any financial requirement established by the MMO which exceeds the Commonwealth allocation must be funded by the Township or employee members.

Currently, employees covered under the Police Pension Plan are required to annually contribute 5% of their salaries. Administrative costs, including investment manager fees, custodial trustee fees, and actuarial fees are charged to the Plan and funded through investment earnings.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 5 EMPLOYEE PENSION PLANS (CONTINUED)

The Township's annual pension cost for the year ended December 31, 2013 and related information for the Police Pension Plan is as follows:

	<u>Police Pension Plan</u>
Annual pension cost	\$62,405
Contributions made	\$62,405
Valuation Date	January 1, 2011
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar-Closed
Remaining Amortization Period	14.84 years
Asset Valuation Method	Fair Value
Actuarial Assumptions:	
Investment Rate of Return	6.0%
Projected Salary Increases	2.7% - 6.4%

Trend Information

Year Ended December 31,	Police Annual Pension Cost (APC)	Non-Uniform Pension Cost (APC)	Police % Contributed	Non-Uniform % Contributed
2009	\$54,675	\$12,779	100.0	100.0
2010	58,629	12,278	100.0	100.0
2011	63,674	29,261	100.0	100.0
2012	65,135	9,519	100.0	100.0
2013	62,405	19,631	100.0	100.0

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 5 EMPLOYEE PENSION PLANS (CONTINUED)

Funded Status and Funding Progress

The following is funded status information as of January 31, 2011, the most recent actuarial valuation date:

	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) AAL	Funded Ratio	Covered Payroll	Unfunded (Overfunded) AAL as a % of Covered Payroll
Police	\$859,876	\$1,009,859	\$149,983	85.15%	\$479,590	31.27%

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

NOTE 6 CASH

Legal and Contractual Restrictions

The Township is permitted to invest in U.S. Treasury bills, short-term obligations of the U.S. Government or its agencies, and shares of an investment company as defined, provided that the only investments of the company are in authorized investments for Township funds. The Township may also plan deposits that are insured by the Federal Deposit Insurance Corporation ("FDIC") and deposits that are collateralized on an individual or on a pooled basis in accordance with Act No. 72 of the Commonwealth of Pennsylvania, August 6, 1971.

Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. At year end, the total carrying amount of the Township's checking, savings, and money market deposits was \$1,590,597 and the corresponding bank balance was \$1,767,366. Of the bank balance, \$252,679 was covered by federal depository insurance, and \$1,514,687 was collateralized through pools of securities held by the respective depository institutions.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 7 COMPENSATED ABSENCES

The following is a summary of changes in compensated absences:

<u>Balance</u> <u>January 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>December 31, 2013</u>
<u>\$ 27,052</u>	<u>\$ 3,358</u>	<u>\$ 4,160</u>	<u>\$ 26,250</u>

NOTE 8 RISK MANAGEMENT

The Township is exposed to various risks of loss related to third-party liability claims, damages to and losses of Township-owned property, errors and omissions by public officials and injuries to employees. The Township carries various types of commercial insurance to manage certain risks of loss and has joined a municipal risk sharing pool to manage certain other risks of loss.

There were no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 9 CHANGE IN ACCOUNTING

During the current year, the Township adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this statement is to establish standards that reclassify certain items that were previously reported as assets and liabilities and instead to classify them as deferred inflows of resources, deferred outflows of resources, or as outflows of resources.

As a result of implementing this statement, the following liabilities have been reclassified, as indicated:

<u>Item</u>	<u>Amount</u>	<u>Prior Reporting</u> <u>Classification/Treatment</u>	<u>New Classification After</u> <u>Adoption of GASB 65</u>
Unavailable Revenue:			
Trash fees		Liability	Deferred inflow of resources
Earned income taxes		Liability	Deferred inflow of resources

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

**NOTE 10 ACCOUNTING PRONOUNCEMENTS ISSUED, NOT YET
IMPLEMENTED**

GASB Statement No. 67, *Financial Reporting for Pension Plans*, issued June 2012, will become effective for the Township beginning with the year ending December 31, 2014. This statement revises existing guidance for most pension plans and details note-disclosure requirements for defined benefit and defined contribution pension plans.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, issued June 2012 will become effective for the Township beginning with the year ending December 31, 2015. This statement will require governments with defined benefit pension plans to disclose a "net pension liability" on their balance sheets.

The Township's management has not yet determined the effect, if any, these Statements will have on the Township's financial statements.

NOTE 11 CONTINGENCIES

In the normal course of business, there are various claims and suits pending against the Township. In the opinion of Township Management, the Township has adequate legal defenses or insurance coverage with respect to these claims and lawsuits and does not believe they will materially affect the Township's financial statements.

The use of grant monies is subject to compliance audits by governmental agencies. Management of the Township believes the Township is in compliance with substantially all the significant requirements of such grants.

REQUIRED SUPPLEMENTARY INFORMATION

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION FUNDING PROGRESS – POLICE PENSION PLAN
SIX YEARS ENDED DECEMBER 31, 2013**

Actuarial Valuation Date January 1,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c))
2007	\$407,460	\$ 422,886	\$ 15,426	96.35%	\$391,653	3.94%
2008*	407,460	422,886	15,426	96.35%	391,653	3.94%
2009	603,798	660,682	56,884	91.39%	460,707	12.35%
2010*	603,798	660,682	56,884	91.39%	460,707	12.35%
2011	859,876	1,009,859	149,983	85.15%	479,590	31.27%
2012*	859,876	1,009,859	149,983	85.15%	479,590	31.27%
2013*	859,876	1,009,859	149,983	85.15%	479,590	31.27%

*An actuarial valuation was not prepared for these years. Actuarial valuation information from the previous year's valuation as at January 1 was utilized in preparing this information.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND
OTHER CONTRIBUTION ENTITIES – POLICE PENSION PLAN
SIX YEARS ENDED DECEMBER 31, 2013**

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2008	\$46,428	100%
2009	54,675	100%
2010	58,629	100%
2011	63,674	100%
2012	65,135	100%
2013	62,405	100%

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
POLICE PENSION PLAN**

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the actuarial latest valuation date is as follows:

Actuarial Valuation Date:	January 1, 2011
Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Level Dollar Closed
Remaining Amortization Period:	14.84 Years
Asset Valuation Method:	Fair Value
Actuarial Assumptions:	
Investment Rate of Return	6.00%
Projected Salary Increases	2.7% - 6.4%

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
YEAR ENDED DECEMBER 31 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget Positive (Negative)</u>
Revenues:				
Taxes:				
Earned income	\$ 1,035,825	\$ 1,035,825	\$ 1,250,597	\$ 214,772
Real estate transfer	110,000	110,000	132,519	22,519
Local services	<u>17,770</u>	<u>17,770</u>	<u>33,253</u>	<u>15,483</u>
Total taxes	1,163,595	1,163,595	1,416,369	252,774
Franchise fees	141,000	141,000	178,651	37,651
Fines and forfeits	26,500	26,500	21,677	(4,823)
Interest earned	400	400	732	332
Intergovernmental revenues	149,000	149,000	165,120	16,120
Charges for services:				
Trash fees	878,945	878,945	815,815	(63,130)
Building permits	50,000	50,000	95,038	45,038
Road and commercial permits	10,300	10,300	1,561	(8,739)
Other	34,600	34,600	32,781	(1,819)
Miscellaneous revenues	<u>300</u>	<u>300</u>	<u>13,835</u>	<u>13,535</u>
Total revenues	<u>2,454,640</u>	<u>2,454,640</u>	<u>2,741,579</u>	<u>286,939</u>
Expenditures:				
General government	339,348	339,348	322,094	17,254
Public safety	1,162,001	1,162,001	1,233,192	(71,191)
Codes	28,300	28,300	38,514	(10,214)
Public works – sanitation	566,260	566,260	574,559	(8,299)
Public works – highways	384,242	384,242	442,256	(58,014)
Culture and recreation	<u>10,750</u>	<u>10,750</u>	<u>6,857</u>	<u>3,893</u>
Total expenditures	<u>2,490,901</u>	<u>2,490,901</u>	<u>2,617,472</u>	<u>(126,571)</u>
Excess (deficiency) of revenues over expenditures	<u>(36,261)</u>	<u>(36,261)</u>	<u>124,107</u>	<u>160,368</u>
Other financing sources (uses):				
2012 projected surplus	<u>40,000</u>	<u>40,000</u>	<u>-</u>	<u>(40,000)</u>
Total other financing sources (uses)	<u>40,000</u>	<u>40,000</u>	<u>-</u>	<u>(40,000)</u>
Net change in fund balances	3,739	3,739	124,107	120,368
Fund balance, January 1	<u>427,360</u>	<u>427,360</u>	<u>427,360</u>	<u>-</u>
Fund balance, December 31	<u>\$ 431,099</u>	<u>\$ 431,099</u>	<u>\$ 551,467</u>	<u>\$ 120,368</u>

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY COMPARISON**

1. SIGNIFICANT ACCOUNTING POLICIES

The budget presented in the required supplementary information is prepared on the modified accrual basis of accounting.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended December 31, 2013, expenditures exceeded the budget in General Fund Charges for Services in the amount of \$39,976 and General Fund – Fines and Forfeitures in the amount of \$4,823. The expenditures were funded by appropriated fund balances.

MINGIS, GUTOWSKI & COMPANY, LLP

Certified Public Accountants 791 South Chester Road, Swarthmore, PA 19081

610-544-5100
FAX: 610-544-9767

August 22, 2014

Mr. Joseph Pomorski
Chairman, Board of Supervisors
East Fallowfield Township
2264 Strasburg Road
East Fallowfield, PA 19320

Dear Mr. Pomorski:

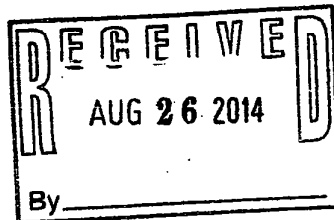
Enclosed is a copy of our governance letter, which is a requirement of the Auditing Standards Board of the American Institute of Certified Public Accountants. If you have any questions, please contact me.

Very truly yours,



David J. Barrett

DJB:imd
Enclosure



MINGIS, GUTOWSKI & COMPANY, LLP

Certified Public Accountants

791 South Chester Road, Swarthmore, PA 19081

610-544-5100

FAX: 610-544-9767

August 22, 2014

To the Board of Supervisors
East Fallowfield Township
2264 Strasburg Road
East Fallowfield, PA 19320

We are pleased to present this report related to our audit of the financial statements of East Fallowfield Township for the year ended December 31, 2013. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Township's financial reporting process.

This report is intended solely for the information and use of the Board of Supervisors and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to be of service to East Fallowfield Township.

Very truly yours,

Mingis, Gutowski & Company, LLP

EAST FALLOWFIELD TOWNSHIP

REPORT TO THE BOARD OF SUPERVISORS

GOVERNANCE LETTER

AUGUST 2014

MINGIS, GUTOWSKI & COMPANY, LLP
Certified Public Accountants
Swarthmore, Pennsylvania 19081

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Required Communication to Those Charged with Governance	1
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MINGIS, GUTOWSKI & COMPANY, LLP

Certified Public Accountants

791 South Chester Road, Swarthmore, PA 19081

610-544-5100

FAX: 610-544-9767

August 22, 2014

Board of Supervisors
East Fallowfield Township
East Fallowfield, Pennsylvania

Our responsibility under U.S. Generally Accepted Auditing Standards

We have audited the financial statements of East Fallowfield Township (The Township) for the year ended December 31, 2013, and have issued our report thereon dated August 15, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 19, 2012 for 2012 and 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by The Township are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by the Township during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because

Board of Supervisors
East Fallowfield Township
August 22, 2014

of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting The Township's financial statements were:

Management's estimates of the allowances for uncollected and delinquent trash fees and deferred revenues resulting from earned income tax and trash fees estimated using actual collections in a subsequent year.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. All significant misstatements identified during our audit have been corrected.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 14, 2014.

Board of Supervisors
East Fallowfield Township
August 22, 2014

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to The Township's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants for this purpose.

Other Significant Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to retention as The Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of East Fallowfield Township and Township management and is not intended to be and should not be used by anyone other than these specified parties.

Mingis, Gutowski & Company, LLP

Swarthmore, Pennsylvania

EAST FALLOWFIELD TOWNSHIP

REPORT TO THE BOARD OF SUPERVISORS

COMMUNICATION OF MATERIAL WEAKNESS

AUGUST 2014

MINGIS, GUTOWSKI & COMPANY, LLP
Certified Public Accountants
Swarthmore, Pennsylvania 19081

MINGIS, GUTOWSKI & COMPANY, LLP

Certified Public Accountants 791 South Chester Road, Swarthmore, PA 19081

610-544-5100
FAX: 610-544-9767

COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES

Board of Supervisors
East Fallowfield Township
East Fallowfield, Pennsylvania

In planning and performing our audit of the financial statements of the governmental activities and each major fund of East Fallowfield Township as of and for the year ended December 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered East Fallowfield Township's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of East Fallowfield Township's internal control. Accordingly, we do not express an opinion on the effectiveness of East Fallowfield Township's internal control.

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

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. We consider the following deficiencies in East Fallowfield Township's internal control to be material weaknesses:

Lack of Segregation of Duties

The absence of or inadequate segregation of duties within the accounting function represents a material weakness in internal control. Due to the size of the Township's staff, the same individual who is responsible for processing accounting transactions is also responsible for reconciliation and monitoring procedures. We recommend that staffing within the department be evaluated to determine whether adequate segregation of duties can be achieved. We would be pleased to discuss and assist in this evaluation.

Reconciliation of Escrow Funds

Prior to 2010, the Township had not adequately performed collection procedures for reimbursement of costs incurred, which resulted in a significant number of individual escrow accounts not being closed out on a timely basis. In addition, the Township did not separately record the assets and liabilities associated with the escrow accounts and, as a result, the Township's ledger reflects a negative asset of approximately \$768,000.

The total of the ending balance per the escrow account should be reconciled to the general ledger on a monthly basis. In addition, we recommend the Township review the detail of the escrow deposits currently outstanding. The disposition of any old deposit balances should be reviewed and a policy should be established to collect amounts owed and return the unused portion on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in East Fallowfield Township's internal control to be a significant deficiency.

Unclaimed Funds are Not Reconciled on a Timely Basis

Numerous old checks are listed as outstanding on the Township's bank reconciliation. Approximately 50 of these checks date back to the period 2005-2008. Pennsylvania escheat laws require unclaimed property to be reported to the state annually and to be remitted after 5 years. The Township maintains an account on its books titled Unclaimed Funds, which has a balance of \$17,656 at December 31, 2013. It is possible that certain unclaimed checks included in the total represent bookkeeping errors (such as voided checks that were re-issued) and

Board of Supervisors
East Fallowfield Township
August 22, 2014

do not represent unclaimed funds.

We believe that the Township Treasurer has revised the process and reviews unclaimed funds on an annual basis. It is imperative that this account be reviewed and adjusted, as appropriate, before any funds are remitted to the state.

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

Mingis, Gutowski & Company, LLP

Swarthmore, Pennsylvania

MINGIS, GUTOWSKI & COMPANY, LLP

Certified Public Accountants

791 South Chester Road, Swarthmore, PA 19081

**610-544-5100
FAX: 610-544-9767**

December 3, 2013

Ms. Rosemary Moore
Treasurer
East Fallowfield Township
2264 Strasburg Road
East Fallowfield, PA 19320

Dear Rosemary:

Attached is a copy of our engagement letter which was executed on January 7, 2013 and which established the terms of our engagement for the years ending December 31, 2012 and 2013. Professional standards require that we communicate the terms of our engagement to you each year.

The scope of our engagement will be consistent with previous years as indicated in the attached engagement letter.

We appreciate the opportunity to be of service to East Fallowfield Township and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please call.

Very truly yours,



David J. Barrett

DJB:lmd
Enclosure

MINGIS, GUTOWSKI & COMPANY, LLP

Certified Public Accountants

791 South Chester Road, Swarthmore, PA 19081

610-544-5100

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December 19, 2012

**Board of Supervisors
East Fallowfield Township, Pennsylvania**

We are pleased to confirm our understanding of the services we are to provide to East Fallowfield Township for the years ended December 31, 2012 and 2013. We will audit the financial statements of the governmental activities and each major fund, which collectively comprise the basic financial statements of East Fallowfield Township as of and for the years ended December 31, 2012 and 2013. Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI) such as management's discussion and analysis (MD&A) to supplement East Fallowfield Township's 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. As part of our engagement, we will apply certain limited procedures to East Fallowfield Township's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist 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 will 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 following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

- 1. Management's Discussion and Analysis**
- 2. Budgetary Comparison Schedules**
- 3. GASB Required Supplementary Pension Information**

We will also report on the Commonwealth of Pennsylvania Annual Audit and Financial Report on DCED-CLGS-30.

Audit Objective

The objective of our audit is the expression of opinions as to whether the Township's basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the additional information referred to in the second paragraph when considered in relation to the financial statements taken as a whole. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and will include tests of the accounting records and other procedures we consider necessary to enable us to express such opinions. If our opinions on the financial statements are other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form opinions, we may decline to express any opinion or to issue a report as a result of this engagement.

Management Responsibilities

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. You are also responsible for making all management decisions and performing all management functions; for designating an individual with suitable skill, knowledge, or experience to oversee our financial statement preparation services and any other nonattest services we provide; and for evaluating the adequacy and results of those services and accepting responsibility for them.

Management is responsible for establishing and maintaining effective internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements of the respective financial position of the governmental activities and each major fund of East Fallowfield Township and the respective changes in financial position in conformity with U.S. generally accepted accounting principles.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence.

Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud or illegal acts affecting East Fallowfield Township involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting East Fallowfield Township received in communications from employees, former employees, regulators, or others. In addition, you are responsible for identifying and ensuring that East Fallowfield Township complies with applicable laws and regulations. You are responsible for the preparation of the supplementary information in conformity with U.S. generally accepted accounting principles.

Audit Procedures – General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to East Fallowfield Township or to acts by management or employees acting on behalf of the Township.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detained examination of all transactions, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards. In addition, an audit is not designed to detect immaterial misstatements, or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform the appropriate level of management of any material errors or any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement. At the conclusion of our audit, we will require certain written representations from you about the financial statements and related matters.

Audit Procedures – Internal Control

Our audit will include obtaining an understanding of the Township and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify deficiencies in internal control. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards.

Audit Procedures – Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of East Fallowfield Township's compliance with applicable laws and regulations and the provisions of contracts and agreements. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion.

Audit Administration, Fees, and Other

We understand that your employees will prepare all cash or other confirmations we request and will locate any documents selected by us for testing.

David J. Barrett is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

Our fee for these services will be at our standard hourly rates plus out-of-pocket costs (such as report reproduction, word processing, postage, copies, telephone, etc.) except that we agree that our gross fee will not exceed \$14,700 for the year ended December 31, 2012 and \$15,500 for the year ended December 31, 2013, plus the cost of out-of-pocket expenses. If actual hours incurred are less than projected, the savings will be passed on to the Township in the form of a fee reduction. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our invoices for these fees may be rendered as work progresses and are payable on presentation. Our fee represents a discount from our expected standard fee and is based on anticipated cooperation from Township personnel and the assumption that unexpected circumstances will not be encountered during the audit.

Consulting Services

One of our practice management goals is to ensure that consulting services performed by us for our clients are provided as effectively, efficiently and economically as possible. If we are called upon to provide consulting services, we will work closely on a day-to-day basis with Township management, and with other Township staff, as appropriate, to ensure a unified approach, the open flow of information, and the awareness of engagement status. Any consulting services beyond the scope of the normal examination that may be requested by Township management will be charged hourly based on rates for experienced personnel that range from \$140 to \$175. It is to be understood that in providing consulting services to the Township, we will not assume the role of employee or management, we will not consummate transactions, and we will not have custody of assets or exercise authority. Our role will be advisory in nature in order that our role as independent auditors for the Township will not be impaired.

Because of our interest in providing comprehensive services to East Fallowfield Township, we offer up to \$1,500 of consulting services each year at no additional cost to the Township.

Board of Supervisors
East Fallowfield Township, Pennsylvania
December 19, 2012
Page 6

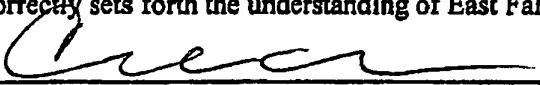
We appreciate the opportunity to be of service to East Fallowfield Township and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,

Mingis, Gutowski & Company, LLP

RESPONSE:

This letter correctly sets forth the understanding of East Fallowfield Township.

By: 

Title: Chairman

Date: January 7, 2013

MINGIS, GUTOWSKI & COMPANY, LLP

**EAST FALLOWFIELD TOWNSHIP
CHESTER COUNTY, PENNSYLVANIA**

RESOLUTION NO. 2013 - 02

A RESOLUTION OF THE BOARD OF SUPERVISORS OF EAST FALLOWFIELD TOWNSHIP, CHESTER COUNTY, APPOINTING A FIRM TO MAKE AN EXAMINATION OF ALL THE ACCOUNTS OF THE TOWNSHIP FOR FISCAL YEAR 2012 AND 2013 TO REPLACE THE ELECTED AUDITORS.

WHEREAS, the Township is governed by the Second Class Township Code of the Commonwealth of Pennsylvania, Act of May 1, 1933, P.L. 103, No. 69, reenacted and amended November 9, 1995, P.L. 350, No. 60, as amended (the "Code"); and

WHEREAS, the Board of Supervisors is granted the authority pursuant to Section 917(b)(1) of the Code by resolution to appoint a firm of certified or competent public accountants to make an examination of all the accounts of the township for 2012 and 2013 year stated in the resolution, subject to the provisions of Section 917(b)(2) of the Code; and

WHEREAS, Section 917(b)(2), requires advertisement in a newspaper of general circulation the intent to appoint a firm of certified or competent public accountants to replace the elected auditors at least thirty days prior to any vote to appoint said firm to replace the elected auditors; and

WHEREAS, said public advertisement has been provided in accordance with law.

NOW, THEREFORE, BE IT RESOLVED and ADOPTED by the Board of Supervisors of East Fallowfield Township, Chester County, as follows:

Section 1. The Board of Supervisors hereby appoints the firm of Mingis, Gutowski and Company, registered in the Commonwealth of Pennsylvania, to make an examination of all the accounts of the Township for fiscal year 2012 and 2013 to replace the elected auditors.

Section 2. The Board of Supervisors shall determine the compensation of the appointed firm of public accountants.

Section 3. The Board of Auditors shall not audit, settle or adjust the accounts audited by the appointee but shall perform the other duties of the office.

Section 4. This Resolution shall become effective immediately upon adoption.

RESOLVED and ADOPTED this 7th day of January, 2013.

**BOARD OF SUPERVISORS
EAST FALLOWFIELD TOWNSHIP**



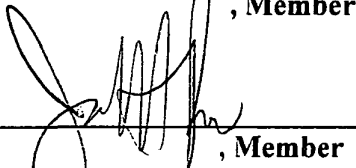
, Chairman



, Vice Chairman



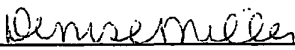
, Member



, Member

, Member

ATTEST:



Denise Miller,
Township Secretary

MINGIS, GUTOWSKI & COMPANY, LLP

Certified Public Accountants

791 South Chester Road, Swarthmore, PA 19081

610-544-5100

FAX: 610-544-9767

December 19, 2012

**Board of Supervisors
East Fallowfield Township, Pennsylvania**

We are pleased to confirm our understanding of the services we are to provide to East Fallowfield Township for the years ended December 31, 2012 and 2013. We will audit the financial statements of the governmental activities and each major fund, which collectively comprise the basic financial statements of East Fallowfield Township as of and for the years ended December 31, 2012 and 2013. Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI) such as management's discussion and analysis (MD&A) to supplement East Fallowfield Township's 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. As part of our engagement, we will apply certain limited procedures to East Fallowfield Township's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist 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 will 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 following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

- 1. Management's Discussion and Analysis**
- 2. Budgetary Comparison Schedules**
- 3. GASB Required Supplementary Pension Information**

We will also report on the Commonwealth of Pennsylvania Annual Audit and Financial Report on DCED-CLGS-30.

Audit Objective

The objective of our audit is the expression of opinions as to whether the Township's basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the additional information referred to in the second paragraph when considered in relation to the financial statements taken as a whole. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and will include tests of the accounting records and other procedures we consider necessary to enable us to express such opinions. If our opinions on the financial statements are other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form opinions, we may decline to express any opinion or to issue a report as a result of this engagement.

Management Responsibilities

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. You are also responsible for making all management decisions and performing all management functions; for designating an individual with suitable skill, knowledge, or experience to oversee our financial statement preparation services and any other nonattest services we provide; and for evaluating the adequacy and results of those services and accepting responsibility for them.

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Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence.

Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud or illegal acts affecting East Fallowfield Township involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting East Fallowfield Township received in communications from employees, former employees, regulators, or others. In addition, you are responsible for identifying and ensuring that East Fallowfield Township complies with applicable laws and regulations. You are responsible for the preparation of the supplementary information in conformity with U.S. generally accepted accounting principles.

Audit Procedures – General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to East Fallowfield Township or to acts by management or employees acting on behalf of the Township.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards. In addition, an audit is not designed to detect immaterial misstatements, or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform the appropriate level of management of any material errors or any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement. At the conclusion of our audit, we will require certain written representations from you about the financial statements and related matters.

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Our audit will include obtaining an understanding of the Township and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify deficiencies in internal control. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards.

Audit Procedures – Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of East Fallowfield Township's compliance with applicable laws and regulations and the provisions of contracts and agreements. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion.

Board of Supervisors
East Fallowfield Township, Pennsylvania
December 19, 2012
Page 5

Audit Administration, Fees, and Other

We understand that your employees will prepare all cash or other confirmations we request and will locate any documents selected by us for testing.

David J. Barrett is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

Our fee for these services will be at our standard hourly rates plus out-of-pocket costs (such as report reproduction, word processing, postage, copies, telephone, etc.) except that we agree that our gross fee will not exceed \$14,700 for the year ended December 31, 2012 and \$15,500 for the year ended December 31, 2013, plus the cost of out-of-pocket expenses. If actual hours incurred are less than projected, the savings will be passed on to the Township in the form of a fee reduction. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our invoices for these fees may be rendered as work progresses and are payable on presentation. Our fee represents a discount from our expected standard fee and is based on anticipated cooperation from Township personnel and the assumption that unexpected circumstances will not be encountered during the audit.

Consulting Services

One of our practice management goals is to ensure that consulting services performed by us for our clients are provided as effectively, efficiently and economically as possible. If we are called upon to provide consulting services, we will work closely on a day-to-day basis with Township management, and with other Township staff, as appropriate, to ensure a unified approach, the open flow of information, and the awareness of engagement status. Any consulting services beyond the scope of the normal examination that may be requested by Township management will be charged hourly based on rates for experienced personnel that range from \$140 to \$175. It is to be understood that in providing consulting services to the Township, we will not assume the role of employee or management, we will not consummate transactions, and we will not have custody of assets or exercise authority. Our role will be advisory in nature in order that our role as independent auditors for the Township will not be impaired.

Because of our interest in providing comprehensive services to East Fallowfield Township, we offer up to \$1,500 of consulting services each year at no additional cost to the Township.

Board of Supervisors
East Fallowfield Township, Pennsylvania
December 19, 2012
Page 6

We appreciate the opportunity to be of service to East Fallowfield Township and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,

Mingis, Gutowski & Company, LLP

RESPONSE:

This letter correctly sets forth the understanding of East Fallowfield Township.

By: 

Title: Chairman

Date: January 7, 2013

MINGIS, GUTOWSKI & COMPANY, LLP

**EAST FALLOWFIELD TOWNSHIP,
CHESTER COUNTY, PENNSYLVANIA**

**FINANCIAL STATEMENTS
WITH REPORT OF INDEPENDENT AUDITORS**

DECEMBER 31, 2013

**MINGIS, GUTOWSKI & COMPANY, LLP
Certified Public Accountants
Swarthmore, Pennsylvania 19081**

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA

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MINGIS, GUTOWSKI & COMPANY, LLP

Certified Public Accountants

791 South Chester Road, Swarthmore, PA 19081

610-544-5100

FAX: 610-544-9767

INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
East Fallowfield Township
Chester County, Pennsylvania

We have audited the accompanying financial statements of the governmental activities and each major fund of East Fallowfield Township, Pennsylvania, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of East Fallowfield Township, as of December 31, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 9 to the financial statements, the Township implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of pension funding progress, and schedule of contributions from the employer and other contributing entities, on pages 3 through 12 and 37 through 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Mingis, Gutowski & Company, LLP

Swarthmore, Pennsylvania
August 15, 2014

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section of the 2013 East Fallowfield Township annual report presents our discussion and analysis of the financial performance during the fiscal year ended December 31, 2013. The inclusion of this section is in compliance with *Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued by the Governmental Accounting Standards Board (GASB). Our comments are intended to be read in conjunction with the Independent Auditor's report preceding this discussion and the financial statements, and supplementary information immediately following this section.

FINANCIAL HIGHLIGHTS

The Township's Net Position as of December 31, 2013 totaled \$9,812,441, a decrease of \$31,827 from 2012. Net Position was comprised of capital assets, net of related debt, in the amount of \$8,296,266, assets restricted for road service maintenance in the amount of \$98,398 and unrestricted assets consisting primarily of cash and accounts receivable, net of liabilities totaling \$1,417,777.

During 2013, the Township's total revenue was \$3,040,102 and was \$53,230 more than the prior year. The increase was primarily due to a \$68,800 Park & Recreation grant in addition to an increase in building permits, offset by a decrease in earned income taxes.

Township expenses during 2013 increased by \$159,115 from 2012. Costs increased primarily due to an increase in police personnel costs.

On the legally enacted budgetary basis, the Township's General Fund ended the fiscal year with an increase in fund balance of \$124,107 compared to an increase in fund balance of \$478,921 in 2012. This difference was primarily due to the fact that in 2013, there was a decrease in tax revenues and an increase in public safety expenses.

OVERVIEW OF FINANCIAL STATEMENTS

Government-Wide Financial Statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The first two statements included in Government-Wide Financial Statements are the Statement of Net Position and the Statement of Activities. These statements provide long-term and short-term information about the Township's overall financial status.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

The Statement of Net Position includes all of the Township's assets and liabilities. The Statement of Activities reflects all of the current year's revenues and expenses regardless of when cash is received or paid. These two government-wide statements when viewed in conjunction with each other report the Township's Net Position and how it has changed. Analyzing the difference between the Township's assets and liabilities and the resulting net position provides a measure of the Township's financial health or position. Increases or decreases in the Township's net position over time are an indication of changing financial health. The overall health of the Township, however, must consider additional non-financial factors, such as changes in the Township's earned income tax base, the adequacy of Township services, and the competence of Township employees and officials.

Our Township's Statement of Activities consist solely of governmental activities and discloses basic services, such as general government (administration), public safety, code enforcement, public works, and culture and recreation. Earned income taxes, real estate transfer taxes, and charges for municipal services finance most of the Township's activities.

Fund Level Financial Statements

Fund Level Financial Statements focus on individual segments of the Township's operations and offer greater detail than Government-Wide Financial Statements. These financial statements include activities from two types of funds: Government Funds and Agency Funds.

Most of the Township's activities are reported in Governmental Funds. Governmental Funds statements report the sources for financing the Township's general services for the short-term, and services that will remain to be funded by future spending. Governmental Funds are reported using a modified accrual accounting method which measures cash and all other financial assets that can readily be converted to cash. The focus of Government Funds is to account for changes in the Township's financial position. Accordingly, Governmental Fund information assists the reader in determining whether there are greater or fewer financial resources available in the near future to finance Township programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and reported in Governmental Funds is reconciled in the financial statements and accompanying Notes to Financial Statements are included to offer explanations for some of the information and provide more detailed data.

Agency Fund statements disclose activities when the Township serves as an Agent for escrowed funds. Agency Funds are custodial in nature. Since assets in the fund are restricted from use to finance Township operations, Agency Fund activity is reported in a separate statement entitled, Statement of Net Position – Agency Fund.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

**FINANCIAL ANALYSIS OF THE TOWNSHIP – GOVERNMENT-WIDE
STATEMENTS**

The Township's total net position was \$9,812,441 and \$9,844,268 on December 31, 2013 and 2012, respectively. The decrease of \$31,827 was comprised of a decrease of \$179,678 in total assets and a decrease of \$147,851 in current and non-current liabilities. The following table presents condensed financial information comparing Net Assets as of December 31, 2013 and 2012:

	Net Position December 31,	
	Governmental Activities 2013	2012
Assets		
Current and other assets	\$ 1,643,003	\$ 1,724,941
Capital assets, net	<u>8,403,367</u>	<u>8,501,107</u>
Total assets	<u>10,046,370</u>	<u>10,226,048</u>
Liabilities		
Current and other liabilities	158,608	304,265
Noncurrent liabilities	<u>75,321</u>	<u>77,515</u>
Total liabilities	<u>233,929</u>	<u>381,780</u>
Net Position		
Invested in capital assets	8,296,266	8,409,870
Unrestricted	1,417,777	1,257,121
Restricted	<u>98,398</u>	<u>177,277</u>
Total net position	<u>\$ 9,812,441</u>	<u>\$ 9,844,268</u>

The results of this year's operations as a whole are reported in the Statement of Activities. Specific charges, grants, revenues, and subsidies that directly relate to specific expense categories are represented to determine the final amount of the Township's activities that are supported by other general revenues. The Township's most significant revenues are generally from earned income taxes, real estate transfer taxes, and trash fees.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

The following table presents financial information extracted and condensed from the Statement of Activities to facilitate a comparison of total revenue from governmental activities from 2013 to 2012:

		Governmental Activities	
		<u>2013</u>	<u>2012</u>
Revenues			
Program revenues:			
Charges for services	\$	953,847	\$ 922,988
Operating grants and contributions		458,215	398,717
General revenues:			
Taxes		1,391,319	1,467,493
Other revenue		<u>236,721</u>	<u>197,674</u>
Total revenues		<u>3,040,102</u>	<u>2,986,872</u>
Expenses			
General government		338,311	298,526
Public safety		1,232,390	1,087,507
Codes		38,514	23,361
Public works – sanitation		574,559	590,965
Public works – highways		666,596	666,035
Culture and recreation		11,961	19,223
Unallocated depreciation		<u>209,598</u>	<u>227,197</u>
Total expenses		<u>3,071,929</u>	<u>2,912,814</u>
Change in net position	\$	<u>(31,827)</u>	<u>\$ 74,058</u>

During 2013, the Township's total revenue was \$3,040,102 and increased by \$53,230 from the prior year. This increase was primarily due to a \$68,800 Park and Recreation grant, in addition to an increase in building permits, offset by a decrease in earned income taxes.

Township expenses during 2013 increased \$159,115 from 2012. Costs increased primarily due to an increase in police personnel costs.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FINANCIAL ANALYSIS OF THE TOWNSHIP – GOVERNMENTAL FUNDS

Most Township activities are reported in Governmental Funds. Governmental Funds are reported using the modified accrual accounting method which measures cash and all other financial assets that can readily be converted to cash. The Township's Governmental Funds include the General Fund, Capital Projects Fund, Liquid Fuels Fund, and Parks and Recreation Fund. The Township has elected to present each fund as a major fund.

General Fund

The General Fund is the principal operating fund of the Township. On the legally enacted budgetary basis, the General Fund ended the fiscal year with an increase in fund balance of \$124,107 compared to an increase in fund balance of \$478,921 in 2012. The lower fund balance increase in 2013 is due to a decrease in revenues of \$110,013, and an increase in expenditures of \$206,483.

Revenues decreased primarily due to a decrease in earned income taxes.

Expenditures increased by \$206,483 in 2013 primarily due to increased police personnel costs.

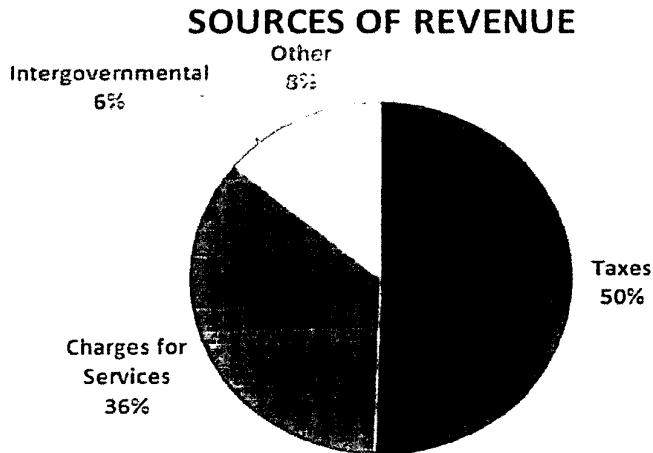
The following table compares the actual revenues and expenditures for 2013 and 2012:

Comparison of Revenues, Expenditures, and Changes in Net Assets General Fund For the Years Ended December 31,			
	<u>2013</u>	<u>2012</u>	<u>Variance</u>
Revenues			
Taxes	\$ 1,416,369	\$ 1,567,864	\$ (151,495)
Franchise fees	178,651	140,502	38,149
Fines and forfeits	21,677	40,004	(18,327)
Interest earned	732	377	355
Intergovernmental revenues	165,120	175,428	(10,308)
Charges for services:			
Trash fees	815,815	817,335	(1,520)
Building permits	95,038	54,534	40,504
Road and commercial permits	1,561	11,760	(10,199)
Other	32,781	36,321	(3,540)
Miscellaneous revenues	<u>13,835</u>	<u>7,467</u>	<u>6,368</u>
Total revenues	<u>2,741,579</u>	<u>2,851,592</u>	<u>(110,013)</u>

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

	<u>2013</u>	<u>2012</u>	<u>Variance</u>
Expenditures			
General government	\$ 322,094	\$ 298,526	\$ 23,568
Public safety	1,233,192	1,083,334	149,858
Codes	38,514	23,361	15,153
Public works – sanitation	574,559	590,965	(16,406)
Public works – highways	442,256	410,698	31,558
Culture and recreation	<u>6,857</u>	<u>4,105</u>	<u>2,752</u>
Total expenditures	<u>2,617,472</u>	<u>2,410,989</u>	<u>206,483</u>
Other Financing Sources (Uses)			
Sales of Capital Assets	-	945	(945)
Interfund Transfers In	-	(12,627)	12,627
Interfund Transfers Out	<u>-</u>	<u>50,000</u>	<u>(50,000)</u>
Total other financing sources	<u>-</u>	<u>38,318</u>	<u>(38,318)</u>
Net change in fund balance	124,107	478,921	<u>\$ (354,814)</u>
Fund balance, beginning	<u>427,360</u>	<u>(51,561)</u>	
Fund balance, ending	<u>\$ 551,467</u>	<u>\$ 427,360</u>	

Annual budgeting for the General Fund is based on four primary sources of revenue. The following chart illustrates each sources contribution by percentage. Earned income taxes and real estate transfer taxes contributed 50% of the General Fund's total revenues. Fees generated from charges for services contributed 36%. These two sources combined to contribute 86% of the General Fund's revenue. Revenues from "other" sources total 8% and included interest earnings, franchise fees, fines, and miscellaneous revenues. Intergovernmental revenues accounted for the remaining 6% of the General fund's revenue.



**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

General Fund Budgeted Revenues

The 2013 revenues from taxes were \$252,774 higher than budgeted due to higher earned income taxes than budgeted. Charges for services were \$28,650 less than budgeted overall, largely due to a decrease of \$63,130 of trash fee revenue lower than budgeted, offset by building permit fees \$45,038 higher than budgeted. The other revenues were relatively consistent with the overall budget projections.

General Fund Budgeted Expenditures

Departmental expenditures were \$126,571 over the projected budget. This was primarily due to higher than budgeted public safety expense, primarily for police personnel, in addition to higher than budgeted public works expenses. Overall, the result of last year's operations was an increase in fund balance of \$124,107.

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual
For the Year Ended December 31, 2013**

	<u>Original</u>	<u>Final</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Taxes	\$ 1,163,595	\$ 1,163,595	\$ 1,416,369	\$ 252,774
Franchise fees	141,000	141,000	178,651	37,651
Fines and forfeits	26,500	26,500	21,677	(4,823)
Interest earned	400	400	732	332
Intergovernmental revenues	149,000	149,000	165,120	16,120
Charges for services:				
Trash fees	878,945	878,945	815,815	(63,130)
Building permits	50,000	50,000	95,038	45,038
Road and commercial permits	10,300	10,300	1,561	(8,739)
Other	34,600	34,600	32,781	(1,819)
Miscellaneous revenues	<u>300</u>	<u>300</u>	<u>13,835</u>	<u>13,535</u>
Total revenues	<u>2,454,640</u>	<u>2,454,640</u>	<u>2,741,579</u>	<u>286,939</u>
Expenditures				
General government	339,348	339,348	322,094	17,254
Public safety	1,162,001	1,162,001	1,233,192	(71,191)
Codes	28,300	28,300	38,514	(10,214)
Public works – sanitation	566,260	566,260	574,559	(8,299)
Public works – highways	384,242	384,242	442,256	(58,014)
Culture and recreation	<u>10,750</u>	<u>10,750</u>	<u>6,857</u>	<u>3,893</u>
Total expenditures	<u>2,490,901</u>	<u>2,490,901</u>	<u>2,617,472</u>	<u>(126,571)</u>
 Excess (deficiency) of revenues over expenditures	 <u>(36,261)</u>	 <u>(36,261)</u>	 <u>124,107</u>	 <u>160,368</u>

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

	<u>Original</u>	<u>Final</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
Other financing sources (uses)				
2012 projected surplus	\$ 40,000	\$ 40,000	\$ -	\$ (40,000)
Total other financing sources (uses)	<u>40,000</u>	<u>40,000</u>	<u>-</u>	<u>(40,000)</u>
Net change in fund balance	3,739	3,739	124,107	120,368
Fund balance, January 1	<u>427,360</u>	<u>427,360</u>	<u>427,360</u>	<u>-</u>
Fund balance, December 31	<u>\$ 431,099</u>	<u>\$ 431,099</u>	<u>\$ 551,467</u>	<u>\$ 120,368</u>

Liquid Fuels Fund

Under the Liquid Fuels Tax Act 655, the Township receives a subsidy from the Commonwealth of Pennsylvania for the maintenance of roads. Funds received are deposited into the Township's Liquid Fuels Fund and restricted from use in other Township activities. Costs subsidized include acquisition of vehicles and equipment, maintenance of vehicles and equipment, fuel, and supplies for snow removal. During 2013, subsidies received totaled \$224,295. Liquid Fuels Fund expenses totaled \$224,334. As of December 31, 2013, the Liquid Fuels Fund had a fund balance of \$98,398.

Capital Projects Fund

The Township maintains a Capital Projects Fund largely for the purpose of funding acquisitions of capital assets. During 2013, \$16,808 was used for lease payments on police vehicles and \$14,407 was used to partially fund the comprehensive plan update. As of December 31, 2013, the fund balance of the Capital Projects Fund amounted to \$387,432.

Parks and Recreation Fund

The Township maintains a Parks and Recreation Fund to restrict certain revenues for the sole use of improving and enhancing public parks. The primary sources of revenue for the Parks and Recreation Fund are grants, contributions, and proceeds from developers. Funding from developers occurs when the developer, who is obligated to comply with the Township ordinances and include recreation areas and facilities as a part of the land development plan, opts to provide "in lieu of" funds to be used by the Township for alternate recreation facilities. In 2013, a \$68,800 grant was received from the Department of Conservation and Natural Resources. As of December 31, 2013, the fund balance of the Parks and Recreation Fund was \$381,111.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

CAPITAL ASSETS

As of December 31, 2013, the Township had \$8,403,367 of value in a broad range of Capital Assets, including land, buildings and furniture, equipment and infrastructure. This amount represents a net decrease of \$97,740 in value from 2012 that is attributed to \$111,857 in asset additions and depreciation expense of \$209,598.

The following schedule delineates the ending value of Capital Assets for the period ending December 31, 2013 and changes in each capital asset category:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated				
Land	\$ 3,050,001			\$ 3,050,001
Park improvements	779,880			779,880
Building and improvements	316,451			316,451
Infrastructure	5,380,702			5,380,702
Vehicles	877,761	\$ 111,857	\$ 41,498	948,120
Machinery and equipment	236,924			236,924
Total capital assets, being depreciated	<u>10,641,719</u>	<u>111,857</u>	<u>41,498</u>	<u>10,712,078</u>
Less accumulated depreciation for:				
Park improvements	70,191	15,597		85,788
Building and improvements	187,584	12,884		200,468
Infrastructure	971,346	107,614		1,078,960
Vehicles	720,259	53,058	41,498	731,819
Machinery and equipment	191,232	20,444		211,676
Total accumulated depreciation	<u>2,140,612</u>	<u>209,597</u>	<u>41,498</u>	<u>2,308,711</u>
Governmental activities capital assets, net	<u>\$ 8,501,107</u>	<u>\$ (97,740)</u>	<u>\$ -</u>	<u>\$ 8,403,367</u>

THE TOWNSHIP'S FUTURE

East Fallowfield Township saw a decrease in earned income tax collections in 2013, as well as an increase in public safety expenses. As the pie chart on page 8 indicates, 50% of East Fallowfield's revenue comes from tax revenues. Our current revenues are limited to sources that are directly affected by general economic conditions. Tax revenues are driven by our residents' ability to be employed and earn taxable compensation. Real estate transfer taxes are driven by real estate sales.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Although one of our primary sources of revenue is billed trash collection services, these monies are offset by the cost incurred for trash collection contracts. The Township's financial solvency will therefore depend on creative new concepts for generating revenue while maintaining programs whose costs are escalating to ensure the safety of our residents. Future financial planning will consider the following:

- Development of new funding sources from enacting safety, real estate or other taxes.
- Capital project funding and fixed asset replacement and long-term infrastructure improvement strategy
- Multi-year budgeting and or projections.

FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens and taxpayers with a general overview of the Township's finances and to show the Board's accountability. If you have questions about this report or wish to request additional financial information, please contact the Township Treasurer.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
STATEMENT OF NET POSITION
DECEMBER 31, 2013**

	Governmental Activities
Assets	
Current Assets:	
Cash	\$ 1,172,058
Receivables:	
Taxes	351,033
Trash, net of allowance of \$34,087	32,746
Franchise fees	39,491
Prepaid items	46,790
Miscellaneous	<u>885</u>
Total current assets	<u>1,643,003</u>
Capital Assets:	
Land	3,050,001
Other capital assets, net of accumulated depreciation	<u>5,353,366</u>
Total capital assets, net	<u>8,403,367</u>
Total assets	<u>10,046,370</u>
Liabilities	
Current Liabilities:	
Accounts payable and accrued liabilities	57,943
Accrued payroll	24,507
Deposits	9,923
Payroll deductions and withholdings	8,205
Lease obligations	<u>58,030</u>
Total current liabilities	<u>158,608</u>
Noncurrent Liabilities:	
Lease obligations	49,071
Compensated absences	<u>26,250</u>
Total noncurrent liabilities	<u>75,321</u>
Total liabilities	<u>233,929</u>
Net Position	
Invested in capital assets, net of related debt	8,296,266
Restricted for road service and maintenance	98,398
Unrestricted	<u>1,417,777</u>
Total net position	<u>\$ 9,812,441</u>

See Notes to Financial Statements.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2013**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants And Contributions</u>	
Governmental Activities:					
General government	\$ 338,311		\$ 165,120		\$ (173,191)
Public safety	1,232,390	\$ 21,677			(1,210,713)
Codes	38,514	96,599			58,085
Public works – sanitation	574,559	826,571			252,012
Public works – highways	666,596		224,295		(442,301)
Culture and recreation	11,961	9,000	68,800		65,839
Unallocated depreciation expense	<u>209,598</u>				<u>(209,598)</u>
Total governmental activities	<u>\$3,071,929</u>	<u>\$ 953,847</u>	<u>\$ 458,215</u>	<u>\$ -</u>	<u>(1,659,867)</u>
General revenues					
Taxes:					
Earned income taxes					1,225,547
Real estate transfer taxes					132,519
Local services taxes					33,253
Franchise fees					178,651
Investment earnings					1,419
Miscellaneous income					<u>56,651</u>
Total general revenues					<u>1,628,040</u>
Change in net position					(31,827)
Net position, beginning of year					<u>9,844,268</u>
Net position, end of year					<u>\$ 9,812,441</u>

See Notes to Financial Statements.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Liquid Fuels Fund</u>	<u>Parks and Recreation Fund</u>	<u>Total Governmental Funds</u>
Assets					
Cash	\$ 295,194	\$ 387,432	\$ 98,398	\$ 391,034	\$ 1,172,058
Receivables:					
Earned income tax	341,655				341,655
Local services tax	2,964				2,964
Real estate transfer tax	6,414				6,414
Trash fees	32,746				32,746
Franchise fees	39,491				39,491
Miscellaneous	885				885
Prepaid items	<u>46,790</u>	<u> </u>	<u> </u>	<u> </u>	<u>46,790</u>
Total assets	<u>\$ 766,139</u>	<u>\$ 387,432</u>	<u>\$ 98,398</u>	<u>\$ 391,034</u>	<u>\$ 1,643,003</u>
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities	\$ 57,943				\$ 57,943
Deposits				\$ 9,923	9,923
Accrued payroll	24,507				24,507
Payroll deductions and withholding	<u>8,205</u>	<u> </u>	<u> </u>	<u> </u>	<u>8,205</u>
Total liabilities	<u>90,655</u>	<u>\$ -</u>	<u>-</u>	<u>9,923</u>	<u>100,578</u>
Deferred Inflows of Resources:					
Unavailable revenue	124,017				124,017
Fund Balances:					
Nonspendable	46,790				46,790
Restricted – Road service and maintenance			98,398		98,398
Committed – Parks and Recreation				381,111	381,111
Committed – Capital Purchases		387,432			387,432
Assigned					
Unassigned	<u>504,677</u>	<u> </u>	<u> </u>	<u> </u>	<u>504,677</u>
Total fund balances	<u>551,467</u>	<u>387,432</u>	<u>98,398</u>	<u>381,111</u>	<u>1,418,408</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 766,139</u>	<u>\$ 387,432</u>	<u>\$ 98,398</u>	<u>\$ 391,034</u>	<u>\$ 1,643,003</u>

See Notes to Financial Statements.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2013

Total fund balances – governmental funds	\$ 1,418,408
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 assets is \$10,712,078 and the accumulated depreciation is \$2,308,711.	8,403,367
Long-term liabilities, comprised of compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	(26,250)
Capital lease obligations that consume resources of governmental funds that have no input on net assets	(107,101)
Trash and other fees will be collected next year, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds statements. They are recorded as revenue in the entity-wide statements.	22,956
Earned income taxes receivable will be collected next year, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds. However, they are recorded as revenue in the entity-wide statements.	<u>101,061</u>
Total net position – governmental activities	<u>\$ 9,812,441</u>

See Notes to Financial Statements.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2013**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Liquid Fuels Fund</u>	<u>Parks and Recreation Fund</u>	<u>Total Governmental Funds</u>
Revenues:					
Taxes:					
Earned income	\$ 1,250,597				\$ 1,250,597
Real estate transfer	132,519				132,519
Local services	<u>33,253</u>				<u>33,253</u>
Total taxes	1,416,369				1,416,369
Grants				\$ 68,800	68,800
Franchise fees	178,651				178,651
Fines and forfeits	21,677				21,677
Interest	732	\$ 404	\$ 149	134	1,419
Intergovernmental revenues	165,120		224,295		389,415
Charges for services:					
Trash fees	815,815				815,815
Building permits	95,038				95,038
Road and commercial permits	1,561				1,561
Other	32,781				32,781
Fee in lieu				9,000	9,000
Miscellaneous revenues	<u>13,835</u>	<u>75</u>		<u>960</u>	<u>14,870</u>
Total revenues	<u>2,741,579</u>	<u>479</u>	<u>224,444</u>	<u>78,894</u>	<u>3,045,396</u>
Expenditures:					
General government	322,094	16,217			338,311
Public safety	1,233,192				1,233,192
Codes	38,514				38,514
Public works – sanitation	574,559				574,559
Public works – highways	442,256		224,334		666,590
Culture and recreation	<u>6,857</u>			<u>5,104</u>	<u>11,961</u>
Total expenditures	<u>2,617,472</u>	<u>16,217</u>	<u>224,334</u>	<u>5,104</u>	<u>2,863,127</u>
Excess (deficiency) of revenues over expenditures	<u>124,107</u>	<u>(15,738)</u>	<u>110</u>	<u>73,790</u>	<u>182,269</u>
Other financing sources (uses):					
Purchase of capital assets			(45,660)		(45,660)
Principal payment on capital lease		(16,808)	(33,625)		(50,433)
Total Other Financial Sources (Uses)	-	(16,808)	(79,285)	-	(96,093)
Net change in fund balances	124,107	(32,546)	(79,175)	73,790	86,176
Fund Balance, January 1	<u>427,360</u>	<u>419,978</u>	<u>177,573</u>	<u>307,321</u>	<u>1,332,232</u>
Fund Balance, December 31	<u>\$ 551,467</u>	<u>\$ 387,432</u>	<u>\$ 98,398</u>	<u>\$ 381,111</u>	<u>\$ 1,418,408</u>

See Notes to Financial Statements.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2013**

Total net change in fund balances – governmental funds	\$	86,176
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Amounts reported for governmental activities in the
statement of activities are different because:

Capital outlays are reported in government funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation. This is the amount by which depreciation exceeds capital outlays in the period.

Capital outlays	\$ 45,866	
Depreciation expense	<u>(209,598)</u>	(163,732)

Because some earned income taxes will not be collected for several months after the Township's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred earned income tax revenues decreased by this amount this year.	(15,929)
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Long-term liabilities, including compensated absences, are not due and payable and, therefore, are not reported as liabilities in the funds.	(802)
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The repayment of principal of long-term debt consumes the current financial resources of governmental funds but has no effect on net assets.	51,732
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Because some trash and other fees will not be collected for several months after the Township's fiscal year ends, they are not considered as "available" in the funds statements. They have been earned and are recorded as revenue in the entity-wide statements. Deferred trash revenue increased by this amount.	<u>10,728</u>
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Change in net position of governmental activities	\$	<u>(31,827)</u>
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See Notes to Financial Statements.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
STATEMENT OF NET POSITION – AGENCY FUND
DECEMBER 31, 2013**

	<u>Agency</u>
Assets	
Cash and cash equivalents	\$ 419,253
Contractor receivables	<u>13,041</u>
Total assets	<u>\$ 432,294</u>
Liabilities	
Contractor deposits	\$ 117,169
Deposits held for West Chester Road	281,607
Reserved for escrow liabilities	<u>33,518</u>
Total liabilities	<u>\$ 432,294</u>

See Notes to Financial Statements.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of East Fallowfield Township (the "Township") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies:

Organization

The Township is the basic level of government which has oversight responsibility and control over all activities related to the local government in East Fallowfield Township. The Township receives funding from local and Commonwealth government sources and must comply with the requirements of these funding source entities. However, the Township is not included in any other governmental "reporting entity" as defined by the GASB pronouncement, since the Township supervisors are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

The Township does not have a corresponding Municipal Authority. Based on component unit evaluation, no other organization is included as a component unit of the Township's reporting entity.

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the Township as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net position presents the financial condition of the governmental activities of the Township at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Township's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, are clearly identifiable to a particular function. 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 Township, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Township.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Fund Financial Statements

During the fiscal year, the Township segregates transactions related to certain Township 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 Township at this more detailed level. The focus of governmental fund financial statements is on major funds. The Township has elected to present each major and non-major fund in a separate column. Fiduciary funds are reported by type.

Fund Accounting

The accounts of the Township are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent. The Township has the following fund types:

Governmental Funds: Governmental funds are those through which most governmental functions of the Township 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 will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The Township's major governmental funds are as follows:

General Fund: The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects Fund: The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Liquid Fuels Fund: The Liquid Fuels Fund, as required by state law, accounts for receipts from the State Motor License Fund (gasoline tax distribution, etc.) and the payment of allowable street and highway-related expenditures.

Parks and Recreation Fund: The Parks and Recreation Fund is used to account for financial resources to be used for the acquisition of park and recreation related expenditures.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Fiduciary Funds: Trust and Agency Funds are used to account for assets held by the Township in a trustee capacity or as an agent for individuals. Agency Funds are custodial in nature and do not involve measurement of results of operations. The Township's Agency Fund is the Escrow Fund.

Measurement Focus and Basis of Accounting

The government-wide financial statements are prepared using a flow of economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the liability is incurred regardless of the timing of the related cash flows. All assets and liabilities associated with the operation of the Township are included on the statement of net assets.

In the 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 are generally included in the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects 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 reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

The basis of accounting that is used 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 and the fiduciary funds use the accrual basis of accounting. Differences in the accrual and 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 Nonexchange Transactions

Revenue 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 the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means 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. For the Township, "available" means expected to be received within sixty days of fiscal year end.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Nonexchange transactions, in which the Township receives value without directly giving equal value in return, include earned income taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year in 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 required to be used or the fiscal year when use is first permitted; matching requirements, in which the Township must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Township on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Township had no deferred outflows of resources.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Unavailable revenue qualifies for reporting in this category and arises only under a modified accrual basis of accounting. Accordingly, it is reported only in the governmental funds balance sheet.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time the obligation is incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Date of Management's Review

Management of the Township have evaluated subsequent events through August 15, 2014, the date on which the financial statements were available to be issued.

Equity Classification Government-Wide

Equity is classified as net assets and displayed in three components for government-wide presentation:

Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributions, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Equity

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*, establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved/ undesignated were replaced with five new classifications – Nonspendable, restricted, committed, assigned, and unassigned.

In the fund financial statements, governmental funds report the following components of fund balance:

- Nonspendable – Amounts that are not in spendable form or are legally or contractually required to be maintained intact.
- Restricted – Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

- **Committed** – Amounts that have been formally set aside by the Township board for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Township board.
- **Assigned** – Amounts that are intended to be spent on specific purposes expressed by the Township Board; or Supervisor, Clerk, and Treasurer; who are authorized by policy approved by the Township Board to make assignments. All current year assignments have been made by the Township Board.
- **Unassigned** – Amounts that do not fall into any other aforementioned category. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

Budgets

The Township is required by state law to adopt an annual budget for the General Fund. The budget is presented on the modified accrual basis of accounting which is consistent with accounting principles generally accepted in the United States of America. The following procedures are followed in establishing the budgetary data reflected in the financial statements.

1. Prior to November 15 of the preceding fiscal year, the Township prepares a budget for the next succeeding calendar year beginning January 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board of Supervisors is then called for the purpose of adopting the proposed budget.
3. Prior to December 31, the budget is legally enacted through passage of a resolution by the Board of Supervisors.
4. The budget must be filed with the Pennsylvania Department of Community Affairs by January 31.

Once a budget is approved, it can be amended at the Function and Fund level only by approval of a majority of the members of the Board of Supervisors. Amendments are presented at the Board at their regular meetings. Each amendment must have Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end as dictated by law.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

The budget is controlled by the finance officer at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board of Supervisors. Individual amendments were not material in relation to the original appropriations. All budget appropriations lapse at year end.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2013, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which the services are consumed.

Interfund Transactions

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as interfund receivables/payables. Interfund balances within the governmental activities are eliminated on the government-wide statement of net assets.

Earned Income Taxes, Real Estate Transfer Taxes, and Local Services Taxes

The Township recognizes assets from earned income taxes, real estate transfer taxes, and local services taxes when the underlying exchange transaction occurs or when resources are received, whichever is first. In the governmental fund financial statements, under the modified accrual basis of accounting, revenue is recorded when the underlying exchange occurs and when the resources are available. Revenue that is not available is deferred.

Property Tax

There have been no property taxes levied since 1996.

Compensated Absences

The Township's policy is to permit employees to accumulate sick days. Upon retirement, employees will be paid for 25% of unused sick days up to a maximum of 200 days at their current pay rate.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Capital Assets

Capital assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported in the fund financial statements. Purchases of capital assets are recognized as expenditures in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The Township maintains a capitalization threshold of \$5,000. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the assets are not capitalized.

All capital assets, except land, are depreciated. Improvements are depreciated over the estimated remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Depreciation</u>	<u>Estimated Lives</u>
Park improvements	15-50 years
Buildings and building improvements	15-40 years
Infrastructure	20-80 years
Furniture and fixtures	5-20 years
Vehicles	5-7 years
Equipment	5-20 years

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements. In general, governmental fund payables and accrued liabilities, once incurred, are paid in a timely manner and in full from current financial resources and are reported as obligations of the funds. However, contractually required pension contributions and compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Net Position

Net Position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net Position invested in capital assets represents the costs of capital assets net of related debt and net of accumulated depreciation. Net Position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Township or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Township's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Fund Balance Reserves

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Date of Management's Review

Management has evaluated subsequent events through August 15, 2014, which is the date the financial statements were available to be issued.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 2 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 3,050,001			\$ 3,050,001
Total capital assets, not being depreciated	<u>3,050,001</u>	<u>-</u>	<u>-</u>	<u>3,050,001</u>
Capital assets, being depreciated				
Park improvements	779,880			779,880
Building and improvements	316,451			316,451
Infrastructure	5,380,702			5,380,702
Vehicles	877,761	\$ 111,857	\$ 41,498	948,120
Machinery and equipment	<u>236,924</u>			<u>236,924</u>
Total capital assets, being depreciated	<u>7,591,718</u>	<u>111,857</u>	<u>41,498</u>	<u>7,662,077</u>
Less accumulated depreciation for:				
Park improvements	70,191	15,597		85,788
Building and improvements	187,584	12,884		200,468
Infrastructure	971,346	107,614		1,078,960
Vehicles	720,259	53,058	41,498	731,819
Machinery and equipment	<u>191,232</u>	<u>20,444</u>		<u>211,676</u>
Total accumulated depreciation	<u>2,140,612</u>	<u>209,597</u>	<u>41,498</u>	<u>2,308,711</u>
Total capital assets being depreciated, net	<u>5,451,106</u>	<u>(97,740)</u>	<u>-</u>	<u>5,353,366</u>
Governmental activities capital assets, net	<u>\$ 8,501,107</u>	<u>\$ (97,740)</u>	<u>\$ -</u>	<u>\$ 8,403,367</u>

NOTE 3 CAPITAL LEASES

The Township's capital leases payable at December 31, 2013 consist of the following:

<u>Description</u>	<u>Balance 12/31/12</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 12/31/13</u>	<u>Due Within One Year</u>
Capital Lease – First Niagara Leasing, Inc., annual payment of \$35,785, interest at 3.189%, maturing 2014, secured by road equipment	\$ 68,286	\$ -	\$ 33,625	\$ 34,661	\$ 34,661
Capital Lease – Ford Motor Credit Co., annual payment of \$8,682, interest at 6.6%, maturing 2015, secured by police vehicle	\$ 22,951	-	-	\$ 22,951	\$ 7,640

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 3 CAPITAL LEASES (CONTINUED)

<u>Description</u>	<u>Balance 12/31/12</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 12/31/13</u>	<u>Due Within One Year</u>
Capital Lease – Susquehanna Commercial Finance, Inc., annual payment of \$8,465, interest at 4.68%, maturing 2016, secured by police vehicle	-	\$ 31,611	\$ 8,465	\$ 23,146	\$ 7,358
Capital Lease – Susquehanna Commercial Finance, Inc., annual payment of \$9,642, interest at 4.72%, maturing 2016, secured by police vehicle	-	\$ 35,985	\$ 9,642	\$ 26,343	\$ 8,371

The cost of equipment and related accumulated depreciation recorded under capital leases is as follows:

Road Equipment	\$ 136,640
Police Car	99,229
Less: Accumulated depreciation	<u>(84,570)</u>
	<u>\$ 151,299</u>

Future minimum capital lease payments are as follows:

	<u>Freighter</u>	<u>Police Vehicles</u>	<u>Total</u>
2014	\$ 35,785	\$ 26,790	\$ 62,575
2015	-	26,790	26,790
2016	<u>-</u>	<u>18,288</u>	<u>18,288</u>
	<u>\$ 35,785</u>	<u>\$ 71,868</u>	<u>\$ 107,653</u>

NOTE 4 INTERFUND RECEIVABLES, PAYABLE, AND TRANSFERS

There were no interfund receivables, payables, or transfers during the year ended December 31, 2013.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 5 EMPLOYEE PENSION PLANS

Non-Uniform Pension Plan

The Township maintains a defined contribution plan covering substantially all full-time employees of the Township except police. The pension program is administered by the Pennsylvania Municipal Retirement System ("PMRS"). PMRS is an agent, multiple-employer system with the purpose to administer sound, cost-effective pensions for local government employees. Responsibility for the organization and administration of the system is vested in the eleven-member Pennsylvania Municipal Retirement Board. PMRS issues a separate Comprehensive Annual Financial Report ("CAFR"). A copy of the CAFR can be obtained by contacting the PMRS Accounting Office, PO Box 1165, Harrisburg, PA 17108-1165.

Contributions to the plan are at the discretion of the Board of Supervisors. In 2004, the Board established an annual employer contribution rate of 5.0% of the employees' salary for the non-uniform pension plan. The Township contributed \$19,631 to the plan in 2013.

Police Pension Plan

The Township sponsors a defined benefit plan for police. As of December 31, 2013, all eligible police employees were participating in the plan. All employees are eligible to participate in the plan after six months of employment. The plan is authorized and enacted under authority of Act 205 of Pennsylvania ("the Act") and local ordinances. The plan is administered by PMRS.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 5 EMPLOYEE PENSION PLANS (CONTINUED)

As of December 31, 2013, pension plan membership consisted of:

	<u>Police</u>	<u>Non-Uniform</u>
Covered employees	All regular, full-time sworn police officers	All regular, full-time employees, excluding sworn police officers
Number of covered active employees	7	8
Number of persons receiving benefits:		
Retired employees and beneficiaries	1	2
Terminated employees vested but not receiving benefits	0	1
Normal retirement date	After 55 th birthday and 12 years of service	Normal social security mandated age
Retirement benefit	Equal 50% of the average monthly compensation during the final 36 months of employment	Plan is defined contribution
Early retirement date	Voluntary after 20 years of service	Normal social security mandated age

Contributions and Funding Policy for Police Pension Plan

The Act requires that annual contributions be based upon the calculation of the Minimum Municipal Obligation ("MMO"). The MMO calculation is based upon the biennial actuarial valuation. The Commonwealth allocates certain funds to assist in the pension funding. Any financial requirement established by the MMO which exceeds the Commonwealth allocation must be funded by the Township or employee members.

Currently, employees covered under the Police Pension Plan are required to annually contribute 5% of their salaries. Administrative costs, including investment manager fees, custodial trustee fees, and actuarial fees are charged to the Plan and funded through investment earnings.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 5 EMPLOYEE PENSION PLANS (CONTINUED)

The Township's annual pension cost for the year ended December 31, 2013 and related information for the Police Pension Plan is as follows:

	<u>Police Pension Plan</u>
Annual pension cost	\$62,405
Contributions made	\$62,405
Valuation Date	January 1, 2011
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar-Closed
Remaining Amortization Period	14.84 years
Asset Valuation Method	Fair Value
Actuarial Assumptions:	
Investment Rate of Return	6.0%
Projected Salary Increases	2.7% - 6.4%

Trend Information

Year Ended December 31,	Police Annual Pension Cost (APC)	Non-Uniform Pension Cost (APC)	Police % Contributed	Non-Uniform % Contributed
2009	\$54,675	\$12,779	100.0	100.0
2010	58,629	12,278	100.0	100.0
2011	63,674	29,261	100.0	100.0
2012	65,135	9,519	100.0	100.0
2013	62,405	19,631	100.0	100.0

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 5 EMPLOYEE PENSION PLANS (CONTINUED)

Funded Status and Funding Progress

The following is funded status information as of January 31, 2011, the most recent actuarial valuation date:

	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) AAL	Funded Ratio	Covered Payroll	Unfunded (Overfunded) AAL as a % of Covered Payroll
Police	\$859,876	\$1,009,859	\$149,983	85.15%	\$479,590	31.27%

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

NOTE 6 CASH

Legal and Contractual Restrictions

The Township is permitted to invest in U.S. Treasury bills, short-term obligations of the U.S. Government or its agencies, and shares of an investment company as defined, provided that the only investments of the company are in authorized investments for Township funds. The Township may also plan deposits that are insured by the Federal Deposit Insurance Corporation ("FDIC") and deposits that are collateralized on an individual or on a pooled basis in accordance with Act No. 72 of the Commonwealth of Pennsylvania, August 6, 1971.

Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. At year end, the total carrying amount of the Township's checking, savings, and money market deposits was \$1,590,597 and the corresponding bank balance was \$1,767,366. Of the bank balance, \$252,679 was covered by federal depository insurance, and \$1,514,687 was collateralized through pools of securities held by the respective depository institutions.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 7 COMPENSATED ABSENCES

The following is a summary of changes in compensated absences:

<u>Balance</u> <u>January 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>December 31, 2013</u>
<u>\$ 27,052</u>	<u>\$ 3,358</u>	<u>\$ 4,160</u>	<u>\$ 26,250</u>

NOTE 8 RISK MANAGEMENT

The Township is exposed to various risks of loss related to third-party liability claims, damages to and losses of Township-owned property, errors and omissions by public officials and injuries to employees. The Township carries various types of commercial insurance to manage certain risks of loss and has joined a municipal risk sharing pool to manage certain other risks of loss.

There were no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 9 CHANGE IN ACCOUNTING

During the current year, the Township adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this statement is to establish standards that reclassify certain items that were previously reported as assets and liabilities and instead to classify them as deferred inflows of resources, deferred outflows of resources, or as outflows of resources.

As a result of implementing this statement, the following liabilities have been reclassified, as indicated:

<u>Item</u>	<u>Amount</u>	<u>Prior Reporting</u> <u>Classification/Treatment</u>	<u>New Classification After</u> <u>Adoption of GASB 65</u>
Unavailable Revenue:			
Trash fees		Liability	Deferred inflow of resources
Earned income taxes		Liability	Deferred inflow of resources

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

**NOTE 10 ACCOUNTING PRONOUNCEMENTS ISSUED, NOT YET
IMPLEMENTED**

GASB Statement No. 67, *Financial Reporting for Pension Plans*, issued June 2012, will become effective for the Township beginning with the year ending December 31, 2014. This statement revises existing guidance for most pension plans and details note-disclosure requirements for defined benefit and defined contribution pension plans.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, issued June 2012 will become effective for the Township beginning with the year ending December 31, 2015. This statement will require governments with defined benefit pension plans to disclose a "net pension liability" on their balance sheets.

The Township's management has not yet determined the effect, if any, these Statements will have on the Township's financial statements.

NOTE 11 CONTINGENCIES

In the normal course of business, there are various claims and suits pending against the Township. In the opinion of Township Management, the Township has adequate legal defenses or insurance coverage with respect to these claims and lawsuits and does not believe they will materially affect the Township's financial statements.

The use of grant monies is subject to compliance audits by governmental agencies. Management of the Township believes the Township is in compliance with substantially all the significant requirements of such grants.

REQUIRED SUPPLEMENTARY INFORMATION

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION FUNDING PROGRESS – POLICE PENSION PLAN
SIX YEARS ENDED DECEMBER 31, 2013**

Actuarial Valuation Date January 1,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c))
2007	\$407,460	\$ 422,886	\$ 15,426	96.35%	\$391,653	3.94%
2008*	407,460	422,886	15,426	96.35%	391,653	3.94%
2009	603,798	660,682	56,884	91.39%	460,707	12.35%
2010*	603,798	660,682	56,884	91.39%	460,707	12.35%
2011	859,876	1,009,859	149,983	85.15%	479,590	31.27%
2012*	859,876	1,009,859	149,983	85.15%	479,590	31.27%
2013*	859,876	1,009,859	149,983	85.15%	479,590	31.27%

*An actuarial valuation was not prepared for these years. Actuarial valuation information from the previous year's valuation as at January 1 was utilized in preparing this information.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND
 OTHER CONTRIBUTION ENTITIES – POLICE PENSION PLAN
 SIX YEARS ENDED DECEMBER 31, 2013

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2008	\$46,428	100%
2009	54,675	100%
2010	58,629	100%
2011	63,674	100%
2012	65,135	100%
2013	62,405	100%

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
POLICE PENSION PLAN**

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the actuarial latest valuation date is as follows:

Actuarial Valuation Date:	January 1, 2011
Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Level Dollar Closed
Remaining Amortization Period:	14.84 Years
Asset Valuation Method:	Fair Value
Actuarial Assumptions:	
Investment Rate of Return	6.00%
Projected Salary Increases	2.7% - 6.4%

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
YEAR ENDED DECEMBER 31 2013**

	<u>Budgeted Amounts</u>		Actual	Variance with
	<u>Original</u>	<u>Final</u>	(Budgetary	Final Budget
			Basis)	Positive
				(Negative)
Revenues:				
Taxes:				
Earned income	\$ 1,035,825	\$ 1,035,825	\$ 1,250,597	\$ 214,772
Real estate transfer	110,000	110,000	132,519	22,519
Local services	<u>17,770</u>	<u>17,770</u>	<u>33,253</u>	<u>15,483</u>
Total taxes	1,163,595	1,163,595	1,416,369	252,774
Franchise fees	141,000	141,000	178,651	37,651
Fines and forfeits	26,500	26,500	21,677	(4,823)
Interest earned	400	400	732	332
Intergovernmental revenues	149,000	149,000	165,120	16,120
Charges for services:				
Trash fees	878,945	878,945	815,815	(63,130)
Building permits	50,000	50,000	95,038	45,038
Road and commercial permits	10,300	10,300	1,561	(8,739)
Other	34,600	34,600	32,781	(1,819)
Miscellaneous revenues	<u>300</u>	<u>300</u>	<u>13,835</u>	<u>13,535</u>
Total revenues	<u>2,454,640</u>	<u>2,454,640</u>	<u>2,741,579</u>	<u>286,939</u>
Expenditures:				
General government	339,348	339,348	322,094	17,254
Public safety	1,162,001	1,162,001	1,233,192	(71,191)
Codes	28,300	28,300	38,514	(10,214)
Public works – sanitation	566,260	566,260	574,559	(8,299)
Public works – highways	384,242	384,242	442,256	(58,014)
Culture and recreation	<u>10,750</u>	<u>10,750</u>	<u>6,857</u>	<u>3,893</u>
Total expenditures	<u>2,490,901</u>	<u>2,490,901</u>	<u>2,617,472</u>	<u>(126,571)</u>
Excess (deficiency) of revenues				
 over expenditures	<u>(36,261)</u>	<u>(36,261)</u>	<u>124,107</u>	<u>160,368</u>
Other financing sources (uses):				
2012 projected surplus	<u>40,000</u>	<u>40,000</u>	<u>-</u>	<u>(40,000)</u>
Total other financing sources (uses)	<u>40,000</u>	<u>40,000</u>	<u>-</u>	<u>(40,000)</u>
Net change in fund balances	3,739	3,739	124,107	120,368
Fund balance, January 1	<u>427,360</u>	<u>427,360</u>	<u>427,360</u>	<u>-</u>
Fund balance, December 31	<u>\$ 431,099</u>	<u>\$ 431,099</u>	<u>\$ 551,467</u>	<u>\$ 120,368</u>

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY COMPARISON**

1. SIGNIFICANT ACCOUNTING POLICIES

The budget presented in the required supplementary information is prepared on the modified accrual basis of accounting.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended December 31, 2013, expenditures exceeded the budget in General Fund Charges for Services in the amount of \$39,976 and General Fund – Fines and Forfeitures in the amount of \$4,823. The expenditures were funded by appropriated fund balances.

EAST FALLOWFIELD TOWNSHIP,
CHESTER COUNTY, PENNSYLVANIA

DECEMBER 31, 2013

Financial Statements

oy, LLP

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COPY

2013 audited
Financials

Plavix
(clopidogrel bisulfate)

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA

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MINGIS, GUTOWSKI & COMPANY, LLP

Certified Public Accountants

791 South Chester Road, Swarthmore, PA 19081

610-544-5100

FAX: 610-544-9767

INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
East Fallowfield Township
Chester County, Pennsylvania

We have audited the accompanying financial statements of the governmental activities and each major fund of East Fallowfield Township, Pennsylvania, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of East Fallowfield Township, as of December 31, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 9 to the financial statements, the Township implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of pension funding progress, and schedule of contributions from the employer and other contributing entities, on pages 3 through 12 and 37 through 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Mingis, Gutowski & Company, LLP

Swarthmore, Pennsylvania
August 15, 2014

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section of the 2013 East Fallowfield Township annual report presents our discussion and analysis of the financial performance during the fiscal year ended December 31, 2013. The inclusion of this section is in compliance with *Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued by the Governmental Accounting Standards Board (GASB). Our comments are intended to be read in conjunction with the Independent Auditor's report preceding this discussion and the financial statements, and supplementary information immediately following this section.

FINANCIAL HIGHLIGHTS

The Township's Net Position as of December 31, 2013 totaled \$9,812,441, a decrease of \$31,827 from 2012. Net Position was comprised of capital assets, net of related debt, in the amount of \$8,296,266, assets restricted for road service maintenance in the amount of \$98,398 and unrestricted assets consisting primarily of cash and accounts receivable, net of liabilities totaling \$1,417,777.

During 2013, the Township's total revenue was \$3,040,102 and was \$53,230 more than the prior year. The increase was primarily due to a \$68,800 Park & Recreation grant in addition to an increase in building permits, offset by a decrease in earned income taxes.

Township expenses during 2013 increased by \$159,115 from 2012. Costs increased primarily due to an increase in police personnel costs.

On the legally enacted budgetary basis, the Township's General Fund ended the fiscal year with an increase in fund balance of \$124,107 compared to an increase in fund balance of \$478,921 in 2012. This difference was primarily due to the fact that in 2013, there was a decrease in tax revenues and an increase in public safety expenses.

OVERVIEW OF FINANCIAL STATEMENTS

Government-Wide Financial Statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The first two statements included in Government-Wide Financial Statements are the Statement of Net Position and the Statement of Activities. These statements provide long-term and short-term information about the Township's overall financial status.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The Statement of Net Position includes all of the Township's assets and liabilities. The Statement of Activities reflects all of the current year's revenues and expenses regardless of when cash is received or paid. These two government-wide statements when viewed in conjunction with each other report the Township's Net Position and how it has changed. Analyzing the difference between the Township's assets and liabilities and the resulting net position provides a measure of the Township's financial health or position. Increases or decreases in the Township's net position over time are an indication of changing financial health. The overall health of the Township, however, must consider additional non-financial factors, such as changes in the Township's earned income tax base, the adequacy of Township services, and the competence of Township employees and officials.

Our Township's Statement of Activities consist solely of governmental activities and discloses basic services, such as general government (administration), public safety, code enforcement, public works, and culture and recreation. Earned income taxes, real estate transfer taxes, and charges for municipal services finance most of the Township's activities.

Fund Level Financial Statements

Fund Level Financial Statements focus on individual segments of the Township's operations and offer greater detail than Government-Wide Financial Statements. These financial statements include activities from two types of funds: Government Funds and Agency Funds.

Most of the Township's activities are reported in Governmental Funds. Governmental Funds statements report the sources for financing the Township's general services for the short-term, and services that will remain to be funded by future spending. Governmental Funds are reported using a modified accrual accounting method which measures cash and all other financial assets that can readily be converted to cash. The focus of Government Funds is to account for changes in the Township's financial position. Accordingly, Governmental Fund information assists the reader in determining whether there are greater or fewer financial resources available in the near future to finance Township programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and reported in Governmental Funds is reconciled in the financial statements and accompanying Notes to Financial Statements are included to offer explanations for some of the information and provide more detailed data.

Agency Fund statements disclose activities when the Township serves as an Agent for escrowed funds. Agency Funds are custodial in nature. Since assets in the fund are restricted from use to finance Township operations, Agency Fund activity is reported in a separate statement entitled, Statement of Net Position – Agency Fund.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

**FINANCIAL ANALYSIS OF THE TOWNSHIP – GOVERNMENT-WIDE
STATEMENTS**

The Township's total net position was \$9,812,441 and \$9,844,268 on December 31, 2013 and 2012, respectively. The decrease of \$31,827 was comprised of a decrease of \$179,678 in total assets and a decrease of \$147,851 in current and non-current liabilities. The following table presents condensed financial information comparing Net Assets as of December 31, 2013 and 2012:

	Net Position December 31,	
	Governmental Activities 2013	2012
Assets		
Current and other assets	\$ 1,643,003	\$ 1,724,941
Capital assets, net	<u>8,403,367</u>	<u>8,501,107</u>
Total assets	<u>10,046,370</u>	<u>10,226,048</u>
Liabilities		
Current and other liabilities	158,608	304,265
Noncurrent liabilities	<u>75,321</u>	<u>77,515</u>
Total liabilities	<u>233,929</u>	<u>381,780</u>
Net Position		
Invested in capital assets	8,296,266	8,409,870
Unrestricted	1,417,777	1,257,121
Restricted	<u>98,398</u>	<u>177,277</u>
Total net position	<u>\$ 9,812,441</u>	<u>\$ 9,844,268</u>

The results of this year's operations as a whole are reported in the Statement of Activities. Specific charges, grants, revenues, and subsidies that directly relate to specific expense categories are represented to determine the final amount of the Township's activities that are supported by other general revenues. The Township's most significant revenues are generally from earned income taxes, real estate transfer taxes, and trash fees.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The following table presents financial information extracted and condensed from the Statement of Activities to facilitate a comparison of total revenue from governmental activities from 2013 to 2012:

Revenues, Expenses, and Changes in Net Position For the Years Ended December 31,		
	Governmental Activities	
	<u>2013</u>	<u>2012</u>
Revenues		
Program revenues:		
Charges for services	\$ 953,847	\$ 922,988
Operating grants and contributions	458,215	398,717
General revenues:		
Taxes	1,391,319	1,467,493
Other revenue	<u>236,721</u>	<u>197,674</u>
Total revenues	<u>3,040,102</u>	<u>2,986,872</u>
Expenses		
General government	338,311	298,526
Public safety	1,232,390	1,087,507
Codes	38,514	23,361
Public works – sanitation	574,559	590,965
Public works – highways	666,596	666,035
Culture and recreation	11,961	19,223
Unallocated depreciation	<u>209,598</u>	<u>227,197</u>
Total expenses	<u>3,071,929</u>	<u>2,912,814</u>
Change in net position	<u>\$ (31,827)</u>	<u>\$ 74,058</u>

During 2013, the Township's total revenue was \$3,040,102 and increased by \$53,230 from the prior year. This increase was primarily due to a \$68,800 Park and Recreation grant, in addition to an increase in building permits, offset by a decrease in earned income taxes.

Township expenses during 2013 increased \$159,115 from 2012. Costs increased primarily due to an increase in police personnel costs.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FINANCIAL ANALYSIS OF THE TOWNSHIP – GOVERNMENTAL FUNDS

Most Township activities are reported in Governmental Funds. Governmental Funds are reported using the modified accrual accounting method which measures cash and all other financial assets that can readily be converted to cash. The Township's Governmental Funds include the General Fund, Capital Projects Fund, Liquid Fuels Fund, and Parks and Recreation Fund. The Township has elected to present each fund as a major fund.

General Fund

The General Fund is the principal operating fund of the Township. On the legally enacted budgetary basis, the General Fund ended the fiscal year with an increase in fund balance of \$124,107 compared to an increase in fund balance of \$478,921 in 2012. The lower fund balance increase in 2013 is due to a decrease in revenues of \$110,013, and an increase in expenditures of \$206,483.

Revenues decreased primarily due to a decrease in earned income taxes.

Expenditures increased by \$206,483 in 2013 primarily due to increased police personnel costs.

The following table compares the actual revenues and expenditures for 2013 and 2012:

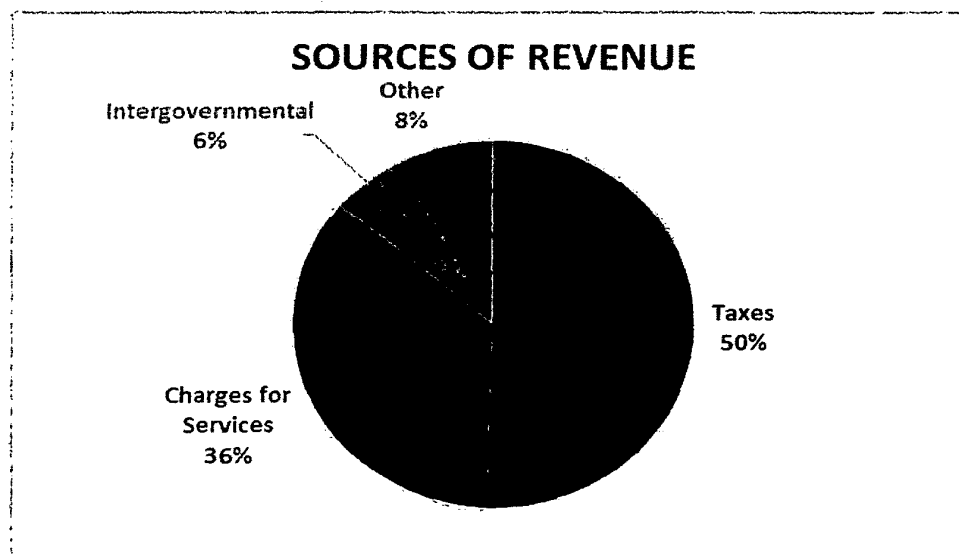
Comparison of Revenues, Expenditures, and Changes in Net Assets
General Fund
For the Years Ended December 31,

	<u>2013</u>	<u>2012</u>	<u>Variance</u>
Revenues			
Taxes	\$ 1,416,369	\$ 1,567,864	\$ (151,495)
Franchise fees	178,651	140,502	38,149
Fines and forfeits	21,677	40,004	(18,327)
Interest earned	732	377	355
Intergovernmental revenues	165,120	175,428	(10,308)
Charges for services:			
Trash fees	815,815	817,335	(1,520)
Building permits	95,038	54,534	40,504
Road and commercial permits	1,561	11,760	(10,199)
Other	32,781	36,321	(3,540)
Miscellaneous revenues	<u>13,835</u>	<u>7,467</u>	<u>6,368</u>
Total revenues	<u>2,741,579</u>	<u>2,851,592</u>	<u>(110,013)</u>

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

	<u>2013</u>	<u>2012</u>	<u>Variance</u>
Expenditures			
General government	\$ 322,094	\$ 298,526	\$ 23,568
Public safety	1,233,192	1,083,334	149,858
Codes	38,514	23,361	15,153
Public works – sanitation	574,559	590,965	(16,406)
Public works – highways	442,256	410,698	31,558
Culture and recreation	<u>6,857</u>	<u>4,105</u>	<u>2,752</u>
Total expenditures	<u>2,617,472</u>	<u>2,410,989</u>	<u>206,483</u>
Other Financing Sources (Uses)			
Sales of Capital Assets	-	945	(945)
Interfund Transfers In	-	(12,627)	12,627
Interfund Transfers Out	<u>-</u>	<u>50,000</u>	<u>(50,000)</u>
Total other financing sources	<u>-</u>	<u>38,318</u>	<u>(38,318)</u>
Net change in fund balance	124,107	478,921	<u>\$ (354,814)</u>
Fund balance, beginning	<u>427,360</u>	<u>(51,561)</u>	
Fund balance, ending	<u>\$ 551,467</u>	<u>\$ 427,360</u>	

Annual budgeting for the General Fund is based on four primary sources of revenue. The following chart illustrates each sources contribution by percentage. Earned income taxes and real estate transfer taxes contributed 50% of the General Fund's total revenues. Fees generated from charges for services contributed 36%. These two sources combined to contribute 86% of the General Fund's revenue. Revenues from "other" sources total 8% and included interest earnings, franchise fees, fines, and miscellaneous revenues. Intergovernmental revenues accounted for the remaining 6% of the General fund's revenue.



EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

General Fund Budgeted Revenues

The 2013 revenues from taxes were \$252,774 higher than budgeted due to higher earned income taxes than budgeted. Charges for services were \$28,650 less than budgeted overall, largely due to a decrease of \$63,130 of trash fee revenue lower than budgeted, offset by building permit fees \$45,038 higher than budgeted. The other revenues were relatively consistent with the overall budget projections.

General Fund Budgeted Expenditures

Departmental expenditures were \$126,571 over the projected budget. This was primarily due to higher than budgeted public safety expense, primarily for police personnel, in addition to higher than budgeted public works expenses. Overall, the result of last year's operations was an increase in fund balance of \$124,107.

Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual
For the Year Ended December 31, 2013

	<u>Original</u>	<u>Final</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Taxes	\$ 1,163,595	\$ 1,163,595	\$ 1,416,369	\$ 252,774
Franchise fees	141,000	141,000	178,651	37,651
Fines and forfeits	26,500	26,500	21,677	(4,823)
Interest earned	400	400	732	332
Intergovernmental revenues	149,000	149,000	165,120	16,120
Charges for services:				
Trash fees	878,945	878,945	815,815	(63,130)
Building permits	50,000	50,000	95,038	45,038
Road and commercial permits	10,300	10,300	1,561	(8,739)
Other	34,600	34,600	32,781	(1,819)
Miscellaneous revenues	<u>300</u>	<u>300</u>	<u>13,835</u>	<u>13,535</u>
Total revenues	<u>2,454,640</u>	<u>2,454,640</u>	<u>2,741,579</u>	<u>286,939</u>
Expenditures				
General government	339,348	339,348	322,094	17,254
Public safety	1,162,001	1,162,001	1,233,192	(71,191)
Codes	28,300	28,300	38,514	(10,214)
Public works – sanitation	566,260	566,260	574,559	(8,299)
Public works – highways	384,242	384,242	442,256	(58,014)
Culture and recreation	<u>10,750</u>	<u>10,750</u>	<u>6,857</u>	<u>3,893</u>
Total expenditures	<u>2,490,901</u>	<u>2,490,901</u>	<u>2,617,472</u>	<u>(126,571)</u>
 Excess (deficiency) of revenues over expenditures	 <u>(36,261)</u>	 <u>(36,261)</u>	 <u>124,107</u>	 <u>160,368</u>

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

	<u>Original</u>	<u>Final</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
Other financing sources (uses)				
2012 projected surplus	\$ 40,000	\$ 40,000	\$ -	\$ (40,000)
Total other financing sources (uses)	<u>40,000</u>	<u>40,000</u>	<u>-</u>	<u>(40,000)</u>
Net change in fund balance	3,739	3,739	124,107	120,368
Fund balance, January 1	<u>427,360</u>	<u>427,360</u>	<u>427,360</u>	<u>-</u>
Fund balance, December 31	<u>\$ 431,099</u>	<u>\$ 431,099</u>	<u>\$ 551,467</u>	<u>\$ 120,368</u>

Liquid Fuels Fund

Under the Liquid Fuels Tax Act 655, the Township receives a subsidy from the Commonwealth of Pennsylvania for the maintenance of roads. Funds received are deposited into the Township's Liquid Fuels Fund and restricted from use in other Township activities. Costs subsidized include acquisition of vehicles and equipment, maintenance of vehicles and equipment, fuel, and supplies for snow removal. During 2013, subsidies received totaled \$224,295. Liquid Fuels Fund expenses totaled \$224,334. As of December 31, 2013, the Liquid Fuels Fund had a fund balance of \$98,398.

Capital Projects Fund

The Township maintains a Capital Projects Fund largely for the purpose of funding acquisitions of capital assets. During 2013, \$16,808 was used for lease payments on police vehicles and \$14,407 was used to partially fund the comprehensive plan update. As of December 31, 2013, the fund balance of the Capital Projects Fund amounted to \$387,432.

Parks and Recreation Fund

The Township maintains a Parks and Recreation Fund to restrict certain revenues for the sole use of improving and enhancing public parks. The primary sources of revenue for the Parks and Recreation Fund are grants, contributions, and proceeds from developers. Funding from developers occurs when the developer, who is obligated to comply with the Township ordinances and include recreation areas and facilities as a part of the land development plan, opts to provide "in lieu of" funds to be used by the Township for alternate recreation facilities. In 2013, a \$68,800 grant was received from the Department of Conservation and Natural Resources. As of December 31, 2013, the fund balance of the Parks and Recreation Fund was \$381,111.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

CAPITAL ASSETS

As of December 31, 2013, the Township had \$8,403,367 of value in a broad range of Capital Assets, including land, buildings and furniture, equipment and infrastructure. This amount represents a net decrease of \$97,740 in value from 2012 that is attributed to \$111,857 in asset additions and depreciation expense of \$209,598.

The following schedule delineates the ending value of Capital Assets for the period ending December 31, 2013 and changes in each capital asset category:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated				
Land	\$ 3,050,001			\$ 3,050,001
Park improvements	779,880			779,880
Building and improvements	316,451			316,451
Infrastructure	5,380,702			5,380,702
Vehicles	877,761	\$ 111,857	\$ 41,498	948,120
Machinery and equipment	236,924			236,924
Total capital assets, being depreciated	<u>10,641,719</u>	<u>111,857</u>	<u>41,498</u>	<u>10,712,078</u>
Less accumulated depreciation for:				
Park improvements	70,191	15,597		85,788
Building and improvements	187,584	12,884		200,468
Infrastructure	971,346	107,614		1,078,960
Vehicles	720,259	53,058	41,498	731,819
Machinery and equipment	191,232	20,444		211,676
Total accumulated depreciation	<u>2,140,612</u>	<u>209,597</u>	<u>41,498</u>	<u>2,308,711</u>
Governmental activities capital assets, net	<u>\$ 8,501,107</u>	<u>\$ (97,740)</u>	<u>\$ -</u>	<u>\$ 8,403,367</u>

THE TOWNSHIP'S FUTURE

East Fallowfield Township saw a decrease in earned income tax collections in 2013, as well as an increase in public safety expenses. As the pie chart on page 8 indicates, 50% of East Fallowfield's revenue comes from tax revenues. Our current revenues are limited to sources that are directly affected by general economic conditions. Tax revenues are driven by our residents' ability to be employed and earn taxable compensation. Real estate transfer taxes are driven by real estate sales.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Although one of our primary sources of revenue is billed trash collection services, these monies are offset by the cost incurred for trash collection contracts. The Township's financial solvency will therefore depend on creative new concepts for generating revenue while maintaining programs whose costs are escalating to ensure the safety of our residents. Future financial planning will consider the following:

- Development of new funding sources from enacting safety, real estate or other taxes.
- Capital project funding and fixed asset replacement and long-term infrastructure improvement strategy
- Multi-year budgeting and or projections.

FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens and taxpayers with a general overview of the Township's finances and to show the Board's accountability. If you have questions about this report or wish to request additional financial information, please contact the Township Treasurer.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
STATEMENT OF NET POSITION
DECEMBER 31, 2013

	Governmental <u>Activities</u>
Assets	
Current Assets:	
Cash	\$ 1,172,058
Receivables:	
Taxes	351,033
Trash, net of allowance of \$34,087	32,746
Franchise fees	39,491
Prepaid items	46,790
Miscellaneous	885
Total current assets	<u>1,643,003</u>
Capital Assets:	
Land	3,050,001
Other capital assets, net of accumulated depreciation	<u>5,353,366</u>
Total capital assets, net	<u>8,403,367</u>
Total assets	<u>10,046,370</u>
Liabilities	
Current Liabilities:	
Accounts payable and accrued liabilities	57,943
Accrued payroll	24,507
Deposits	9,923
Payroll deductions and withholdings	8,205
Lease obligations	<u>58,030</u>
Total current liabilities	<u>158,608</u>
Noncurrent Liabilities:	
Lease obligations	49,071
Compensated absences	<u>26,250</u>
Total noncurrent liabilities	<u>75,321</u>
Total liabilities	<u>233,929</u>
Net Position	
Invested in capital assets, net of related debt	8,296,266
Restricted for road service and maintenance	98,398
Unrestricted	<u>1,417,777</u>
Total net position	<u>\$ 9,812,441</u>

See Notes to Financial Statements.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants And Contributions	
Governmental Activities:					
General government	\$ 338,311		\$ 165,120		\$ (173,191)
Public safety	1,232,390	\$ 21,677			(1,210,713)
Codes	38,514	96,599			58,085
Public works – sanitation	574,559	826,571			252,012
Public works – highways	666,596		224,295		(442,301)
Culture and recreation	11,961	9,000	68,800		65,839
Unallocated depreciation expense	<u>209,598</u>				<u>(209,598)</u>
Total governmental activities	<u>\$3,071,929</u>	<u>\$ 953,847</u>	<u>\$ 458,215</u>	<u>\$ -</u>	<u>(1,659,867)</u>
General revenues					
Taxes:					
Earned income taxes					1,225,547
Real estate transfer taxes					132,519
Local services taxes					33,253
Franchise fees					178,651
Investment earnings					1,419
Miscellaneous income					<u>56,651</u>
Total general revenues					<u>1,628,040</u>
Change in net position					(31,827)
Net position, beginning of year					<u>9,844,268</u>
Net position, end of year					<u>\$ 9,812,441</u>

See Notes to Financial Statements.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2013

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Liquid Fuels Fund</u>	<u>Parks and Recreation Fund</u>	<u>Total Governmental Funds</u>
Assets					
Cash	\$ 295,194	\$ 387,432	\$ 98,398	\$ 391,034	\$ 1,172,058
Receivables:					
Earned income tax	341,655				341,655
Local services tax	2,964				2,964
Real estate transfer tax	6,414				6,414
Trash fees	32,746				32,746
Franchise fees	39,491				39,491
Miscellaneous	885				885
Prepaid items	<u>46,790</u>	<u> </u>	<u> </u>	<u> </u>	<u>46,790</u>
Total assets	<u>\$ 766,139</u>	<u>\$ 387,432</u>	<u>\$ 98,398</u>	<u>\$ 391,034</u>	<u>\$ 1,643,003</u>
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities	\$ 57,943				\$ 57,943
Deposits				\$ 9,923	9,923
Accrued payroll	24,507				24,507
Payroll deductions and withholding	<u>8,205</u>	<u> </u>	<u> </u>	<u> </u>	<u>8,205</u>
Total liabilities	<u>90,655</u>	<u>\$ -</u>	<u>-</u>	<u>9,923</u>	<u>100,578</u>
Deferred Inflows of Resources:					
Unavailable revenue	124,017				124,017
Fund Balances:					
Nonspendable	46,790				46,790
Restricted – Road service and maintenance			98,398		98,398
Committed – Parks and Recreation				381,111	381,111
Committed – Capital Purchases		387,432			387,432
Assigned					
Unassigned	<u>504,677</u>	<u> </u>	<u> </u>	<u> </u>	<u>504,677</u>
Total fund balances	<u>551,467</u>	<u>387,432</u>	<u>98,398</u>	<u>381,111</u>	<u>1,418,408</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 766,139</u>	<u>\$ 387,432</u>	<u>\$ 98,398</u>	<u>\$ 391,034</u>	<u>\$ 1,643,003</u>

See Notes to Financial Statements.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2013

Total fund balances – governmental funds \$ 1,418,408

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
assets is \$10,712,078 and the accumulated
depreciation is \$2,308,711. 8,403,367

Long-term liabilities, comprised of compensated absences,
are not due and payable in the current period and,
therefore, are not reported as liabilities in the funds. (26,250)

Capital lease obligations that consume resources of
governmental funds that have no input on net assets (107,101)

Trash and other fees will be collected next year, but are
not available soon enough to pay for the current
period's expenditures and, therefore, are deferred
in the funds statements. They are recorded as
revenue in the entity-wide statements. 22,956

Earned income taxes receivable will be collected next
year, but are not available soon enough to pay for the
current period's expenditures and, therefore, are
deferred in the funds. However, they are recorded
as revenue in the entity-wide statements. 101,061

Total net position – governmental activities \$ 9,812,441

See Notes to Financial Statements.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2013

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Liquid Fuels Fund</u>	<u>Parks and Recreation Fund</u>	<u>Total Governmental Funds</u>
Revenues:					
Taxes:					
Earned income	\$ 1,250,597				\$ 1,250,597
Real estate transfer	132,519				132,519
Local services	<u>33,253</u>				<u>33,253</u>
Total taxes	1,416,369				1,416,369
Grants				\$ 68,800	68,800
Franchise fees	178,651				178,651
Fines and forfeits	21,677				21,677
Interest	732	\$ 404	\$ 149	134	1,419
Intergovernmental revenues	165,120		224,295		389,415
Charges for services:					
Trash fees	815,815				815,815
Building permits	95,038				95,038
Road and commercial permits	1,561				1,561
Other	32,781				32,781
Fee in lieu				9,000	9,000
Miscellaneous revenues	<u>13,835</u>	<u>75</u>		<u>960</u>	<u>14,870</u>
Total revenues	<u>2,741,579</u>	<u>479</u>	<u>224,444</u>	<u>78,894</u>	<u>3,045,396</u>
Expenditures:					
General government	322,094	16,217			338,311
Public safety	1,233,192				1,233,192
Codes	38,514				38,514
Public works – sanitation	574,559				574,559
Public works – highways	442,256		224,334		666,590
Culture and recreation	<u>6,857</u>			<u>5,104</u>	<u>11,961</u>
Total expenditures	<u>2,617,472</u>	<u>16,217</u>	<u>224,334</u>	<u>5,104</u>	<u>2,863,127</u>
Excess (deficiency) of revenues over expenditures	<u>124,107</u>	<u>(15,738)</u>	<u>110</u>	<u>73,790</u>	<u>182,269</u>
Other financing sources (uses):					
Purchase of capital assets			(45,660)		(45,660)
Principal payment on capital lease		(16,808)	(33,625)		(50,433)
Total Other Financial Sources (Uses)	-	(16,808)	(79,285)	-	(96,093)
Net change in fund balances	124,107	(32,546)	(79,175)	73,790	86,176
Fund Balance, January 1	<u>427,360</u>	<u>419,978</u>	<u>177,573</u>	<u>307,321</u>	<u>1,332,232</u>
Fund Balance, December 31	<u>\$ 551,467</u>	<u>\$ 387,432</u>	<u>\$ 98,398</u>	<u>\$ 381,111</u>	<u>\$ 1,418,408</u>

See Notes to Financial Statements.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2013

Total net change in fund balances – governmental funds \$ 86,176

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

Capital outlays are reported in government funds as
expenditures. However, in the statement of
activities, the cost of those assets is allocated over
their estimated useful lives as depreciation. This is
the amount by which depreciation exceeds capital
outlays in the period.

Capital outlays	\$ 45,866	
Depreciation expense	<u>(209,598)</u>	(163,732)

Because some earned income taxes will not be
collected for several months after the Township's
fiscal year ends, they are not considered as
"available" revenues in the governmental funds.
Deferred earned income tax revenues decreased by
this amount this year. (15,929)

Long-term liabilities, including compensated absences,
are not due and payable and, therefore, are not
reported as liabilities in the funds. (802)

The repayment of principal of long-term debt
consumes the current financial resources of
governmental funds but has no effect on net assets. 51,732

Because some trash and other fees will not be collected
for several months after the Township's fiscal year
ends, they are not considered as "available" in the
funds statements. They have been earned and are
recorded as revenue in the entity-wide statements.
Deferred trash revenue increased by this amount. 10,728

Change in net position of governmental activities \$ (31,827)

See Notes to Financial Statements.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
STATEMENT OF NET POSITION – AGENCY FUND
DECEMBER 31, 2013

	<u>Agency</u>
Assets	
Cash and cash equivalents	\$ 419,253
Contractor receivables	<u>13,041</u>
Total assets	<u>\$ 432,294</u>
Liabilities	
Contractor deposits	\$ 117,169
Deposits held for West Chester Road	281,607
Reserved for escrow liabilities	<u>33,518</u>
Total liabilities	<u>\$ 432,294</u>

See Notes to Financial Statements.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of East Fallowfield Township (the "Township") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies:

Organization

The Township is the basic level of government which has oversight responsibility and control over all activities related to the local government in East Fallowfield Township. The Township receives funding from local and Commonwealth government sources and must comply with the requirements of these funding source entities. However, the Township is not included in any other governmental "reporting entity" as defined by the GASB pronouncement, since the Township supervisors are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

The Township does not have a corresponding Municipal Authority. Based on component unit evaluation, no other organization is included as a component unit of the Township's reporting entity.

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the Township as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net position presents the financial condition of the governmental activities of the Township at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Township's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, are clearly identifiable to a particular function. 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 Township, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Township.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Fund Financial Statements

During the fiscal year, the Township segregates transactions related to certain Township 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 Township at this more detailed level. The focus of governmental fund financial statements is on major funds. The Township has elected to present each major and non-major fund in a separate column. Fiduciary funds are reported by type.

Fund Accounting

The accounts of the Township are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent. The Township has the following fund types:

Governmental Funds: Governmental funds are those through which most governmental functions of the Township 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 will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The Township's major governmental funds are as follows:

General Fund: The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects Fund: The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Liquid Fuels Fund: The Liquid Fuels Fund, as required by state law, accounts for receipts from the State Motor License Fund (gasoline tax distribution, etc.) and the payment of allowable street and highway-related expenditures.

Parks and Recreation Fund: The Parks and Recreation Fund is used to account for financial resources to be used for the acquisition of park and recreation related expenditures.

EAST TADEUSWILL TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Fiduciary Funds: Trust and Agency Funds are used to account for assets held by the Township in a trustee capacity or as an agent for individuals. Agency Funds are custodial in nature and do not involve measurement of results of operations. The Township's Agency Fund is the Escrow Fund.

Measurement Focus and Basis of Accounting

The government-wide financial statements are prepared using a flow of economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the liability is incurred regardless of the timing of the related cash flows. All assets and liabilities associated with the operation of the Township are included on the statement of net assets.

In the 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 are generally included in the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects 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 reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

The basis of accounting that is used 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 and the fiduciary funds use the accrual basis of accounting. Differences in the accrual and 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 Nonexchange Transactions

Revenue 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 the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means 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. For the Township, "available" means expected to be received within sixty days of fiscal year end.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Nonexchange transactions, in which the Township receives value without directly giving equal value in return, include earned income taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year in 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 required to be used or the fiscal year when use is first permitted; matching requirements, in which the Township must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Township on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Township had no deferred outflows of resources.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Unavailable revenue qualifies for reporting in this category and arises only under a modified accrual basis of accounting. Accordingly, it is reported only in the governmental funds balance sheet.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time the obligation is incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Date of Management's Review

Management of the Township have evaluated subsequent events through August 15, 2014, the date on which the financial statements were available to be issued.

Equity Classification Government-Wide

Equity is classified as net assets and displayed in three components for government-wide presentation:

Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributions, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Equity

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*, establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved/ undesignated were replaced with five new classifications – Nonspendable, restricted, committed, assigned, and unassigned.

In the fund financial statements, governmental funds report the following components of fund balance:

- Nonspendable – Amounts that are not in spendable form or are legally or contractually required to be maintained intact.
- Restricted – Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

- Committed – Amounts that have been formally set aside by the Township board for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Township board.
- Assigned – Amounts that are intended to be spent on specific purposes expressed by the Township Board; or Supervisor, Clerk, and Treasurer; who are authorized by policy approved by the Township Board to make assignments. All current year assignments have been made by the Township Board.
- Unassigned – Amounts that do not fall into any other aforementioned category. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

Budgets

The Township is required by state law to adopt an annual budget for the General Fund. The budget is presented on the modified accrual basis of accounting which is consistent with accounting principles generally accepted in the United States of America. The following procedures are followed in establishing the budgetary data reflected in the financial statements.

1. Prior to November 15 of the preceding fiscal year, the Township prepares a budget for the next succeeding calendar year beginning January 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board of Supervisors is then called for the purpose of adopting the proposed budget.
3. Prior to December 31, the budget is legally enacted through passage of a resolution by the Board of Supervisors.
4. The budget must be filed with the Pennsylvania Department of Community Affairs by January 31.

Once a budget is approved, it can be amended at the Function and Fund level only by approval of a majority of the members of the Board of Supervisors. Amendments are presented at the Board at their regular meetings. Each amendment must have Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end as dictated by law.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

The budget is controlled by the finance officer at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board of Supervisors. Individual amendments were not material in relation to the original appropriations. All budget appropriations lapse at year end.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2013, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which the services are consumed.

Interfund Transactions

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as interfund receivables/payables. Interfund balances within the governmental activities are eliminated on the government-wide statement of net assets.

Earned Income Taxes, Real Estate Transfer Taxes, and Local Services Taxes

The Township recognizes assets from earned income taxes, real estate transfer taxes, and local services taxes when the underlying exchange transaction occurs or when resources are received, whichever is first. In the governmental fund financial statements, under the modified accrual basis of accounting, revenue is recorded when the underlying exchange occurs and when the resources are available. Revenue that is not available is deferred.

Property Tax

There have been no property taxes levied since 1996.

Compensated Absences

The Township's policy is to permit employees to accumulate sick days. Upon retirement, employees will be paid for 25% of unused sick days up to a maximum of 200 days at their current pay rate.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Capital Assets

Capital assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported in the fund financial statements. Purchases of capital assets are recognized as expenditures in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The Township maintains a capitalization threshold of \$5,000. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the assets are not capitalized.

All capital assets, except land, are depreciated. Improvements are depreciated over the estimated remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Depreciation</u>	<u>Estimated Lives</u>
Park improvements	15-50 years
Buildings and building improvements	15-40 years
Infrastructure	20-80 years
Furniture and fixtures	5-20 years
Vehicles	5-7 years
Equipment	5-20 years

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements. In general, governmental fund payables and accrued liabilities, once incurred, are paid in a timely manner and in full from current financial resources and are reported as obligations of the funds. However, contractually required pension contributions and compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Net Position

Net Position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net Position invested in capital assets represents the costs of capital assets net of related debt and net of accumulated depreciation. Net Position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Township or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Township's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Fund Balance Reserves

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Date of Management's Review

Management has evaluated subsequent events through August 15, 2014, which is the date the financial statements were available to be issued.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 2 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 3,050,001			\$ 3,050,001
Total capital assets, not being depreciated	<u>3,050,001</u>	<u>-</u>	<u>-</u>	<u>3,050,001</u>
Capital assets, being depreciated				
Park improvements	779,880			779,880
Building and improvements	316,451			316,451
Infrastructure	5,380,702			5,380,702
Vehicles	877,761	\$ 111,857	\$ 41,498	948,120
Machinery and equipment	<u>236,924</u>			<u>236,924</u>
Total capital assets, being depreciated	<u>7,591,718</u>	<u>111,857</u>	<u>41,498</u>	<u>7,662,077</u>
Less accumulated depreciation for:				
Park improvements	70,191	15,597		85,788
Building and improvements	187,584	12,884		200,468
Infrastructure	971,346	107,614		1,078,960
Vehicles	720,259	53,058	41,498	731,819
Machinery and equipment	<u>191,232</u>	<u>20,444</u>		<u>211,676</u>
Total accumulated depreciation	<u>2,140,612</u>	<u>209,597</u>	<u>41,498</u>	<u>2,308,711</u>
Total capital assets being depreciated, net	<u>5,451,106</u>	<u>(97,740)</u>	<u>-</u>	<u>5,353,366</u>
Governmental activities capital assets, net	<u>\$ 8,501,107</u>	<u>\$ (97,740)</u>	<u>\$ -</u>	<u>\$ 8,403,367</u>

NOTE 3 CAPITAL LEASES

The Township's capital leases payable at December 31, 2013 consist of the following:

<u>Description</u>	<u>Balance 12/31/12</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 12/31/13</u>	<u>Due Within One Year</u>
Capital Lease – First Niagara Leasing, Inc., annual payment of \$35,785, interest at 3.189%, maturing 2014, secured by road equipment	\$ 68,286	\$ -	\$ 33,625	\$ 34,661	\$ 34,661
Capital Lease – Ford Motor Credit Co., annual payment of \$8,682, interest at 6.6%, maturing 2015, secured by police vehicle	\$ 22,951	-	-	\$ 22,951	\$ 7,640

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 3 CAPITAL LEASES (CONTINUED)

<u>Description</u>	<u>Balance 12/31/12</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 12/31/13</u>	<u>Due Within One Year</u>
Capital Lease – Susquehanna Commercial Finance, Inc., annual payment of \$8,465, interest at 4.68%, maturing 2016, secured by police vehicle	-	\$ 31,611	\$ 8,465	\$ 23,146	\$ 7,358
Capital Lease – Susquehanna Commercial Finance, Inc., annual payment of \$9,642, interest at 4.72%, maturing 2016, secured by police vehicle	-	\$ 35,985	\$ 9,642	\$ 26,343	\$ 8,371

The cost of equipment and related accumulated depreciation recorded under capital leases is as follows:

Road Equipment	\$ 136,640
Police Car	99,229
Less: Accumulated depreciation	<u>(84,570)</u>
	<u>\$ 151,299</u>

Future minimum capital lease payments are as follows:

	<u>Freighter</u>	<u>Police Vehicles</u>	<u>Total</u>
2014	\$ 35,785	\$ 26,790	\$ 62,575
2015	-	26,790	26,790
2016	<u>-</u>	<u>18,288</u>	<u>18,288</u>
	<u>\$ 35,785</u>	<u>\$ 71,868</u>	<u>\$ 107,653</u>

NOTE 4 INTERFUND RECEIVABLES, PAYABLE, AND TRANSFERS

There were no interfund receivables, payables, or transfers during the year ended December 31, 2013.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 5 EMPLOYEE PENSION PLANS

Non-Uniform Pension Plan

The Township maintains a defined contribution plan covering substantially all full-time employees of the Township except police. The pension program is administered by the Pennsylvania Municipal Retirement System ("PMRS"). PMRS is an agent, multiple-employer system with the purpose to administer sound, cost-effective pensions for local government employees. Responsibility for the organization and administration of the system is vested in the eleven-member Pennsylvania Municipal Retirement Board. PMRS issues a separate Comprehensive Annual Financial Report ("CAFR"). A copy of the CAFR can be obtained by contacting the PMRS Accounting Office, PO Box 1165, Harrisburg, PA 17108-1165.

Contributions to the plan are at the discretion of the Board of Supervisors. In 2004, the Board established an annual employer contribution rate of 5.0% of the employees' salary for the non-uniform pension plan. The Township contributed \$19,631 to the plan in 2013.

Police Pension Plan

The Township sponsors a defined benefit plan for police. As of December 31, 2013, all eligible police employees were participating in the plan. All employees are eligible to participate in the plan after six months of employment. The plan is authorized and enacted under authority of Act 205 of Pennsylvania ("the Act") and local ordinances. The plan is administered by PMRS.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 5 EMPLOYEE PENSION PLANS (CONTINUED)

As of December 31, 2013, pension plan membership consisted of:

	Police	Non-Uniform
Covered employees	All regular, full-time sworn police officers	All regular, full-time employees, excluding sworn police officers
Number of covered active employees	7	8
Number of persons receiving benefits:		
Retired employees and beneficiaries	1	2
Terminated employees vested but not receiving benefits	0	1
Normal retirement date	After 55 th birthday and 12 years of service	Normal social security mandated age
Retirement benefit	Equal 50% of the average monthly compensation during the final 36 months of employment	Plan is defined contribution
Early retirement date	Voluntary after 20 years of service	Normal social security mandated age

Contributions and Funding Policy for Police Pension Plan

The Act requires that annual contributions be based upon the calculation of the Minimum Municipal Obligation ("MMO"). The MMO calculation is based upon the biennial actuarial valuation. The Commonwealth allocates certain funds to assist in the pension funding. Any financial requirement established by the MMO which exceeds the Commonwealth allocation must be funded by the Township or employee members.

Currently, employees covered under the Police Pension Plan are required to annually contribute 5% of their salaries. Administrative costs, including investment manager fees, custodial trustee fees, and actuarial fees are charged to the Plan and funded through investment earnings.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 5 EMPLOYEE PENSION PLANS (CONTINUED)

The Township's annual pension cost for the year ended December 31, 2013 and related information for the Police Pension Plan is as follows:

	<u>Police Pension Plan</u>
Annual pension cost	\$62,405
Contributions made	\$62,405
Valuation Date	January 1, 2011
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar-Closed
Remaining Amortization Period	14.84 years
Asset Valuation Method	Fair Value
Actuarial Assumptions:	
Investment Rate of Return	6.0%
Projected Salary Increases	2.7% - 6.4%

Trend Information

Year Ended December 31,	Police Annual Pension Cost (APC)	Non-Uniform Pension Cost (APC)	Police % Contributed	Non-Uniform % Contributed
2009	\$54,675	\$12,779	100.0	100.0
2010	58,629	12,278	100.0	100.0
2011	63,674	29,261	100.0	100.0
2012	65,135	9,519	100.0	100.0
2013	62,405	19,631	100.0	100.0

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 5 EMPLOYEE PENSION PLANS (CONTINUED)

Funded Status and Funding Progress

The following is funded status information as of January 31, 2011, the most recent actuarial valuation date:

	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) AAL	Funded Ratio	Covered Payroll	Unfunded (Overfunded) AAL as a % of Covered Payroll
Police	\$859,876	\$1,009,859	\$149,983	85.15%	\$479,590	31.27%

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

NOTE 6 CASH

Legal and Contractual Restrictions

The Township is permitted to invest in U.S. Treasury bills, short-term obligations of the U.S. Government or its agencies, and shares of an investment company as defined, provided that the only investments of the company are in authorized investments for Township funds. The Township may also plan deposits that are insured by the Federal Deposit Insurance Corporation ("FDIC") and deposits that are collateralized on an individual or on a pooled basis in accordance with Act No. 72 of the Commonwealth of Pennsylvania, August 6, 1971.

Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. At year end, the total carrying amount of the Township's checking, savings, and money market deposits was \$1,590,597 and the corresponding bank balance was \$1,767,366. Of the bank balance, \$252,679 was covered by federal depository insurance, and \$1,514,687 was collateralized through pools of securities held by the respective depository institutions.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 7 COMPENSATED ABSENCES

The following is a summary of changes in compensated absences:

<u>Balance</u> <u>January 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>December 31, 2013</u>
<u>\$ 27,052</u>	<u>\$ 3,358</u>	<u>\$ 4,160</u>	<u>\$ 26,250</u>

NOTE 8 RISK MANAGEMENT

The Township is exposed to various risks of loss related to third-party liability claims, damages to and losses of Township-owned property, errors and omissions by public officials and injuries to employees. The Township carries various types of commercial insurance to manage certain risks of loss and has joined a municipal risk sharing pool to manage certain other risks of loss.

There were no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 9 CHANGE IN ACCOUNTING

During the current year, the Township adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this statement is to establish standards that reclassify certain items that were previously reported as assets and liabilities and instead to classify them as deferred inflows of resources, deferred outflows of resources, or as outflows of resources.

As a result of implementing this statement, the following liabilities have been reclassified, as indicated:

<u>Item</u>	<u>Amount</u>	<u>Prior Reporting</u> <u>Classification/Treatment</u>	<u>New Classification After</u> <u>Adoption of GASB 65</u>
Unavailable Revenue:			
Trash fees		Liability	Deferred inflow of resources
Earned income taxes		Liability	Deferred inflow of resources

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

**NOTE 10 ACCOUNTING PRONOUNCEMENTS ISSUED, NOT YET
IMPLEMENTED**

GASB Statement No. 67, *Financial Reporting for Pension Plans*, issued June 2012, will become effective for the Township beginning with the year ending December 31, 2014. This statement revises existing guidance for most pension plans and details note-disclosure requirements for defined benefit and defined contribution pension plans.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, issued June 2012 will become effective for the Township beginning with the year ending December 31, 2015. This statement will require governments with defined benefit pension plans to disclose a "net pension liability" on their balance sheets.

The Township's management has not yet determined the effect, if any, these Statements will have on the Township's financial statements.

NOTE 11 CONTINGENCIES

In the normal course of business, there are various claims and suits pending against the Township. In the opinion of Township Management, the Township has adequate legal defenses or insurance coverage with respect to these claims and lawsuits and does not believe they will materially affect the Township's financial statements.

The use of grant monies is subject to compliance audits by governmental agencies. Management of the Township believes the Township is in compliance with substantially all the significant requirements of such grants.

REQUIRED SUPPLEMENTARY INFORMATION

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION FUNDING PROGRESS – POLICE PENSION PLAN
SIX YEARS ENDED DECEMBER 31, 2013

Actuarial Valuation Date January 1,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2007	\$407,460	\$ 422,886	\$ 15,426	96.35%	\$391,653	3.94%
2008*	407,460	422,886	15,426	96.35%	391,653	3.94%
2009	603,798	660,682	56,884	91.39%	460,707	12.35%
2010*	603,798	660,682	56,884	91.39%	460,707	12.35%
2011	859,876	1,009,859	149,983	85.15%	479,590	31.27%
2012*	859,876	1,009,859	149,983	85.15%	479,590	31.27%
2013*	859,876	1,009,859	149,983	85.15%	479,590	31.27%

*An actuarial valuation was not prepared for these years. Actuarial valuation information from the previous year's valuation as at January 1 was utilized in preparing this information.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND
OTHER CONTRIBUTION ENTITIES – POLICE PENSION PLAN
SIX YEARS ENDED DECEMBER 31, 2013

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2008	\$46,428	100%
2009	54,675	100%
2010	58,629	100%
2011	63,674	100%
2012	65,135	100%
2013	62,405	100%

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
POLICE PENSION PLAN

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the actuarial latest valuation date is as follows:

Actuarial Valuation Date:	January 1, 2011
Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Level Dollar Closed
Remaining Amortization Period:	14.84 Years
Asset Valuation Method:	Fair Value
Actuarial Assumptions:	
Investment Rate of Return	6.00%
Projected Salary Increases	2.7% - 6.4%

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
YEAR ENDED DECEMBER 31 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget Positive (Negative)</u>
Revenues:				
Taxes:				
Earned income	\$ 1,035,825	\$ 1,035,825	\$ 1,250,597	\$ 214,772
Real estate transfer	110,000	110,000	132,519	22,519
Local services	<u>17,770</u>	<u>17,770</u>	<u>33,253</u>	<u>15,483</u>
Total taxes	1,163,595	1,163,595	1,416,369	252,774
Franchise fees	141,000	141,000	178,651	37,651
Fines and forfeits	26,500	26,500	21,677	(4,823)
Interest earned	400	400	732	332
Intergovernmental revenues	149,000	149,000	165,120	16,120
Charges for services:				
Trash fees	878,945	878,945	815,815	(63,130)
Building permits	50,000	50,000	95,038	45,038
Road and commercial permits	10,300	10,300	1,561	(8,739)
Other	34,600	34,600	32,781	(1,819)
Miscellaneous revenues	<u>300</u>	<u>300</u>	<u>13,835</u>	<u>13,535</u>
Total revenues	<u>2,454,640</u>	<u>2,454,640</u>	<u>2,741,579</u>	<u>286,939</u>
Expenditures:				
General government	339,348	339,348	322,094	17,254
Public safety	1,162,001	1,162,001	1,233,192	(71,191)
Codes	28,300	28,300	38,514	(10,214)
Public works – sanitation	566,260	566,260	574,559	(8,299)
Public works – highways	384,242	384,242	442,256	(58,014)
Culture and recreation	<u>10,750</u>	<u>10,750</u>	<u>6,857</u>	<u>3,893</u>
Total expenditures	<u>2,490,901</u>	<u>2,490,901</u>	<u>2,617,472</u>	<u>(126,571)</u>
Excess (deficiency) of revenues over expenditures	<u>(36,261)</u>	<u>(36,261)</u>	<u>124,107</u>	<u>160,368</u>
Other financing sources (uses):				
2012 projected surplus	<u>40,000</u>	<u>40,000</u>	<u>-</u>	<u>(40,000)</u>
Total other financing sources (uses)	<u>40,000</u>	<u>40,000</u>	<u>-</u>	<u>(40,000)</u>
Net change in fund balances	3,739	3,739	124,107	120,368
Fund balance, January 1	<u>427,360</u>	<u>427,360</u>	<u>427,360</u>	<u>-</u>
Fund balance, December 31	<u>\$ 431,099</u>	<u>\$ 431,099</u>	<u>\$ 551,467</u>	<u>\$ 120,368</u>

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY COMPARISON

1. SIGNIFICANT ACCOUNTING POLICIES

The budget presented in the required supplementary information is prepared on the modified accrual basis of accounting.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended December 31, 2013, expenditures exceeded the budget in General Fund Charges for Services in the amount of \$39,976 and General Fund – Fines and Forfeitures in the amount of \$4,823. The expenditures were funded by appropriated fund balances.