

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

**FINANCIAL STATEMENTS
WITH REPORT OF INDEPENDENT AUDITORS**

DECEMBER 31, 2011

**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, each major fund and the aggregate remaining fund information of East Fallowfield Township, Pennsylvania, as of and for the year ended December 31, 2011, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of East Fallowfield Township, Pennsylvania, as of December 31, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of pension funding progress, schedule of contributions from the employer and other contributing entities, on pages 3 through 12 and 36 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
March 13, 2013

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the 2011 East Fallowfield Township annual report presents our discussion and analysis of the financial performance during the fiscal year ended December 31, 2011. 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 Assets as of December 31, 2011 totaled \$9,970,210, a decrease of \$77,537 from 2010. Net Assets were comprised of capital assets, net of depreciation, in the amount of \$8,681,262, and unrestricted current assets consisting of cash and accounts receivable, net of liabilities totaling \$1,180,113.

During 2011, the Township's total revenue was \$2,890,644 and was \$270,603 more than the prior year. The increase was primarily due to a \$240,835 increase in earned income, real estate transfer, and local services tax revenue in 2011.

Township expenses in 2011 decreased by \$279,341 from 2010. Costs decreased primarily due to lower legal, auditing and engineering fees. In addition, costs decreased due to prior year purchases of police and public works vehicles, offset by the increase in parks and recreation expense for the pavilion and footbridge construction at the township park.

On the legally enacted budgetary basis, the Township's General Fund ended the fiscal year with an increase in fund balance of \$78,974 compared to a decrease in fund balance of \$434,700 in 2010. The increase was the result of the increase in tax revenue, as well as the decrease in overall expenditures and purchases.

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 Assets 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

The Statement of Net Assets 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 Assets and how they have changed. Analyzing the difference between the Township's assets and liabilities and the resulting Net Assets provides a measure of the Township's financial health or position. Increases or decreases in the Township's net assets 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 Assets 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 Assets and Liabilities – Agency Fund.

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

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

The Township's total net assets were \$9,770,210 and \$9,984,769 on December 31, 2011 and 2010, respectively. The decrease of \$214,559 was comprised of a decrease of \$102,524 in total assets and an increase of \$112,035 in current and non-current liabilities. The decrease in capital assets was due to the annual depreciation of the capital assets which was greater than the cost of new additions. The following table presents condensed financial information comparing Net Assets as of December 31, 2011 and 2010:

Net Assets December 31,		
	Governmental Activities	
	<u>2011</u>	<u>2010</u>
Assets		
Current and other assets	\$ 1,444,792	\$ 1,318,242
Capital assets, net	<u>8,681,262</u>	<u>8,910,336</u>
Total assets	<u>10,126,054</u>	<u>10,228,578</u>
Liabilities		
Current and other liabilities	264,679	227,004
Noncurrent liabilities	<u>91,165</u>	<u>16,805</u>
Total liabilities	<u>355,844</u>	<u>243,809</u>
Net Assets		
Invested in capital assets	8,580,407	8,910,336
Unrestricted	737,846	1,074,433
Restricted	288,367	-
Unassigned	<u>163,590</u>	<u>-</u>
Total net assets	<u>\$ 9,770,210</u>	<u>\$ 9,984,769</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**

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 2011 to 2010:

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

	Governmental Activities	
	<u>2011</u>	<u>2010</u>
Revenues		
Program revenues:		
Charges for services	\$ 925,589	\$ 942,887
Operating grants and contributions	393,995	381,533
Capital grants and contributions	-	2,000
General revenues:		
Taxes	1,398,039	1,157,204
Other revenue	<u>173,021</u>	<u>136,417</u>
Total revenues	<u>2,890,644</u>	<u>2,620,041</u>
Expenses		
General government	350,029	567,001
Public safety	1,044,956	1,131,014
Codes	30,726	30,097
Public works – sanitation	616,276	576,661
Public works – highways	595,628	681,977
Culture and recreation	101,492	33,259
Unallocated depreciation	<u>229,074</u>	<u>227,513</u>
Total expenses	<u>2,968,181</u>	<u>3,247,522</u>
Change in net assets	<u>\$ (77,537)</u>	<u>\$ (627,481)</u>

During 2011, the Township's total revenue was \$2,890,644 and increased by \$270,603 from the prior year. This increase was due primarily to a \$240,835 increase in earned income, real estate transfer, and local services tax revenue in 2011.

Township expenses during 2011 decreased \$279,341 from 2010. General government expenses decreased from the prior year by \$216,972 primarily due to decreased legal, engineering and auditing fees. Also, expenses for public safety decreased due to the purchase of police vehicles in the prior year. Expenses for the Public Works Department decreased due to the purchase of a Freightliner truck which also occurred in the prior year. Culture and recreation expenses increased due to the construction of a pavilion and a footbridge at the township park.

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

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.

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 \$78,974 compared to a decrease in fund balance of \$434,700 in 2010. The increase in fund balance in 2011 is due to an increase in revenues of \$206,732, a decrease in expenditures of \$220,477 and an increase in other financing sources of \$86,465.

Revenues increased primarily due to an increase in earned income taxes.

Expenditures decreased by \$220,477 in 2011 primarily due to decreased legal, auditing and engineering fees.

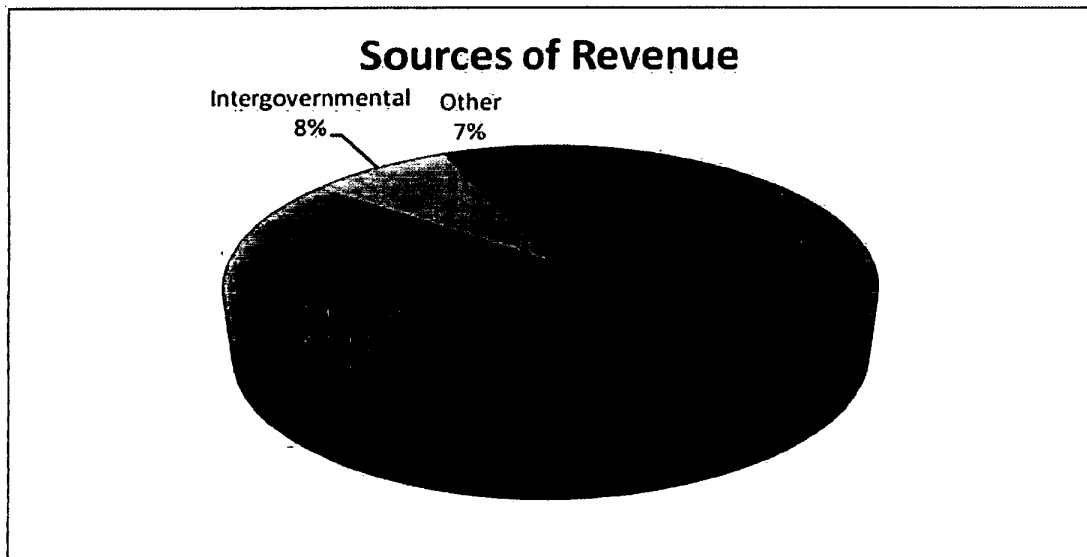
The following table compares the actual revenues and expenditures for 2011 and 2010:

Comparison of Revenues, Expenditures, and Changes in Net Assets General Fund For the Years Ended December 31,			
	<u>2011</u>	<u>2010</u>	<u>Variance</u>
Revenues			
Taxes	\$ 1,180,678	\$ 984,598	\$ 196,080
Franchise fees	132,156	122,180	9,976
Fines and forfeits	22,868	26,515	(3,647)
Interest earned	448	1,236	(788)
Intergovernmental revenues	203,451	198,050	5,401
Charges for services:			
Trash fees	797,798	827,404	(29,606)
Building permits	74,627	56,116	18,511
Road and commercial permits	8,423	11,472	(3,049)
Other	31,744	-	31,744
Miscellaneous revenues	<u>1,313</u>	<u>19,203</u>	<u>(17,890)</u>
Total revenues	<u>2,453,506</u>	<u>2,246,774</u>	<u>206,732</u>

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA MANAGEMENT'S DISCUSSION AND ANALYSIS

	<u>2011</u>	<u>2010</u>	<u>Variance</u>
Expenditures			
General government	\$ 349,522	\$ 565,932	\$ (216,410)
Public safety	1,038,882	1,062,885	(24,003)
Codes	30,726	30,097	629
Public works – sanitation	616,276	576,661	39,615
Public works – highways	420,470	429,020	(8,550)
Culture and recreation	<u>5,121</u>	<u>16,879</u>	<u>(11,758)</u>
Total expenditures	<u>2,460,997</u>	<u>2,681,474</u>	<u>(220,477)</u>
Other Financing Sources (Uses)			
Sales of Capital Assets	3,126	-	3,126
Interfund Transfers In	<u>83,339</u>	<u>-</u>	<u>83,339</u>
Total other financing sources	<u>86,465</u>	<u>-</u>	<u>86,465</u>
Net change in fund balance	78,974	(434,700)	<u>\$ 513,674</u>
Fund balance, beginning	<u>(130,535)</u>	<u>304,165</u>	
Fund balance, ending	<u>\$ (51,561)</u>	<u>\$ (130,535)</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 48% of the General Fund's total revenues. Fees generated from charges for services contributed 37%. These two sources combined to contribute 85% of the General Fund's revenue. Revenues from "other" sources total 7% and included interest earnings, franchise fees, and fines. Intergovernmental revenues accounted for the remaining 8% of the General fund's revenue.



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

General Fund Budgeted Revenues

The 2011 revenues from taxes were \$148,031 higher than budgeted due to higher earned income taxes than budgeted. Intergovernmental revenues were higher than budgeted due to increased volunteer fire relief association funds and pension state aid from the State. Charges for services were \$14,302 less than budgeted overall, but consisted of a decrease of \$30,716 of trash fee revenue lower than budgeted and \$24,627 of building permits higher than budgeted. The other revenues were relatively consistent with the overall budget projections.

General Fund Budgeted Expenditures

Departmental expenditures were \$18,023 under the projected budget. Public Works-sanitation was under budget by \$25,560 and Public Works-highways was \$27,850 over budget. Overall, the result of last year's operations was a increase in fund balance of \$78,974.

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual
For the Year Ended December 31, 2011**

	<u>Original</u>	<u>Final</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Taxes	\$ 1,032,647	\$ 1,032,647	\$ 1,180,678	\$ 148,031
Franchise fees	130,000	130,000	132,156	2,156
Fines and forfeits	30,000	30,000	22,868	(7,132)
Interest earned	2,000	2,000	448	(1,552)
Intergovernmental revenues	148,185	148,185	203,451	55,266
Charges for services:				
Trash fees	828,514	828,514	797,798	(30,716)
Building permits	50,000	50,000	74,627	24,627
Road and commercial permits	11,080	11,080	8,423	(2,657)
Other	37,300	37,300	31,744	(5,556)
Miscellaneous revenues	2,700	2,700	1,313	(1,387)
Sale of Fixed Assets	-	-	3,126	3,126
Total revenues	<u>2,272,426</u>	<u>2,272,426</u>	<u>2,456,632</u>	<u>184,206</u>
Expenditures				
General government	356,091	356,091	349,522	6,569
Public safety	1,041,323	1,041,323	1,038,882	2,441
Codes	29,100	29,100	30,726	(1,626)
Public works – sanitation	641,836	641,836	616,276	25,560
Public works – highways	392,620	392,620	420,470	(27,850)
Culture and recreation	18,050	18,050	5,121	12,929
Total expenditures	<u>2,479,020</u>	<u>2,479,020</u>	<u>2,460,997</u>	<u>18,023</u>
Excess (deficiency) of revenues over expenditures	<u>(206,594)</u>	<u>(206,594)</u>	<u>(4,365)</u>	<u>202,229</u>

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

	<u>Original</u>	<u>Final</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
Other financing sources (uses)				
Other	\$ 206,594	\$ 206,594	\$ 83,339	\$ (123,255)
Total other financing sources (uses)	<u>206,594</u>	<u>206,594</u>	<u>83,339</u>	<u>(123,255)</u>
Net change in fund balance			78,974	78,974
Fund balance, January 1	<u>-</u>	<u>-</u>	<u>(130,535)</u>	<u>(130,535)</u>
Fund balance, December 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (51,561)</u>	<u>\$ (51,561)</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 2011, subsidies received totaled \$190,544. Liquid Fuels Fund expenses totaled \$175,372. As of December 31, 2011, the Liquid Fuels Fund had a fund balance of \$288,663.

Capital Projects Fund

The Township maintains a Capital Projects Fund for the purpose of funding acquisitions of capital assets. During 2011, there was nominal activity in the Capital Projects Fund, exclusive of earned interest in the amount of \$1,086. As of December 31, 2011, the fund balance of the Capital Projects Fund amounted to \$428,434.

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. As of December 31, 2011, the fund balance of the Parks and Recreation Fund was \$309,412.

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

CAPITAL ASSETS

As of December 31, 2011, the Township had \$8,658,262 of value in a broad range of Capital Assets, including land, buildings and furniture, equipment and infrastructure. This amount represents a net decrease of \$252,074 in value from 2010 that is attributed to a \$23,000 asset disposal and depreciation expense of \$229,074.

The following schedule delineates the ending value of Capital Assets for the period ending December 31, 2011 and changes in each capital asset category:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets				
Land	\$ 3,050,001		\$	\$ 3,050,001
Park improvements	779,880			779,880
Buildings and improvements	316,451			316,451
Infrastructure	5,380,702			5,380,702
Vehicles	905,128	\$	\$ 23,000	882,128
Machinery and equipment	237,515			237,515
Total capital assets	<u>10,669,677</u>		<u>23,000</u>	<u>10,646,677</u>
Accumulated depreciation				
Park improvements	38,995	15,598		54,593
Buildings and improvements	161,816	12,884		174,700
Infrastructure	756,118	107,614		863,732
Vehicles	644,720	70,533	23,000	692,253
Machinery and equipment	157,692	22,445		180,137
Total accumulated depreciation	<u>1,759,341</u>	<u>229,074</u>	<u>23,000</u>	<u>1,965,415</u>
Capital assets, net	<u>\$ 8,910,336</u>	<u>\$ (229,074)</u>	<u>\$ -</u>	<u>\$ 8,681,262</u>

THE TOWNSHIP'S FUTURE

The US economy in 2011 experienced a year of slow growth and fears of a double-dip recession, but as the year came to a close, there were some positive signs of improvement. The Township saw an anticipated increase in the amount of earned income taxes, once the State of Pennsylvania enacted Act 32, and Chester County engaged Keystone Collections to collect all earned income and local services taxes. The Act required all employers to determine each employee's municipality of residence and to remit earned income taxes to those municipalities. It had been projected that this new requirement would increase earned income remittances to the majority of municipalities and school districts within Pennsylvania. East Fallowfield Township expects to see a continued increase in earned income tax collections during 2012.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA MANAGEMENT'S DISCUSSION AND ANALYSIS

It is also evident that East Fallowfield Township will face financial challenges in the upcoming years. 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. Permit fees are driven by developers' willingness to invest in land development and the availability of construction financing. Although one of our primary sources of revenue is billed trash collections 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:

- Multi-year budgeting and or projections
- Capital project funding and fixed asset replacement and long-term infrastructure improvement strategy
- Development of new funding sources from enacting safety, real estate, or other taxes; expanding public water and sewer franchise areas to attract developers, and aggressively pursuing available grants.

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 ASSETS
DECEMBER 31, 2011**

	Governmental Activities
Assets	
Current Assets:	
Cash	\$ 1,049,912
Receivables:	
Taxes, net	193,779
Trash, net	48,347
Franchise fees	62,102
Prepaid items	2,791
Escrow fund receivable	<u>87,861</u>
Total current assets	<u>1,444,792</u>
Capital Assets:	
Land	3,050,001
Other capital assets, net of accumulated depreciation	<u>5,631,261</u>
Total capital assets, net	<u>8,681,262</u>
Total assets	<u>10,126,054</u>
Liabilities	
Current Liabilities:	
Accounts payable and accrued liabilities	82,370
Accrued payroll	33,950
Payroll deductions and withholdings	11,318
Lease obligation	32,569
Prepaid trash fees	<u>104,472</u>
Total current liabilities	<u>264,679</u>
Noncurrent Liabilities:	
Lease obligation	68,286
Compensated absences	<u>22,879</u>
Total noncurrent liabilities	<u>91,165</u>
Total liabilities	<u>355,844</u>
Net Assets	
Invested in capital assets, net of related debt	8,580,407
Restricted for: Road service and maintenance	288,367
Unrestricted for: Capital purchases	428,434
Unrestricted for: Parks and recreation	309,412
Unassigned	<u>163,590</u>
Total net assets	<u>\$ 9,770,210</u>

See Notes to Financial Statements.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2011**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Assets Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants And Contributions</u>	
Governmental Activities:					
General government	\$ 350,029		\$ 203,451		\$ (146,578)
Public safety	1,044,956	\$ 22,868			(1,022,088)
Codes	30,726	83,050			52,324
Public works – sanitation	616,276	818,171			201,895
Public works – highways	595,628		190,544		(405,084)
Culture and recreation	101,492	1,500			(99,992)
Unallocated depreciation expense	<u>229,074</u>				<u>(229,074)</u>
Total governmental activities	<u>\$2,968,181</u>	<u>\$ 925,589</u>	<u>\$ 393,995</u>	<u>\$ -</u>	<u>(1,648,597)</u>
General revenues					
Taxes:					
Earned income taxes					1,276,209
Real estate transfer taxes					105,575
Local services taxes					16,255
Franchise fees					132,156
Investment earnings					2,126
Miscellaneous income					<u>38,739</u>
Total general revenues					<u>1,571,060</u>
Change in net assets					(77,537)
Net assets, beginning of year					<u>9,847,747</u>
Net assets, end of year					<u>\$ 9,770,210</u>

See Notes to Financial Statements.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	<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	\$ 100,263	\$ 428,434	\$ 288,367	\$ 232,848	\$ 1,049,912
Receivables:					
Earned income tax	186,921				186,921
Local services tax	2,359				2,359
Real estate transfer tax	4,499				4,499
Trash fees	48,347				48,347
Franchise fees	62,102				62,102
Prepaid items	2,495		296		2,791
Due from other funds				87,861	87,861
Total assets	<u>\$ 406,986</u>	<u>\$ 428,434</u>	<u>\$ 288,663</u>	<u>\$ 320,709</u>	<u>\$ 1,444,792</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities	\$ 71,073				\$ 71,073
Deposits				\$ 11,297	11,297
Accrued payroll	33,950				33,950
Payroll deductions and Withholdings	11,318				11,318
Prepaid trash fees	104,472				104,472
Loan payable					-
Deferred revenue	237,734				237,734
Total liabilities	<u>458,547</u>	<u>\$ -</u>	<u>\$ -</u>	<u>11,297</u>	<u>469,844</u>
Fund Balances:					
Nonspendable	2,495		296		2,791
Restricted – Road service and maintenance			288,367		288,367
Committed – Parks and Recreation				309,412	309,412
Committed – Capital Purchases		428,434			428,434
Assigned					
Unassigned	(54,056)				(54,056)
Total fund balances	<u>(51,561)</u>	<u>428,434</u>	<u>288,663</u>	<u>309,412</u>	<u>974,948</u>
Total liabilities and fund balances	<u>\$ 406,986</u>	<u>\$ 428,434</u>	<u>\$ 288,663</u>	<u>\$ 320,709</u>	<u>\$ 1,444,792</u>

See Notes to Financial Statements.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2011**

Total fund balances – governmental funds	\$ 974,948
--	------------

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 \$10,646,677 and the accumulated depreciation is \$1,965,415.	8,681,262
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Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	(22,879)
--	----------

Capital lease obligation that consumes resources of Governmental funds that has no input on net assets	36,167
--	--------

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.	20,373
--	--------

Expenses recorded in the governmental funds that are capitalized in the entity-wide statements	(137,022)
--	-----------

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>217,361</u>
--	----------------

Total net assets – governmental activities	<u>\$ 9,770,210</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, 2011**

	<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	\$ 1,058,848				\$ 1,058,848
Real estate transfer	105,575				105,575
Local services	<u>16,255</u>				<u>16,255</u>
Total taxes	1,180,678				1,180,678
Grants					
Franchise fees	132,156				132,156
Fines and forfeits	22,868				22,868
Interest	448	\$ 1,086	\$ 477	\$ 115	2,126
Intergovernmental revenues	203,451		190,544		393,995
Charges for services:					
Trash fees	797,798				797,798
Building permits	74,627				74,627
Road and commercial permits	8,423				8,423
Other	31,744			1,643	33,387
Fee in lieu				1,500	1,500
Miscellaneous revenues	<u>1,313</u>			<u>913</u>	<u>2,226</u>
Total revenues	<u>2,453,506</u>	<u>1,086</u>	<u>191,021</u>	<u>4,171</u>	<u>2,649,784</u>
Expenditures:					
General government	349,522	293	214		350,029
Public safety	1,038,882				1,038,882
Codes	30,726				30,726
Public works – sanitation	616,276				616,276
Public works – highways	420,470		175,158		595,628
Culture and recreation	<u>5,121</u>			<u>96,371</u>	<u>101,492</u>
Total expenditures	<u>2,460,997</u>	<u>293</u>	<u>175,372</u>	<u>96,371</u>	<u>2,733,033</u>
Excess (deficiency) of revenues over expenditures	<u>(7,491)</u>	<u>793</u>	<u>15,649</u>	<u>(92,200)</u>	<u>(83,249)</u>
Other financing sources (uses):					
Sales of capital assets	3,126				3,126
Proceeds of capital lease			100,855		100,855
Transfer from Agency Fund				54,239	54,239
Interfund transfers in	83,339				83,339
Interfund transfers out	<u></u>	<u>(83,339)</u>			<u>(83,339)</u>
Total Other Financial Sources (Uses)	86,465	(83,339)	100,855	54,239	158,220
Net change in fund balances	78,974	(82,546)	116,504	(37,961)	74,971
Fund balance, January 1	<u>(130,535)</u>	<u>510,980</u>	<u>172,159</u>	<u>347,373</u>	<u>899,977</u>
Fund Balance, December 31	<u>\$ (51,561)</u>	<u>\$ 428,434</u>	<u>\$ 288,663</u>	<u>\$ 309,412</u>	<u>\$ 974,948</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, 2011**

Total net change in fund balances – governmental funds **\$ 74,971**

**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	\$ -	
Depreciation expense	<u>(229,074)</u>	(229,074)

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 increased by this amount this year.

44,480

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

(6,074)

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

36,167

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..

1,993

Change in net assets of governmental activities

\$ (77,537)

See Notes to Financial Statements.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
STATEMENT OF ASSETS AND LIABILITIES – AGENCY FUND
DECEMBER 31, 2011**

	<u>Agency</u>
Assets	
Cash and cash equivalents	\$ 405,264
Contractor receivables	48,135
Due from other funds	<u>-</u>
Total assets	<u>\$ 453,399</u>
Liabilities	
Contractor deposits	\$ 101,237
Due to other funds	87,861
Deposits held for West Chester Road	191,607
Reserved for escrow liabilities	<u>72,694</u>
Total liabilities	<u>\$ 453,399</u>

See Notes to Financial Statements.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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 assets 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 assets 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, 2011

**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. Each major and non-major fund is presented 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, 2011

**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, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Nonexchange transactions, in which the Township receives value without directly giving equal in return, include earned income taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year 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 Revenues

Deferred revenues arise when assets are received before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period are reported as deferred revenue.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are 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.

Date of Management's Review

Management of the Township have evaluated subsequent events through March 13, 2013, the date on which the financial statements were available to be issued.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

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

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

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement 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. The Township implemented GASB Statement No. 54 during the year.

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, 2011**

**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.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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

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.

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, 2011, 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.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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.

Capital Assets

Capital assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on 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 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

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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

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 that, once incurred, are paid in a timely manner and in full from current financial resources 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.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets represent the costs of capital assets net of related debt and net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their 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.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 2 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets, net 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	905,128		\$ 23,000	882,128
Machinery and equipment	<u>237,515</u>	<u> </u>	<u> </u>	<u>237,515</u>
Total capital assets, being depreciated	<u>7,619,676</u>	<u>-</u>	<u>23,000</u>	<u>7,596,676</u>
Less accumulated depreciation for:				
Park improvements	38,995	\$ 15,598		54,593
Building and improvements	161,816	12,884		174,700
Infrastructure	756,118	107,614		863,732
Vehicles	644,720	70,533	23,000	692,253
Machinery and equipment	<u>157,692</u>	<u>22,445</u>	<u> </u>	<u>180,137</u>
Total accumulated depreciation	<u>1,759,341</u>	<u>229,074</u>	<u>23,000</u>	<u>1,965,415</u>
Total capital assets being depreciated, net	<u>5,860,335</u>	<u>(229,074)</u>	<u>-</u>	<u>5,631,261</u>
Governmental activities capital assets, net	<u>\$ 8,910,336</u>	<u>\$ (229,074)</u>	<u>\$ -</u>	<u>\$ 8,681,262</u>

NOTE 3 CAPITAL LEASE PAYABLE

The Township's capital lease payable at December 31, 2011 consists of the following:

<u>Description</u>	<u>Balance 12/31/10</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 12/31/11</u>
Capital Lease – First Niagara Leasing, Inc., annual payment of \$35,785, interest at 3.189%, maturing 2014, secured by road equipment	\$ -	\$ 136,640	\$ 35,785	\$ 100,855

Future minimum lease payments are as follows:

2012	\$35,785
2013	\$35,785
2014	\$35,785

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 4 INTERFUND RECEIVABLES, PAYABLE, AND TRANSFERS

Interfund receivable and payable balances of each individual fund as of December 31, 2011 are as follows (certain amounts are netted for presentation in the fund financial statements):

	<u>Due from Other Fund</u>	<u>Due to Other Fund</u>
Escrow Fund	\$ -	\$ 87,861
Park and Recreation Fund	<u>87,861</u>	<u>-</u>
	<u>\$ 87,861</u>	<u>\$ 87,861</u>

Interfund balances result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

The following transfers occurred during 2011:

Transfer from Capital Projects to the General Fund for reimbursement of expenses	\$ 25,000
Transfer from Capital Projects to the General Fund to pay the balance due to the Park and Recreation Fund	58,339
Transfer to the Park and Recreation Fund from the Agency Fund	54,239

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 employer contribution rate of 5.0% of the employees' salary for the non-uniform pension plan. The Township contributed \$12,118 to the plan in 2011.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 5 EMPLOYEE PENSION PLANS (CONTINUED)

Police Pension Plan

The Township sponsors a defined benefit plan for police. As of December 31, 2011, all 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.

As of December 31, 2011, 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	3
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.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 5 EMPLOYEE PENSION PLANS (CONTINUED)

Currently, employees covered under the Police Pension Plan are required to 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.

The Township's annual pension cost for the year ended December 31, 2011 and related information for the Police Pension Plan is as follows:

	<u>Police Pension Plan</u>
Annual pension cost	\$63,674
Contributions made	\$63,674
Valuation Date	January 1, 2011
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar-Closed
Remaining Amortization Period	16.42 years
Asset Valuation Method	Fair Value
Actuarial Assumptions:	
Investment Rate of Return	6.0%
Projected Salary Increases	5.2%

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

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 5 EMPLOYEE PENSION PLANS (CONTINUED)

Funded Status and Funding Progress

The following is funded status information as of January 31, 2009, 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 \$1,455,082 and the corresponding bank balance was \$1,524,503. Of the bank balance, \$266,908 was covered by federal depository insurance, and \$1,257,595 was collateralized through pools of securities held by the respective depository institutions.

EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 7 COMPENSATED ABSENCES

The following is a summary of changes in compensated absences:

<u>Balance</u> <u>January 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>December 31, 2011</u>
<u>\$ 16,805</u>	<u>\$ 6,074</u>	<u>\$ -</u>	<u>\$ 22,879</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 ACCOUNTING PRONOUNCEMENTS ISSUED, NOT YET IMPLEMENTED

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, issued December 2009, will be effective for the Township beginning with the year ending December 31, 2012. The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plan (that is, agent employers).

GASB Statement No. 67, *Financial Reporting for Pension Plans*, issued June 2012, will be 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 be 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.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 10 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Excess of Expenditures over Appropriations

For the year ended December 31, 2011, expenditures exceeded the budget in General Fund – Public Works Highways in the amount of \$27,850 and General Fund – Codes in the amount of \$1,627. The expenditures were funded by appropriable fund balances.

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.

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION FUNDING PROGRESS – POLICE PENSION PLAN
SIX YEARS ENDED DECEMBER 31, 2011**

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))
2006*	\$282,942	\$ 244,685	\$ (38,257)	115.64%	\$302,324	(12.65)%
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%

*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, 2011

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2006	\$25,400	100%
2007	40,625	100%
2008	46,428	100%
2009	54,675	100%
2010	58,629	100%
2011	63,674	100%

**EAST FALLOWFIED 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:	16.42 Years
Asset Valuation Method:	Fair Value
Actuarial Assumptions:	
Investment Rate of Return	6.00%
Projected Salary Increases	5.2%

**EAST FALLOWFIELD TOWNSHIP, PENNSYLVANIA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
YEAR ENDED DECEMBER 31 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>(Budgetary</u> <u>Basis)</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
Earned income	\$ 887,850	\$ 887,850	\$ 1,058,848	\$ 170,998
Real estate transfer	130,000	130,000	105,575	(24,425)
Local services	<u>14,797</u>	<u>14,797</u>	<u>16,255</u>	<u>1,458</u>
Total taxes	<u>1,032,647</u>	<u>1,032,647</u>	<u>1,180,678</u>	<u>148,031</u>
Franchise fees	130,000	130,000	132,156	2,156
Fines and forfeits	30,000	30,000	22,868	(7,132)
Interest earned	2,000	2,000	448	(1,552)
Intergovernmental revenues	148,185	148,185	203,451	55,266
Charges for services:				
Trash fees	828,514	828,514	797,798	(30,716)
Building permits	50,000	50,000	74,627	24,627
Road and commercial permits	11,080	11,080	8,423	(2,657)
Other	37,300	37,300	31,744	(5,556)
Miscellaneous revenues	2,700	2,700	1,313	(1,387)
Sale of fixed assets	-	-	3,126	3,126
Total revenues	<u>2,272,426</u>	<u>2,272,426</u>	<u>2,456,632</u>	<u>184,206</u>
Expenditures:				
General government	351,151	351,151	349,522	1,629
Public safety	1,041,323	1,041,323	1,038,882	2,441
Codes	29,100	29,100	30,726	(1,626)
Public works – sanitation	641,836	641,836	616,276	25,560
Public works – highways	392,620	392,620	420,470	(27,850)
Culture and recreation	<u>22,990</u>	<u>22,990</u>	<u>5,121</u>	<u>17,869</u>
Total expenditures	<u>2,479,020</u>	<u>2,479,020</u>	<u>2,460,997</u>	<u>18,023</u>
Excess (deficiency) of revenues				
over expenditures	<u>(206,594)</u>	<u>(206,594)</u>	<u>(4,365)</u>	<u>202,229</u>
Other financing sources (uses):				
Transfer from Capital Project	206,594	206,594	-	(206,594)
Other operating transfers	-	-	83,339	83,339
Total other financing sources (uses)	<u>206,594</u>	<u>206,594</u>	<u>83,339</u>	<u>83,339</u>
Net change in fund balances			<u>78,974</u>	<u>78,974</u>
Fund balance, January 1	<u>-</u>	<u>-</u>	<u>(130,535)</u>	<u>(130,535)</u>
Fund balance, December 31	<u>\$</u>	<u>\$</u>	<u>\$ (51,561)</u>	<u>\$ (51,561)</u>

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

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

**EAST FALLOWFIELD TOWNSHIP
CHESTER COUNTY, PENNSYLVANIA**

RESOLUTION NO. 2012 - 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 2011 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 the next fiscal 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 2011 to replace the elected auditors.

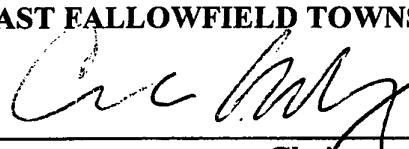
Section 2. The Board of Supervisors shall determine the compensation of the appointed firm of public accountants.

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 3rd day of January, 2012.

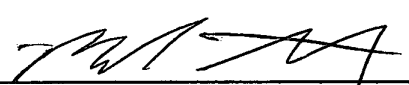
**BOARD OF SUPERVISORS
EAST FALLOWFIELD TOWNSHIP**



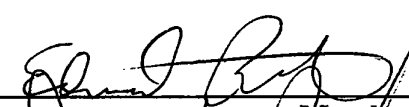
, Chairman



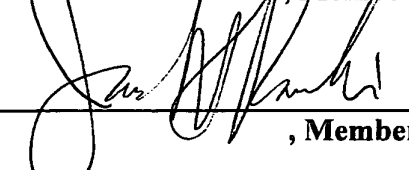
, Vice Chairman



, Member

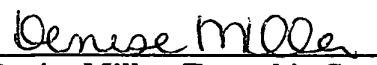


, Member



, Member

ATTEST



Denise Miller, Township Secretary