

# McGladrey & Pullen

Certified Public Accountants

## East Fallowfield Township, Pennsylvania

Financial Report  
December 31, 2008

## East Fallowfield Township, Pennsylvania

### Contents

Independent Auditor's Report	1
Management's Discussion and Analysis (Unaudited)	2
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements	
Balance Sheet – Governmental Funds	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	14
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	15
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to Government Activities in the Statement of Activities	16
Statement of Assets and Liabilities - Agency Fund	17
Notes to Financial Statements	18
Required Supplementary Information (Unaudited)	
Schedule of Pension Funding Progress - Police Pension Plan	29
Schedule of Contributions from the Employer and Other Contributing Entities - Police Pension Plan	30
Notes to Required Supplementary Information – Police Pension Plan	31
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	32
Notes to Required Supplementary Information – Budgetary Comparison	33
Supplementary Information	
Cash Basis Schedule of Revenues, Expenditures, and Changes in Cash Balances - Governmental Funds	34

# McGladrey & Pullen

Certified Public Accountants

## 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, 2008, 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, 2008, 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.

As discussed in Note 11 to the financial statements, the January 1, 2008 net assets and fund balances have been restated to correct errors in the December 31, 2007 financial statements. We have audited the adjustments necessary to restate the January 1, 2008 net assets and fund balances provided in Note 11. In our opinion, such adjustments are appropriate, and have been properly applied.

The Management's Discussion and Analysis on pages 2 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. The schedule of pension funding progress, schedule of contributions from the employer and other contributing entities and budgetary comparison information on pages 29 through 33 are not a required part of the basic financial statements but are also supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise East Fallowfield Township, Pennsylvania's basic financial statements. The cash basis schedule of revenues, expenditures and changes in cash balances – governmental funds, listed in the table of contents as supplementary information, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects to the basic financial statements taken as a whole.

*McGladrey & Pullen, LLP*

Blue Bell, Pennsylvania  
May 20, 2011

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## East Fallowfield Township, Pennsylvania

### Management's Discussion and Analysis

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This discussion and analysis of East Fallowfield Township's financial performance provides an overview of the Township's financial activities for the year ended December 31, 2008. The intent of this discussion and analysis is to look at the Township's financial performance as a whole. Readers should also review the notes to the financial statements and the financial statements.

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

### **FINANCIAL HIGHLIGHTS**

During 2008 the American economy experienced major turmoil in the financial markets and increased unemployment. The Township saw decreases in revenues from interest, real estate transfer tax, earned income tax, and building permits. Costs for insurance, employee benefits and engineering increased at a faster rate than revenue, resulting in the total expenditures exceeding total revenue.

#### **General Fund**

Revenues were lower than anticipated primarily due to decreases in both earned income and real estate transfer taxes.

Years	Earned Income Tax Revenues (Modified Accrual Basis)
2004	\$ 690,474
2005	1,059,384
2006	733,855
2007	753,026
2008	685,872

Expenditures were hit with unbudgeted increases for workman's compensation insurance, engineering fees and temporary accounting services.

The Township received \$83,000 from Pennsylvania American Water Company during 2008 for service which helped to reduce the shortfall between revenues and expenditures.

The General Fund experienced a decrease in fund balance of \$231,201 during 2008 which was \$151,726 higher than the prior year. During 2007, an interfund transfer was made from the Capital Projects Fund to the General Fund in the amount of \$250,000 which had reduced the 2007 deficit to \$79,475. There was no transfer from the Capital Projects Fund during 2008.

### **OVERVIEW OF FINANCIAL STATEMENTS**

The accompanying financial statements have been prepared in accordance with GASB Statement No. 34 and present both government-wide and fund level financial statements using both the accrual and modified accrual basis of accounting, respectively.

**OVERVIEW OF FINANCIAL STATEMENTS (Continued)**

**Government-Wide Financial Statements**

The first two statements are government-wide financial statements – the Statement of Net Assets and the Statement of Activities. These provide both long-term and short-term information about the Township's overall financial status.

The government-wide statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Township's net assets and how they have changed. Net assets, the difference between the Township's assets and liabilities, are one way to measure the Township's financial health or position.

Over time, increases or decreases in the Township's net assets are an indication of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the Township, you need to also consider additional non-financial factors, such as changes in the Township's earned income tax base and the adequacy of Township services.

The government-wide financial statements of the Township are:

- Governmental Activities – All of the Township's basic services are included here, such as public safety, public works, and administration. Earned income taxes, state grants, and charges for services finance most of these activities.

**Fund Level Financial Statements**

The remaining statements are fund financial statements that focus on individual parts of the Township's operations in more detail than the government-wide statements. The governmental funds statements tell how the Township's general services were financed in the short-term, as well as what remains for future spending.

Governmental Funds – Most of the Township's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. Governmental funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Township's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Agency Fund – The Township is the agent for the escrow funds. The Township's agency activities are reported in a separate Statement of Assets and Liabilities – Agency Fund. We exclude these activities from the Township's other financial statements because the Township cannot use these assets to finance its operations. Agency Funds are custodial in nature.

East Fallowfield Township, Pennsylvania

Management's Discussion and Analysis

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

The Township's total net assets were \$10,557,260 and \$10,550,275 on December 31, 2007 and 2008, respectively. The following table presents condensed financial information for the net assets of the Township for December 31, 2007 and 2008. The increases in capital assets were due primarily to the addition of the East Fallowfield Community Park improvements; contributing to the net decrease in assets were the decrease in net assets which resulted in less cash within the capital, general, and capital reserve funds.

	Net Assets December 31,	
	Governmental Activities 2007*	2008
Assets		
Current and other assets	\$ 2,008,991	\$ 1,587,879
Capital assets, net	8,650,297	9,150,796
Total assets	<u>10,659,288</u>	<u>10,738,675</u>
Liabilities		
Current and other liabilities	77,414	166,810
Noncurrent liabilities	24,614	21,590
Total liabilities	<u>102,028</u>	<u>188,400</u>
Net Assets		
Invested in capital assets	8,650,297	9,150,796
Unrestricted	1,906,963	1,399,479
Total net assets	<u>\$ 10,557,260</u>	<u>\$ 10,550,275</u>

\*Certain amounts from 2007 have been restated.

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 largest revenues are earned income taxes, the real estate transfer tax, and the trash fees. Collectively, revenues had a slight increase from 2007 to 2008. The trash fees pay for most of the total cost of the trash/recycling program.

## East Fallowfield Township, Pennsylvania

### Management's Discussion and Analysis

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The following table presents condensed financial information for the Statement of Activities in a different format so that you can see our total revenues for the year.

#### Revenues, Expenditures, and Changes in Net Assets For the Years Ended December 31,

	Governmental Activities	
	2007*	2008
Revenues		
Program revenues:		
Charges for services	\$ 964,922	\$ 1,067,475
Operating grants and contributions	320,839	363,740
Capital grants and contributions	374,306	62,500
General revenues:		
Taxes	940,673	1,050,195
Other revenue	157,498	158,222
Gain on sale of capital assets	-	6,997
Fees for water connections	-	83,000
Total revenues	<u>2,758,238</u>	<u>2,792,129</u>
Expenses		
General government	408,463	460,741
Public safety	996,938	971,015
Codes	93,471	90,921
Public works - sanitation	529,759	580,173
Public works - highways	576,224	432,905
Culture and recreation	27,275	40,910
Unallocated depreciation	215,526	222,449
Loss on disposal of assets	11,428	-
Total expenses	<u>2,859,084</u>	<u>2,799,114</u>
Change in net assets	<u>\$ (100,846)</u>	<u>\$ (6,985)</u>

\*Certain amounts from 2007 have been restated.

### GOVERNMENTAL FUNDS

Most of the Township's activities are reported in governmental funds. Governmental funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. Governmental Funds include the General Fund, Liquid Fuels Fund, Capital Projects Fund and Parks and Recreation Fund. By far, the most prominent fund is the General Fund.

East Fallowfield Township, Pennsylvania

Management's Discussion and Analysis

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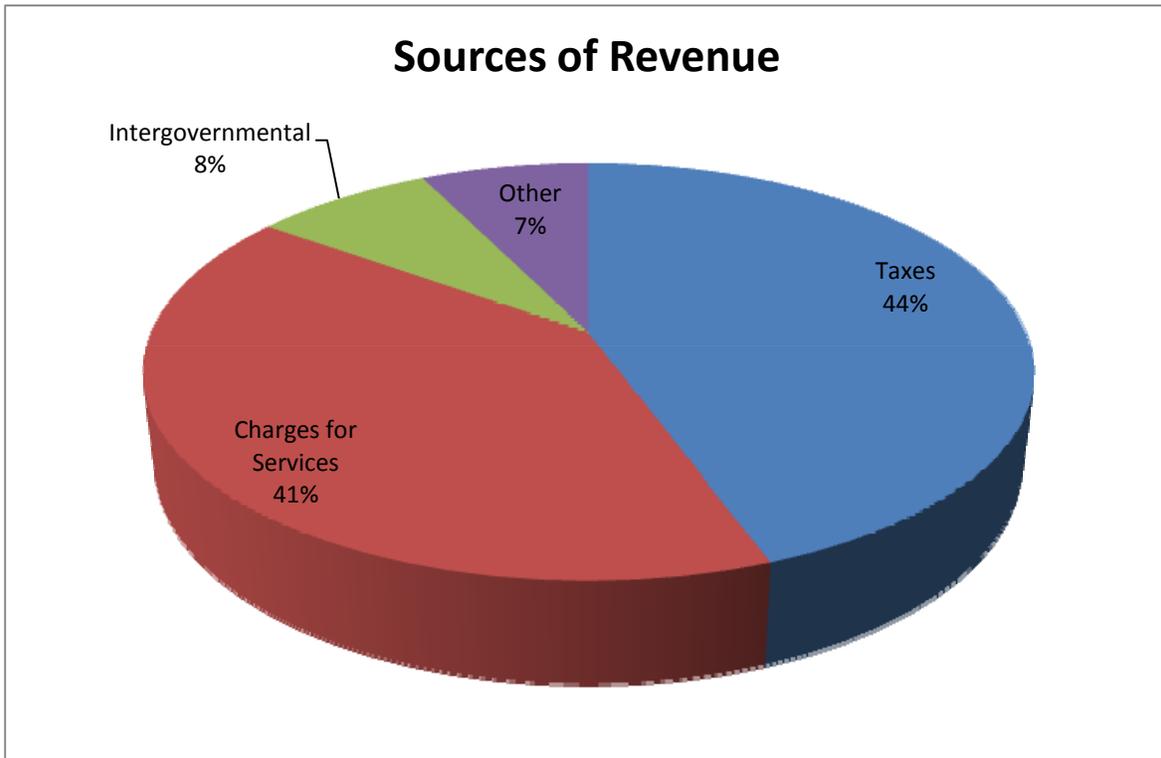
General Fund

The General Fund is the principal operating fund of the Township. Revenues (excluding transfers) between 2007 and 2008 were essentially flat. Due to the downturn in the economy, anticipated sales of new homes, real estate transfer taxes, and earned income tax levels were less than projected.

The following table compares the actual revenues and expenditures for the two budgetary time periods.

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

	2007	2008	Variance
Revenues			
Taxes	\$ 1,044,806	\$ 970,103	\$ (74,703)
Licenses and permits	69,927	113,546	43,619
Fines and forfeits	31,739	26,742	(4,997)
Interest earned	27,742	9,386	(18,356)
Intergovernmental revenues	140,376	170,478	30,102
Charges for services	863,005	884,510	21,505
Miscellaneous revenues	12,070	9,813	(2,257)
Interfund transfers	250,000	-	(250,000)
Total revenues	<u>2,439,665</u>	<u>2,184,578</u>	<u>(255,087)</u>
Expenditures			
General government	414,673	500,272	85,599
Public safety	992,912	971,282	(21,630)
Codes	93,471	90,921	(2,550)
Public works - sanitation	529,759	580,173	50,414
Public works - highways	461,050	313,299	(147,751)
Culture and recreation	27,275	52,990	25,715
Total expenditures	<u>2,519,140</u>	<u>2,508,937</u>	<u>(10,203)</u>
Other Financing Sources (Uses)			
Fees for water connections	-	83,000	83,000
Sales of capital assets	-	12,944	12,944
Refund of prior year revenues	-	(2,786)	(2,786)
Total other financing sources	<u>-</u>	<u>93,158</u>	<u>93,158</u>
Net change in fund balance	(79,475)	(231,201)	<u>\$ (151,726)</u>
Fund balance, beginning	<u>587,796</u>	<u>508,321</u>	
Fund balance, ending	<u>\$ 508,321</u>	<u>\$ 277,120</u>	



The Township balances its General Fund budget with funds from four kinds of sources: Taxes cover 44% of the General Fund revenues from the Earned Income Tax and the Real Estate Transfer Tax; approximately 40% of the funds are generated by charges for services including trash collection, building permits, fees and other charges; 8% of the funds came from the Commonwealth of Pennsylvania, and the remaining 7% came from the miscellaneous sources including interest earnings and fines.

#### GENERAL FUND BUDGETED REVENUES

Thanks to a deteriorating economy, the 2008 revenues from taxes were \$186,897 less than budgeted due to unexpected decreases in earned income taxes and real estate transfer taxes. Revenues for licenses and permits increased \$32,546 from the amount budgeted due primarily to first year revenues from Verizon for its cable services to the Township. Intergovernmental revenues increased \$46,478 versus the budget due to a grant under the COPS program that was not budgeted as well as a grant for sanitation.

In total, revenues were \$150,622 less than budgeted.

East Fallowfield Township, Pennsylvania

Management's Discussion and Analysis

**GENERAL FUND BUDGETED EXPENDITURES**

Departmental expenditures were over-budget primarily in general government during 2008. The final expenditures were \$97,737 over the projected budget. Contributing to the increase in expenditures versus the budget were legal fees, increased medical insurance costs, temporary accounting fees, building codes expenses and higher trash costs. Overall, the result of the year's operations was a decrease in fund balance of \$231,201.

Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget to Actual  
For the Year Ended December 31, 2008

	Original	Final	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>Revenues</b>				
Taxes	\$ 1,157,000	\$ 1,157,000	\$ 970,103	\$ (186,897)
Licenses and permits	81,000	81,000	113,546	32,546
Fines and forfeits	30,000	30,000	26,742	(3,258)
Interest earned	30,000	30,000	9,386	(20,614)
Intergovernmental revenues	124,000	124,000	170,478	46,478
Charges for services	895,000	895,000	884,510	(10,490)
Miscellaneous revenues	18,200	18,200	9,813	(8,387)
<b>Total revenues</b>	<b>2,335,200</b>	<b>2,335,200</b>	<b>2,184,578</b>	<b>(150,622)</b>
<b>Expenditures</b>				
General government	385,780	385,780	500,272	(114,492)
Public safety	963,420	963,420	971,282	(7,862)
Codes	89,800	89,800	90,921	(1,121)
Public works - sanitation	553,000	553,000	580,173	(27,173)
Public works - highways	408,600	408,600	313,299	95,301
Culture and recreation	10,600	10,600	52,990	(42,390)
<b>Total expenditures</b>	<b>2,411,200</b>	<b>2,411,200</b>	<b>2,508,937</b>	<b>(97,737)</b>
Excess (deficiency) of revenues over expenditures	(76,000)	(76,000)	(324,359)	(248,359)
<b>Other financing sources (uses)</b>				
Other	76,000	76,000	93,158	17,158
<b>Total other financing sources (uses)</b>	<b>76,000</b>	<b>76,000</b>	<b>93,158</b>	<b>17,158</b>
Net change in fund balance	-	-	(231,201)	(231,201)
Fund balance, January 1,	-	-	508,321	508,321
Fund balance, December 31,	\$ -	\$ -	\$ 277,120	\$ 277,120

## East Fallowfield Township, Pennsylvania

### Management's Discussion and Analysis

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#### CAPITAL ASSETS

At December 31, 2008, the Township had \$9,150,796 invested in a broad range of capital assets, including land, buildings and furniture, equipment and infrastructure. This amount represents a net increase (including additions and depreciation) of \$500,499 from last year.

The following schedule depicts the capital assets for the period ended December 31, 2008. During this period, the Township had the following significant changes in capital assets.

	Beginning Balance*	Increases	Decreases	Ending Balance
Capital assets				
Land	\$ 3,050,001	\$ -	\$ -	\$ 3,050,001
Construction in process	110,737	-	110,737	-
Park improvements	-	779,880	-	779,880
Buildings and improvements	316,451	-	-	316,451
Infrastructure	5,380,702	-	-	5,380,702
Vehicles	697,166	19,872	12,500	704,538
Machinery and equipment	210,173	39,882	28,400	221,655
Total capital assets	<u>9,765,230</u>	<u>839,634</u>	<u>151,637</u>	<u>10,453,227</u>
Accumulated depreciation				
Park improvements	-	7,799	-	7,799
Building and improvements	123,164	12,884	-	136,048
Infrastructure	433,276	107,614	-	540,890
Vehicles	443,561	71,276	8,037	506,800
Machinery and equipment	114,932	22,876	26,914	110,894
Total accumulated depreciation	<u>1,114,933</u>	<u>222,449</u>	<u>34,951</u>	<u>1,302,431</u>
Capital assets, net	<u>\$ 8,650,297</u>	<u>\$ 617,185</u>	<u>\$ 116,686</u>	<u>\$ 9,150,796</u>

\*Certain amounts from 2007 have been restated.

#### THE TOWNSHIP'S FUTURE

2008 was a difficult financial year. Inconsistent revenues from various sources along with large increases in specific expenditures resulted in a shortfall at the end of the financial year. In spite of delaying certain purchases, the Township still finished the year with a decrease in fund balance.

Due to an increase in expenses in 2008, the Township tightened expenditures, raised trash fees, and postponed the acquisition of equipment. In 2009 the Township saw a continued leveling of earned income tax revenues, real estate transfer taxes, decreased building permit fees and pressures on departmental expenditures.

## East Fallowfield Township, Pennsylvania

### Management's Discussion and Analysis

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Future budgets should consider a number of important issues including:

- Consistent revenue streams for all funds
- Multi-year budgeting and or projections
- Capital project funding and fixed asset replacement and long-term infrastructure improvement strategy
- Further development of funding sources other than the local real estate taxes
- Restoration of the Township real estate tax to provide a consistent revenue stream

### **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 for the money it receives. 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, 2008

	Governmental Activities
<b>Assets</b>	
Current Assets	
Cash	\$ 1,204,790
Receivables:	
Taxes receivable, net	326,116
Other	40,502
Prepaid items	<u>16,471</u>
<b>Total current assets</b>	<u>1,587,879</u>
Capital Assets	
Land	3,050,001
Other capital assets, net of depreciation	<u>6,100,795</u>
<b>Total capital assets, net</b>	<u>9,150,796</u>
<b>Total assets</b>	<u>10,738,675</u>
<b>Liabilities</b>	
Current Liabilities	
Accounts payable and accrued expenses	73,886
Escrow fund payable	52,184
Accrued payroll	24,396
Payroll deductions and withholdings	<u>16,344</u>
<b>Total current liabilities</b>	<u>166,810</u>
Noncurrent Liabilities	
Compensated absences	<u>21,590</u>
<b>Total noncurrent liabilities</b>	<u>21,590</u>
<b>Total liabilities</b>	<u>188,400</u>
<b>Net Assets</b>	
Invested in capital assets	9,150,796
Unrestricted	<u>1,399,479</u>
<b>Total net assets</b>	<u>\$ 10,550,275</u>

See Notes to Financial Statements.

East Fallowfield Township, Pennsylvania

Statement of Activities

Year Ended December 31, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
General government	\$ 460,741	\$ 23,266	\$ 4,737	\$ -	\$ (432,738)
Public safety	971,015	49,684	140,954	-	(780,377)
Codes	90,921	229,099	-	-	138,178
Public works - sanitation	580,173	648,426	22,000	-	90,253
Public works - highways	432,905	-	196,049	-	(236,856)
Culture and recreation	40,910	117,000	-	62,500	138,590
Unallocated depreciation expense	222,449	-	-	-	(222,449)
<b>Total governmental activities</b>	<b>\$ 2,799,114</b>	<b>\$ 1,067,475</b>	<b>\$ 363,740</b>	<b>\$ 62,500</b>	<b>(1,305,399)</b>
<b>General revenues</b>					
Taxes:					
					765,964
					270,882
					13,349
					113,546
					34,863
					6,997
					83,000
					9,813
					<u>1,298,414</u>
					Change in net assets (6,985)
					Net assets, beginning of year, as restated (Note 11) 10,557,260
					<u>\$ 10,550,275</u>

See Notes to Financial Statements.

East Fallowfield Township, Pennsylvania

Balance Sheet - Governmental Funds

December 31, 2008

	General Fund	Capital Projects Fund	Liquid Fuels Fund	Parks and Recreation Fund	Total Governmental Funds
<b>Assets</b>					
Cash	\$ 351,077	\$ 572,224	\$ 263,259	\$ 18,230	\$ 1,204,790
Receivables:					
Earned income tax	292,959	-	-	-	292,959
Local services tax	2,123	-	-	-	2,123
Real estate transfer tax	31,034	-	-	-	31,034
Trash fees	37,104	-	-	-	37,104
Other	3,398	-	-	-	3,398
Prepaid items	16,471	-	-	-	16,471
Due from other fund	1,134	-	-	77,453	78,587
<b>Total assets</b>	<b>\$ 735,300</b>	<b>\$ 572,224</b>	<b>\$ 263,259</b>	<b>\$ 95,683</b>	<b>\$ 1,666,466</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Due to other fund	\$ 31,608	\$ -	\$ -	\$ 99,162	\$ 130,770
Accounts payable and accrued liabilities	73,886	-	-	-	73,886
Accrued payroll	24,396	-	-	-	24,396
Payroll deductions and withholdings	16,344	-	-	-	16,344
Deferred revenue	311,946	-	-	-	311,946
<b>Total liabilities</b>	<b>458,180</b>	<b>-</b>	<b>-</b>	<b>99,162</b>	<b>557,342</b>
<b>Fund Balances</b>					
Reserved for:					
Prepaid items	16,471	-	-	-	16,471
Unreserved, reported in:					
General fund	260,649	-	-	-	260,649
Special revenue funds	-	-	263,259	(3,479)	259,780
Capital Projects fund	-	572,224	-	-	572,224
<b>Total fund balances</b>	<b>277,120</b>	<b>572,224</b>	<b>263,259</b>	<b>(3,479)</b>	<b>1,109,124</b>
<b>Total liabilities and fund balances</b>	<b>\$ 735,300</b>	<b>\$ 572,224</b>	<b>\$ 263,259</b>	<b>\$ 95,683</b>	<b>\$ 1,666,466</b>

See Notes to Financial Statements.

East Fallowfield Township, Pennsylvania

Reconciliation of Total Governmental Fund  
Balances to Net Assets of Governmental Activities  
December 31, 2008

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Total fund balances - governmental funds	\$ 1,109,124
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 \$10,453,227, and the accumulated depreciation is \$1,302,431	9,150,796
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.	(21,590)
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.	39,223
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>272,722</u>
Total net assets - governmental activities	<u><u>\$ 10,550,275</u></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, 2008

	General Fund	Capital Projects Fund	Liquid Fuels Fund	Parks and Recreation Fund	Total Governmental Funds
<b>Revenues</b>					
Taxes					
Earned income	\$ 685,872	\$ -	\$ -	\$ -	\$ 685,872
Real estate transfer	270,882	-	-	-	270,882
Local services	13,349	-	-	-	13,349
Total taxes	970,103	-	-	-	970,103
Licenses and permits	113,546	-	-	-	113,546
Fines and forfeits	26,742	-	-	-	26,742
Interest	9,386	16,304	3,785	5,388	34,863
Intergovernmental revenues	170,478	-	196,049	62,500	429,027
Charges for services					
Trash fees	609,202	-	-	-	609,202
Building permits	229,099	-	-	-	229,099
Other	46,209	-	-	-	46,209
Fees in lieu	-	-	-	117,000	117,000
Miscellaneous revenues	9,813	-	-	-	9,813
Total revenues	2,184,578	16,304	199,834	184,888	2,585,604
<b>Expenditures</b>					
General government	500,272	-	-	-	500,272
Public safety	971,282	-	-	-	971,282
Codes	90,921	-	-	-	90,921
Public works - sanitation	580,173	-	-	-	580,173
Public works - highways	313,299	-	117,971	-	431,270
Culture and recreation	52,990	-	-	657,063	710,053
Total expenditures	2,508,937	-	117,971	657,063	3,283,971
Excess (deficiency) of revenues over expenditures	(324,359)	16,304	81,863	(472,175)	(698,367)
<b>Other financing sources (uses)</b>					
Sales of capital assets (water connections)	83,000	-	-	-	83,000
Sales of capital assets (equipment)	12,944	-	-	-	12,944
Refund of prior year revenues	(2,786)	-	-	-	(2,786)
Total other financing sources (uses)	93,158	-	-	-	93,158
<b>Net change in fund balances</b>	(231,201)	16,304	81,863	(472,175)	(605,209)
Fund balance, January 1, as restated (Note 11)	508,321	555,920	181,396	468,696	1,714,333
Fund balance, December 31	\$ 277,120	\$ 572,224	\$ 263,259	\$ (3,479)	\$ 1,109,124

See Notes to Financial Statements.

East Fallowfield Township, Pennsylvania

Reconciliation of Statement of Revenues, Expenditures, and  
 Changes in Fund Balances of Governmental Funds to Government  
 Activities in the Statement of Activities  
 Year Ended December 31, 2008

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Total net change in fund balances - governmental funds	\$	(605,209)
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental 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 capital outlays exceeds depreciation in the period.

Capital outlays	\$	728,897	
Depreciation expense		<u>(222,449)</u>	
			506,448

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 tax revenues increased by this amount this year.	125,656
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Proceeds from the sale of capital assets sold are recorded as revenue in the funds statements. In the entity-wide statements, the gain or loss on the sale is recorded.	(5,949)
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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.	3,024
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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.	<u>(30,955)</u>
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Change in net assets of governmental activities	<u><u>\$ (6,985)</u></u>
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See Notes to Financial Statements.

East Fallowfield Township, Pennsylvania

Statement of Assets and Liabilities - Agency Fund  
December 31, 2008

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**Assets**

Cash and cash equivalents	\$	278,735
Contractor receivables		207,504
Due from other funds		<u>129,636</u>
<b>Total assets</b>	<b>\$</b>	<b><u><u>615,875</u></u></b>

**Liabilities**

Contractor deposits	\$	170,438
Due to other funds		77,453
Deposits held for West Chester Road		195,643
Reserved for escrow liabilities		<u>172,341</u>
<b>Total liabilities</b>	<b>\$</b>	<b><u><u>615,875</u></u></b>

See Notes to Financial Statements.

## East Fallowfield Township, Pennsylvania

### Notes to Financial Statements

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#### 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.

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 nonmajor 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:

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

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.

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 all 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. Governmental 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.

## East Fallowfield Township, Pennsylvania

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

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.

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.

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.

## East Fallowfield Township, Pennsylvania

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

##### Budgets (Continued):

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.

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, 2008, 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: Starting in 2006, it is the Township's policy to permit employees to accumulate sick days. Upon termination, 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.

Notes to Financial Statements

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

Capital Assets (Continued): 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:

Depreciation	Estimated Lives
Park improvements	15-40 years
Buildings and building improvements	15-40 years
Infrastructure	20-80 years
Furniture and fixtures	5-20 years
Vehicles	5-15 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 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

Note 2. Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital assets, not being depreciated				
Land	\$ 3,050,001	\$ -	\$ -	\$ 3,050,001
Construction in process	110,737	-	110,737	-
<b>Total capital assets, not being depreciated</b>	<b>3,160,738</b>	<b>-</b>	<b>110,737</b>	<b>3,050,001</b>
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	697,166	19,872	12,500	704,538
Machinery and equipment	210,173	39,882	28,400	221,655
<b>Total capital assets, being depreciated</b>	<b>6,604,492</b>	<b>839,634</b>	<b>40,900</b>	<b>7,403,226</b>
Less accumulated depreciation for:				
Park improvements	-	7,799	-	7,799
Building and improvements	123,164	12,884	-	136,048
Infrastructure	433,276	107,614	-	540,890
Vehicles	443,561	71,276	8,037	506,800
Machinery and equipment	114,932	22,876	26,914	110,894
<b>Total accumulated depreciation</b>	<b>1,114,933</b>	<b>222,449</b>	<b>34,951</b>	<b>1,302,431</b>
<b>Total capital assets being depreciated, net</b>	<b>5,489,559</b>	<b>617,185</b>	<b>5,949</b>	<b>6,100,795</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 8,650,297</b>	<b>\$ 617,185</b>	<b>\$ 116,686</b>	<b>\$ 9,150,796</b>

Note 3. Interfund Receivables and Payable

Interfund receivable and payable balances of each individual fund as of December 31, 2008 are as follows (certain amounts are netted for presentation in the fund financial statements):

	Due from Other Fund	Due to Other Fund
General Fund	\$ 1,134	\$ 31,608
Parks and Recreation Fund	77,453	99,162
Escrow Fund	129,636	77,453
	<b>\$ 208,223</b>	<b>\$ 208,223</b>

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.

## East Fallowfield Township, Pennsylvania

### Notes to Financial Statements

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#### Note 4. 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, P.O. 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 \$9,746 to the plan in 2008.

Police Pension Plan: The Township sponsors a defined benefit plan for police. As of December 31, 2008, 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, 2008, 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	6
Number of persons receiving benefits:		
Retired employees and beneficiaries	0	3
Terminated employees vested but not receiving benefits	0	1
Normal retirement date	After 55th 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 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

Note 4. Employee Pension Plans (Continued)

Contributions and Funding Policy for Police Pension Plan (Continued): The Township's annual pension cost for the year ended December 31, 2008 and related information for the Police Pension Plan is as follows:

	<u>Police Pension Plan</u>
Annual pension cost	<u>\$ 46,428</u>
Contributions made	<u>\$ 46,428</u>
Valuation Date	January 1, 2007
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar-Closed
Remaining Amortization Period	15.01 years
Asset Valuation Method	Fair Value
Actuarial Assumptions	
Investment Rate of Return	6.0%
Projected Salary Increases *	5.2%

\*includes inflation at 3%

Trend Information:

Year Ended December 31,	Police Annual Pension Cost (APC)	Non-Uniform Annual Pension Cost (APC)	Police % Contributed	Non-Uniform % Contributed
2006	\$ 25,400	\$ 13,590	100.00	100.00
2007	40,625	14,791	100.00	100.00
2008	46,428	9,746	100.00	100.00

Funded Status and Funding Progress: The following is funded status information as of January 1, 2007, 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	\$ 407,460	\$ 422,886	\$ 15,426	96.35%	\$ 391,653	3.94%

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.

## East Fallowfield Township, Pennsylvania

### Notes to Financial Statements

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#### Note 5. 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 place 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 \$1,483,525 and the corresponding bank balance was \$1,667,710. Of the bank balance, \$503,414 was covered by federal depository insurance, and \$1,164,296 was collateralized through pools of securities held by the respective depository institutions.

#### Note 6. Compensated Absences

The following is a summary of changes in compensated absences:

Balance 01-Jan-08	Additions	Retirements	Balance December 31, 2008
\$ 24,614	\$ 8,989	\$ (12,013)	\$ 21,590

#### Note 7. 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 8. Accounting Pronouncements Issued, Not Yet Implemented

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, issued June 2007, will be effective for the Township beginning with its year ending December 31, 2010. This Statement provides guidance regarding how to identify, account for and report intangible assets. The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature and has an initial useful life extending beyond a single reporting period.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, issued June 2008, will be effective for the Township beginning with the year ending December 31, 2010. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments.

Notes to Financial Statements

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**Note 8. Accounting Pronouncements Issued, Not Yet Implemented (Continued)**

GASB Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*, issued March 2009, will be effective for the Township beginning with the year ending December 31, 2011. 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 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 upon the use of the resources reported in governmental funds. Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, unassigned amounts are considered to have been spent.

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. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, issued December 2009, will be effective for the Township beginning with the year ending December 31, 2010. The objective of this Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms (that is, approves) a new payment plan.

GASB Statement No. 59, *Financial Instruments Omnibus*, issued June 2010, will be effective for the Township beginning with the year ending December 31, 2011. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice.

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

**Note 9. Stewardship, Compliance and Accountability**

Deficit Fund Balance: At December 31, 2008, the Parks and Recreation Fund has a deficit balance of \$3,479. The deficit was eliminated through intergovernmental revenues and fees in lieu that were received in 2009.

Excess of Expenditures over Appropriations: For the year ended December 31, 2008, expenditures exceeded the budget in General Fund as follows: general government in the amount of \$114,492, public safety in the amount of \$7,862, codes in the amount of \$1,121, public works-sanitation in the amount of \$27,173 and culture and recreation in the amount of \$42,390. The expenditures were funded by appropriable fund balance.

**Note 10. 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.

## East Fallowfield Township, Pennsylvania

### Notes to Financial Statements

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#### **Note 10. Contingencies (Continued)**

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.

#### **Note 11. Restatement of Net Assets and Fund Balances**

Prior to 2008, the Parks and Recreation accounts were reported as part of the Escrow Fiduciary Fund and the escrow liabilities of \$816,539 were reflected as net assets, reserved for escrow. Upon further review of fund classifications, Management of the Township determined that Parks and Recreation accounts should be separately reported as a Special Revenue Fund. Accordingly, as of January 1, 2008, the government-wide net assets were increased by \$579,433 and the fund balance of the Parks and Recreation Fund was increased by \$468,696 for the effect of classifying the Parks and Recreation Funds as a governmental fund, instead of a fiduciary fund. Also, as of January 1, 2008, the remaining balance of net assets, reserved for escrow, of \$347,843 was reclassified to liabilities of the escrow fund. The effect on the 2007 change in net assets and change in fund balances was not determinable.

Management of the Township also determined that trash costs in the amount of \$45,658 should have been recognized as a payable and expenditure/expense as of and for the year ended December 31, 2007. As of January 1, 2008, fund balance of the General Fund and government-wide net assets was decreased by \$45,658 for the effect of recording the payable as of December 31, 2007. The effect on the 2007 change in net assets and change in fund balances was a decrease of \$45,658.

#### **Note 12. Subsequent Event**

Subsequent to year end, the Pennsylvania Auditor General conducted a compliance audit of the Township's Police Pension Plan. The audit report noted that the Township had not remitted the appropriate amounts to the Police Pension Plan during the years ended December 31, 2006 and 2008. As a result, the Township recorded a liability in the amount of \$21,400 as of December 31, 2008.

East Fallowfield Township, Pennsylvania  
 Required Supplementary Information  
 Schedule of Pension Funding Progress - Police Pension Plan  
 Six Years Ended December 31, 2008

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)
2003	\$ 200,734	\$ 119,590	\$ (81,144)	167.85%	\$ 173,739	(46.70)%
2004*	200,734	119,590	(81,144)	167.85%	173,739	(46.70)%
2005	282,942	244,685	(38,257)	115.64%	302,324	(12.65)%
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%

\*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 Contributing Entities - Police Pension Plan  
Six Years Ended December 31, 2008

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2003	\$ 17,485	100%
2004	19,745	100%
2005	19,154	100%
2006	25,400	100%
2007	40,625	100%
2008	46,428	100%

East Fallowfield Township, Pennsylvania

Notes to Required Supplementary Information – Police Pension Plan

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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, 2007
Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Level Dollar Closed
Remaining Amortization Period:	15.01 years
Asset Valuation Method:	Fair Value
Actuarial Assumptions:	
Investment Rate of Return	6.00%
Projected Salary Increases	5.2%*

\*includes inflation at 3.0%.

East Fallowfield Township, Pennsylvania

Schedule of Revenues, Expenditures, and Changes  
in Fund Balance - Budget and Actual - General Fund  
Year Ended December 31, 2008

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes				
Earned income	\$ 800,000	\$ 800,000	\$ 685,872	\$ (114,128)
Real estate transfer	350,000	350,000	270,882	(79,118)
Local services	7,000	7,000	13,349	6,349
Total taxes	<u>1,157,000</u>	<u>1,157,000</u>	970,103	(186,897)
Licenses and permits	81,000	81,000	113,546	32,546
Fines and forfeits	30,000	30,000	26,742	(3,258)
Interest earned	30,000	30,000	9,386	(20,614)
Intergovernmental revenues	124,000	124,000	170,478	46,478
Charges for services				
Trash fees	575,000	575,000	609,202	34,202
Building permits	250,000	250,000	229,099	(20,901)
Other	70,000	70,000	46,209	(23,791)
Miscellaneous revenues	18,200	18,200	9,813	(8,387)
Total revenues	<u>2,335,200</u>	<u>2,335,200</u>	2,184,578	(150,622)
<b>Expenditures</b>				
General government	385,780	385,780	500,272	(114,492)
Public safety	963,420	963,420	971,282	(7,862)
Codes	89,800	89,800	90,921	(1,121)
Public works - sanitation	553,000	553,000	580,173	(27,173)
Public works - highways	408,600	408,600	313,299	95,301
Culture and recreation	10,600	10,600	52,990	(42,390)
Total expenditures	<u>2,411,200</u>	<u>2,411,200</u>	2,508,937	(97,737)
Excess (deficiency) of revenues over expenditures	<u>(76,000)</u>	<u>(76,000)</u>	(324,359)	(248,359)
<b>Other financing sources (uses)</b>				
Sales of capital assets (water connections)	76,000	76,000	83,000	7,000
Sales of capital assets (equipment)	-	-	12,944	12,944
Refund of prior year revenues	-	-	(2,786)	(2,786)
Total other financing sources (uses)	<u>76,000</u>	<u>76,000</u>	93,158	17,158
<b>Net change in fund balances</b>	-	-	(231,201)	(231,201)
Fund balance, January 1,	-	-	508,321	508,321
Fund balance, December 31,	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 277,120</u>	<u>\$ 277,120</u>

East Fallowfield Township, Pennsylvania

**Notes to Required Supplementary Information – Budgetary Comparison**

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

East Fallowfield Township, Pennsylvania

Cash Basis Schedule of Revenues, Expenditures, and Changes  
in Cash Balances - Governmental Funds  
Year Ended December 31, 2008

	General Fund	Capital Projects Fund	Liquid Fuels Fund	Parks and Recreation Fund	Total Governmental Funds
Revenues received					
Taxes					
Earned income	\$ 832,239	\$ -	\$ -	\$ -	\$ 832,239
Real estate transfer	294,809	-	-	-	294,809
Local services	4,034	-	-	-	4,034
Total taxes	1,131,082	-	-	-	1,131,082
Licenses and permits	113,546	-	-	-	113,546
Fines and forfeits	26,742	-	-	-	26,742
Interest	9,386	16,304	3,785	5,388	34,863
Intergovernmental revenues	170,476	-	196,049	62,500	429,025
Charges for services					
Trash fees	608,197	-	-	-	608,197
Building permits	229,099	-	-	-	229,099
Other	46,393	-	-	-	46,393
Fee in lieu	-	-	-	105,000	105,000
Miscellaneous revenues	9,646	-	-	-	9,646
Total revenues received	2,344,567	16,304	199,834	172,888	2,733,593
Expenditures paid					
General government	451,816	-	-	-	451,816
Public safety	947,732	-	-	-	947,732
Codes	95,285	-	-	-	95,285
Public works - sanitation	625,831	-	-	-	625,831
Public works - highways	317,416	-	117,971	-	435,387
Culture and recreation	52,779	-	-	601,427	654,206
Total expenditures paid	2,490,859	-	117,971	601,427	3,210,257
Excess (deficiency) of revenues received over expenditures paid	(146,292)	16,304	81,863	(428,539)	(476,664)
Other financing receipts					
Sales of capital assets (water connections)	83,000	-	-	-	83,000
Sales of capital assets (equipment)	12,945	-	-	-	12,945
Receipt from escrow (due to)	-	-	-	98,028	98,028
Total other financing receipts	95,945	-	-	98,028	193,973
Net change in cash balances	(50,347)	16,304	81,863	(330,511)	(282,691)
Cash balance, January 1,	401,424	555,920	181,396	348,741	1,487,481
Cash balance, December 31,	\$ 351,077	\$ 572,224	\$ 263,259	\$ 18,230	\$ 1,204,790